

CAPITAL CITY BANK GROUP INC  
Form 10-K  
March 02, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

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## **FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2016**  
**OR**  
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

(Exact name of Registrant as specified in its charter)

**Florida**  
(State of Incorporation)

**0-13358**  
(Commission File Number)

**59-2273542**  
(IRS Employer  
Identification No.)  
**32301**  
(Zip Code)

**217 North Monroe Street, Tallahassee, Florida**  
(Address of principal executive offices)

**(850) 402-7821**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.01 par value

The Nasdaq Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐  
Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock, \$0.01 par value per share, held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$153,099,970 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 28, 2017
Common Stock, \$0.01 par value per share	16,950,355

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 25, 2017, are incorporated by reference in Part III.

**CAPITAL CITY BANK GROUP, INC.**  
**ANNUAL REPORT FOR 2016 ON FORM 10-K**

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## INTRODUCTORY NOTE

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “target,” “vision,” “goal,” and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements.

In addition to those risks discussed in this Annual Report under Item 1A Risk Factors, factors that could cause our actual results to differ materially from those in the forward-looking statements, include, without limitation:

- our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
- legislative or regulatory changes, including the Dodd-Frank Act, Basel III, and the ability to repay and qualified mortgage standards;
- the effects of security breaches and computer viruses that may affect our computer systems or fraud related to our debit card products;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss reserve and deferred tax asset valuation allowance and pension plan;
- the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to declare and pay dividends, the payment of which is subject to our capital requirements;
- changes in the securities and real estate markets;
- changes in monetary and fiscal policies of the U.S. Government;
- inflation, interest rate, market and monetary fluctuations;

- the effects of harsh weather conditions, including hurricanes, and man-made disasters;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
- increased competition and its effect on pricing;
- technological changes;
- negative publicity and the impact on our reputation;
- changes in consumer spending and saving habits;
- growth and profitability of our noninterest income;
- changes in accounting principles, policies, practices or guidelines;
- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

However, other factors besides those listed in *Item 1A Risk Factors* or discussed in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

# PART I

## Item 1. Business

### About Us

#### General

Capital City Bank Group, Inc. (“CCBG”) is a financial holding company headquartered in Tallahassee, Florida. CCBG was incorporated under Florida law on December 13, 1982, to acquire five national banks and one state bank that all subsequently became part of CCBG’s bank subsidiary, Capital City Bank (“CCB” or the “Bank”). The Bank commenced operations in 1895. In this report, the terms “Company,” “we,” “us,” or “our” mean CCBG and all subsidiaries included in our consolidated financial statements.

We provide traditional deposit and credit services, asset management, trust, mortgage banking, merchant services, bank cards, data processing, and securities brokerage services through 60 banking offices in Florida, Georgia, and Alabama operated by CCB. The majority of our revenue, approximately 86%, is derived from our Florida market areas while approximately 13% and 1% of our revenue is derived from our Georgia and Alabama market areas, respectively.

Below is a summary of our financial condition and results of operations for the past three years. Our financial condition and results of operations are more fully discussed in our management discussion and analysis on page 32 and our consolidated financial statements on page 64.

*Dollars in millions*

<b>Year Ended</b>			<b>Shareowners’</b>		
<b>December 31,</b>	<b>Assets</b>	<b>Deposits</b>	<b>Equity</b>	<b>Revenue<sup>(1)</sup></b>	<b>Net Income</b>
2016	\$2,845.2	\$2,412.3	\$275.2	\$134.8	\$11.7
2015	\$2,797.9	\$2,302.8	\$274.4	\$133.7	\$9.1
2014	\$2,627.2	\$2,146.8	\$272.5	\$130.8	\$9.3

<sup>(1)</sup>Revenue represents interest income plus noninterest income

Dividends and management fees received from the Bank are CCBG’s primary source of income. Dividend payments by the Bank to CCBG depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions, including compliance with a minimum Common Equity Tier 1 Capital conservation buffer. See the section entitled “Regulatory Matters” in this *Item 1* and Note 14 in the Notes to Consolidated Financial

Statements for a discussion of the restrictions.

We had a total of 853 associates at March 1, 2017. Item 6 contains other financial and statistical information about us.

### **Subsidiaries of CCBG**

CCBG's principal asset is the capital stock of CCB, our wholly owned banking subsidiary, which accounted for nearly 100% of consolidated assets at December 31, 2016, and approximately 92% of consolidated net income for the year ended December 31, 2016. The Bank historically approximates 100% of CCBG's consolidated net income, but in 2016, CCBG realized a \$2.5 million pre-tax gain from the partial retirement of its trust preferred securities. In addition to our banking subsidiary, CCB has three primary wholly owned subsidiaries, Capital City Trust Company, Capital City Banc Investments, Inc., and Capital City Services Company. The nature of these subsidiaries is provided below.

### **Operating Segment**

We have one reportable segment with four principal services: Banking Services (CCB), Data Processing Services (Capital City Services Company), Trust and Asset Management Services (Capital City Trust Company), and Brokerage Services (Capital City Banc Investments, Inc.). Revenues from each of these principal services for the year ended 2016 totaled approximately 93.7%, 1.0%, 3.4%, and 1.9% of our total revenue, respectively. In 2015 and 2014, Banking Services (CCB) revenue was approximately 93.8% and 92.8% of our total revenue for each respective year.

### ***Capital City Bank***

CCB is a Florida-chartered full-service bank engaged in the commercial and retail banking business. Significant services offered by the Bank include:



- *Business Banking* – The Bank provides banking services to corporations and other business clients. Credit products are available for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing and letters of credit. We also provide treasury management services, and, through a marketing alliance with Elavon, Inc., merchant credit card transaction processing services.
- *Commercial Real Estate Lending* – The Bank provides a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development. Credit products are available to purchase land and build structures for business use and for investors who are developing residential or commercial property.
- *Residential Real Estate Lending* – The Bank provides products to help meet the home financing needs of consumers, including conventional permanent and construction/ permanent (fixed, adjustable, or variable rate) financing arrangements, and FHA/VA loan products. The Bank offers both fixed-rate and adjustable rate residential mortgage (ARM) loans. A portion of our loans originated are sold into the secondary market. The Bank offers these products through its existing network of banking offices. We do not originate subprime residential real estate loans.
- *Retail Credit* – The Bank provides a full-range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and through a marketing alliance with ELAN, we offer credit card programs.
- *Institutional Banking* – The Bank provides banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations including customized checking and savings accounts, cash management systems, tax-exempt loans, lines of credit, and term loans.
- *Retail Banking* – The Bank provides a full-range of consumer banking services, including checking accounts, savings programs, automated teller machines (ATMs), debit/credit cards, night deposit services, safe deposit facilities, online banking, and mobile banking. Clients can use Capital City Bank Direct which offers a “live” call center between the hours of 8 a.m. to 6 p.m. Monday through Friday and from 9 a.m. to 12 noon on Saturday. The call center can also be accessed via live chat through the internet between the hours of 7 a.m. to 10 p.m. Monday through Friday and from 9 a.m. to 12 noon on Saturday. Bank Direct also offers an automated phone system offering 24-hour access to client deposit and loan account information and transfer of funds between linked accounts. The Bank is a member of the “Star”, “Plus” and “Presto” ATM Networks that permit banking clients to access cash at ATMs or “point-of-sale” merchants.

***Capital City Trust Company***

Capital City Trust Company (the “Trust Company”) is the investment management arm of CCB. The Trust Company provides asset management for individuals through agency, personal trust, IRA, and personal investment management accounts. Associations, endowments, and other nonprofit entities hire the Trust Company to manage their investment portfolios. Additionally, a staff of well-trained professionals serves individuals requiring the services of a trustee, personal representative, or a guardian. The market value of trust assets under discretionary management exceeded \$707.9 million as of December 31, 2016, with total assets under administration exceeding \$803.6 million.

***Capital City Banc Investments, Inc.***

Capital City Banc Investments, Inc. offers access to retail investment products through INVEST Financial Corporation, a member of FINRA and SIPC. Non-deposit investment and insurance products are: (i) not FDIC insured; (ii) not deposits, obligations, or guarantees by any bank; and (iii) subject to investment risk, including the possible loss of principal amount invested. Capital City Banc Investments, Inc. offers a full line of retail securities products, including U.S. Government bonds, tax-free municipal bonds, stocks, mutual funds, unit investment trusts, annuities, life insurance and long-term health care. We are not an affiliate of INVEST Financial Corporation.

***Capital City Services Company***

Capital City Services Company (the “Services Company”) provides data processing services to financial institutions (including CCB), government agencies, and commercial clients located in North Florida and South Georgia. As of March 1, 2017, the Services Company is providing data processing services to two correspondent banks which have relationships with CCB.

## **Underwriting Standards**

A core goal of CCB is to support the communities in which it operates. The Bank seeks loans from within its primary market area, which is defined as the counties in which the Bank's offices are located. The Bank will also originate loans within its secondary market area, defined as counties adjacent to those in which the Bank has offices. There may also be occasions when the Bank will have opportunities to make loans that are out of both the primary and secondary market areas, including participation loans. These loans are generally only approved if the applicant is known to the Bank, underwriting is consistent with CCB criteria, and the applicant's primary business is in or near our primary or secondary market area. Approval of all loans is subject to the Bank's policies and standards described in more detail below.

The Bank has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management and the Bank's Board of Directors reviews and approves these policies and procedures on a regular basis (at least annually).

Management has also implemented reporting systems designed to monitor loan originations, loan quality, concentrations of credit, loan delinquencies, nonperforming loans, and potential problem loans. Bank management and the Credit Risk Oversight Committee periodically review our lines of business to monitor asset quality trends and the appropriateness of credit policies. In addition, total borrower exposure limits are established and concentration risk is monitored. As part of this process, the overall composition of the portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the portfolio are monitored and reported to the Bank's Board on a quarterly basis and the Bank has strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. The Bank recognizes that exceptions to the below-listed policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines.

### ***Residential Real Estate Loans***

The Bank originates 1-4 family, owner-occupied residential real estate loans in its Residential Real Estate line of business. The Bank's policy is to underwrite these loans in accordance with secondary market guidelines in effect at the time of origination, including loan-to-value ("LTV") and documentation requirements. The Bank originates fixed-rate, adjustable-rate and variable-rate residential real estate loans. Over the past five years, the vast majority of residential loan originations have been fixed-rate loans which are sold in the secondary market on a non-recourse basis with related servicing rights (i.e., the Bank generally does not service sold loans). Adjustable rate mortgage ("ARM") loans with an initial fixed interest rate period greater than five years are also sold in the secondary market on a non-recourse basis.

The Bank also originates certain residential real estate loans throughout its banking office network that are generally not eligible for sale into the secondary market due to not meeting a specific secondary market underwriting

requirement. This includes our variable rate 3/1 and 5/1 ARM loans which typically have a maximum term of 30 years and maximum LTV of 80%.

Residential real estate loans also include home equity lines of credit (“HELOCs”) and home equity loans. The Bank’s home equity portfolio includes revolving open-ended equity loans with interest-only or minimal monthly principal payments and closed-end amortizing loans. Open-ended equity loans typically have an interest only 10-year draw period followed by a five year repayment period of 0.75% of principal balance monthly and balloon payment at maturity. As of December 31, 2016, approximately 65% of the Bank’s residential home equity loan portfolio consisted of first mortgages. Interest rates may be fixed or adjustable. Adjustable-rate loans are tied to the Prime Rate with a typical margin of 1.0% or more.

### ***Commercial Loans***

The Bank’s policy sets forth guidelines for debt service coverage ratios, LTV ratios and documentation standards. Commercial loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral and personal or other guarantees. The Bank’s policy establishes debt service coverage ratio limits that require a borrower’s cash flow to be sufficient to cover principal and interest payments on all new and existing debt. The majority of the Bank’s commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory. Many of the loans in the commercial portfolio have variable interest rates tied to the Prime Rate or U.S. Treasury indices.

### ***Commercial Real Estate Loans***

The Bank’s policy sets forth guidelines for debt service coverage ratios, LTV ratios and documentation standards. Commercial real estate loans are primarily made based on identified cash flows of the borrower with consideration given to underlying real estate collateral and personal guarantees. The Bank’s policy establishes a maximum LTV specific to property type and minimum debt service coverage ratio limits that require a borrower’s cash flow to be sufficient to cover principal and interest payments on all new and existing debt. Commercial real estate loans may be fixed or variable-rate loans with interest rates tied to the Prime Rate or U.S. Treasury indices. Bank policy requires appraisals for loans in excess of \$250,000 that are secured by real property.

### ***Consumer Loans***

The Bank's consumer loan portfolio includes personal installment loans, direct and indirect automobile financing, and overdraft lines of credit. The majority of the consumer loan portfolio consists of indirect and direct automobile loans. The majority of the Bank's consumer loans are short-term and have fixed rates of interest that are priced based on current market interest rates and the financial strength of the borrower. The Bank's policy establishes maximum debt-to-income ratios, minimum credit scores, and includes guidelines for verification of applicants' income and receipt of credit reports.

### **Lending Limits and Extensions of Additional Credit**

The Bank has established an internal lending limit of \$10.0 million for the total aggregate amount of credit that will be extended to a client and any related entities within its Board approved policies. This compares to our legal lending limit of approximately \$81 million. In practice, the Bank seeks to maintain an internal lending limit of \$10 million (aggregate exposure to one borrowing relationship) which we believe helps us maintain a well-diversified loan portfolio.

### **Loan Modification and Restructuring**

In the normal course of business, CCB receives requests from its clients to renew, extend, refinance, or otherwise modify their current loan obligations. In most cases, this may be the result of a balloon maturity that is common in most commercial loan agreements, a request to refinance to obtain current market rates of interest, competitive reasons, or the conversion of a construction loan to a permanent financing structure at the completion or stabilization of the property. In these cases, the request is held to the normal underwriting standards and pricing strategies as any other loan request, whether new or renewal.

In other cases, we may modify a loan because of a reduction in debt service capacity experienced by the client (i.e., a potentially troubled loan whereby the client may be experiencing financial difficulties). To maximize the collection of loan balances, we evaluate troubled loans on a case-by-case basis to determine if a loan modification would be appropriate. We pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt.

### **Expansion of Business**

Our philosophy is to build long-term client relationships based on quality service, high ethical standards, and safe and sound banking practices. We maintain a locally oriented, community-based focus, which is augmented by experienced, centralized support in select specialized areas. Our local market orientation is reflected in our network of banking office locations, experienced community executives with a dedicated President for each market, and community boards which support our focus on responding to local banking needs. We strive to offer a broad array of sophisticated products and to provide quality service by empowering associates to make decisions in their local markets.

We have sought to build a franchise in small-to medium-sized, less competitive markets, located on the outskirts of the larger metropolitan markets where we are positioned as a market leader. Many of our markets are on the outskirts of these larger markets in close proximity to major interstate thoroughfares such as Interstates I-10 and I-75. Our three largest markets are Tallahassee (Leon-Florida), Gainesville (Alachua-Florida), and Macon (Bibb-Georgia). In 13 of 19 markets in Florida and two of four markets in Georgia, we rank within the top four banks in terms of market share. Furthermore, in the counties in which we operate, we maintain an average 8.74% market share in the Florida counties and 5.37% in the Georgia counties, suggesting that there is significant opportunity to grow market share within these geographic areas. The larger employers in many of our markets are state and local governments, healthcare providers, educational institutions, and small businesses. While we realize that the markets in our footprint do not provide for a level of potential growth that the larger metropolitan markets may provide, our markets do provide good growth dynamics and have historically grown in excess of the national average. The value of these markets stems from the fact they are generally stable and less competitive, secondary markets. We strive to provide value added services to our clients by being not just their bank, but their banker. This element of our strategy distinguishes Capital City Bank from our competitors.

Our long-term vision remains to profitably expand our franchise through a combination of organic growth in existing markets and acquisitions. We have long understood that our core deposit funding base is a predominant driver of our profitability and overall franchise value, and have focused extensively on this component of our organic growth efforts in recent years. While we have not been an active acquirer of banks since 2005, this component of our strategy is still in place. When evaluating potential acquisition opportunities, we will continue to weigh the value of organic growth initiatives versus potential acquisition returns and pursue the strategies that we believe provide the best overall return to our shareowners.

Potential acquisition opportunities will continue to be focused on Florida, Georgia, and Alabama with a particular focus on financial institutions located on the outskirts of larger, metropolitan areas. Five markets have been identified, four in Florida and one in Georgia, in which management intends to proactively pursue expansion opportunities. These markets include Alachua, Marion, Hernando/Pasco counties in Florida, the western panhandle of Florida, and Bibb and surrounding counties in central Georgia. Our focus on some of these markets may change as we continue to evaluate our strategy and the economic conditions and demographics of any individual market. We will also continue to evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management, mortgage banking, and insurance. Embedded in our acquisition strategy is our desire to partner with institutions that are culturally similar, have experienced management and possess either established market presence or have potential for improved profitability through growth, economies of scale, or expanded services. Generally, these target institutions will range in asset size from \$100 million to \$500 million.

## **Competition**

We operate in a highly competitive environment, especially with respect to services and pricing. In addition, the banking business is experiencing enormous changes. Since January 1, 2009, nearly 500 financial institutions have failed in the U.S., including 85 in Georgia and 70 in Florida. Nearly all of the failed banks were community banks. The assets and deposits of many of these failed community banks were acquired mostly by larger financial institutions. The market has begun to stabilize. In late 2016, the first de novo bank charter application was filed since 2009. As a result, we expect consolidation to continue during 2017, but substantially through traditional merger and acquisition activity. We believe that the larger financial institutions acquiring banks in our market areas are less familiar with the markets in which we operate and typically target a different client base. We believe clients who bank at community banks tend to prefer the relationship style service of community banks compared to larger banks.

As a result, we believe a further reduction of the number of community banks could continue to enhance our competitive position and opportunities in many of our markets. Larger financial institutions, however, can benefit from economies of scale. Therefore, these larger institutions may be able to offer banking products and services at more competitive prices than us. Additionally, these larger financial institutions may offer financial products that we do not offer.

Our primary market area consists of 20 counties in Florida, four counties in Georgia, and one county in Alabama. In these markets, the Bank competes against a wide range of banking and nonbanking institutions including banks, savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions. Most of Florida's major banking concerns have a presence in Leon County, where the Bank has its main office. CCB's Leon County deposits totaled \$923.4 million, or 38.3% of our consolidated deposits at December 31, 2016.





The table below depicts our market share percentage within each county, based on commercial bank deposits within the county.

County	Market Share as of June 30, <sup>(1)</sup>		
	2016	2015	2014
<b>Florida</b>			
Alachua	4.9%	4.7%	4.8%
Bradford	46.1%	49.9%	51.5%
Citrus	3.5%	3.5%	3.6%
Clay	1.9%	1.9%	2.0%
Dixie	15.2%	15.8%	9.9%
Gadsden	77.7%	77.4%	77.4%
Gilchrist	46.8%	45.5%	42.2%
Gulf	15.5%	13.9%	14.0%
Hernando	2.1%	1.9%	1.8%
Jefferson	22.5%	21.9%	22.1%
Leon	13.9%	13.2%	15.3%
Levy	29.2%	27.1%	28.0%
Madison	14.2%	13.2%	10.3%
Pasco	0.1%	0.1%	0.1%
Putnam	21.3%	19.6%	19.5%
St. Johns	0.8%	0.8%	0.9%
Suwannee	7.6%	8.2%	6.8%
Taylor	18.0%	19.0%	22.0%
Wakulla	14.5%	14.8%	13.6%
Washington	14.2%	12.9%	13.6%
<b>Georgia</b>			
Bibb	3.2%	3.4%	3.6%
Burke <sup>(2)</sup>	4.8%	6.2%	6.8%
Grady	13.4%	14.1%	14.3%
Laurens	9.3%	9.6%	9.1%
Troup	5.4%	6.1%	5.3%
<b>Alabama</b>			
Chambers	9.2%	8.6%	7.6%

<sup>(1)</sup> Obtained from the FDIC Summary of Deposits Report for the year indicated.

<sup>(2)</sup> The CCB Burke County banking office was closed in the third quarter of 2016 - all deposits were transferred to the Laurens County banking

office.

The following table sets forth the number of commercial banks and offices, including our offices and our competitor's offices, within each of the respective counties.

<b>County</b>	<b>Number of Commercial Banks</b>	<b>Number of Commercial Bank Offices</b>
<b>Florida</b>		
Alachua	17	64
Bradford	3	3
Citrus	12	41
Clay	13	32
Dixie	4	5
Gadsden	2	3
Gilchrist	4	6
Gulf	3	4
Hernando	13	38
Jefferson	2	2
Leon	16	76
Levy	2	11
Madison	3	3
Pasco	21	102
Putnam	6	11
St. Johns	21	64
Suwannee	5	8
Taylor	3	4
Wakulla	4	4
Washington	6	6
<b>Georgia</b>		
Bibb	11	45
Burke <sup>(1)</sup>	5	10
Grady	5	7
Laurens	10	20
Troup	11	21
<b>Alabama</b>		
Chambers	6	9

*Data obtained from the FDIC June 30, 2016 Summary of Deposits Report.*

<sup>(1)</sup> The CCB Burke County banking office was closed in the third quarter of 2016.

### **Seasonality**

We believe our commercial banking operations are not generally seasonal in nature; however, public deposits tend to increase with tax collections in the fourth and first quarters of each year and decline with spending thereafter.



### **Regulatory Considerations**

*We must comply with state and federal banking laws and regulations that control virtually all aspects of our operations. These laws and regulations generally aim to protect our depositors, not necessarily our shareowners or our creditors. Any changes in applicable laws or regulations may materially affect our business and prospects. Proposed legislative or regulatory changes may also affect our operations. The following description summarizes some of the laws and regulations to which we are subject. References to applicable statutes and regulations are brief summaries, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.*

### **The Company**

We are registered with the Board of Governors of the Federal Reserve as a financial holding company under the Bank Holding Company Act of 1956. As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The Gramm-Leach-Bliley Act, the Bank Holding Company Act, and other federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

### ***Permitted Activities***

The Gramm-Leach-Bliley Act modernized the U.S. banking system by: (i) allowing bank holding companies that qualify as “financial holding companies” such as CCBG to engage in a broad range of financial and related activities; (ii) allowing insurers and other financial service companies to acquire banks; (iii) removing restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and (iv) establishing the overall regulatory scheme applicable to bank holding companies that also engage in insurance and securities operations. The general effect of the law was to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers. Activities that are financial in nature are broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

In contrast to financial holding companies, bank holding companies are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in

efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

### *Changes in Control*

Subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with the applicable regulations, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring “control” of a bank or bank holding company. A conclusive presumption of control exists if an individual or company acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution. A rebuttable presumption of control exists if a person or company acquires 10% or more but less than 25% of any class of voting securities of an insured depository institution and either the institution has registered securities under Section 12 of the Securities Exchange Act of 1934, which we will refer to as the Exchange Act, or no other person will own a greater percentage of that class of voting securities immediately after the acquisition. Our common stock is registered under Section 12 of the Exchange Act.

The Federal Reserve Board maintains a policy statement on minority equity investments in banks and bank holding companies, that generally permits investors to (i) acquire up to 33% of the total equity of a target bank or bank holding company, subject to certain conditions, including (but not limited to) that the investing firm does not acquire 15% or more of any class of voting securities, and (ii) designate at least one director, without triggering the various regulatory requirements associated with control.

As a financial holding company, we are required to obtain prior approval from the Federal Reserve before (i) acquiring all or substantially all of the assets of a bank or bank holding company, (ii) acquiring direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank or bank holding company (unless we own a majority of such bank's voting shares), or (iii) merging or consolidating with any other bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital ratios and levels on a post-acquisition basis, and the acquiring institution's record of addressing the credit needs of the communities it serves, including the needs of low and moderate income neighborhoods, consistent with the safe and sound operation of the bank, under the Community Reinvestment Act of 1977.

Under Florida law, a person or entity proposing to directly or indirectly acquire control of a Florida bank must also obtain permission from the Florida Office of Financial Regulation. Florida statutes define "control" as either (i) indirectly or directly owning, controlling or having power to vote 25% or more of the voting securities of a bank; (ii) controlling the election of a majority of directors of a bank; (iii) owning, controlling, or having power to vote 10% or more of the voting securities as well as directly or indirectly exercising a controlling influence over management or policies of a bank; or (iv) as determined by the Florida Office of Financial Regulation. These requirements will affect us because CCB is chartered under Florida law and changes in control of CCBG are indirect changes in control of CCB.

### ***Tying***

Financial holding companies and their affiliates are prohibited from tying the provision of certain services, such as extending credit, to other services or products offered by the holding company or its affiliates, such as deposit products.

### ***Capital; Dividends; Source of Strength***

The Federal Reserve imposes certain capital requirements on financial holding companies under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "Capital Regulations." Subject to its capital requirements and certain other restrictions, we are generally able to borrow money to make a capital contribution to CCB, and such loans may be repaid from dividends paid from CCB to us. We are also able to raise capital for contributions to CCB by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

In accordance with Federal Reserve policy, which has been codified by the Dodd-Frank Act, we are expected to act as a source of financial strength to CCB and to commit resources to support CCB in circumstances in which we might

not otherwise do so. In furtherance of this policy, the Federal Reserve may require a financial holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the financial holding company. Further, federal bank regulatory authorities have additional discretion to require a financial holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

### **Capital City Bank**

CCB is a banking institution that is chartered by and headquartered in the State of Florida, and it is subject to supervision and regulation by the Florida Office of Financial Regulation. The Florida Office of Financial Regulation supervises and regulates all areas of CCB's operations including, without limitation, the making of loans, the issuance of securities, the conduct of CCB's corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of banking centers. CCB is also a member bank of the Federal Reserve System, which makes CCB's operations subject to broad federal regulation and oversight by the Federal Reserve. In addition, CCB's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over CCB.

As a state-chartered banking institution in the State of Florida, CCB is empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on, savings and time deposits, to accept demand deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services for the benefit of CCB's clients. Various consumer laws and regulations also affect the operations of CCB, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit opportunity laws, and fair credit reporting. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") prohibits insured state chartered institutions from conducting activities as principal that are not permitted for national banks. A bank, however, may engage in an otherwise prohibited activity if it meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the Deposit Insurance Fund.

### ***Reserves***

The Federal Reserve requires all depository institutions to maintain reserves against transaction accounts (noninterest bearing and NOW checking accounts). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. An institution may borrow from the Federal Reserve Bank “discount window” as a secondary source of funds, provided that the institution meets the Federal Reserve Bank’s credit standards.

### ***Dividends***

CCB is subject to legal limitations on the frequency and amount of dividends that can be paid to us. The Federal Reserve may restrict the ability of CCB to pay dividends if such payments would constitute an unsafe or unsound banking practice. Additionally, as of January 1, 2017, financial institutions are required to maintain a capital conservation buffer of at least 1.25% of risk-weighted assets in order to avoid restrictions on capital distributions and other payments. If a financial institution’s capital conservation buffer falls below the minimum requirement, its maximum payout amount for capital distributions and discretionary payments declines to a set percentage of eligible retained income based on the size of the buffer. See “Capital Regulations,” below for additional details on this new capital requirement.

In addition, Florida law and Federal regulation also places restrictions on the declaration of dividends from state chartered banks to their holding companies. Pursuant to the Florida Financial Institutions Code, the board of directors of state-chartered banks, after charging off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually or annually declare a dividend of up to the aggregate net profits of that period combined with the bank’s retained net profits for the preceding two years and, with the approval of the Florida Office of Financial Regulation and Federal Reserve, declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank’s common stock then issued and outstanding. A state-chartered bank may not declare any dividend if (i) its net income (loss) from the current year combined with the retained net income (loss) for the preceding two years aggregates a loss or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Office of Financial Regulation or a federal regulatory agency.

### ***Insurance of Accounts and Other Assessments***

Our deposit accounts are currently insured by the Deposit Insurance Fund generally up to a maximum of \$250,000 per separately insured depositor. CCB pays deposit insurance assessments to the Deposit Insurance Fund, which are



determined through a risk-based assessment system.

Under the current system, deposit insurance assessments are based on average total assets minus average tangible equity. The FDIC assigns an institution to one of two categories based on asset size. CCB falls into the Established Small Institution category. This category has three sub categories based on supervisory ratings (its “CAMELS ratings”) designed to measure risk. The assessment rate is determined based on the institution’s most recent supervisory and capital evaluations.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately six tenths of a basis point of its assessment base to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Under the Federal Deposit Insurance Act, or FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

### ***Transactions With Affiliates***

Pursuant to Sections 23A and 23B of the Federal Reserve Act and Regulation W, the authority of CCB to engage in transactions with related parties or “affiliates” or to make loans to insiders is limited. Loan transactions with an “affiliate” generally must be collateralized and certain transactions between CCB and its “affiliates”, including the sale of assets, the payment of money or the provision of services, must be on terms and conditions that are substantially the same, or at least as favorable to CCB, as those prevailing for comparable nonaffiliated transactions. In addition, CCB generally may not purchase securities issued or underwritten by affiliates.

Loans to executive officers, directors or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than 10% of any class of voting securities of a bank, which we refer to as “10% Shareowners”, or to any political or campaign committee the funds or services of which will benefit those executive officers, directors, or 10% Shareowners or which is controlled by those executive officers, directors or 10% Shareowners, are subject to Sections 22(g) and 22(h) of the Federal Reserve Act and their corresponding regulations (Regulation O) and Section 13(k) of the Exchange Act relating to the prohibition on personal loans to executives (which exempts financial institutions in compliance with the insider lending restrictions of Section 22(h) of the Federal Reserve Act). Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to those persons must first be approved in advance by a disinterested majority of the entire board of directors. Section 22(h) of the Federal Reserve Act prohibits loans to any of those individuals where the aggregate amount exceeds an amount equal to 15% of an institution’s unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed CCB’s unimpaired capital and unimpaired surplus. Section 22(g) identifies limited circumstances in which CCB is permitted to extend credit to executive officers.

### ***Community Reinvestment Act***

The Community Reinvestment Act and its corresponding regulations are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations provide for regulatory assessment of a bank’s record in meeting the credit needs of its service area. Federal banking agencies are required to make public a rating of a bank’s performance under the Community Reinvestment Act. The Federal Reserve considers a bank’s Community Reinvestment Act rating when the bank submits an application to establish bank branches, merge, or acquire the assets and assume the liabilities of another bank. In the case of a financial holding company, the Community Reinvestment Act performance record of all banks involved in the merger or acquisition are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank or financial holding company. An unsatisfactory record can substantially delay or block the transaction. CCB received a satisfactory rating on its most recent Community Reinvestment Act assessment.

### ***Capital Regulations***

The federal banking regulators have adopted risk-based, capital adequacy guidelines for financial holding companies and their subsidiary state-chartered banks. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories each with designated weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The federal banking regulators adopted risk-based capital adequacy guidelines for U.S. banks. As described above, the federal banking regulators have adopted final rules that became effective January 1, 2015 for community banks. These final rules represent major changes to the prior general risk-based capital rule and are designed to substantially conform to the Basel III international standards. The new risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets, and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories each with designated weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Under the final rule, minimum requirements increased for both the quality and quantity of capital held by banking organizations. In this respect, the final rule implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Consistent with the international Basel framework, the rule includes a new minimum ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets of 4.5% and a Common Equity Tier 1 Capital conservation buffer of 2.5% of risk-weighted assets. The rule also, among other things, raises the minimum ratio of Tier 1 Capital to Risk-Weighted Assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). If a financial institution's capital conservation buffer falls below the minimum required amount, its maximum payout amount for capital distributions and discretionary payments will be limited or prohibited based on the size of the institution's buffer. The types of payments subject to this limitation include dividends, share buybacks, discretionary payments on Tier 1 instruments, and discretionary bonus payments.

In computing total risk-weighted assets, bank and bank holding company assets are given risk-weights of 0%, 20%, 50%, 100% and 150%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. Most loans will be assigned to the 100% risk category, except for performing first mortgage loans fully secured by 1- to 4-family and certain multi-family residential property, which carry a 50% risk rating. Most investment securities (including, primarily, general obligation claims on states or other political subdivisions of the United States) will be assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. Government, which have a 0% risk-weight. In covering off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% conversion factor. Transaction-related contingencies such as bid bonds, standby letters of credit backing nonfinancial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year) have a 50% conversion factor. Short-term commercial letters of credit are converted at 20% and certain short-term unconditionally cancelable commitments have a 0% factor.

The new capital regulations may also impact the treatment of accumulated other comprehensive income (“AOCI”) for regulatory capital purposes. Under the new rules, AOCI would generally flow through to regulatory capital, however, community banks and their holding companies may make a one-time irrevocable opt-out election to continue to treat AOCI the same as under the old regulations for regulatory capital purposes. This election was required to be made on the first call report or bank holding company annual report (on form FR Y-9C) filed after January 1, 2015. The Company chose the opt-out election. Additionally, the new rules also permit community banks with less than \$15 billion in total assets to continue to count certain non-qualifying capital instruments issued prior to May 19, 2010, including trust preferred securities and cumulative perpetual preferred stock, as Tier 1 capital (subject to a limit of 25% of Tier 1 capital). However, non-qualifying capital instruments issued on or after May 19, 2010 will not qualify for Tier 1 capital treatment.

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” To qualify as a “well-capitalized” institution under the new rules in effect as of January 1, 2015, a bank must have a leverage ratio of not less than 5%, a Tier 1 Common Equity ratio of not less than 6.5%, a Tier 1 Capital ratio of not less than 8%, and a total risk-based capital ratio of not less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level.

Under the regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees; or (vi) divest themselves of all or a part of their operations. It should be noted that the minimum ratios referred to above are merely guidelines and the bank regulators

possess the discretionary authority to require higher capital ratios.

As of December 31, 2016, we exceeded the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy to be classified as “well capitalized” and are unaware of any material violation or alleged violation of these regulations, policies or directives (see table below). Rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change our capital position in a relatively short period of time, making additional capital infusions necessary.

	<b>Actual</b>		<b>Required For Capital Adequacy Purposes</b>		<b>To Be Well-Capitalized Under Prompt Corrective Action Provisions</b>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
<b>As of December 31, 2016:</b>						
Common Equity Tier 1 Capital:						
CCBG	\$ 220,211	12.61%	\$ 78,587	4.50%	*	*
CCB	268,811	15.44%	78,356	4.50%	113,182	6.50%
Tier 1 Capital:						
CCBG	270,801	15.51%	\$ 104,783	6.00%	*	*
CCB	268,811	15.44%	104,475	6.00%	139,300	8.00%
Total Capital:						
CCBG	284,232	16.28%	\$ 139,710	8.00%	*	*
CCB	282,242	16.21%	139,300	8.00%	174,126	10.00%
Tier 1 Leverage:						
CCBG	270,801	10.23%	\$ 105,909	4.00%	*	*
CCB	268,811	10.18%	105,652	4.00%	132,066	5.00%

\* Not applicable to bank holding companies.

### ***Prompt Corrective Action***

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act, which: (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; and (iv) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

### ***Interstate Banking and Branching***

The Bank Holding Company Act, amended by the Interstate Banking Act, provides that adequately capitalized and managed financial and bank holding companies are permitted to acquire banks in any state.

State laws prohibiting interstate banking or discriminating against out-of-state banks are preempted. States are not permitted to enact laws opting out of this provision; however, states are allowed to adopt a minimum age restriction requiring that target banks located within the state be in existence for a period of time, up to a maximum of five years, before a bank may be subject to the Interstate Banking Act. Also, the Dodd-Frank Act, added deposit caps which prohibit acquisitions that result in the acquiring company controlling 30% or more of the deposits of insured banks and thrift institutions held in the state in which the target maintains a branch or 10% or more of the deposits nationwide. States have the authority to waive the 30% deposit cap. State-level deposit caps are not preempted as long as they do not discriminate against out-of-state companies, and the federal deposit caps apply only to initial entry acquisitions.

Under the Dodd-Frank Act, national banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. Florida law permits a state bank to establish a branch of the bank anywhere in the state. Accordingly, under the Dodd-Frank Act, a bank with its headquarters outside the State of Florida may establish branches anywhere within the state.

### *Anti-money Laundering*

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”), provides the federal government with additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act (“BSA”), the USA PATRIOT Act puts in place measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of the USA PATRIOT Act impose affirmative obligations on a broad range of financial institutions.

Among other requirements, the USA PATRIOT Act and the related Federal Reserve regulations require banks to establish anti-money laundering programs that include, at a minimum:

- internal policies, procedures and controls designed to implement and maintain the savings association’s compliance with all of the requirements of the USA PATRIOT Act, the BSA and related laws and regulations;
- systems and procedures for monitoring and reporting of suspicious transactions and activities;
- a designated compliance officer;
- employee training;
- an independent audit function to test the anti-money laundering program;
- procedures to verify the identity of each client upon the opening of accounts; and
- heightened due diligence policies, procedures and controls applicable to certain foreign accounts and relationships.

Additionally, the USA PATRIOT Act requires each financial institution to develop a customer identification program (“CIP”) as part of its anti-money laundering program. The key components of the CIP are identification, verification, government list comparison, notice and record retention. The purpose of the CIP is to enable the financial institution to determine the true identity and anticipated account activity of each customer. To make this determination, among other things, the financial institution must collect certain information from customers at the time they enter into the customer relationship with the financial institution. This information must be verified within a reasonable time through documentary and non-documentary methods. Furthermore, all customers must be screened against any CIP-related government lists of known or suspected terrorists. We and our affiliates have adopted policies, procedures and controls designed to comply with the BSA and the USA PATRIOT Act.



### ***Regulatory Enforcement Authority***

Federal and state banking laws grant substantial enforcement powers to federal and state banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

### ***Federal Home Loan Bank System***

CCB is a member of the Federal Home Loan Bank of Atlanta, which is one of 12 regional Federal Home Loan Banks. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e. advances) in accordance with policies and procedures established by the board of trustees of the FHLB.

As a member of the FHLB of Atlanta, CCB is required to own capital stock in the FHLB in an amount at least equal to 0.09% (or 9 basis points), which is subject to annual adjustments, of the CCB's total assets at the end of each calendar year (with a dollar cap of \$15 million), plus 4.25% of its outstanding advances (borrowings) from the FHLB of Atlanta under the activity-based stock ownership requirement. As of December 31, 2016, CCB was in compliance with this requirement.

### ***Privacy***

Under the Gramm-Leach-Bliley Act, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties.

### ***Overdraft Fee Regulation***

The Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines (“ATM”) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer’s account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution’s overdraft services, including the fees associated with the service, and the consumer’s choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in.

### ***Consumer Laws and Regulations***

CCB is also subject to other federal and state consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair and Accurate Credit Transactions Act, the Mortgage Disclosure Improvement Act, and the Real Estate Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. CCB must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting “ability to repay” standards for residential mortgage loans and mortgage loan servicing and originator compensation standards, which generally require creditors to make a reasonable, good faith determination of a consumer’s ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for loans that meet the requirements of the “qualified mortgage” safe harbor. In addition, on October 3, 2015, the new TILA-RESPA Integrated Disclosure (TRID) rules for mortgage closings took effect for new loan applications. These new loan forms have lengthened the time it takes to approve mortgage loans.

### ***The Volcker Rule***

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, prohibits us from owning, sponsoring, or having certain relationships with any hedge funds or private equity funds, subject to certain exemptions. The Volcker

Rule directed the federal banking, securities and commodities and futures regulatory agencies to undertake a coordinated rulemaking effort to create rules implementing the Volcker Rule. The final interagency rules implementing the Volcker Rule, which were issued in December 2013 and became effective on April 1, 2014, afford financial institutions a two-year conformance period during which they can wind-down, sell, or otherwise conform their respective activities, investments and relationships to the requirements of the Volcker Rule and its implementing regulations. The Volcker Rule and the final interagency rules implementing the Volcker Rule has not had a material impact on our investment activities since we do not engage in transactions covered by the regulation.

### **Future Legislative Developments**

Various legislative acts are from time to time introduced in Congress and the Florida legislature. This legislation may change banking statutes and the environment in which our banking subsidiary and we operate in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon our financial condition or results of operations or that of our banking subsidiary.

### **Effect of Governmental Monetary Policies**

The commercial banking business in which CCB engages is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowing, availability of borrowing at the “discount window,” open market operations, the imposition of changes in reserve requirements against member banks’ deposits and assets of foreign banking centers and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks and are expected to continue to do so in the future. The monetary policies of the Federal Reserve are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. Government. Future monetary policies and the effect of such policies on the future business and earnings of CCB cannot be predicted.

## **Income Taxes**

We are subject to income taxes at the federal level and subject to state taxation based on the laws of each state in which we operate. We file a consolidated federal tax return with a fiscal year ending on December 31.

## **Website Access to Company's Reports**

Our Internet website is [www.ccbg.com](http://www.ccbg.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d), and reports filed pursuant to Section 16, 13(d), and 13(g) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our website is not incorporated by reference into this report.

**Item 1A. Risk Factors**

*An investment in our common stock contains a high degree of risk. You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business, including our operating results and financial condition, could be harmed by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in our filings with the SEC, including our financial statements and related notes.*

**Risks Related to Our Business**

**We may incur losses if we are unable to successfully manage interest rate risk.**

Our profitability depends to a large extent on Capital City Bank's net interest income, which is the difference between income on interest-earning assets, such as loans and investment securities, and expense on interest-bearing liabilities such as deposits and borrowings. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, federal funds target rate, money supply, domestic and international events and changes in the United States and other financial markets. Our net interest income may be reduced if: (i) more interest-earning assets than interest-bearing liabilities reprice or mature during a time when interest rates are declining or (ii) more interest-bearing liabilities than interest-earning assets reprice or mature during a time when interest rates are rising.

Changes in the difference between short-term and long-term interest rates may also harm our business. We generally use short-term deposits to fund longer-term assets. When interest rates change, assets and liabilities with shorter terms reprice more quickly than those with longer terms, which could have a material adverse effect on our net interest margin. If market interest rates rise rapidly, interest rate adjustment caps may also limit increases in the interest rates on adjustable rate loans, which could further reduce our net interest income. Additionally, we believe that due to the recent historical low interest rate environment, the effects of the repeal of Regulation Q, which previously had prohibited the payment of interest on demand deposits by member banks of the Federal Reserve System, has not been realized. The increased price competition for deposits that may result upon the return to a historically normal interest rate environment could adversely affect net interest margins of community banks.

Although we continuously monitor interest rates and have a number of tools to manage our interest rate risk exposure, changes in market assumptions regarding future interest rates could significantly impact our interest rate risk strategy, our financial position and results of operations. If we do not properly monitor our interest rate risk management strategies, these activities may not effectively mitigate our interest rate sensitivity or have the desired impact on our

results of operations or financial condition.

**Our loan portfolio includes loans with a higher risk of loss which could lead to higher loan losses and nonperforming assets.**

We originate commercial real estate loans, commercial loans, construction loans, vacant land loans, consumer loans, and residential mortgage loans primarily within our market area. Commercial real estate, commercial, construction, vacant land, and consumer loans may expose a lender to greater credit risk than traditional fixed rate fully amortizing loans secured by single-family residential real estate because the collateral securing these loans may not be sold as easily as single-family residential real estate. In addition, these loan types tend to involve larger loan balances to a single borrower or groups of related borrowers and are more susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons:

- **Commercial Real Estate Loans.** Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over the loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on the borrower's ability to either refinance the loan or timely sell the underlying property. As of December 31, 2016, commercial mortgage loans comprised approximately 32.1% of our total loan portfolio.
- **Commercial Loans.** Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2016, commercial loans comprised approximately 13.8% of our total loan portfolio.

- **Construction Loans.** The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2016, construction loans comprised approximately 3.8% of our total loan portfolio.
- **Vacant Land Loans.** Because vacant or unimproved land is generally held by the borrower for investment purposes or future use, payments on loans secured by vacant or unimproved land will typically rank lower in priority to the borrower than a loan the borrower may have on their primary residence or business. These loans are susceptible to adverse conditions in the real estate market and local economy. As of December 31, 2016, vacant land loans comprised approximately 3.6% of our total loan portfolio.
- **HELOCs.** Our open-ended home equity loans have an interest-only draw period followed by a five-year repayment period of 0.75% of the principal balance monthly and a balloon payment at maturity. Upon the commencement of the repayment period, the monthly payment can increase significantly, thus, there is a heightened risk that the borrower will be unable to pay the increased payment. Further, these loans also involve greater risk because they are generally not fully amortizing over the loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment may depend on the borrower's ability to either refinance the loan or timely sell the underlying property. As of December 31, 2016, HELOCs comprised approximately 15.0% of our total loan portfolio.
- **Consumer Loans.** Consumer loans (such as automobile loans and personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss. As of December 31, 2016, consumer loans comprised approximately 16.8% of our total loan portfolio, with indirect auto loans making up a majority of this portfolio at approximately 84% of the total balance.

The increased risks associated with these types of loans result in a correspondingly higher probability of default on such loans (as compared to fixed rate fully amortizing single-family real estate loans). Loan defaults would likely increase our loan losses and nonperforming assets and could adversely affect our allowance for loan losses.

**We process, maintain, and transmit confidential client information through our information technology systems, such as our online banking service. Cybersecurity issues, such as security breaches and computer viruses, affecting our information technology systems or fraud related to our debit card products could disrupt our business, result in the unintended disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs, and cause losses.**

We collect and store sensitive data, including our proprietary business information and that of our clients, and personally identifiable information of our clients and employees, in our information technology systems. We also provide our clients the ability to bank online. The secure processing, maintenance, and transmission of this information is critical to our operations. Our network, or those of our clients, could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. Financial institutions and companies engaged in data processing have increasingly reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage.

We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

Additionally, fraud losses related to debit cards have risen in recent years due in large part to growing and evolving schemes to illegally use cards or steal consumer credit card information despite risk management practices employed by the debit card industry. Many issuers of debit cards have suffered significant losses in recent years due to the theft of cardholder data that has been illegally exploited for personal gain.

The potential for debit card fraud against us or our clients and our third party service providers is a serious issue. Debit card fraud is pervasive and the risks of cybercrime are complex and continue to evolve. In view of the recent high-profile retail data breaches involving client personal and financial information, the potential impact on us and any exposure to consumer losses and the cost of technology investments to improve security could cause losses to us or our clients, damage to our brand, and an increase in our costs.



**An inadequate allowance for loan losses would reduce our earnings.**

We are exposed to the risk that our clients may be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure full repayment. This could result in credit losses that are inherent in the lending business. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

- the risk characteristics of various classifications of loans;
- previous loan loss experience;
- specific loans that have loss potential;
- delinquency trends;
- estimated fair market value of the collateral;
- current economic conditions; and
- geographic and industry loan concentrations.

As of December 31, 2016, the Bank's allowance for loan losses was \$13.4 million, which represented approximately 0.86% of its total amount of loans. The Bank had \$8.5 million in nonaccruing loans as of December 31, 2016. The allowance is based on management's reasonable estimate and may not prove sufficient to cover future loan losses. Although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to the Bank's nonperforming or performing loans. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require us to recognize additional losses based on their judgments about information available to them at the time of their examination. Accordingly, the allowance for loan losses may not be adequate to cover loan losses or significant increases to the allowance may be required in the future if economic conditions should worsen. Material additions to the Bank's allowance for loan losses would adversely impact our net income and capital in future periods, while having the effect of overstating our current period earnings.

**Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income.**

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate.

The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to:

- general or local economic conditions;
- environmental cleanup liability;
- neighborhood values;
- interest rates;
- real estate tax rates;
- operating expenses of the mortgaged properties;
- supply of and demand for rental units or properties;
- ability to obtain and maintain adequate occupancy of the properties;
- zoning laws;
- governmental rules, regulations and fiscal policies; and
- acts of God.

Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss.

**Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.**

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet client loan requests, client deposit maturities and withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. An inability to raise funds through deposits, borrowings, earnings and other sources, could have a substantial negative effect on our liquidity. In particular, a majority of our liabilities during 2016 were checking accounts and other liquid deposits, which are generally payable on demand or upon short notice, while by comparison, a substantial majority of our assets were loans, which cannot generally be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. Our failure to maintain adequate liquidity could materially and adversely affect our business, results of operations or financial condition.

**Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.**

We face vigorous competition from other banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable financing than we can. Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities. As a result, these non-bank competitors have advantages over us in providing certain services. This competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

**Risks Related to Regulation and Legislation**

**We are subject to extensive regulation, which could restrict our activities and impose financial requirements or limitations on the conduct of our business.**

Both CCBG and the Bank are subject to extensive regulation, supervision and examination by our regulators, including the Florida Office of Financial Regulation, the Federal Reserve, and the FDIC. Our compliance with these industry regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, access to capital and brokered deposits and locations of banking offices. If we are unable to meet these regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

The Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit and other activities. Many of these regulations are intended primarily for the protection of our depositors and the Deposit Insurance Fund and not for the benefit of our shareowners. In addition to the regulations of the bank regulatory agencies, as a member of the Federal Home Loan Bank, the Bank must also comply with applicable regulations of the Federal Housing Finance Agency and the Federal Home Loan Bank.

Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition. Please refer to the Section entitled "Business – Regulatory Considerations" in this Report.

#### **Legislative and administrative action may affect our business.**

President Donald Trump has called for substantial change to several regulations and policies, which may include the repeal of regulations implemented as a result of Dodd-Frank and comprehensive tax reform. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, if any, we will not know whether in total we benefit from, or are negatively affected by, the changes.

**The Increased Capital requirements may have an adverse effect on us.**

In 2013, the Federal Reserve Board released its final rules which implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. Under the final rule, minimum requirements increased for both the quality and quantity of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of Common Equity Tier 1 Capital (“CET1”) to Risk-Weighted Assets (“RWA”) of 4.5% and a CET1 conservation buffer of 2.5% of RWA (which will be phased in from 2016 through 2019) that apply to all supervised financial institutions. As of January 1, 2017, the CET1 conservation buffer requirement was 1.25%, which requires us to hold additional CET1 capital in excess of the minimum required to meet the CET1 to RWA ratio requirement. The rule also, among other things, raised the minimum ratio of Tier 1 Capital to RWA from 4% to 6% and included a minimum leverage ratio of 4% for all banking organizations. The impact of the new capital rules requires us to maintain higher levels of capital, which we expect will lower our return on equity. Additionally, if our CET1 to RWA ratio does not exceed the minimum required plus the additional CET1 conservation buffer, we may be restricted in our ability to pay dividends or make other distributions of capital to our shareowners.

**Compliance with the Consumer Financial Protection Bureau’s ability-to-repay rule safe-harbor could adversely impact our growth or profitability.**

The Consumer Financial Protection Bureau issued a rule, effective as of January 14, 2014, designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which holds lenders accountable for ensuring a borrower’s ability to repay a mortgage at the time the loan is originated. Loans that satisfy the “qualified mortgage” safe-harbor will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau’s rule, a “qualified mortgage” loan must not contain certain specified features, including but not limited to:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less “bona fide discount points” for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a “qualified mortgage,” a borrower’s total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection

Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact our growth or profitability.

**Florida financial institutions, such as the Bank, face a higher risk of noncompliance and enforcement actions with the Bank Secrecy Act and other anti-money laundering statutes and regulations.**

Since September 11, 2001, banking regulators have intensified their focus on anti-money laundering and Bank Secrecy Act compliance requirements, particularly the anti-money laundering provisions of the USA PATRIOT Act. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control ("OFAC"). Since 2004, federal banking regulators and examiners have been extremely aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to the institution's Bank Secrecy Act/anti-money laundering compliance. Consequently, numerous formal enforcement actions have been instituted against financial institutions.

In order to comply with regulations, guidelines and examination procedures in this area, the Bank has been required to adopt new policies and procedures and to install new systems. If the Bank's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that it has already acquired or may acquire in the future are deficient, the Bank would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans.

### **Risks Related to Market Events**

**Our loan portfolio is heavily concentrated in mortgage loans secured by properties in Florida and Georgia which causes our risk of loss to be higher than if we had a more geographically diversified portfolio.**

Our interest-earning assets are heavily concentrated in mortgage loans secured by real estate, particularly real estate located in Florida and Georgia. As of December 31, 2016, approximately 69% of our loans had real estate as a primary, secondary, or tertiary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower; however, the value of the collateral may decline during the time the credit is extended. If we are required to liquidate the collateral securing a loan during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

Additionally, as of December 31, 2016, substantially all of our loans secured by real estate are secured by commercial and residential properties located in Northern Florida and Middle Georgia. The concentration of our loans in these areas subjects us to risk that a downturn in the economy or recession in these areas could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect us than if our lending were more geographically diversified. In addition, since a large portion of our portfolio is secured by properties located in Florida and Georgia, the occurrence of a natural disaster, such as a hurricane, or a man-made disaster could result in a decline in loan originations, a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us. We may suffer further losses due to the decline in the value of the properties underlying our mortgage loans, which would have an adverse impact on our results of operations and financial condition.

**Our concentration in loans secured by real estate may increase our credit losses, which would negatively affect our financial results.**

Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of our geographic markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate. As of December 31, 2016, approximately 32% and 34% of our \$1.57 billion loan portfolio was secured by commercial real estate and residential real estate, respectively. As of this same date, approximately 4% was secured by property under construction.

In the event we are required to foreclose on a property securing one of our mortgage loans or otherwise pursue our remedies in order to protect our investment, we may be unable to recover funds in an amount equal to our projected return on our investment or in an amount sufficient to prevent a loss to us due to prevailing economic conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real

estate or other collateral underlying our loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans, and consequently, we would sustain loan losses.

**The fair value of our investments could decline which would cause a reduction in shareowners' equity.**

A large portion of our investment securities portfolio as of December 31, 2016 has been designated as available-for-sale pursuant to U.S. generally accepted accounting principles relating to accounting for investments. Such principles require that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in shareowners' equity (net of tax) as accumulated other comprehensive income/loss. Shareowners' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. The fair value of our investment portfolio may decline, causing a corresponding decline in shareowners' equity.

Management believes that several factors will affect the fair values of our investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes in interest rates, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between short-term and long-term interest rates; a positively sloped yield curve means short-term rates are lower than long-term rates). These and other factors may impact specific categories of the portfolio differently, and we cannot predict the effect these factors may have on any specific category.



**Risks Related to an Investment in Our Common Stock**

**We may be unable to pay dividends in the future.**

In 2016, our Board of Directors declared four quarterly cash dividends. Declarations of any future dividends will be contingent on our ability to earn sufficient profits and to remain well capitalized, including our ability to hold and generate sufficient capital to comply with the new CET1 conservation buffer requirement. In addition, due to our contractual obligations with the holders of our trust preferred securities, if we defer the payment of accrued interest owed to the holders of our trust preferred securities, we may not make dividend payments to our shareowners.

Further, under applicable statutes and regulations, the Bank's board of directors, after charging-off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually, or annually declare and pay dividends to CCBG of up to the aggregate net income of that period combined with the Bank's retained net income for the preceding two years and, with the approval of the Florida Office of Financial Regulation and Federal Reserve, declare a dividend from retained net income which accrued prior to the preceding two years. Additional state laws generally applicable to Florida corporations may also limit our ability to declare and pay dividends. Thus, our ability to fund future dividends may be restricted by state and federal laws and regulations.

**Limited trading activity for shares of our common stock may contribute to price volatility.**

While our common stock is listed and traded on the Nasdaq Global Select Market, there has historically been limited trading activity in our common stock. The average daily trading volume of our common stock over the 12-month period ending December 31, 2016 was approximately 21,473 shares. Due to the limited trading activity of our common stock, relatively small trades may have a significant impact on the price of our common stock.

**Securities analysts may not initiate coverage or continue to cover our common stock, and this may have a negative impact on its market price.**

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over securities analysts and they may not initiate coverage or continue to cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, our stock price would likely decline. If one or more of these analysts ceases to cover our Company or fails to publish regular reports on us, we could lose visibility in the financial markets,

which may cause our stock price or trading volume to decline.

**Our directors, executive officers, and principal shareowners, if acting together, have substantial control over all matters requiring shareowner approval, including changes of control. Because Mr. William G. Smith, Jr. is a principal shareowner and our Chairman, President, and Chief Executive Officer and Chairman of the Bank, he has substantial control over all matters on a day to day basis.**

Our directors, executive officers, and certain principal shareowners beneficially owned approximately 35.2% of the outstanding shares of our common stock as of December 31, 2016. Our principal shareowners include the Estate of Robert H. Smith, who was the brother of William G. Smith, Jr., our Chairman, President and Chief Executive Officer, which beneficially owns 15.5% of our shares. William G. Smith, Jr. beneficially owns 22.2% of our shares. In addition, 2S Partnership beneficially owns 6.2% of our shares, however, its shares were historically deemed to be beneficially owned by Messrs. Smith and Smith. Together, Mr. Smith and the Estate of Robert H. Smith beneficially own approximately 31.6% of our shares.

Accordingly, these directors, executive officers, and principal shareowners, if acting together, may be able to influence or control matters requiring approval by our shareowners, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. In addition, because William G. Smith, Jr. is the Chairman, President, and Chief Executive Officer of CCBG and Chairman of the Bank, he has substantial control over all matters on a day-to-day basis, including the nomination and election of directors.

These directors, executive officers, and principal shareowners may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareowners of an opportunity to receive a premium for their common stock as part of a sale of our Company and might ultimately affect the market price of our common stock. You may also have difficulty changing management, the composition of the Board of Directors, or the general direction of our Company.

**Our Articles of Incorporation, Bylaws, and certain laws and regulations may prevent or delay transactions you might favor, including a sale or merger of CCBG.**

CCBG is registered with the Federal Reserve as a financial holding company under the Bank Holding Company Act (“BHCA”). As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The Gramm-Leach-Bliley Act, the BHCA, and other federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Provisions of our Articles of Incorporation, Bylaws, certain laws and regulations and various other factors may make it more difficult and expensive for companies or persons to acquire control of us without the consent of our Board of Directors. It is possible, however, that you would want a takeover attempt to succeed because, for example, a potential buyer could offer a premium over the then prevailing price of our common stock.

For example, our Articles of Incorporation permit our Board of Directors to issue preferred stock without shareowner action. The ability to issue preferred stock could discourage a company from attempting to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. Additionally, our Articles of Incorporation and Bylaws divide our Board of Directors into three classes, as nearly equal in size as possible, with staggered three-year terms. One class is elected each year. The classification of our Board of Directors could make it more difficult for a company to acquire control of us. We are also subject to certain provisions of the Florida Business Corporation Act and our Articles of Incorporation that relate to business combinations with interested shareowners. Other provisions in our Articles of Incorporation or Bylaws that may discourage takeover attempts or make them more difficult include:

- Supermajority voting requirements to remove a director from office;
- Provisions regarding the timing and content of shareowner proposals and nominations;
- Supermajority voting requirements to amend Articles of Incorporation unless approval is received by a majority of “disinterested directors”;
- Absence of cumulative voting; and
- Inability for shareowners to take action by written consent.

**Shares of our common stock are not an insured deposit and may lose value.**

The shares of our common stock are not a bank deposit and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

***Item 1B. Unresolved Staff Comments***

None.

***Item 2. Properties***

We are headquartered in Tallahassee, Florida. Our executive office is in the Capital City Bank building located on the corner of Tennessee and Monroe Streets in downtown Tallahassee. The building is owned by the Bank, but is located on land leased under a long-term agreement.

As of February 28, 2017, the Bank had 60 banking offices. Of the 60 locations, the Bank leases the land, buildings, or both at six locations and owns the land and buildings at the remaining 54.

***Item 3. Legal Proceedings***

We are party to lawsuits and claims arising out of the normal course of business. In management's opinion, there are no known pending claims or litigation, the outcome of which would, individually or in the aggregate, have a material effect on our consolidated results of operations, financial position, or cash flows.

***Item 4. Mine Safety Disclosure.***

Not applicable.

**PART II****Item 5. Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities***Common Stock Market Prices and Dividends*

Our common stock trades on the Nasdaq Global Select Market under the symbol "CCBG." We had a total of 1,489 shareowners of record as of February 28, 2017.

The following table presents the range of high and low closing sales prices reported on the Nasdaq Global Select Market and cash dividends declared for each quarter during the past two years.

	<b>2016</b>				<b>2015</b>			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Common stock price:								
High	\$ 23.15	\$ 15.35	\$ 15.96	\$ 15.88	\$ 16.05	\$ 15.75	\$ 16.32	\$ 16.33
Low	14.29	13.32	13.16	12.83	13.56	14.39	13.94	13.16
Close	20.48	14.77	13.92	14.59	15.35	14.92	15.27	16.25
Cash dividends per share	0.05	0.04	0.04	0.04	0.04	0.03	0.03	0.03

Florida law and Federal regulations impose restrictions on our ability to pay dividends and limitations on the amount of dividends that the Bank can pay annually to us. See Item 1. "Capital; Dividends; Sources of Strength" and "Dividends" in the Business section on page 12 and 13 and the section entitled "Liquidity and Capital Resources – Dividends" -- in Management's Discussion and Analysis of Financial Condition and Operating Results on page 32 and Note 14 in the Notes to Consolidated Financial Statements.

*Performance Graph*

This performance graph compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the Nasdaq Composite Index and the SNL Financial LC \$1B-\$5B Bank Index for the past five years. The graph assumes that \$100 was invested on December 31, 2011 in our common stock and each of the above indices, and that all dividends were reinvested. The shareholder return shown below represents past performance and should not be considered indicative of future performance.

<i>Index</i>	<i>Period Ending</i>					
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Capital City Bank Group, Inc.	\$ 100.00	\$ 119.06	\$ 123.25	\$ 163.75	\$ 163.15	\$ 220.01
Nasdaq Composite	100.00	117.45	164.57	188.84	201.98	219.89
SNL \$1B-\$5B Bank Index	100.00	123.31	179.31	187.48	209.86	301.92

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**Item 6. Selected Financial Data***(Dollars in Thousands, Except Per Share Data)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Interest Income	\$ 81,154	\$ 79,658	\$ 78,221	\$ 82,152	\$ 89,680
Net Interest Income	77,965	76,351	74,641	77,736	84,312
Provision for Loan Losses	819	1,594	1,905	3,472	16,166
Noninterest Income	53,681	54,091	52,536	55,111	54,569
Noninterest Expense	113,214	115,273	114,358	121,405	123,943
Net Income	11,746	9,116	9,260	6,045	108

**Per Common Share:**

Basic Net Income	\$ 0.69	\$ 0.53	\$ 0.53	\$ 0.35	\$ 0.01
Diluted Net Income	0.69	0.53	0.53	0.35	0.01
Cash Dividends Declared	0.17	0.13	0.09	-	-
Diluted Book Value	16.23	15.93	15.53	15.85	14.31

**Performance Ratios:**

Return on Average Assets	0.43%	0.34%	0.36%	0.24%	0.00%
Return on Average Equity	4.22	3.31	3.27	2.40	0.04
Net Interest Margin (FTE)	3.25	3.31	3.36	3.54	3.81
Noninterest Income as % of Operating Revenues	40.78	41.47	41.30	41.48	39.29
Efficiency Ratio	85.34	87.94	89.68	91.09	88.72

**Asset Quality:**

Allowance for Loan Losses	\$ 13,431	\$ 13,953	\$ 17,539	\$ 23,095	\$ 29,167
Allowance for Loan Losses to Loans	0.86%	0.93%	1.22%	1.65%	1.93%
Nonperforming Assets	19,171	29,595	52,449	85,035	117,648
Nonperforming Assets to Assets	0.67	1.06	2.00	3.26	4.47
Nonperforming Assets to Loans plus OREO	1.21	1.94	3.55	5.87	7.47
Allowance to Nonperforming Loans	157.40	135.40	104.60	62.48	45.42
Net Charge-Offs to Average Loans	0.09	0.35	0.53	0.66	1.16

**Capital Ratios:**

Tier 1 Capital	15.51%	16.42%	16.67%	16.56%	14.35%
Total Capital	16.28	17.25	17.76	17.94	15.72
Common Equity Tier 1 Capital <sup>(1)</sup>	12.61	12.84	NA	NA	NA
Tangible Common Equity <sup>(2)</sup>	6.90	6.99	7.38	7.58	6.35
Leverage	10.23	10.65	10.99	10.46	9.90
Equity to Assets	9.67	9.81	10.37	10.58	9.37
Dividend Pay-Out	24.64	24.53	16.98	NM	NM

**Averages for the Year:**

Loans, Net of Unearned Income	\$ 1,542,232	\$ 1,474,833	\$ 1,414,000	\$ 1,450,806	\$ 1,556,565
Earning Assets	2,432,392	2,324,854	2,237,623	2,213,686	2,229,621
Total Assets	2,752,309	2,659,317	2,564,176	2,568,662	2,590,173
Deposits	2,282,785	2,163,441	2,093,477	2,070,073	2,105,672
Shareowners' Equity	278,335	275,144	283,079	251,427	252,960

**Year-End Balances:**

General

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Loans, Net of Unearned Income	\$ 1,572,175	\$ 1,503,907	\$ 1,442,062	\$ 1,399,669	\$ 1,521,302
Earning Assets	2,520,053	2,470,444	2,276,781	2,274,019	2,261,781
Total Assets	2,845,197	2,797,860	2,627,169	2,611,903	2,633,984
Deposits	2,412,286	2,302,849	2,146,794	2,136,248	2,144,996
Shareowners' Equity	275,168	274,352	272,540	276,400	246,889

**Other Data:**

Basic Average Shares Outstanding	16,988,747	17,273,406	17,424,788	17,324,759	17,204,559
Diluted Average Shares Outstanding	17,061,186	17,318,184	17,488,020	17,399,355	17,219,765
Shareowners of Record <sup>(3)</sup>	1,489	1,559	1,589	1,651	1,691
Banking Locations <sup>(3)</sup>	60	61	63	63	66
Full-Time Equivalent Associates <sup>(3)</sup>	820	858	895	891	913

<sup>(1)</sup> Not applicable prior to January 1, 2015

<sup>(2)</sup> Tangible common equity ratio is a non-GAAP financial measure. For additional information, including a reconciliation to GAAP, refer to page 31

<sup>(3)</sup> As of record date. The record date is on or about March 1<sup>st</sup> of the following year.

NM - Not Meaningful



**NON-GAAP FINANCIAL MEASURE**

We present a tangible common equity ratio that removes the effect of goodwill resulting from merger and acquisition activity. We believe this measure is useful to investors because it allows investors to more easily compare our capital adequacy to other companies in the industry. The GAAP to non-GAAP reconciliation for selected financial data and quarterly financial data is provided below.

**Non-GAAP Reconciliation - Selected Financial Data**

<i>(Dollars in Thousands)</i>		<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>TANGIBLE COMMON EQUITY RATIO</b>						
Shareowners' Equity (GAAP)		\$ 275,168	\$ 274,352	\$ 272,540	\$ 276,400	\$ 246,889
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,843	85,053
Tangible Shareowners' Equity (non-GAAP)	A	190,357	189,541	187,729	191,557	161,836
Total Assets (GAAP)		2,845,197	2,797,860	2,627,169	2,611,903	2,633,984
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,843	85,053
Tangible Assets (non-GAAP)	B	\$ 2,760,386	\$ 2,713,049	\$ 2,542,358	\$ 2,527,060	\$ 2,548,931
Tangible Common Equity Ratio (non-GAAP)	A/B	6.90%	6.99%	7.38%	7.58%	6.35%

**Non-GAAP Reconciliation - Quarterly Financial Data**

<i>(Dollars in Thousands)</i>		<b>2016</b>				<b>2015</b>			
		<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
<b>TANGIBLE COMMON EQUITY RATIO</b>									
Shareowners' Equity (GAAP)		\$ 275,168	\$ 276,624	\$ 274,824	\$ 276,833	\$ 274,352	\$ 273,659	\$ 272,038	\$ 274,087
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Shareowners' Equity (non-GAAP)	A	190,357	191,813	190,013	192,022	189,541	188,848	187,227	189,276
Total Assets (GAAP)		2,845,197	2,753,154	2,767,636	2,792,186	2,797,860	2,615,094	2,654,144	2,693,715
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Assets (non-GAAP)	B	\$ 2,760,386	\$ 2,668,343	\$ 2,682,825	\$ 2,707,375	\$ 2,713,049	\$ 2,530,283	\$ 2,569,333	\$ 2,608,904
Tangible Common Equity Ratio (non-GAAP)	A/B	6.90%	7.19%	7.08%	7.09%	6.99%	7.46%	7.29%	7.26%

Tangible  
Common  
Equity Ratio  
(non-GAAP)

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes included in the Annual Report on Form 10-K. The MD&A is divided into subsections entitled "Business Overview," "Executive Overview," "Results of Operations," "Financial Condition," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," "Fourth Quarter, 2016 Financial Results," and "Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2016 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and its subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K, including this MD&A section, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and *Item 1A Risk Factors* of this Annual Report for a discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements.

However, other factors besides those listed in *Item 1A Risk Factors* or discussed in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

**BUSINESS OVERVIEW**

**Our Business**

We are a financial holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly owned subsidiary, Capital City Bank (the “Bank” or “CCB”). The Bank offers a broad array of products and services through a total of 60 banking offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services. Please see the section captioned “About Us” beginning on page 4 for more detailed information about our business.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest and fees received on interest earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as deposit fees, wealth management fees, mortgage banking fees, and bank card fees.

### **Strategic Review**

Our philosophy is to build long-term client relationships based on quality service, high ethical standards, and safe and sound banking practices. We maintain a locally oriented, community-based focus, which is augmented by experienced, centralized support in select specialized areas. Our local market orientation is reflected in our network of banking office locations, experienced community executives with a dedicated President for each market, and community boards which support our focus on responding to local banking needs. We strive to offer a broad array of sophisticated products and to provide quality service by empowering associates to make decisions in their local markets.

We have sought to build a franchise in small-to medium-sized, less competitive markets, located on the outskirts of the larger metropolitan markets where we are positioned as a market leader. Many of our markets are on the outskirts of these larger markets in close proximity to major interstate thoroughfares such as Interstates I-10 and I-75. Our three largest markets are Tallahassee (Leon-Florida), Gainesville (Alachua-Florida), and Macon (Bibb-Georgia). In 13 of 19 markets in Florida and two of four markets in Georgia, we rank within the top four banks in terms of market share. Furthermore, in the counties in which we operate, we maintain an average 8.74% market share in the Florida counties and 5.37% in the Georgia counties, suggesting that there is significant opportunity to grow market share within these geographic areas. The larger employers in many of our markets are state and local governments, healthcare providers, educational institutions, and small businesses. While we realize that the markets in our footprint do not provide for a level of potential growth that the larger metropolitan markets may provide, our markets do provide good growth dynamics and have historically grown in excess of the national average. The value of these markets stems from the fact they are stable and less competitive, secondary markets. We strive to provide value added services to our clients by being not just their bank, but their banker. This element of our strategy distinguishes Capital City Bank from our competitors.

Our long-term vision remains to profitably expand our franchise through a combination of organic growth in existing markets and acquisitions. We have long understood that our core deposit funding base is a predominant driver of our profitability and overall franchise value, and have focused extensively on this component of our organic growth efforts in recent years. While we have not been an active acquirer of banks since 2005, this component of our strategy is still in place. When evaluating potential acquisition opportunities, we will continue to weigh the value of organic growth initiatives versus potential acquisition returns and pursue the strategies that we believe provide the best overall return to our shareowners.

Potential acquisition opportunities will continue to be focused on Florida, Georgia, and Alabama with a particular focus on financial institutions located on the outskirts of larger, metropolitan areas. Five markets have been identified, four in Florida and one in Georgia, in which management intends to proactively pursue expansion opportunities. These markets include Alachua, Marion, Hernando/Pasco counties in Florida, the western panhandle of Florida, and Bibb and surrounding counties in central Georgia. Our focus on some of these markets may change as we continue to evaluate our strategy and the economic conditions and demographics of any individual market. We will also continue to evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management, mortgage banking, and other financial businesses that are closely aligned with the business of banking. Embedded in our acquisition strategy is our desire to partner with institutions that are culturally similar, have experienced management and possess either established market presence or have potential for improved profitability through growth, economies of scale, or expanded services. Generally, these target institutions will range in asset size from \$100 million to \$500 million.

## **EXECUTIVE OVERVIEW**

During 2016, we made meaningful progress throughout the year as we continued to focus on initiatives that add value to our shareowners. The slow and steady economic recovery continued in our markets, loan demand improved

noticeably, and new loan production increased for all loan categories. Continued focus on expense management and further progress made toward reducing our nonperforming assets also contributed to the improvement in performance.

For 2016, we realized net income of \$11.7 million, or \$0.69 per diluted share, compared to \$9.1 million, or \$0.53 per diluted share in 2015. The increase in earnings reflected lower noninterest expense of \$2.0 million, higher net interest income of \$1.6 million, and a \$0.8 million decrease in the loan loss provision, partially offset by higher income taxes of \$1.4 million and lower noninterest income of \$0.4 million.

Below are summary highlights that impacted our performance for the year:

- Broader based loan growth of 4.6% driven by both increased demand and effective calling efforts
- 49% reduction in loan loss provision driven by lower loan charge-offs and strong loan recoveries
- 1.8% decrease in noninterest expenses (primarily other real estate owned (“OREO”) costs and FDIC fees)
- NPAs and classified assets down by 35% and 28%, respectively
- \$10 million trust preferred securities (“TRUPs”) repurchased at a discount added \$2.5 million to pre-tax earnings (\$0.09 per share)
- Repurchased 435,000 shares of common stock

During 2016, we again realized meaningful re-composition in our earning asset mix as solid loan growth and increased deployment of liquidity into our investment portfolio drove a 2.6% increase in tax-equivalent net interest income. Loan growth in 2016 was broader based as we realized average loan growth in all loan categories except commercial mortgages. Increased new loan production for commercial mortgages further stabilized that portfolio.

Our noninterest income remains diversified and we made good progress during 2016 toward initiatives aimed at strengthening and growing fee income. Some of these initiatives commenced in mid-2016 and others are expected to commence in 2017 and beyond. We remain focused on deepening client relationships and fully leveraging the fee income opportunities that stem from our strong core deposit base franchise. In 2016, we realized a 14% increase in mortgage banking fees reflective of our strong sales network and improved market share in our Gainesville market.

Noninterest expense (excluding OREO expense) decreased 0.7% in 2016 due to continued focus on expense management as we realized reductions in several expense categories, including compensation, FDIC insurance fees, professional fees, and legal fees. During 2016, we continued to focus on the execution of strategies aimed at optimizing our delivery systems (both on-line and banking offices) which will both pay longer term benefits.

Our total credit costs (loan loss provision plus OREO costs) declined by 32% in 2016 driven by a lower loan loss provision and a reduction in OREO expenses. Lower loan charge-offs and a strong year for loan recoveries contributed to the reduction in our loan loss provision and lower property carrying costs favorably impacted OREO expense.

Throughout an historic period of low interest rates, we have been disciplined in our pricing strategies and have not changed our risk profile to drive short-term earnings. As a result, we believe that we are very well positioned to benefit and drive operating leverage if interest rates increase further. Continued focus on internal initiatives that drive loan growth, enhance fee income, and produce improved efficiency coupled with being well positioned to leverage our capital as opportunities arise are operating principles that will help to drive future earnings growth.

Key components of our 2016 financial performance are summarized below:

## **Results of Operations**

- For 2016, taxable equivalent net interest income increased \$2.0 million, or 2.6%, to \$79.0 million driven by a positive shift in earning asset mix due to growth in the loan and investment portfolios, partially offset by unfavorable loan repricing. Our net interest margin of 3.25% in 2016 was six basis points lower than the 3.31% recorded in 2015 reflective of a seven basis point decrease in the earning asset yield that was partially offset by a one basis point reduction in the cost of funds.

- Total credit costs (loan loss provision plus OREO expenses) were \$4.5 million in 2016 compared to \$6.6 million for 2015. Continued favorable problem loan migration and lower net loan charge-offs partially offset by

growth in the loan portfolio drove an \$0.8 million decrease in our loan loss provision and lower property carrying costs drove a \$1.3 million reduction in OREO expense.

- For 2016, noninterest income totaled \$53.7 million, a \$0.4 million, or 0.8%, decrease from 2015 primarily attributable to lower deposit fees of \$1.3 million and lower wealth management fees \$0.5 million, partially offset by higher other income of \$0.8 million (\$2.5 million gain from partial retirement of TRUPs in 2016 and \$1.7 million receipt of bank-owned life insurance (“BOLI”) proceeds in 2015) and mortgage banking fees of \$0.6 million.
- For 2016, noninterest expense totaled \$113.2 million, a \$2.1 million, or 1.8%, decrease from 2015 reflective of lower OREO expense of \$1.3 million, other expense (excluding OREO expenses) of \$0.9 million, and compensation expense of \$0.4 million, partially offset by higher occupancy expense of \$0.5 million.

### **Financial Condition**

- Average assets totaled approximately \$2.752 billion for 2016, an increase of \$93.0 million, or 3.5%, over 2015. Average earning assets were approximately \$2.432 billion for 2016, representing an increase of \$107.5 million, or 4.6%, over 2015. Year-over-year, our average net overnight funds sold (deposits with banks plus fed funds sold less fed funds purchased) decreased \$25.2 million, while investment securities increased \$65.3 million and average gross loans were higher by \$67.4 million.
- Average gross loans totaled \$1.542 billion, a \$67.4 million, or 4.6%, increase over 2015. In 2016, we experienced loan growth in all categories except commercial mortgages. The largest increases occurred in the commercial loan category, primarily tax-free loans, and consumer loans.
- Average total deposits for 2016 were \$2.283 billion, an increase of \$119.3 million, or 5.5%, over 2015. We experienced growth in all deposit types except for money market accounts and time deposits.



- At December 31, 2016, our nonperforming assets totaled \$19.2 million, a decrease of \$10.4 million from December 31, 2015. Nonaccrual loans totaled \$8.5 million at December 31, 2016, a decrease of \$1.8 million from December 31, 2015. The balance of OREO totaled \$10.6 million at December 31, 2016, a decrease of \$8.6 million from December 31, 2015. We continued to experience progress during 2016 in our efforts to dispose of OREO selling properties totaling \$10.3 million. Nonperforming assets represented 0.67% of total assets at December 31, 2016 compared to 1.06% at December 31, 2015.
- Our allowance for loan losses at December 31, 2016 was \$13.4 million (0.86% of loans) and provided coverage of 157% of nonperforming loans compared to \$14.0 million (0.93% of loans) and 135% of nonperforming loans at December 31, 2015. Net charge-offs for 2016 totaled \$1.3 million, or 0.09% of average loans compared to \$5.2 million, or 0.35% in 2015, reflective of a lower level of gross loan charge-offs and strong loan recoveries.
- Shareowners' equity increased by \$0.8 million from \$274.4 million at December 31, 2015 to \$275.2 million at December 31, 2016. We continue to maintain a strong capital base as evidenced by a risk-based capital ratio of 16.28% and tangible common equity ratio of 6.90% at December 31, 2016 compared to 17.25% and 6.99%, respectively, at December 31, 2015. During 2016, the repurchase of our common shares and the partial retirement of TRUPs unfavorably impacted our regulatory capital ratios by approximately 38 basis points and 50 basis points, respectively. At December 31, 2016, all of our regulatory capital ratios exceeded the threshold to be well-capitalized under the Basel III capital standards.

## RESULTS OF OPERATIONS

For 2016, we realized net income of \$11.7 million, or \$0.69 per diluted share, compared to \$9.1 million, or \$0.53 per diluted share in 2015, and \$9.3 million, or \$0.53 per diluted share in 2014.

The increase in earnings for 2016 was attributable to lower noninterest expense of \$2.0 million, higher net interest income of \$1.6 million, and a \$0.8 million decrease in the loan loss provision, partially offset by higher income taxes of \$1.4 million and lower noninterest income of \$0.4 million.

The decrease in earnings for 2015 as compared to 2014 was attributable to higher noninterest expense of \$0.9 million and higher income taxes of \$2.8 million, partially offset by a \$1.7 million increase in net interest income, higher noninterest income of \$1.5 million, and a lower loan loss provision of \$0.3 million.

A condensed earnings summary for the last three years is presented in Table 1 below:

**Table 1**  
**CONDENSED SUMMARY OF EARNINGS**

*(Dollars in Thousands, Except Per Share Data)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest Income	\$ 81,154	\$ 79,658	\$ 78,221
Taxable Equivalent Adjustments	1,011	638	494
Total Interest Income (FTE)	82,165	80,296	78,715
Interest Expense	3,189	3,307	3,580
Net Interest Income (FTE)	78,976	76,989	75,135
Provision for Loan Losses	819	1,594	1,905
Taxable Equivalent Adjustments	1,011	638	494
Net Interest Income After Provision for Loan Losses	77,146	74,757	72,736
Noninterest Income	53,681	54,091	52,536
Noninterest Expense	113,214	115,273	114,358
Income Before Income Taxes	17,613	13,575	10,914
Income Tax Expense	5,867	4,459	1,654
Net Income	\$ 11,746	\$ 9,116	\$ 9,260
Basic Net Income Per Share	\$ 0.69	\$ 0.53	\$ 0.53
Diluted Net Income Per Share	\$ 0.69	\$ 0.53	\$ 0.53

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## Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets, less interest expense paid on interest bearing liabilities. We provide an analysis of our net interest income, including average yields and rates in Tables 2 and 3 below. We provide this information on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments.

In 2016, our taxable equivalent net interest income increased \$2.0 million, or 2.6%. This follows an increase of \$1.9 million, or 2.5%, in 2015, and a decrease of \$3.2 million, or 4.1%, in 2014. The year over year increases in 2015 and 2016 were driven primarily by growth in the loan and investment portfolios and, specific to 2016, one additional calendar day. These increases were partially offset by generally lower loan rates.

For 2016, taxable equivalent interest income increased \$1.9 million, or 2.3%, over 2015. In 2015, taxable equivalent interest income increased \$1.6 million, or 2.0%, over 2014. The increases in both comparisons were primarily due to higher balances in the loan and investment portfolios, partially offset by lower yields on new loan production and loan portfolio repricing.

While total interest income has increased, the average yield on interest earning assets has declined seven basis points in each of the last two years due to the lower average yield in the loan portfolio.

Interest expense decreased \$118,000, or 3.6%, from 2015 to 2016, and \$273,000, or 7.6%, from 2014 to 2015. Both declines were primarily attributable to lower interest expense on long-term debt which was paid off. The cost of funds declined one basis point in 2016 compared to 2015 primarily due to a lower cost of certificates of deposit and a favorable shift in the mix of interest bearing liabilities. The lower cost of funds of two basis points in 2015 compared to 2014 was a result of both certificates of deposit repricing to lower rates and rate reductions on other non-maturity deposits.

Our interest rate spread (defined as the taxable equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) decreased seven basis points in 2016 compared to 2015 and declined four basis points in 2015 compared to 2014. The decrease in both years was primarily attributable to the adverse impact of lower rates on the loan portfolio, which more than offset the repricing of our deposit base.

Our net interest margin (defined as taxable equivalent interest income less interest expense divided by average earning assets) of 3.25% in 2016 was six basis points lower than the 3.31% recorded in 2015. The net interest margin in 2015 was five basis points lower than the 3.36% reported in 2014. In 2016, the yield on earning assets declined seven basis

points compared to 2015, as the adverse impact of loan portfolio repricing and lower fees was partially offset by a decline in the cost of funds of one basis point. In 2015, the yield on earning assets declined seven basis points compared to 2014, and was partially offset by a decline in the cost of funds of two basis points.

The net interest margin for the fourth quarter of 2016 was 3.34%, an increase of 11 basis points over the third quarter of 2016 and a decrease of three basis points from the fourth quarter of 2015. The increase in the margin compared to the third quarter of 2016 was due to growth in our loan and investment portfolios, in addition to \$0.5 million in net interest recoveries. The decrease in the margin compared to the fourth quarter of 2015 was primarily attributable to lower loan yields.

Although the low interest rate environment continues to put downward pressure on our net interest income, we have been successful in increasing our net interest income year-over-year. The Federal Open Market Committee (FOMC) increased the federal funds rate 25 basis points to a target rate of 75 basis points in December 2016, alleviating some of this pressure as we enter 2017, particularly in our variable rate loans. However, aggressive lending competition in all markets continues to impact the pricing for loans. Low rates and competition, collectively, continue to impact our loan yields.

Various loan strategies, which align with our overall risk appetite, continue to be reviewed and implemented to enhance our performance. We continue to maintain short duration portfolios on both sides of the balance sheet and believe we are well positioned to respond to changing market conditions. Over time, this strategy has historically produced fairly consistent outcomes, and in normalized rate environments, a net interest margin that is significantly above peer comparisons.

**Table 2**  
**AVERAGE BALANCES AND INTEREST RATES**

(Taxable Equivalent Basis - Dollars in Thousands)	2016			2015			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance
<b>ASSETS</b>							
Loans, Net of Unearned Income <sup>(1)(2)</sup>	\$ 1,542,232	\$ 73,417	4.76%	\$ 1,474,833	\$ 73,436	4.98%	\$ 1,414,000
Taxable Investment Securities	586,284	6,317	1.08	530,297	5,223	0.98	362,390
Tax-Exempt Investment Securities <sup>(2)</sup>	91,059	1,327	1.46	81,748	1,005	1.23	91,320
Funds Sold	212,817	1,104	0.52	237,976	632	0.27	369,900
Total Earning Assets	2,432,392	82,165	3.38%	2,324,854	80,296	3.45%	2,237,620
Cash & Due From Banks	47,447			48,195			45,360
Allowance for Loan Losses	(14,080)			(15,876)			(21,230)
Other Assets	286,550			302,144			302,420
TOTAL ASSETS	\$ 2,752,309			\$ 2,659,317			\$ 2,564,170
<b>LIABILITIES</b>							
NOW Accounts	\$ 779,764	\$ 292	0.04%	\$ 747,297	\$ 254	0.03%	\$ 715,840
Money Market Accounts	256,265	120	0.05	257,920	134	0.05	273,090
Savings Accounts	292,326	144	0.05	255,397	126	0.05	227,210
Other Time Deposits	168,741	323	0.19	186,944	430	0.23	206,130
Total Interest Bearing Deposits	1,497,096	879	0.06%	1,447,558	944	0.07%	1,422,280
Short-Term Borrowings	36,762	148	0.40	58,481	59	0.10	44,400
Subordinated Notes Payable	55,729	1,434	2.53	62,887	1,368	2.14	62,880
Other Long-Term Borrowings	23,880	728	3.05	29,698	936	3.15	33,720
Total Interest Bearing Liabilities	1,613,467	3,189	0.20%	1,598,624	3,307	0.21%	1,563,300
Noninterest Bearing Deposits	785,689			715,883			671,180
Other Liabilities	74,818			69,666			46,600
TOTAL LIABILITIES	2,473,974			2,384,173			2,281,090
<b>SHAREOWNERS' EQUITY</b>							
TOTAL SHAREOWNERS' EQUITY	278,335			275,144			283,070
TOTAL LIABILITIES & EQUITY	\$ 2,752,309			\$ 2,659,317			\$ 2,564,170
Interest Rate Spread			3.18%			3.25%	
Net Interest Income		\$ 78,976			\$ 76,989		
Net Interest Margin <sup>(3)</sup>			3.25%			3.31%	

<sup>(1)</sup> Average balances include nonaccrual loans. Interest income includes loan fees of \$0.8 million for 2016, \$1.4 million for 2015, and \$1.4 million for 2014.

<sup>(2)</sup> Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate.

<sup>(3)</sup> Taxable equivalent net interest income divided by average earning assets.

**Table 3**  
**RATE/VOLUME**  
**ANALYSIS <sup>(1)</sup>**

(Taxable Equivalent Basis - Dollars in Thousands)	2016 vs. 2015				2015 vs. 2014			
	Increase (Decrease) Due to Change In				Increase (Decrease) Due to Change In			
	Total	Calendar <sup>(3)</sup>	Volume	Rate	Total	Volume	Rate	
Earnings Assets:								
Loans, Net of								
Unearned Interest <sup>(2)</sup>	\$ (19)	\$ 201	\$ 3,155	\$ (3,375)	\$ (201)	\$ 3,168	\$ (3,369)	
Investment Securities:								
Taxable	1,094	14	537	543	1,800	1,586	214	
Tax-Exempt <sup>(2)</sup>	322	3	111	208	283	(76)	359	
Funds Sold	472	2	(69)	539	(301)	(333)	32	
Total	1,869	220	3,734	(2,085)	1,581	4,345	(2,764)	
Interest Bearing Liabilities:								
NOW Accounts	38	1	10	27	(64)	14	(78)	
Money Market Accounts	(14)	-	(1)	(13)	(56)	(11)	(45)	
Savings Accounts	18	-	18	-	14	14	-	
Time Deposits	(107)	1	(43)	(65)	(49)	(45)	(4)	
Short-Term Borrowings	89	-	(22)	111	(19)	25	(44)	
Subordinated Notes Payable	66	4	(160)	222	40	-	40	
Other Long-Term Borrowings	(208)	3	(186)	(25)	(139)	(128)	(11)	
Total	(118)	9	(384)	257	(273)	(131)	(142)	
Changes in Net Interest Income	\$ 1,987	\$ 211	\$ 4,118	\$ (2,342)	\$ 1,854	\$ 4,476	\$ (2,622)	

(1) *This table shows the change in taxable equivalent net interest income for comparative periods based on either changes in average volume or changes in average rates for interest earning assets and interest-bearing liabilities. Changes which are not solely due to volume changes or solely due to rate changes have been attributed to rate changes.*

(2) *Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate to adjust interest on tax-exempt loans and securities to a taxable equivalent basis.*

(3) *Reflects change due to one extra calendar day in 2016.*

## **Provision for Loan Losses**

The provision for loan losses was \$0.8 million in 2016 compared to \$1.6 million in 2015 and \$1.9 million in 2014. The decline in the provision for all periods reflected favorable problem loan migration and lower net loan losses, partially offset by growth in the loan portfolio. We discuss these trends in further detail below under Risk Element Assets and Allowance for Loan Losses.

## **Noninterest Income**

For 2016, noninterest income totaled \$53.7 million, a \$0.4 million, or 0.8%, decrease from 2015, primarily attributable to lower deposit fees of \$1.3 million and wealth management fees of \$0.5 million, partially offset by higher other income of \$0.8 million and mortgage banking fees of \$0.6 million. The decrease in deposit fees reflected lower overdraft service fees attributable to a reduction in accounts using this service as well as lower utilization by existing users. The reduction in wealth management fees generally reflected lower trading volume by our retail brokerage clients. The favorable variance in other income primarily reflected a \$2.5 million gain from the partial retirement of our TRUPs in 2016, partially offset by higher BOLI income of \$1.7 million in 2015. Strong residential home sales activity in our markets and further expansion into the Gainesville, Florida market drove the improvement in mortgage banking fees.

For 2015, the \$1.5 million, or 3.0%, increase over 2014 reflected higher other income of \$1.7 million, mortgage banking fees \$1.5 million, and bank card fees of \$0.4 million, partially offset by lower deposit fees of \$1.7 million, wealth management fees of \$0.3 million and data processing fees of \$0.1 million. Stronger new home purchase originations drove the increase in mortgage banking fees. The receipt of BOLI proceeds drove the increase in other income. Lower overdraft fees drove the reduction in deposit fees.

Noninterest income as a percent of total operating revenues (net interest income plus noninterest income) was 40.78% in 2016, 41.47% in 2015, and 41.30% in 2014.

The table below reflects the major components of noninterest income.

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Deposit Fees	\$ 21,332	\$ 22,608	\$ 24,320
Bank Card Fees	11,221	11,278	10,892
Wealth Management Fees	7,029	7,533	7,808
Mortgage Banking Fees	5,192	4,539	3,082
Other	8,907	8,133	6,434
Total Noninterest Income	\$ 53,681	\$ 54,091	\$ 52,536

Various significant components of noninterest income are discussed in more detail below.

*Deposit Fees.* For 2016, deposit fees (service charge fees, insufficient fund/overdraft fees (“NSF/OD”), and business account analysis fees) totaled \$21.3 million compared to \$22.6 million in 2015 and \$24.3 million in 2014. The \$1.3 million, or 5.6%, decrease in 2016 and the \$1.7 million, or 7.0% decrease in 2015, were due to a lower level of NSF/OD fees attributable to a reduction in the number of accounts using our overdraft protection service and lower utilization by existing users reflecting improved financial management by our clients.

*Bank Card Fees.* Bank card fees totaled \$11.2 million in 2016 compared to \$11.3 million in 2015 and \$10.9 million in 2014. The \$0.1 million, or 0.5%, decrease in 2016 primarily reflected lower fees for debit card PIN transactions partially offset by higher fees for debit card signature transactions and credit card interchange fees. The lower level of fees for debit card PIN transactions reflected a continuing trend of card accepting merchants steering card transactions to the lowest cost card processor, thus reducing our interchange share. We continue to evaluate strategic opportunities to grow both debit card and credit card interchange revenue.

*Wealth Management Fees.* Wealth management fees including both trust fees (i.e., managed accounts and trusts/estates) and retail brokerage fees (i.e., investment, insurance products, and retirement accounts) totaled \$7.0



million in 2016 compared to \$7.5 million in 2015 and \$7.8 million in 2014. The \$0.5 million, or 6.7%, decrease in 2016 reflected lower transaction activity by our retail brokerage clients and the \$0.3 million, or 3.5%, decrease in 2015 was attributable to a lower level of assets under management. At December 31, 2016, total assets under management were approximately \$1.192 billion compared to \$1.139 billion at December 31, 2015 and \$1.278 billion at December 31, 2014.

*Mortgage Banking Fees.* Mortgage banking fees totaled \$5.2 million in 2016 compared to \$4.5 million in 2015 and \$3.1 million in 2014. The \$0.6 million, or 14.4%, increase in 2016 reflected continued strong home purchase activity in our markets and to a lesser extent growth in market share in our Gainesville, Florida market. The \$1.5 million, or 47.3%, increase in 2015 was also due to strong home purchase originations. Refinancing activity represented 20% of our loan production in 2016 compared to 18% and 14% for 2015 and 2014, respectively. Market conditions, housing activity, the level of interest rates and the mix of our fixed-rate and variable rate production have significant impacts on our mortgage banking fees.

*Other.* Other noninterest income totaled \$8.9 million in 2016 compared to \$8.1 million in 2015 and \$6.4 million in 2014. The increase in 2016 reflected a \$2.5 million gain from the partial retirement of our TRUPs, partially offset by higher BOLI income of \$1.7 million in 2015. The increase in 2015 reflected the receipt of \$1.7 million in BOLI proceeds.

## Noninterest Expense

For 2016, noninterest expense totaled \$113.2 million, a decrease of \$2.1 million, or 1.8%, from 2015 reflective of lower OREO expense of \$1.3 million, other expense (excluding OREO expenses) of \$0.9 million and compensation expense of \$0.4 million, partially offset by higher occupancy expense of \$0.5 million. Lower carrying costs drove the reduction in OREO expense. The reduction in other expense was primarily attributable to lower FDIC insurance fees, professional fees, and legal fees, partially offset by higher telephone expense and advertising expense. The decrease in compensation reflected a higher level of deferred loan cost (which reduces salary expense) partially offset by higher associate benefit expense, primarily stock compensation expense. The increase in occupancy expense was primarily due to higher depreciation expense reflective of technology investments in our banking offices and security infrastructure, and to a lesser extent higher maintenance costs for building and furniture/equipment.

For 2015, the \$0.9 million, or 0.8%, increase was attributable to higher compensation expense of \$3.2 million, partially offset by lower OREO expense of \$1.8 million, other expense (excluding OREO expenses) of \$0.4 million and occupancy expense of \$0.1 million. The increase in compensation expense was primarily due to an increase in associate benefit expense (primarily pension expense) partially offset by lower salary expense (primarily deferred loan costs and incentive plan expense). The reduction in OREO expense was primarily attributable to lower property valuation adjustments and to a lesser extent lower property carrying costs. The decrease in other expense was primarily attributable to lower legal fees, postage costs, and FDIC insurance fees, partially offset by higher processing costs. Lower technology equipment costs and maintenance costs for premises/FF&E drove the decrease in occupancy expense.

Our operating efficiency ratio (expressed as noninterest expense as a percent of taxable equivalent net interest income plus noninterest income) was 85.34%, 87.94% and 89.68% in 2016, 2015 and 2014, respectively. Higher operating revenues (net interest income) and lower operating expenses drove the improvement in the ratio for 2016. The improvement in 2015 primarily reflected higher operating revenues (primarily net interest income and BOLI proceeds).

Expense management is an important part of our culture and strategic focus and we will continue to review and evaluate opportunities to optimize our operations, reduce operating costs and manage our discretionary expenses.

The table below reflects the major components of noninterest expense.

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Salaries	\$ 47,610	\$ 48,263	\$ 48,896
Associate Benefits	17,374	17,151	13,319
Total Compensation	64,984	65,414	62,215

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Premises	9,047	9,015	9,126
Equipment	9,249	8,723	8,692
Total Occupancy	18,296	17,738	17,818
Legal Fees	2,311	2,506	3,187
Professional Fees	3,424	3,788	3,732
Processing Services	6,471	6,540	6,062
Advertising	1,702	1,391	1,461
Travel and Entertainment	889	901	900
Printing and Supplies	710	825	865
Telephone	2,296	1,976	1,903
Postage	891	996	1,147
Insurance – Other	2,060	2,737	2,934
Other Real Estate	3,649	4,971	6,811
Miscellaneous	5,531	5,490	5,323
Total Other Expense	29,934	32,121	34,325
Total Noninterest Expense	\$ 113,214	\$ 115,273	\$ 114,358
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Various significant components of noninterest expense are discussed in more detail below.

*Compensation.* Compensation expense totaled \$65.0 million in 2016, \$65.4 million in 2015, and \$62.2 million in 2014. For 2016, the \$0.4 million, or 0.7%, decrease from 2015 was attributable to lower salary expense of \$0.6 million partially offset by higher associate benefit expense of \$0.2 million. The decrease in salary expense was attributable to higher deferred loan cost amortization (which is accounted for as a credit offset to salary expense). The increase in associate benefit expense was primarily due to higher stock compensation expense tied to financial performance which improved in 2016.

For 2015, the \$3.2 million, or 5.1%, increase from 2014 was attributable to higher associate benefit expense of \$3.8 million partially offset by lower salary expense of \$0.6 million. The increase in associate benefit expense reflected higher pension plan expense of \$4.0 million and associate insurance expense of \$0.2 million, partially offset by lower stock compensation expense of \$0.4 million. The higher level of pension plan expense was attributable to the utilization of a lower discount rate (attributable to lower long-term rates at the end of 2014) for determining pension plan liabilities. Revision to the mortality tables used to calculate pension plan liabilities also contributed to the increase, but to a lesser extent. Pension plan expense is determined by an external actuarial valuation based on assumptions that are evaluated annually, taking into consideration both current market conditions and anticipated long-term market conditions. A discussion of the sensitivity to these assumptions is detailed in the Critical Accounting Policy section of this report. Rising health care costs contributed to the increase in associate insurance expense. A lower level of goal achievement for both our executive and company-wide stock incentive plans drove the reduction in stock compensation expense. The decrease in salary expense was attributable to higher deferred loan cost amortization (which is accounted for as a credit offset to salary expense), partially offset by higher salary expense reflective of merit raises given during the year.

*Occupancy.* Occupancy expense (including premises and equipment) totaled \$18.3 million for 2016, \$17.7 million for 2015, and \$17.8 million for 2014. For 2016, the \$0.6 million, or 3.1%, increase was primarily due to higher depreciation expense related to technology investments in our banking offices and security infrastructure, and to a lesser extent higher maintenance costs for building and furniture/equipment. For 2015, the \$0.1 million, or 0.5%, decrease from 2014 reflected lower premises expense, primarily lower building maintenance and repair costs.

*Other.* Other noninterest expense totaled \$29.9 million in 2016, \$32.1 million in 2015, and \$34.3 million in 2014. For 2016, the decrease was primarily attributable to lower OREO expense of \$1.3 million, FDIC insurance fees of \$0.7 million, legal fees of \$0.2 million, and professional fees of \$0.4 million, partially offset by higher telephone expense of \$0.3 million and advertising expense of \$0.3 million. Lower property carrying costs drove the reduction in OREO expense. The reduction in FDIC insurance fees was attributable to the revision of the FDIC fee structure in the third quarter of 2016. The decrease in professional fees reflected a lower level of consulting and other professional fees. Legal fees declined due to a lower level of legal support needed for problem loan resolutions. The increase in telephone expense was attributable to the implementation of a new telephone system during 2016 and the need to run dual circuits for a period of time while the system was phased in. An increased level of product advertising drove the increase in advertising expense.

For 2015, the \$2.2 million, or 6.4%, decrease from 2014 was primarily attributable to lower OREO expense of \$1.8 million, FDIC insurance fees of \$0.2 million and legal fees of \$0.7 million, partially offset by an increase in processing services of \$0.5 million. Lower property valuation adjustments, and to a lesser extent lower property carrying costs, drove the decrease in OREO expense. The decrease in FDIC insurance fees was attributable to a favorable premium adjustment due to our improved financial performance. Legal fees declined due to a lower level of legal support needed for problem loan resolutions. Higher costs related to our new online banking platform put in place early in 2015 drove the increase in processing services.

## **Income Taxes**

For 2016, we realized income tax expense of \$5.9 million (33% effective rate) compared to \$4.5 million (33% effective rate) for 2015 and \$1.7 million (15% effective rate) for 2014. Receipt of BOLI proceeds in 2015 was tax-exempt; therefore our effective tax rate was favorably impacted. Income taxes for 2014 were favorably impacted by a \$2.2 million state tax benefit attributable to an adjustment in our reserve for uncertain tax positions associated with the full resolution of prior year matters. Absent future discrete events, we anticipate our effective income tax rate to be within a range of 34%-35%.

## **FINANCIAL CONDITION**

Average assets totaled approximately \$2.752 billion for the year 2016, an increase of \$93.0 million, or 3.5%, over 2015. Average interest earning assets were approximately \$2.432 billion for the year 2016, an increase of \$107.5 million, or 4.6% over 2015. Year-over-year, average overnight funds decreased \$25.2 million, while investment securities increased \$65.3 million and average gross loans were higher by \$67.4 million. We discuss these variances in more detail below.

Table 2 provides information on average balances and rates, Table 3 provides an analysis of rate and volume variances and Table 4 highlights the changing mix of our interest earning assets over the last three years.

## Loans

In 2016, average loans increased \$67.4 million, or 4.6%, compared to an increase of \$60.8 million, or 4.3%, in 2015. Loans as a percentage of average earning assets were unchanged in 2016 compared to 2015 at 63.4%, and increased slightly over 2014 levels of 63.2%. Year-over-year average balances in the loan portfolio experienced increases in all loan categories except commercial mortgages. The largest increases occurred in the commercial loan category, primarily tax-free loans, and consumer loans.

We continue to make minor modifications on some of our lending programs to try to mitigate the significant impact that consumer and business deleveraging is having on our portfolio. We believe these modifications are prudent and do not compromise our credit standards or significantly increase our interest rate risk. These programs, coupled with economic improvements in our anchor markets, have helped to increase overall production.

We originate mortgage loans secured by 1-4 family residential properties through our Residential Real Estate line of business, a majority of which are fixed-rate loans that are sold into the secondary market to third party purchasers on a best efforts delivery basis with servicing released. A majority of our adjustable rate loans are retained in our loan portfolio.

**Table 4**  
**SOURCES OF EARNING ASSET GROWTH**

	2015 to 2016 Change	Percentage Total Change	Components of Average Earning Assets		
(Average Balances – Dollars In Thousands)			2016	2015	2014
<b>Loans:</b>					
Commercial, Financial, and Agricultural	\$ 50,378	47.0%	8.5%	6.8%	5.9%
Real Estate – Construction	4,509	4.0	2.1	2.0	1.8
Real Estate – Commercial Mortgage	(10,657)	(10.0)	20.3	21.7	23.1
Real Estate – Residential	2,075	2.0	12.5	13.0	14.1
Real Estate – Home Equity	4,141	4.0	9.6	9.9	10.1
Consumer	16,953	16.0	10.4	10.1	8.2
Total Loans	\$ 67,399	63.0%	63.4%	63.5%	63.2%
<b>Investment Securities:</b>					
Taxable	\$ 55,987	52.0%	24.1%	22.8%	16.2%
Tax-Exempt	9,311	9.0	3.8	3.5	4.1
Total Securities	65,298	61.0	27.9	26.3	20.3
Funds Sold	(25,159)	(24.0)	8.7	10.2	16.5

Total Earning Assets	\$	107,538	100.0%	100.0%	100.0%	100.0%
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Our average loan-to-deposit ratio decreased to 67.6% in 2016 from 68.2% in 2015. The lower loan-to-deposit ratio reflects strong growth in core deposits relative to increases in average loan balances.

The composition of our loan portfolio at December 31<sup>st</sup> for each of the past five years is shown in Table 5. Table 6 arrays our total loan portfolio as of December 31, 2016, by maturity period. As a percentage of the total portfolio, loans with fixed interest rates represented 35.7% as of December 31, 2016, compared to 34.3% on December 31, 2015. The higher ratio was primarily due to increases in consumer indirect and tax-free loans, which while having a fixed rate, typically have a shorter duration.

**Table 5**  
**LOANS BY CATEGORY**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Commercial, Financial and Agricultural	\$ 216,404	\$ 179,816	\$ 136,925	\$ 126,607	\$ 139,850
Real Estate – Construction <sup>(1)</sup>	59,147	47,402	43,472	36,187	43,740
Real Estate – Commercial Mortgage	503,978	499,813	510,120	533,871	613,625
Real Estate – Residential <sup>(1)</sup>	291,691	301,299	304,781	315,582	329,947
Real Estate – Home Equity	236,512	233,901	229,572	227,922	236,263
Consumer	264,443	241,676	217,192	159,500	157,877
Total Loans, Net of Unearned Income	\$ 1,572,175	\$ 1,503,907	\$ 1,442,062	\$ 1,399,669	\$ 1,521,302

<sup>(1)</sup> Includes loans held for sale

**Table 6**  
**LOAN MATURITIES**

<i>(Dollars in Thousands)</i>	<b>Maturity Periods</b>			
	<b>One Year or Less</b>	<b>Over One Through Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
Commercial, Financial and Agricultural	\$ 56,229	\$ 115,610	\$ 44,565	\$ 216,404
Real Estate – Construction	54,282	1,996	2,869	59,147
Real Estate – Commercial Mortgage	62,154	79,413	362,411	503,978
Real Estate – Residential	22,619	31,853	237,219	291,691
Real Estate – Home Equity	3,508	52,596	180,408	236,512
Consumer <sup>(1)</sup>	13,066	237,706	13,671	264,443
Total	\$ 211,858	\$ 519,174	\$ 841,143	\$ 1,572,175
Loans with Fixed Rates	\$ 83,424	\$ 386,835	\$ 91,560	\$ 561,819
Loans with Floating or Adjustable Rates	128,434	132,339	749,583	1,010,356
Total	\$ 211,858	\$ 519,174	\$ 841,143	\$ 1,572,175

<sup>(1)</sup> Demand loans and overdrafts are reported in the category of one year or less.

### **Risk Element Assets**

Risk element assets consist of nonaccrual loans, OREO, troubled debt restructurings (“TDRs”), past due loans, potential problem loans, and loan concentrations. Table 7 depicts certain categories of our risk element assets as of December



31<sup>st</sup> for each of the last five years. Activity within our nonperforming asset portfolio is provided below in Table 8.

Nonperforming assets (nonaccrual loans and OREO) totaled \$19.2 million at December 31, 2016 compared to \$29.6 million at December 31, 2015. Nonaccrual loans totaled \$8.5 million at December 31, 2016, a decrease of \$1.8 million from December 31, 2015. Nonaccrual loan additions totaled \$13.1 million for 2016 compared to \$15.7 million for 2015. The balance of OREO totaled \$10.6 million at December 31, 2016, a decrease of \$8.6 million from December 31, 2015. For 2016, we disposed of properties totaling \$10.3 million compared to \$20.2 million in 2015. Nonperforming assets represented 0.67% of total assets as of December 31, 2016 compared to 1.06% as of December 31, 2015.

**Table 7**  
**RISK ELEMENT ASSETS**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Nonaccruing Loans:					
Commercial, Financial and Agricultural	\$ 468	\$ 96	\$ 507	\$ 188	\$ 1,069
Real Estate – Construction	311	97	424	426	4,071
Real Estate – Commercial Mortgage	3,410	4,191	5,806	25,227	41,045
Real Estate – Residential	2,330	4,739	6,737	6,440	13,429
Real Estate – Home Equity	1,774	1,017	2,544	4,084	4,034
Consumer	240	165	751	599	574
Total Nonperforming Loans (“NPLs” <sup>(1)</sup> )	\$ 8,533	\$ 10,305	\$ 16,769	\$ 36,964	\$ 64,222
Other Real Estate Owned	10,638	19,290	35,680	48,071	53,426
Total Nonperforming Assets (“NPAs”)	\$ 19,171	\$ 29,595	\$ 52,449	\$ 85,035	\$ 117,648
Past Due Loans 30 – 89 Days	\$ 6,438	\$ 5,775	\$ 6,792	\$ 7,746	\$ 9,934
Performing Troubled Debt Restructurings	\$ 38,233	\$ 35,634	\$ 44,409	\$ 44,764	\$ 47,474
Nonperforming Loans/Loans	0.54%	0.69%	1.16%	2.64%	4.22%
Nonperforming Assets/Total Assets	0.67	1.06	2.00	3.26	4.47
Nonperforming Assets/Loans Plus OREO	1.21	1.94	3.55	5.87	7.47
Allowance/Nonperforming Loans	157.40%	135.40%	104.60%	62.48%	45.42%

*(1) Nonaccrual TDRs totaling \$1.7 million, \$2.7 million, and \$2.2 million are included in nonaccrual/NPL totals for December 31, 2016, December 31, 2015 and December 31, 2014, respectively.*

**Table 8**  
**NONPERFORMING ASSET ACTIVITY**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>
NPA Beginning Balance:	\$ 29,595	\$ 52,449
Change in Nonaccrual Loans:		
Beginning Balance	10,305	16,769
Additions	13,065	15,715
Charge-Offs	(2,783)	(4,726)
Transferred to OREO	(3,718)	(4,627)
Paid Off/Payments	(3,153)	(6,293)
Restored to Accrual	(5,183)	(6,533)
Ending Balance	8,533	10,305
Change in OREO:		
Beginning Balance	19,290	35,680

Additions <sup>(1)</sup>	4,016	5,752
Valuation Write-downs	(2,363)	(1,713)
Sales	(10,305)	(20,155)
Other	-	(274)
Ending Balance	10,638	19,290
<b>NPA Net Change</b>	<b>(10,424)</b>	<b>(22,854)</b>
NPA Ending Balance	\$ 19,171	\$ 29,595

*(1) The difference in OREO additions and nonaccrual loans transferred to OREO represents loans migrating to OREO status that were not in a nonaccrual status in prior period.*

*Nonaccrual Loans.* Nonaccrual loans totaled \$8.5 million at December 31, 2016, a decrease of \$1.8 million from December 31, 2015. Gross additions to nonaccrual status during 2016 totaled \$13.1 million compared to \$15.7 million in 2015. The commercial real estate and residential real estate categories realized the largest declines.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or management deems the collectability of the principal and interest to be doubtful. Once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured. If interest on our loans classified as nonaccrual during 2016 had been recognized on a fully accruing basis, we would have recorded an additional \$0.5 million of interest income for the year ended December 31, 2016.

*Other Real Estate Owned.* OREO represents property acquired as the result of borrower defaults on loans or by receiving a deed in lieu of foreclosure. OREO is recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are either revalued internally or by a third party appraiser as required by applicable regulations. Subsequent declines in value are reflected as other noninterest expense. Carrying costs related to maintaining the OREO properties are expensed as incurred and are also reflected as other noninterest expense.

OREO totaled \$10.6 million at December 31, 2016 versus \$19.3 million at December 31, 2015. During 2016, we added properties totaling \$4.0 million and partially or completely liquidated properties totaling \$10.3 million. Revaluation adjustments for OREO properties during 2016 totaled \$2.4 million and were charged to noninterest expense when realized. For 2015, we added properties totaling \$5.8 million and partially or completely liquidated properties totaling \$20.2 million. Revaluation adjustments for OREO properties during 2015 totaled \$1.7 million and were charged to noninterest expense when realized.

The composition of our OREO portfolio as of December 31 is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>	
Lots/Land	\$	7,052	\$	11,718
Residential 1-4		1,035		2,221
Commercial Building		1,551		4,137
Other		1,000		1,214
Total OREO	\$	10,638	\$	19,290

*Troubled Debt Restructurings.* TDRs are loans on which, due to the deterioration in the borrower's financial condition, the original terms have been modified and deemed a concession to the borrower. From time to time we will

modify a loan as a workout alternative. Most of these instances involve an extension of the loan term, an interest rate reduction, or a principal moratorium. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan.

Loans classified as TDRs at December 31, 2016 totaled \$40.0 million compared to \$38.3 million at December 31, 2015. Accruing TDRs made up approximately \$38.2 million, or 96%, of our TDR portfolio at December 31, 2016 of which \$1.5 million was over 30 days past due. The weighted average rate for the loans within the accruing TDR portfolio is 5.2%. During 2016, we modified 14 loan contracts totaling approximately \$5.8 million. Our TDR default rate (default balance as a percentage of average TDRs) during 2016 and 2015 was 4% for each respective year.

The composition of our TDR portfolio as of December 31 is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>	
	<b>Accruing</b>	<b>Nonaccruing<sup>(1)</sup></b>	<b>Accruing</b>	<b>Nonaccruing<sup>(1)</sup></b>
Commercial, Financial and Agricultural	\$ 772	\$ 40	\$ 897	\$ -
Real Estate – Commercial Mortgage	20,673	1,259	16,621	1,070
Real Estate – Residential	13,969	444	14,979	1,582
Real Estate – Home Equity	2,647	-	2,914	-
Consumer	172	-	223	35
Total TDRs	\$ 38,233	\$ 1,743	\$ 35,634	\$ 2,687

<sup>(1)</sup> Nonaccruing TDRs are included in nonaccrual/NPL totals and NPA/NPL ratio calculations.

Activity within our TDR portfolio is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>
TDR Beginning Balance:	\$ 38,321	\$ 49,154
Additions	5,808	3,317
Charge-Offs	(64)	(1,580)
Paid Off/Payments	(2,735)	(6,084)
Removal Due to Change in TDR Status	(710)	(4,906)
Transferred to OREO	(644)	(1,580)
TDR Ending Balance	\$ 39,976	\$ 38,321

**Past Due Loans.** A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due. Past due loans at December 31, 2016 totaled \$6.4 million compared to \$5.8 million at December 31, 2015.

**Potential Problem Loans.** Potential problem loans are defined as those loans which are now current but where management has doubt as to the borrower's ability to comply with present loan repayment terms. At December 31, 2016, we had \$2.0 million in loans of this type which are not included in either of the nonaccrual, TDR or 90 day past due loan categories compared to \$3.6 million at December 31, 2015. Management monitors these loans closely and reviews their performance on a regular basis.

**Loan Concentrations.** Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities which cause them to be similarly impacted by economic or other conditions and such amount exceeds 10% of total loans. Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of the markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the loan portfolio has historically been secured with real estate, approximately 69% at December 31, 2016 and 72% at December 31, 2015. The primary types of real estate collateral are commercial properties and 1-4 family residential properties. At December 31, 2016, commercial real estate and residential real estate mortgage loans (including home equity loans)

accounted for 32.1% and 33.6%, respectively, of the total loan portfolio.

The following table summarizes our real estate loan portfolio as segregated by the type of property. Property type concentrations are stated as a percentage of December 31<sup>st</sup> total real estate loans.

	2016		2015	
	Investor Real Estate	Owner Occupied Real Estate	Investor Real Estate	Owner Occupied Real Estate
Vacant Land, Construction, and Land Development	10.7%	-	10.5%	-
Improved Property	22.2	67.1%	22.2	67.3%
Total Real Estate Loans	32.9%	67.1%	32.7%	67.3%

A major portion of our real estate loan portfolio is centered in the owner occupied category which carries a lower risk of non-collection than certain segments of the investor category. Approximately 65% of the land/construction category was secured by residential real estate at December 31, 2016.

## Allowance for Loan Losses

Management believes it maintains the allowance for loan losses at a level sufficient to provide for probable credit losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from the borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process including collateral risk, operations risk, concentration risk, and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the allowance. The allowance for loan losses is established through a provision charged to expense. Loans are charged-off against the allowance when losses are probable and reasonably quantifiable. The allowance for loan losses is based on management's judgment of overall credit quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on revisions to our assessment of the loan portfolio's overall credit quality and other risk factors both internal and external to us.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. The allowance consists of two components. The first component consists of amounts reserved for impaired loans. A loan is deemed impaired when, based on current information and events, it is probable that the bank will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans are monitored for potential impairment through our ongoing loan review procedures and portfolio analysis. Classified loans and past due loans over a specific dollar amount, and all troubled debt restructurings are individually evaluated for impairment.

The approach for assigning reserves for the impaired loans is determined by the dollar amount of the loan and loan type. Impairment measurement for loans over a specific dollar are assigned on an individual loan basis with the amount reserved dependent on whether repayment of the loan is dependent on the liquidation of collateral or from some other source of repayment. If repayment is dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the fair value of the collateral after estimated sales expenses. If repayment is not dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the estimated cash flows discounted using the loan's effective interest rate. The discounted value of the cash flows is based on the anticipated timing of the receipt of cash payments from the borrower. The reserve allocations for individually measured impaired loans are sensitive to the extent market conditions or the actual timing of cash receipts change. Impairment reserves for smaller-balance loans under a specific dollar amount are assigned on a pooled basis utilizing loss factors for impaired loans of a similar nature.

The second component is a general reserve on all loans other than those identified as impaired. General reserves are assigned to various homogenous loan pools, including commercial, commercial real estate, construction, residential 1-4 family, home equity, and consumer. General reserves are assigned based on historical loan loss ratios determined by loan pool and internal risk rating that are adjusted for various internal and external risk factors unique to each loan pool.

Table 9 analyzes the activity in the allowance over the past five years.



For 2016, our net charge-offs totaled \$1.3 million, or 0.09%, of average loans, compared to \$5.2 million, or 0.35%, for 2015, and \$7.5 million, or 0.53%, for 2014. The decrease in 2016 was attributable to both a lower level of gross loan charge-offs and a higher level of loan recoveries. We continue to realize favorable problem loan migration and were very successful during 2016 in our loan loss collection efforts. As borrowers have recovered financially from the great recession period of 2008-2013, we have received payments from prior year loan losses as consumers and investors seek to remove judgments and collections from their records in order to borrow money and acquire assets. The decrease in 2015 was primarily attributable to a \$2.5 million decline in commercial real estate loan charge-offs. As of December 31, 2016, the allowance for loan losses of \$13.4 million was 0.86% of outstanding loans (net of overdrafts) and provided coverage of 157% of nonperforming loans compared to 0.93% and 135%, respectively, as of December 31, 2015, and 1.22% and 105%, respectively, at December 31, 2014.

Table 10 provides an allocation of the allowance for loan losses to specific loan types for each of the past five years.

The reduction in the allowance for loan losses from both periods December 31, 2015 to December 31, 2016 and December 31, 2014 to December 31, 2015, was primarily attributable to a decline in general reserves reflective of favorable problem loan migration and continued improvement in credit quality metrics. A decrease in our impaired loan balance and related reserves contributed to a lesser extent and reflected slower inflow and successful resolutions, as well as lower loss content. During 2015 and 2016, growth in the loan portfolio and related general reserves partially offset the aforementioned reductions due to favorable problem loan migration. It is management's opinion that the allowance at December 31, 2016 is adequate to absorb probable losses inherent in the loan portfolio.

**Table 9**  
**ANALYSIS OF ALLOWANCE FOR LOAN LOSSES**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Balance at Beginning of Year	\$ 13,953	\$ 17,539	\$ 23,095	\$ 29,167	\$ 31,035
Charge-Offs:					
Commercial, Financial and Agricultural	861	1,029	871	748	822
Real Estate – Construction	-	-	28	1,070	629
Real Estate – Commercial	349	1,250	3,788	3,651	6,031
Real Estate – Residential	899	1,852	2,160	3,835	9,719
Real Estate – Home Equity	450	1,403	1,379	1,159	2,896
Consumer	2,127	1,901	1,820	1,751	2,125
Total Charge-Offs	4,686	7,435	10,046	12,214	22,222
Recoveries:					
Commercial, Financial and Agricultural	337	239	214	209	290
Real Estate – Construction	-	-	9	1	43
Real Estate – Commercial	408	183	468	363	682
Real Estate – Residential	1,231	705	752	838	1,291
Real Estate – Home Equity	409	136	141	294	399
Consumer	960	992	1,001	965	1,483
Total Recoveries	3,345	2,255	2,585	2,670	4,188
Net Charge-Offs	1,341	5,180	7,461	9,544	18,034
Provision for Loan Losses	819	1,594	1,905	3,472	16,166
Balance at End of Year	\$ 13,431	\$ 13,953	\$ 17,539	\$ 23,095	\$ 29,167
Ratio of Net Charge-Offs to Average Loans					
Outstanding	0.09%	0.35%	0.53%	0.66%	1.16%
Allowance for Loan Losses as a Percent of					
Loans at End of Year	0.86%	0.93%	1.22%	1.65%	1.93%
Allowance for Loan Losses as a Multiple of					
Net Charge-Offs	10.02x	2.69x	2.35x	2.42x	1.62x



**Table 10**  
**ALLOCATION OF ALLOWANCE FOR LOAN**  
**LOSSES**

	2016		2015		2014		2013		2012	
	Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To	
(Dollars in Thousands)	Allow- ance Amount	Total Loans	Allow- ance Amount	Total Loans	Allow- ance Amount	Total Loans	Allow- ance Amount	Total Loans	Allow- ance Amount	Total Loans
Commercial, Financial  and Agricultural Real Estate:	\$ 1,198	13.8%	\$ 905	12.0%	\$ 784	9.5%	\$ 699	9.0%	\$ 1,253	9.2%
Construction	168	3.7	101	3.1	843	3.0	1,580	2.6	2,856	2.9
Commercial	4,315	32.1	4,498	33.2	5,287	35.4	7,710	38.1	11,081	40.3
Residential	3,445	18.6	4,409	20.0	6,520	21.1	9,073	22.6	8,678	21.7
Home Equity	2,297	15.0	2,473	15.6	2,882	15.9	3,051	16.3	2,945	15.5
Consumer	2,008	16.8	1,567	16.1	1,223	15.1	982	11.4	1,327	10.4
Not Allocated	-	-	-	-	-	-	-	-	1,027	-
Total	\$ 13,431	100.0%	\$ 13,953	100.0%	\$ 17,539	100.0%	\$ 23,095	100.0%	\$ 29,167	100.0%

### Investment Securities

In 2016, our average investment portfolio increased \$65.3 million, or 10.7%, from 2015 and increased \$158.3 million, or 34.9%, from 2014 to 2015. As a percentage of average earning assets, the investment portfolio represented 27.8% in 2016, compared to 26.3% in 2015. In both 2015 and 2016, we strategically grew the portfolio to better deploy our liquidity. In 2017, we will continue to closely monitor liquidity levels and pledging requirements to assess the need to purchase additional investments, as well as look for new investment products that are prudent relative to our risk profile and overall investment strategy. A relatively short investment portfolio offers the flexibility to provide additional liquidity from maturing bonds, if necessary.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale ("AFS") and Held-for-Maturity ("HTM"). In 2015 and 2016, securities were purchased under both the AFS and HTM designations. As of December 31, 2016, \$522.7 million, or 74.7% of the investment portfolio was classified as AFS, with the remaining \$177.4 million, or 25.3%, classified as HTM. At December 31, 2015, the AFS and HTM portfolio comprised 70.6% and 29.4%, respectively.

In 2016, average taxable investments increased \$56.0 million, or 10.6%, while tax-exempt investments increased \$9.3 million, or 11.4%. Both taxable and non-taxable investments increased as part of our overall investment strategy in 2016. High quality, short-term taxable and non-taxable bonds offered attractive yields during the year, resulting in favorable repricing in the investment portfolio. At December 31, 2016, municipal securities (taxable and non-taxable) comprised 14.7% of the portfolio. Management will continue to purchase municipal issues as they become available and when it considers the yield to be attractive.

At acquisition, the classification of the security will be determined based on how the purchase will affect the company's asset/liability strategy and future business plans and opportunities. Such decisions will be weighed against multiple factors, including regulatory capital requirements, volatility in earnings or other comprehensive income, and liquidity needs. Securities in the AFS portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity. Securities that are HTM will be acquired or owned with the intent of holding them to maturity (final payment date). HTM investments are measured at amortized cost. It is neither management's current intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio.

At December 31, 2016, there were 396 positions (combined AFS and HTM) with unrealized losses totaling \$2.3 million. Of the 396 positions, 115 were Ginnie Mae mortgage-backed securities (“GNMA”), U.S. Treasuries, or Small Business Administration (“SBA”) securities with an unrealized loss of \$1.7 million (\$640,000, \$930,000, and \$150,000, respectively), all of which carry the full faith and credit guarantee of the U.S. Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 115 positions, there were 11 GNMA positions and 16 SBA positions in an unrealized loss position for longer than 12 months, and have unrealized losses of \$39,000 and \$34,000, respectively. There were 19 agency positions with an unrealized loss of \$0.2 million. The remaining 262 positions in an unrealized loss position were municipal bonds that were pre-refunded, or rated “AA-” or better, with unrealized losses of \$0.4 million. Of these 262 positions, one was in an unrealized loss position greater than 12 months, with an unrealized loss of \$1,000. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par. At December 31, 2016, approximately 87% of the total investment portfolio was government guaranteed.

The average maturity of the total portfolio at December 31, 2016 was 1.85 years, unchanged from December 31, 2015. Balances increased primarily in U.S. Treasury, SBA, and GNMA securities, with the remaining asset classes being unchanged or lower compared to the prior year. The average life of the investment portfolio was unchanged as bonds purchased offset the natural aging of the existing portfolio, resulting in an immaterial change to the average life year-over-year. U.S. Treasury, SBA, and GNMA securities are all 0% risk weighted. We continue to invest in short-duration, high quality bonds. See Table 12 for a breakdown of maturities by investment type.

The weighted average taxable equivalent yield of the investment portfolio at December 31, 2016 was 1.22% versus 1.08% in 2015. This favorable yield reflects the reinvestment of proceeds at slightly higher market rates during 2016. Our bond portfolio contained no investments in obligations, other than U.S. Governments, of any state, municipality, political subdivision or any other issuer that exceed 10% of our shareowners’ equity at December 31, 2016.

Table 12 and Note 2 in the Notes to Consolidated Financial Statements present a detailed analysis of our investment securities as to type, maturity and yield at December 31.

**Table 11**

**INVESTMENT SECURITIES BY CATEGORY**

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<b>Carrying Amount</b>	<b>Percent</b>	<b>Carrying Amount</b>	<b>Percent</b>	<b>Carrying Amount</b>	<b>Percent</b>
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 286,278	40.9%	\$ 250,346	39.2%	\$ 186,031	36.8%

General

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U.S. Government Agency	131,640	18.8	101,824	15.9	96,097	19.0
States and Political Subdivisions	94,839	13.5	88,362	13.8	48,388	9.6
Mortgage-Backed Securities	1,430	0.2	1,901	0.3	2,287	0.5
Equity Securities	8,547	1.2	8,595	1.3	8,745	1.7
Total	522,734	74.7	451,028	70.6	341,548	67.6
<b>Held to Maturity</b>						
U.S. Government Treasury	119,131	17.0	134,554	21.1	76,179	15.1
U.S. Government Agency	-	-	10,043	1.6	19,807	3.9
States and Political Subdivisions	8,175	1.2	15,693	2.5	26,716	5.3
Mortgage-Backed Securities	50,059	7.2	27,602	4.3	40,879	8.1
Total	177,365	25.3	187,892	29.4	163,581	32.4
Total Investment Securities	\$ 700,099	100%	\$ 638,920	100%	\$ 505,129	100%

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**Table 12**  
**MATURITY DISTRIBUTION OF**  
**INVESTMENT SECURITIES**

	Within 1 year		1 - 5 years		5 - 10 years		After 10 years		Total	
(Dollars in Thousands) Available for Sale	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>
U.S. Government Treasury	\$ 144,354	0.96%	\$ 141,924	1.13%	\$ -	-%	\$ -	-%	\$ 286,278	1.06%
U.S. Government Agency States and Political Subdivisions	4,955	0.82	126,685	1.03	-	-	-	-	131,640	1.02
Mortgage-Backed Securities <sup>(1)</sup>	15,742	1.21	79,097	1.60	-	-	-	-	94,839	1.53
Other Securities <sup>(2)</sup>	88	2.92	1,297	4.56	45	5.28	-	-	1,430	4.49
Total	-	-	-	-	-	-	8,547	5.25	8,547	5.25
	\$ 165,139	1.01%	\$ 349,003	1.21%	\$ 45	5.28%	\$ 8,547	5.25%	\$ 522,734	1.21%
<b>Held to Maturity</b>										
U.S. Government Treasury	\$ 40,745	0.86%	\$ 78,386	1.14%	\$ -	-%	\$ -	-%	\$ 119,131	1.05%
States and Political Subdivisions	960	1.09	7,215	1.92	-	-	-	-	8,175	1.82
Mortgage-Backed Securities <sup>(1)</sup>	754	1.09	49,305	1.53	-	-	-	-	50,059	1.53
Total	\$ 42,459	0.87%	\$ 134,906	1.33%	\$ -	-%	\$ -	-%	\$ 177,365	1.22%
Total Investment Securities	\$ 207,598	0.98%	\$ 483,909	1.24%	\$ 45	5.28%	\$ 8,547	5.25%	\$ 700,099	1.21%

<sup>(1)</sup> Based on  
weighted-average  
life.

<sup>(2)</sup> Federal Home Loan Bank Stock, Federal Reserve Bank Stock and FNBB, Inc. Stock are included in this category for weighted average yield, but do not have stated maturities.

<sup>(3)</sup> Weighted average yield calculated based on current amortized cost balances – not presented on a tax equivalent basis.



## Deposits and Funds Purchased

Average total deposits for 2016 were \$2.283 billion; an increase of \$119.3 million, or 5.5%, over 2015. Average deposits increased \$70.0 million, or 3.3%, from 2014 to 2015. Both year-over-year increases occurred in all deposit types except money market accounts and certificates of deposit.

The seasonal inflow of public funds started in the fourth quarter of 2016 and is expected to continue through the first quarter of 2017. Deposit levels remain strong and our mix of deposits continues to improve slightly as higher cost certificates of deposit are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts.

We continue to closely monitor several metrics such as the sensitivity of our deposit rates, the Bank's overall liquidity position, and competitor rates when pricing deposits. This strategy is consistent with previous rate cycles, and allows us to manage the mix of our deposits rather than compete on rate. We believe this enables us to maintain a low cost of funds – 13 basis points for the year 2016 and 14 basis points for the year 2015.

Table 2 provides an analysis of our average deposits, by category, and average rates paid thereon for each of the last three years. Table 13 reflects the shift in our deposit mix over the last year and Table 14 provides a maturity distribution of time deposits in denominations of \$100,000 and over at December 31, 2016.

Average short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase, FHLB advances (maturing in less than one year), and other borrowings, decreased \$21.7 million, or 37.1% in 2016. The lower balance was primarily attributable to decreases in repurchase agreements, partially offset by an increase in other borrowed funds. See Note 8 in the Notes to Consolidated Financial Statements for further information on short-term borrowings.

We continue to focus on the value of our deposit franchise, which produces a strong base of core deposits with minimal reliance on wholesale funding.

### Table 13

#### SOURCES OF DEPOSIT GROWTH

	2015 to	Percentage	Components of
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General

<i>(Average Balances - Dollars in Thousands)</i>	<b>2016 Change</b>	<b>of Total Change</b>	<b>2016</b>	<b>Total Deposits 2015</b>	<b>2014</b>
Noninterest Bearing Deposits	\$ 69,806	58.6%	34.42%	33.1%	32.1%
NOW Accounts	32,467	27.2	34.16	34.5	34.2
Money Market Accounts	(1,655)	(1.4)	11.23	11.9	13.0
Savings	36,929	30.9	12.81	11.8	10.9
Time Deposits	(18,203)	(15.3)	7.39	8.7	9.8
Total Deposits	\$ 119,344	100.0%	100.0%	100.0%	100.0%

**Table 14****MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT \$100,000 AND OVER**

<i>(Dollars in Thousands)</i>	<b>2016 Time Certificates</b>	<b>Percent</b>
	<b>of Deposit</b>	
Three months or less	\$ 11,779	26.6%
Over three through six months	9,669	21.8
Over six through twelve months	17,908	40.5
Over twelve months	4,898	11.1
Total	\$ 44,254	100.0%
	52	

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## Market Risk and Interest Rate Sensitivity

*Overview.* Market risk arises from changes in interest rates, exchange rates, commodity prices, and equity prices. We have risk management policies designed to monitor and limit exposure to market risk and we do not participate in activities that give rise to significant market risk involving exchange rates, commodity prices, or equity prices. In asset and liability management activities, our policies are designed to minimize structural interest rate risk.

*Interest Rate Risk Management.* Our net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and shareowners' equity.

We have established what we believe to be a comprehensive interest rate risk management policy, which is administered by management's Asset Liability Management Committee ("ALCO"). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE") at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by us. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. We prepare a current base case and several alternative interest rate simulations (-100,+100, +200, +300, and +400 basis points (bp)), at least once per quarter, and report the analysis to ALCO, our Market Risk Oversight Committee ("MROC"), our Enterprise Risk Oversight Committee ("EROC") and the Board of Directors. We augment our interest rate shock analysis with alternative interest rate scenarios on a quarterly basis that may include ramps, parallel shifts, and a flattening or steepening of the yield curve (non-parallel shift). In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

It is management's goal to structure the balance sheet so that net interest earnings at risk over 12-month and 24-month periods and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels. Management attempts to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by managing the mix of our core deposits, and by adjusting our rates to market conditions on a continuing basis. During 2016, instantaneous rate shocks of down 100 bp were outside of desired parameters due to limited repricing of deposits relative to the decline in rates.

*Analysis.* Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, and do not necessarily indicate the long-term prospects or economic value of the institution. In August 2016, the Board of Directors approved policy limits for a 24-month rate shock, which is also included in the table below.

**ESTIMATED CHANGES IN NET INTEREST INCOME<sup>(1)</sup>**

<b>Percentage Change (12-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%
December 31, 2016	10.7%	7.5%	4.4%	2.1%	-9.0%
December 31, 2015	8.2%	5.2%	2.6%	1.1%	-6.7%

  

<b>Percentage Change (24-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-17.5%	-15.0%	-12.5%	-10.0%	-10.0%
December 31, 2016	41.3%	30.5%	19.9%	10.5%	-14.3%
December 31, 2015	N/A	N/A	N/A	N/A	N/A

The Net Interest Income (“NII”) at Risk position improved for the period ending December 2016 compared to December 2015 for the 12-month shock for all rate scenarios with the exception of rates down 100bp. The unfavorable change from the prior year-end in rates down 100bp reflected higher interest rates on the short-end of the Treasury curve compared to the prior year-end, while maintaining deposit rates relatively flat, resulting in increased exposure to falling rates. The model indicates that in the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of 100bp will have a negative impact on the net interest margin. In addition, this analysis incorporates an instantaneous, parallel shock and assumes we move with market rates and do not lag our deposit rates.

All shock scenarios of net interest income at risk are within our prescribed policy limits with the exception of an instantaneous rate shock of -100bp over both a 12-month and 24-month period, which were -9.0% and -14.3% compared to limits of -7.50% and -10.0%, respectively. These metrics were out of compliance at year-end due to limited repricing of deposits relative to the decline in rates.

The measures of equity value at risk indicate our ongoing economic value by considering the effects of changes in interest rates on all of our cash flows by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which in theory approximates the fair value of our net assets.

**ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY<sup>(1)</sup>**

<b>Changes in Interest Rates</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%

December 31, 2016	23.5%	18.6%	13.1%	7.3%	-19.7%
December 31, 2015	31.1%	24.7%	17.3%	9.4%	-26.2%

As of December 2016, the economic value of equity was more favorable in the down 100 bp scenario, and less favorable in the rising rate scenarios compared to December 2015. Although the down 100 bp rate scenario remains out of compliance as exposure to falling rates is more extreme due to the low level of current deposit costs and limited capacity to reduce those costs relative to the reduction in discount rates used to value them, it improved over last year due to higher rates on the short end of the Treasury curve. To bring this metric into compliance with our policy limits in the down 100 bp scenario would require the bank to extend its asset duration which we do not believe is prudent given the current historically low interest rate environment.

As the interest rate environment and the dynamics of the economy continue to change, additional simulations will be analyzed to address not only the changing rate environment, but also the changing balance sheet mix, measured over multiple years, to help assess the risk to the Company.

*(1) Down 200, 300, and 400 bp rate scenarios have been excluded due to the current historically low interest rate environment.*

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to fund loan commitments, purchase securities, accommodate deposit withdrawals or repay other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies that are formulated and monitored by our ALCO and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2016 and 2015, our principal source of funding has been our clients' deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements, federal funds purchased and FHLB borrowings. We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital and funding requirements.

As of December 31, 2016, we had the ability to generate approximately \$1.201 billion in additional liquidity through all of our available resources beyond our overnight funds sold position. In addition to the primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. Management recognizes the importance of maintaining liquidity and has developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases certain credit facilities may no longer be available. A liquidity stress test is completed quarterly based on events that could potentially occur at the Bank with the results reported to ALCO, MROC, EROC and the Board of Directors. We believe the liquidity available to us is sufficient to meet our ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted-average life of the portfolio is 1.85 years and as of December 31, 2016 had a net unrealized pre-tax loss of \$0.7 million in the available-for sale portfolio.

Our average net overnight funds (defined as funds sold plus interest-bearing deposits with other banks less funds purchased) sold position was \$212.8 million during 2016 compared to an average net overnight funds sold position of \$238.0 million in 2015. The decrease in this position compared to the prior year reflected higher growth in both the investment and loan portfolios, partially offset by an increase in average deposits.

Capital expenditures are expected to approximate \$5.3 million over the next 12 months, which consist primarily of technology purchases for banking offices, business applications, and information technology security needs as well as furniture and fixtures and banking office remodels. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our ongoing obligations.

## **Borrowings**

At December 31, 2016, total advances from the FHLB consisted of \$18.1 million in outstanding debt consisting of 20 notes. In 2016, the Bank made FHLB advance payments totaling \$10.2 million, which included nine advances that matured or were paid off. No new FHLB advances were obtained in 2016. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. See Note 8 in the Notes to Consolidated Financial Statements for additional information on these borrowings. The interest payment for the CCBG Capital Trust I borrowing is due quarterly and adjusts quarterly to a variable rate of three-month LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing is due quarterly and will adjust annually to a variable rate of three-month LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of these borrowings were used to partially fund acquisitions.

On April 12, 2016, we retired \$10 million in face value of trust preferred securities that were auctioned as part of a liquidation of a pooled collateralized debt obligation fund. The trust preferred securities were originally issued through CCBG Capital Trust I. Our winning bid equated to approximately 75% of the \$10 million par value, with the 25% discount resulting in a pre-tax gain of approximately \$2.5 million. We utilized internal resources and a \$3.75 million draw on a short-term borrowing facility to fund the repurchase.



**Table 15****CONTRACTUAL CASH OBLIGATIONS**

Table 15 sets forth certain information about contractual cash obligations at December 31, 2016.

<i>(Dollars in Thousands)</i>	<b>Payments Due By Period</b>				<b>Total</b>
	<b>&lt; 1 Yr</b>	<b>&gt; 1 – 3 Yrs</b>	<b>&gt; 3 – 5 Yrs</b>	<b>&gt; 5 Yrs</b>	
Federal Home Loan Bank Advances	\$ 7,894	\$ 7,095	\$ 2,849	\$ 3,302	\$ 21,140
Subordinated Notes Payable	-	-	-	52,887	52,887
Operating Lease Obligations	485	915	826	1,981	4,207
Time Deposit Maturities	134,250	21,326	4,033	1	159,610
Total Contractual Cash Obligations	\$ 142,629	\$ 29,336	\$ 7,708	\$ 58,171	\$ 237,844

**Capital**

Shareowners' equity was \$275.2 million as of December 31, 2016, compared to \$274.4 million as of December 31, 2015. During 2016, shareowners' equity was positively impacted by net income of \$11.7 million, stock compensation accretion of \$1.3 million, and net adjustments totaling \$1.0 million related to transactions under our stock compensation plans. Shareowners' equity was reduced by common stock dividends of \$2.9 million (\$0.17 per share), common stock share repurchases totaling \$6.3 million (435,461 shares), a \$3.5 million increase in the accumulated other comprehensive loss for our pension plan, and a net increase of \$0.5 million in the unrealized loss on investment securities.

Shareowners' equity as of December 31, for each of the last three years is presented below:

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Common Stock	\$ 168	\$ 172	\$ 174
Additional Paid-in Capital	34,188	38,256	42,569
Retained Earnings	267,037	258,181	251,306
Subtotal	301,393	296,609	294,049
Accumulated Other Comprehensive Loss, Net of Tax	(26,225)	(22,257)	(21,509)
Total Shareowners' Equity	\$ 275,168	\$ 274,352	\$ 272,540

We continue to maintain a strong capital position. The ratio of shareowners' equity to total assets at year-end was 9.67%, 9.81%, and 10.37%, in 2016, 2015, and 2014, respectively. Management believes our strong capital base offered protection during the course of the last economic downturn and provides sufficient capacity to meet our strategic objectives.

We are subject to risk-based capital guidelines that measure capital relative to risk-weighted assets and off-balance sheet financial instruments. Capital guidelines issued by the Federal Reserve require bank holding companies to have a minimum total risk-based capital ratio of 8.00%, with at least half of the total capital in the form of Tier 1 Capital. As of December 31, 2016, we exceeded these capital guidelines with a total risk-based capital ratio of 16.28% and a Tier 1 capital ratio of 15.51%, compared to 17.25% and 16.42%, respectively, in 2015. As allowed by Federal Reserve capital guidelines, the trust preferred securities issued by CCBG Capital Trust I and CCBG Capital Trust II are included as Tier 1 Capital in our capital calculations previously noted. See Note 9 in the Notes to Consolidated Financial Statements for additional information on our two trust preferred security offerings. See Note 14 in the Notes to Consolidated Financial Statements for additional information as to our capital adequacy.

The federal banking regulators issued new capital rules establishing a new comprehensive capital framework for U.S. banking organizations which became effective January 1, 2015 (subject to a phase-in period) (the "Basel III Capital Rules"). Refer to the Regulatory Considerations – Capital Regulations section on page 14 for a detailed discussion of the new Basel III capital requirements. The reduction in our regulatory capital ratios in 2015 reflected the implementation of Basel III and the repurchase of our common stock. In 2016, the repurchase of our common stock and the partial redemption of TRUPs reduced our regulatory capital ratios by approximately 38 basis points and 50 basis points, respectively. The common equity Tier 1 ratio is a required ratio that was created in 2015 as a result of the Basel III capital requirements. The ratio measures core equity components relative to risk-weighted assets. Capital guidelines require a minimum common equity tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5% that will be phased in between 2016 and 2019 (0.625% in 2016, 1.25% in 2017, 1.875% in 2018, 2.5% in 2019). As of December 31, 2016, our common equity tier 1 ratio was 12.61%.

A leverage ratio is also used in connection with the risk-based capital standards and is defined as Tier 1 Capital divided by average assets. The minimum leverage ratio under this standard is 4% for the highest-rated bank holding companies which are not undertaking significant expansion programs. A higher standard may be required for other companies, depending upon their regulatory ratings and expansion plans. On December 31, 2016, we had a leverage ratio of 10.23% compared to 10.65% in 2015.

At December 31, 2016, our common stock had a book value of \$16.23 per diluted share compared to \$15.93 at December 31, 2015. Book value is impacted by the net unrealized gains and losses on investment securities. At December 31, 2016, the net unrealized loss was \$583,000 compared to a \$127,000 net unrealized loss at December 31, 2015. The aforementioned net unrealized loss of \$583,000 reflected a \$417,000 net loss on available for sale securities and \$166,000 in unamortized loss related to the transfer of securities to held-to-maturity in 2013. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Accounting Standards Codification Topic 715. At December 31, 2016, the net pension liability reflected in other comprehensive loss was \$25.6 million compared to \$22.1 million at December 31, 2015.

In February 2014, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our outstanding common stock over a five year period. Repurchases may be made in the open market or in privately negotiated transactions; however, we are not obligated to repurchase any specified number of shares. A total of 860,289 shares of our outstanding common stock have been purchased at an average price of \$14.59 under the plan. During 2016, we repurchased 435,461 shares at an average price \$14.49 per share and during 2015 we repurchased 405,228 shares at an average price of \$14.73 per share.

We offer an Associate Incentive Plan (“AIP”) under which certain associates are eligible to earn equity-based awards based upon achieving established performance goals. In 2016, 71,153 shares were earned under this plan of which 9,680 shares were issued in 2016 and 61,473 were issued in January 2017. In 2015, 61,118 shares were earned under this plan of which 7,931 shares were issued in 2015 and 53,187 shares were issued in January 2016. Under the AIP, we also maintain long-term incentive plans (“LTIPs”) for the President and Chief Executive Officer of the Company and the President of the Bank that are both tied to earnings progression goals over a three year period. Under these LTIPs, 35,342 shares were earned in 2016 and issued in January 2017.

We also offer stock purchase plans, which permit our associates and directors to purchase shares at a 10% discount. In 2016, 60,312 shares, valued at approximately \$0.8 million (before 10% discount), were issued under these plans. In 2015, 33,582 shares, valued at approximately \$0.5 million (before 10% discount), were issued under these plans.

## **Dividends**

Adequate capital and financial strength is paramount to our stability and the stability of our subsidiary bank. Cash dividends declared and paid should not place unnecessary strain on our capital levels. When determining the level of dividends the following factors are considered:

- Compliance with state and federal laws and regulations;
- Our capital position and our ability to meet our financial obligations;
- Projected earnings and asset levels; and
- The ability of the Bank and us to fund dividends.

## **Inflation**

The impact of inflation on the banking industry differs significantly from that of other industries in which a large portion of total resources are invested in fixed assets such as property, plant and equipment.

Assets and liabilities of financial institutions are virtually all monetary in nature, and therefore are primarily impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy. Net interest income and the interest rate spread are good measures of our ability to react to changing interest rates and are discussed in further detail in the section entitled “Results of Operations.”

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not currently engage in the use of derivative instruments to hedge interest rate risks. However, we are a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of our clients.

At December 31, 2016, we had \$402.4 million in commitments to extend credit and \$4.7 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

If commitments arising from these financial instruments continue to require funding at historical levels, management does not anticipate that such funding will adversely impact our ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, investment security maturities, available advances from the FHLB and Federal Reserve Bank provide a sufficient source of funds to meet these commitments.

## Results of Operations

We realized net income of \$3.3 million, or \$0.20 per diluted share for the fourth quarter of 2016, compared to net income of \$2.9 million, or \$0.17 per diluted share for the third quarter of 2016. The growth in earnings reflected higher net interest income of \$0.7 million and lower noninterest expense of \$0.5 million, partially offset by a \$0.5 million increase in the loan loss provision, lower noninterest income of \$0.2 million, and higher income taxes of \$0.1 million.

Tax equivalent net interest income for the fourth quarter of 2016 was \$20.3 million compared to \$19.6 million for the third quarter of 2016. During the fourth quarter of 2016, overnight funds were used to fund growth in the loan and investment portfolios resulting in a positive shift in our earning asset mix. Non-accrual loan adjustments also had a favorable impact. The net interest margin for the fourth quarter of 2016 was 3.34% (annualized), an increase of 11 basis points over the third quarter of 2016 due to growth in our loan and investment portfolios, in addition to \$0.5 million in net interest recoveries.

The provision for loan losses for the fourth quarter of 2016 was \$0.5 million compared to no provision for the third quarter of 2016 reflective of continued favorable problem loan migration and lower net loan charge-offs, partially offset by growth in the loan portfolio. Net loan charge-offs for the fourth quarter of 2016 totaled \$0.8 million, or 0.20% (annualized) of average loans compared to net loan recoveries of \$0.1 million for the third quarter of 2016.

Noninterest income for the fourth quarter of 2016 totaled \$12.8 million, a decrease of \$0.2 million, or 1.8%, from the third quarter of 2016 reflective of lower deposit fees of \$0.1 million and mortgage banking fees of \$0.1 million. The decrease in deposit fees reflected lower overdraft service fees attributable to lower utilization of this service during the

quarter. The reduction in mortgage banking fees was attributable to lower loan production.

Noninterest expense for the fourth quarter of 2016 totaled \$27.6 million, a decrease of \$0.5 million, or 1.6%, from the third quarter of 2016 reflective of lower OREO expense of \$0.5 million, other expense of \$0.5 million, and occupancy expense of \$0.2 million, partially offset by higher compensation expense of \$0.7 million. Lower carrying costs drove the reduction in OREO expense. The decrease in other expense reflected lower processing fees and professional fees. The reduction in occupancy expense was attributable to lower expense for utilities, property taxes, and maintenance agreements.

## Discussion of Financial Condition

Average earning assets were \$2.423 billion for the fourth quarter of 2016, an increase of \$5.4 million, or 0.2%, over the third quarter of 2016 reflective of a higher level of total deposits. Growth in both the loan and investment portfolios led to a more favorable earning asset mix. Average loans increased \$17.4 million, or 1.1% when compared to the third quarter of 2016 as all loan types realized growth except institutional and residential mortgages.

Nonperforming assets (nonaccrual loans and OREO) totaled \$19.2 million at December 31, 2016, a decrease of \$2.2 million, or 10%, from September 30, 2016. Nonaccrual loans totaled \$8.5 million at December 31, 2016, a \$0.1 million decrease from September 30, 2016. Nonaccrual loan additions totaled \$3.9 million in the fourth quarter of 2016 compared to \$2.8 million for third quarter of 2016. The balance of OREO totaled \$10.6 million at December 31, 2016, a decrease of \$2.1 million from September 30, 2016. For the fourth quarter of 2016, we added properties totaling \$0.7 million, sold properties totaling \$2.4 million, and recorded valuation adjustments totaling \$0.4 million. Nonperforming assets represented 0.67% of total assets at December 31, 2016 compared to 0.78% at September 30, 2016.

Average total deposits were \$2.307 billion for the fourth quarter of 2016, an increase of \$18.2 million, or 0.8%, over the third quarter of 2016 reflective of growth in all deposit products except money market accounts and certificates of deposit. The seasonal inflow of public fund balances began late in the fourth quarter of 2016, and is expected to peak during the first quarter of 2017 for this cycle. Compared to the third quarter of 2016, average borrowings decreased \$3.5 million primarily due to payoffs of FHLB advances.

Shareowners' equity was \$275.2 million at December 31, 2016, compared to \$276.6 million at September 30, 2016. Our leverage ratio was 10.23% and 10.12%, respectively, for these periods. Further, at December 31, 2016, our risk-adjusted capital ratio was 16.28% compared to 16.28% at September 30, 2016. Our common equity tier 1 ratio was 12.61% at December 31, 2016 compared to 12.55% at September 30, 2016. All of our capital ratios significantly exceed the threshold to be designated as "well-capitalized" under the Basel III capital standards at December 31, 2016.

## ACCOUNTING POLICIES

### Critical Accounting Policies

The consolidated financial statements and accompanying Notes to Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make various estimates and assumptions (see Note 1 in the Notes to Consolidated Financial Statements). We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

*Allowance for Loan Losses.* The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. The allowance is the amount considered adequate to absorb losses inherent in the loan portfolio based on management's evaluation of credit risk as of the balance sheet date.

The allowance for loan losses includes allowance allocations calculated in accordance with U.S. GAAP. The level of the allowance reflects management's continuing evaluation of specific credit risks, loss experience, loan portfolio quality, economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as information becomes available.

The Company's allowance for loan losses consists of two components: (i) specific reserves established for probable losses on impaired loans; and (ii) general reserves for non-homogenous loans not deemed impaired and homogenous loan pools based on, but not limited to, historical loan loss experience, current economic and market conditions, levels of past due loans, and levels of problem loans.

Our financial results are affected by the changes in and the absolute level of the allowance for loan losses. This estimation process is judgmental and requires an estimate of the loss severity rates that we apply to our unimpaired

loan portfolio.

*Goodwill.* Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value of goodwill is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

We evaluate goodwill for impairment on an annual basis, using a two-step process. Step One compares the estimated fair value of the reporting unit to its carrying amount. We have determined that we have one reporting unit which consists of the Company as a whole, thus the carrying amount of the reporting unit is the net book value of the Company, including goodwill. If the carrying amount of the reporting unit exceeds its estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.

During the fourth quarter, we performed our annual impairment testing. We proceeded with Step One by first estimating the fair value of the reporting unit utilizing a market approach that was supplemented with a reconciliation of the resulting equity value of the Company with our market capitalization. The market approach utilized the guideline company valuation ("GLC") method to determine the overall equity valuation. A book and tangible book multiple was developed to determine a market value of equity on a controlling basis. The multiples that resulted from the GLC method were validated by comparing to peer companies. A control premium was then applied to the minority value to calculate a Step One value indication for the Company. The control premium selected was validated by reviewing recent bank merger and acquisition transactions. Based on the valuation developed as part of Step One, the estimated fair value of our reporting unit exceeded the carrying value of goodwill and therefore, no Step Two was required. For Step One of the impairment testing, change in economic conditions and observable bank purchase transactions can impact the outcome of the market valuation approach.



*Pension Assumptions.* We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute amounts to the plan sufficient to meet minimum funding requirements as set by law. Pension expense, which is included in the Consolidated Statements of Operations in noninterest expense as “Compensation,” is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration both current market conditions and anticipated long-term market conditions.

The weighted-average discount rate is determined by matching the anticipated defined pension plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. The discount rate utilized in 2016 was 4.52%. The estimated impact to 2016 pension expense of a 25 basis point increase or decrease in the discount rate would have been a decrease and increase of approximately \$702,000 and \$740,000, respectively. We anticipate using a 4.21% discount rate in 2017.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government agency debt securities, and other securities (typically temporary liquid funds awaiting investment). The weighted-average expected long-term rate of return on plan assets utilized for 2016 was 7.5%. The estimated impact to 2016 pension expense of a 25 basis point increase or decrease in the rate of return would have been an approximate \$258,000 increase or decrease, respectively. We anticipate using a rate of return on plan assets for 2017 of 7.5%.

The assumed rate of annual compensation increases of 3.25% in 2016 reflected expected trends in salaries and the employee base. We anticipate using a compensation increase of 3.25% for 2017 reflecting current market trends.

Effective December 31, 2015, we changed the method used to estimate the service and interest components of net periodic benefit cost for the defined benefit plan. Detailed information on the pension plan, the actuarially determined disclosures, and the assumptions used are provided in Note 12 of the Notes to Consolidated Financial Statements.

## **Recent Accounting Pronouncements**

*The Financial Accounting Standards Board, the SEC, and other regulatory bodies have enacted new accounting pronouncements and standards that either have impacted our results in prior years presented, or will likely impact*

*our results in 2017. Please refer to Note 1 of the Notes to our Consolidated Financial Statements.*

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

See “Financial Condition - Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data****Table 16**  
**QUARTERLY FINANCIAL DATA (Unaudited)**

<i>(Dollars in Thousands, Except  Per Share Data)</i>	<b>2016</b>				<b>2015</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
<b>Summary of Operations:</b>								
Interest Income	\$ 20,832	\$ 20,104	\$ 20,174	\$ 20,044	\$ 20,602	\$ 19,877	\$ 19,833	\$ 19,346
Interest Expense	773	784	798	834	808	811	849	839
Net Interest Income	20,059	19,320	19,376	19,210	19,794	19,066	18,984	18,507
Provision for Loan Losses	464	-	(97)	452	513	413	375	293
Net Interest Income After Provision for Loan Losses	19,595	19,320	19,473	18,758	19,281	18,653	18,609	18,214
Noninterest Income <sup>(1)(2)</sup>	12,778	13,011	15,215	12,677	13,221	13,228	14,794	12,848
Noninterest Expense	27,560	28,022	28,702	28,930	28,280	29,164	28,439	29,390
Income Before Income Taxes	4,813	4,309	5,986	2,505	4,222	2,717	4,964	1,672
Income Tax Expense	1,517	1,436	2,056	858	1,620	1,034	1,119	686
Net Income	3,296	2,873	3,930	1,647	2,602	1,683	3,845	986
Net Interest Income (FTE)	\$ 20,335	\$ 19,603	\$ 19,617	\$ 19,421	\$ 20,006	\$ 19,253	\$ 19,119	\$ 18,611
<b>Per Common Share:</b>								
Basic Net Income	\$ 0.20	\$ 0.18	\$ 0.22	\$ 0.10	\$ 0.16	\$ 0.09	\$ 0.22	\$ 0.06
Diluted Net Income	0.20	0.17	0.22	0.10	0.16	0.09	0.22	0.06
Cash Dividends Declared	0.05	0.04	0.04	0.04	0.04	0.03	0.03	0.03
Diluted Book Value	16.23	16.39	16.31	16.04	15.93	15.89	15.80	15.59
Market Price:								
High	23.15	15.35	15.96	15.88	16.05	15.75	16.32	16.33
Low	14.29	13.32	13.16	12.83	13.56	14.39	13.94	13.16

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Close	20.48	14.77	13.92	14.59	15.35	14.92	15.27	16.25
<b>Selected Average Balances:</b>								
Loans, Net	\$ 1,573,264	\$ 1,555,889	\$ 1,531,777	\$ 1,507,508	\$ 1,492,521	\$ 1,483,657	\$ 1,473,954	\$ 1,448,617
Earning Assets	2,423,388	2,417,943	2,447,777	2,440,718	2,353,729	2,310,823	2,328,012	2,306,485
Total Assets	2,743,463	2,734,465	2,767,854	2,763,746	2,678,214	2,639,692	2,670,701	2,648,551
Deposits	2,306,917	2,288,741	2,276,553	2,258,600	2,174,718	2,137,433	2,178,399	2,163,376
Shareowners' Equity	278,943	277,407	279,532	277,464	275,893	274,956	274,421	275,304
Common Equivalent								
Average Shares:								
Basic	16,809	16,804	17,144	17,202	17,145	17,150	17,296	17,508
Diluted	16,913	16,871	17,196	17,235	17,214	17,229	17,358	17,555
<b>Performance Ratios:</b>								
Return on Average Assets	0.48%	0.42%	0.57%	0.24%	0.39%	0.25%	0.58%	0.15%
Return on Average Equity	4.70	4.12	5.65	2.39	3.74	2.43	5.62	1.45
Net Interest Margin (FTE)	3.34	3.23	3.22	3.20	3.37	3.31	3.29	3.27
Noninterest Income as % of Operating Revenue								
Efficiency Ratio	38.91	40.24	43.99	39.76	40.05	40.96	43.80	40.98
	83.23	85.92	82.40	90.13	85.11	89.79	83.85	93.42
<b>Asset Quality:</b>								
Allowance for Loan Losses	\$ 13,431	\$ 13,744	\$ 13,677	\$ 13,613	\$ 13,953	\$ 14,737	\$ 15,236	\$ 16,090
Allowance for Loan Losses to Loans	0.86%	0.88%	0.89%	0.90%	0.93%	0.99%	1.03%	1.10%
Nonperforming Assets ("NPA's")	19,171	21,352	22,836	26,499	29,595	38,357	45,487	50,625
NPA's to Total Assets	0.67	0.78	0.83	0.95	1.06	1.47	1.71	1.88
NPA's to Loans plus ORE	1.21	1.35	1.48	1.73	1.94	2.54	3.00	3.38
Allowance to Non-Performing Loans	157.40	159.56	166.50	150.44	135.40	112.17	99.46	95.83
Net Charge-Offs to Average Loans	0.20	(0.02)	(0.04)	0.21	0.34	0.24	0.33	0.49
<b>Capital Ratios:</b>								
General								

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Tier 1 Capital	15.51%	15.48%	15.63%	16.39%	16.42%	16.36%	15.83%	16.16%
Total Capital	16.28	16.28	16.44	17.20	17.25	17.24	16.72	17.11
Common Equity	12.61	12.55	12.65	12.82	12.84	12.76	12.34	12.57
Tier 1 Capital	12.61	12.55	12.65	12.82	12.84	12.76	12.34	12.57
Leverage	10.23	10.12	9.98	10.34	10.65	10.71	10.53	10.73
Tangible								
Common	6.90	7.19	7.08	7.09	6.99	7.46	7.29	7.26
Equity <sup>(3)</sup>								

<sup>(1)</sup> Includes \$2.5 million gain on retirement of trust preferred securities in the second quarter, 2016.

<sup>(2)</sup> Includes \$1.7 million in bank-owned life insurance proceeds in second quarter, 2015.

<sup>(3)</sup> Tangible common equity ratio is a non-GAAP financial measure. For additional information, including a reconciliation to GAAP, refer to page 31.

**CAPITAL CITY BANK GROUP, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

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**Report of Independent Registered Certified Public Accounting Firm**

The Board of Directors and Shareowners of  
Capital City Bank Group, Inc.

We have audited the accompanying consolidated statements of financial condition of Capital City Bank Group, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital City Bank Group, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital City Bank Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2017 expressed an unqualified opinion thereon.

Tampa, Florida

March 2, 2017



**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>As of December 31,</b>	<b>2015</b>
<b>ASSETS</b>			
Cash and Due From Banks	\$ 48,268	\$	51,288
Federal Funds Sold and Interest Bearing Deposits	247,779		327,617
Total Cash and Cash Equivalents	296,047		378,905
Investment Securities, Available for Sale, at fair value	522,734		451,028
Investment Securities, Held to Maturity, at amortized cost (fair value of \$176,746 and \$187,407)	177,365		187,892
Total Investment Securities	700,099		638,920
Loans Held For Sale	10,886		11,632
Loans, Net of Unearned Income	1,561,289		1,492,275
Allowance for Loan Losses	(13,431)		(13,953)
Loans, Net	1,547,858		1,478,322
Premises and Equipment, Net	95,476		98,819
Goodwill	84,811		84,811
Other Real Estate Owned	10,638		19,290
Other Assets	99,382		87,161
Total Assets	\$ 2,845,197	\$	2,797,860
<b>LIABILITIES</b>			
Deposits:			
Noninterest Bearing Deposits	\$ 791,182	\$	758,283
Interest Bearing Deposits	1,621,104		1,544,566
Total Deposits	2,412,286		2,302,849
Short-Term Borrowings	12,749		61,058
Subordinated Notes Payable	52,887		62,887
Other Long-Term Borrowings	14,881		28,265
Other Liabilities	77,226		68,449
Total Liabilities	2,570,029		2,523,508
<b>SHAREOWNERS' EQUITY</b>			
Preferred Stock, \$.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-		-
Common Stock, \$.01 par value; 90,000,000 shares authorized; 16,844,698 and 17,156,919			
shares issued and outstanding at December 31, 2016			
and December 31, 2015, respectively	168		172
Additional Paid-In Capital	34,188		38,256
General			121

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Retained Earnings	267,037	258,181
Accumulated Other Comprehensive Loss, Net of Tax	(26,225)	(22,257)
Total Shareowners' Equity	275,168	274,352
Total Liabilities and Shareowners' Equity	\$ 2,845,197	\$ 2,797,860

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

**For the Years Ended December 31,**

*(Dollars in Thousands, Except Per Share Data)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>INTEREST INCOME</b>			
Loans, including Fees	\$ 72,867	\$ 73,169	\$ 73,402
Investment Securities:			
Taxable	6,317	5,224	3,394
Tax Exempt	866	633	492
Funds Sold	1,104	632	933
Total Interest Income	81,154	79,658	78,221
<b>INTEREST EXPENSE</b>			
Deposits	879	944	1,099
Short-Term Borrowings	148	59	78
Subordinated Notes Payable	1,434	1,368	1,328
Other Long-Term Borrowings	728	936	1,075
Total Interest Expense	3,189	3,307	3,580
<b>NET INTEREST INCOME</b>	77,965	76,351	74,641
Provision for Loan Losses	819	1,594	1,905
Net Interest Income After Provision for Loan Losses	77,146	74,757	72,736
<b>NONINTEREST INCOME</b>			
Deposit Fees	21,332	22,608	24,320
Bank Card Fees	11,221	11,278	10,892
Wealth Management Fees	7,029	7,533	7,808
Mortgage Banking Fees	5,192	4,539	3,082
Other	8,907	8,133	6,434
Total Noninterest Income	53,681	54,091	52,536
<b>NONINTEREST EXPENSE</b>			
Compensation	64,984	65,414	62,215
Occupancy, Net	18,296	17,738	17,818
Other Real Estate Owned, Net	3,649	4,971	6,811
Other	26,285	27,150	27,514
Total Noninterest Expense	113,214	115,273	114,358
<b>INCOME BEFORE INCOME TAXES</b>	17,613	13,575	10,914
Income Tax Expense	5,867	4,459	1,654
<b>NET INCOME</b>	<b>\$ 11,746</b>	<b>\$ 9,116</b>	<b>\$ 9,260</b>
<b>BASIC NET INCOME PER SHARE</b>	<b>\$ 0.69</b>	<b>\$ 0.53</b>	<b>\$ 0.53</b>
<b>DILUTED NET INCOME PER SHARE</b>	<b>\$ 0.69</b>	<b>\$ 0.53</b>	<b>\$ 0.53</b>

Average Basic Common Shares Outstanding	16,989	17,273	17,425
Average Diluted Common Shares Outstanding	17,061	17,318	17,488

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

		<b>For the Years Ended December 31,</b>		
		<b>2016</b>	<b>2015</b>	<b>2014</b>
<i>(Dollars in Thousands)</i>				
<b>NET INCOME</b>	\$	11,746	\$ 9,116	\$ 9,260
<b>Other comprehensive income (loss), before tax:</b>				
Investment Securities:				
Change in net unrealized gain/loss on securities available for sale		(828)	(373)	251
Amortization of unrealized losses on securities transferred from				
available for sale to held to maturity		82	76	70
Total Investment Securities		(746)	(297)	321
Benefit Plans:				
Reclassification adjustment for amortization of prior service cost		278	316	473
Reclassification adjustment for amortization of net loss		3,960	3,743	705
Current year actuarial loss		(9,958)	(4,975)	(22,603)
Total Benefit Plans		(5,720)	(916)	(21,425)
<b>Other comprehensive income (loss), before tax:</b>		(6,466)	(1,213)	(21,104)
Deferred tax benefit related to other comprehensive income		2,498	465	8,135
<b>Other comprehensive income (loss), net of tax</b>		(3,968)	(748)	(12,969)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	\$	7,778	\$ 8,368	\$ (3,709)

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY**

	Shares	Common	Additional	Retained	Accumulated Other Comprehensive	
(Dollars in Thousands, Except Per Share Data)	Outstanding	Stock	Paid-In Capital	Earnings	Loss, Net of Taxes	T
Balance, January 1, 2014	17,360,960	\$ 174	\$ 41,152	\$ 243,614	\$ (8,540)	\$ 27
Net Income		-	-	9,260	-	-
Other Comprehensive Loss, Net of Tax		-	-	-	(12,969)	(12,969)
Cash Dividends (\$0.09 per share)		-	-	(1,568)	-	(1,568)
Stock Compensation Expense		-	1,349	-	-	-
Impact of Transactions Under Compensation Plans, net	105,863	-	337	-	-	-
Repurchase of Common Stock	(19,600)	-	(269)	-	-	-
Balance, December 31, 2014	17,447,223	174	42,569	251,306	(21,509)	27
Net Income		-	-	9,116	-	-
Other Comprehensive Loss, Net of Tax		-	-	-	(748)	(748)
Cash Dividends (\$0.13 per share)		-	-	(2,241)	-	(2,241)
Stock Compensation Expense		-	1,109	-	-	-
Impact of Transactions Under Compensation Plans, net	114,924	2	555	-	-	-
Repurchase of Common Stock	(405,228)	(4)	(5,977)	-	-	(5,977)
Balance, December 31, 2015	17,156,919	172	38,256	258,181	(22,257)	27
Net Income		-	-	11,746	-	11,746
Other Comprehensive Loss, Net of Tax		-	-	-	(3,968)	(3,968)
Cash Dividends (\$0.17 per share)		-	-	(2,890)	-	(2,890)
Stock Compensation Expense		-	1,260	-	-	-
Impact of Transactions Under Compensation Plans, net	123,240	-	980	-	-	-
Repurchase of Common Stock	(435,461)	(4)	(6,308)	-	-	(6,308)
Balance, December 31, 2016	16,844,698	\$ 168	\$ 34,188	\$ 267,037	\$ (26,225)	\$ 27

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended December</b>		
	<b>31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<i>(Dollars in Thousands)</i>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 11,746	\$ 9,116	\$ 9,260
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Provision for Loan Losses	819	1,594	1,905
Depreciation	6,975	6,586	6,490
Amortization of Premiums, Discounts, and Fees, net	6,219	5,182	4,717
Amortization of Intangible Assets	-	-	32
Gain on Securities Transactions	-	-	(1)
Impairment Loss on Security	-	90	-
Gain on Retirement of Trust Preferred Securities	(2,487)	-	-
Net Increase (Decrease) in Loans Held-for-Sale	746	(944)	377
Stock Compensation	1,260	1,109	1,349
Deferred Income Taxes	3,457	3,847	4,779
Loss on Sales and Write-Downs of Other Real Estate Owned	3,225	2,943	4,462
Loss on Disposal of Premises and Equipment	131	44	113
Net (Increase) Decrease in Other Assets	(18,374)	684	(12,353)
Net Increase in Other Liabilities	8,904	3,510	4,021
Net Cash Provided By Operating Activities	22,621	33,761	25,151
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Securities Held to Maturity:			
Purchases	(50,001)	(66,021)	(56,249)
Payments, Maturities, and Calls	59,460	40,482	39,335
Securities Available for Sale:			
Purchases	(192,005)	(190,756)	(210,858)
Payments, Maturities, and Calls	114,189	76,452	117,281
Net Increase in Loans	(73,997)	(71,432)	(64,975)
Purchase of Bank Owned Life Insurance	-	-	(13,085)
Proceeds From Sales of Other Real Estate Owned	9,443	18,925	23,201
Purchases of Premises and Equipment, net	(4,450)	(4,703)	(5,117)
Net Cash Used In Investing Activities	(137,361)	(197,053)	(170,467)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net Increase in Deposits	109,437	156,055	10,546
Net (Decrease) Increase in Short-Term Borrowings	(52,666)	11,536	(3,955)
Redemption of Subordinated Notes	(7,500)	-	-
Repayment of Other Long-Term Borrowings	(9,027)	(2,735)	(4,888)
Dividends Paid	(2,890)	(2,241)	(1,568)
Payments to Repurchase Common Stock	(6,312)	(5,981)	(269)
Issuance of Common Stock Under Compensation Plans	840	507	578
Net Cash Provided By Financing Activities	31,882	157,141	444
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(82,858)</b>	<b>(6,151)</b>	<b>(144,872)</b>

Cash and Cash Equivalents at Beginning of Year	378,905	385,056	529,928
Cash and Cash Equivalents at End of Year	\$ 296,047	\$ 378,905	\$ 385,056

**Supplemental Cash Flow Disclosures:**

Interest Paid	\$ 3,195	\$ 3,314	\$ 3,562
Income Taxes (Refunded) Paid	\$ (330)	\$ 1,442	\$ 2,655

**Noncash Investing and Financing Activities:**

Loans Transferred to Other Real Estate Owned	\$ 4,016	\$ 5,752	\$ 15,271
Transfer of Current Portion of Long-Term Borrowings	\$ 4,357	\$ 97	\$ 2,059

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*



*Notes to Consolidated Financial Statements*

**Note 1**

**SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Capital City Bank Group, Inc. (“CCBG” or the “Company”) provides a full range of banking and banking-related services to individual and corporate clients through its subsidiary, Capital City Bank, with banking offices located in Florida, Georgia, and Alabama. The Company is subject to competition from other financial institutions, is subject to regulation by certain government agencies and undergoes periodic examinations by those regulatory authorities.

**Basis of Presentation**

The consolidated financial statements include the accounts of Capital City Bank Group, Inc. (“CCBG”), and its wholly owned subsidiary, Capital City Bank (“CCB” or the “Bank” and together with CCBG, the “Company”). All material inter-company transactions and accounts have been eliminated in consolidation.

The Company, which operates a single reportable business segment that is comprised of commercial banking within the states of Florida, Georgia, and Alabama, follows accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. The principles which materially affect the financial position, results of operations and cash flows are summarized below.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provide the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (“VIE’s”) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. CCBG’s wholly owned subsidiaries, CCBG Capital Trust I

(established November 1, 2004) and CCBG Capital Trust II (established May 24, 2005) are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements.

Certain previously reported amounts have been reclassified to conform to the current year's presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Annual Report on Form 10-K were filed with the United States Securities and Exchange Commission.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses, pension expense, income taxes, loss contingencies, valuation of other real estate owned, and valuation of goodwill and their respective analysis of impairment.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods and all other cash equivalents have a maturity of 90 days or less. The Company is required to maintain average reserve balances with the Federal Reserve Bank based upon a percentage of deposits. The average amounts of these required reserve balances for the years ended December 31, 2016 and 2015 were \$15.3 million and \$10.3 million, respectively.

## **Investment Securities**

Securities are classified as held to maturity and carried at amortized cost when the Company has the positive intent and ability to hold them until maturity. Securities not classified as held to maturity or trading securities are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, net of tax. The Company determines the appropriate classification of securities at the time of purchase. Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost. Securities transferred from available for sale to held to maturity are recorded at fair value at the time of transfer. The respective gain or loss is reclassified as a separate component of other comprehensive income and amortized as an adjustment to interest income over the remaining life of the security.

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers, (i) whether it has decided to sell the security, (ii) whether it is more likely than not that the Company will have to sell the security before its market value recovers, and (iii) whether the present value of expected cash flows is sufficient to recover the entire amortized cost basis. When assessing the security's expected cash flows, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost and (ii) the financial condition and near-term prospects of the issuer.

## **Loans Held For Sale**

Certain residential mortgage loans are originated for sale in the secondary mortgage loan market. Additionally, certain other loans are periodically identified to be sold. The Company has the ability and intent to sell these loans and they are classified as loans held for sale and carried at the lower of cost or estimated fair value. Fair value is determined on the basis of rates quoted in the respective secondary market for the type of loan held for sale. Loans are generally sold with servicing released at a premium or discount from the carrying amount of the loans. Such premium or discount is recognized as mortgage banking revenue at the date of sale. Fixed commitments are generally used at the time loans are originated or identified for sale to mitigate interest rate risk. The fair value of fixed commitments to originate and sell loans held for sale is not material.

## **Loans**

Loans are stated at the principal amount outstanding, net of unearned income. Interest income is accrued on the effective yield method based on outstanding balances, and includes loan late fees. Fees charged to originate loans and direct loan origination costs are deferred and amortized over the life of the loan as a yield adjustment.

The Company defines loans as past due when one full payment is past due or a contractual maturity is over 30 days late. The accrual of interest is generally suspended on loans more than 90 days past due with respect to principal or interest. When a loan is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

Loan charge-offs on commercial and investor real estate loans are recorded when the facts and circumstances of the individual loan confirm the loan is not fully collectible and the loss is reasonably quantifiable. Factors considered in making these determinations are the borrower's and any guarantor's ability and willingness to pay, the status of the account in bankruptcy court (if applicable), and collateral value. Charge-off decisions for consumer loans are dictated by the Federal Financial Institutions Examination Council's (FFIEC) Uniform Retail Credit Classification and Account Management Policy which establishes standards for the classification and treatment of consumer loans, which generally require charge-off after 120 days of delinquency.

### **Allowance for Loan Losses**

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. The allowance is that amount considered adequate to absorb losses inherent in the loan portfolio based on management's evaluation of credit risk as of the balance sheet date.

The allowance for loan losses includes allowance allocations calculated in accordance with FASB ASC Topic 310 – Receivables and ASC Topic 450 - Contingencies. The level of the allowance reflects management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio quality, present economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company's allowance for loan losses consists of two components: (i) specific reserves established for probable losses on impaired loans; and (ii) general reserve for non-homogenous loans not deemed impaired and homogenous loan pools based on, but not limited to, historical loan loss experience, current economic conditions, levels of past due loans, and levels of problem loans.

Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans to borrowers who are experiencing financial difficulties and whose loans were modified with concessions are classified as troubled debt restructurings and measured for impairment. Loans to borrowers that have filed Chapter 7 bankruptcy, but continue to perform as agreed are classified as troubled debt restructurings and measured for impairment.

### **Long-Lived Assets**

Premises and equipment is stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives for each type of asset with premises being depreciated over a range of 10 to 40 years, and equipment being depreciated over a range of 3 to 10 years. Additions, renovations and leasehold improvements to premises are capitalized and depreciated over the lesser of the useful life or the remaining lease term. Repairs and maintenance are charged to noninterest expense as incurred.

Long-lived assets are evaluated for impairment if circumstances suggest that their carrying value may not be recoverable, by comparing the carrying value to estimated undiscounted cash flows. If the asset is deemed impaired, an impairment charge is recorded equal to the carrying value less the fair value.

### **Bank Owned Life Insurance (BOLI)**

The Company, through its subsidiary bank, has purchased life insurance policies on certain key officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

### **Goodwill**

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. In accordance with FASB ASC Topic 350, the Company determined it has one goodwill reporting unit. Goodwill is tested for impairment annually during the fourth quarter or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. See Note 5 – Goodwill for additional information.

### **Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Revenue and expenses from operations and changes in value are included in noninterest expense.

### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

### **Revenue Recognition**

The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Certain specific policies include the following:

*Deposit Fees.* Deposit fees are primarily overdraft and insufficient fund fees and monthly transaction-based fees. These fees are recognized as earned or as transactions occur and services are provided.

*Bank Card Fees.* Bank card fees primarily include interchange income from client use of consumer and business debit cards. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network. Interchange fees are set by the credit card associations and are based on cardholder purchase volumes. The Company records interchange income as transactions occur.



## **Income Taxes**

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years.

The Company files a consolidated federal income tax return and each subsidiary files a separate state income tax return.

## **Earnings Per Common Share**

Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 13 — Earnings Per Share.

## **Comprehensive Income**

Comprehensive income includes all changes in shareowners' equity during a period, except those resulting from transactions with shareowners. Besides net income, other components of the Company's comprehensive income include the after tax effect of changes in the net unrealized gain/loss on securities available for sale and changes in the funded status of defined benefit and supplemental executive retirement plans. Comprehensive income is reported in the accompanying Consolidated Statements of Comprehensive Income and Changes in Shareowners' Equity.

## **Stock Based Compensation**



Compensation cost is recognized for share based awards issued to employees, based on the fair value of these awards at the date of grant. The market price of the Company's common stock at the date of the grant is used for restricted stock awards. For stock option awards, a Black-Scholes model is utilized to estimate the fair value of the options. Compensation cost is recognized over the requisite service period, generally defined as the vesting period.

## NEW AUTHORITATIVE ACCOUNTING GUIDANCE

*ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. A significant portion of the Company's revenue is comprised of net interest income on financial instruments, which is explicitly excluded from the scope of ASU 2014-09. In addition to interest income, the Company has various noninterest income revenue streams that the Company is in the process of assessing. The Company has formed a revenue recognition working group and to date has completed its preliminary scoping and walk-through of noninterest income revenue streams. Amongst non-interest income revenue streams, mortgage banking fees are not in the scope of the standard. Management is in the process of completing its detailed contract review for the remaining revenue streams. ASU 2014-09 is effective for the Company on January 1, 2018 and must be retrospectively applied. The Company expects to adopt the standard with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

*ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”.* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2016-02, “Leases (Topic 842).”* ASU 2016-02 requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU 2016-02 is effective for the Company on January 1, 2019 and is not expected to have a significant impact on its financial statements.

*ASU 2016-07, “Investments-Equity Method and Joint Ventures (Topic 323) – Simplifying the Transition to the Equity Method of Accounting.”* ASU 2016-07 eliminates the requirement that when an investment qualifies for the use of the equity method as a result in the increase in ownership interest, to retroactively apply the equity method of accounting to all previous periods that the investment was held. The amendments require that the equity method investor add the cost of acquiring the additional interest to the current basis of the investment. ASU 2016-07 will be effective for the Company on January 1, 2017 and is not expected to have a significant impact on its financial statements.

*ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.”* Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 is effective for the Company on January 1, 2017 and is not expected to have a significant impact on its financial statements.

*ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements.”* ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements.

*ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.”* ASU 2016-15 addresses eight classification issues related to the statement of cash flow. The issues are (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)), (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory.”* ASU 2016-16 provides guidance stating that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash."* ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business."* ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

**Note 2****INVESTMENT SECURITIES**

*Investment Portfolio Composition.* The amortized cost and related market value of investment securities available-for-sale and held-to-maturity were as follows:

(Dollars in Thousands)	2016				2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
<b>Available for Sale</b>								
U.S. Government Treasury	\$286,867	\$ 262	\$ 851	\$286,278	\$250,458	\$ 101	\$ 213	\$250,346
U.S. Government Agency	131,489	495	344	131,640	101,730	357	263	101,824
States and Political Subdivisions	95,197	23	381	94,839	88,358	103	99	88,362
Mortgage-Backed Securities	1,312	118	-	1,430	1,742	159	-	1,901
Equity Securities <sup>(1)</sup>	8,547	-	-	8,547	8,595	-	-	8,595
Total	\$523,412	\$ 898	\$ 1,576	\$522,734	\$450,883	\$ 720	\$ 575	\$451,028
<b>Held to Maturity</b>								
U.S. Government Treasury	\$119,131	\$ 107	\$ 81	\$119,157	\$134,554	\$ 45	\$ 160	\$134,439
U.S. Government Agency	-	-	-	-	10,043	7	5	10,045
States and Political Subdivisions	8,175	1	38	8,138	15,693	38	7	15,724
Mortgage-Backed Securities	50,059	29	637	49,451	27,602	4	407	27,199
Total	\$177,365	\$ 137	\$ 756	\$176,746	\$187,892	\$ 94	\$ 579	\$187,407
Total Investment Securities	\$700,777	\$ 1,035	\$ 2,332	\$699,480	\$638,775	\$ 814	\$ 1,154	\$638,435

<sup>(1)</sup> Includes Federal Home Loan Bank, Federal Reserve Bank and FNBB Inc. stock recorded at cost of \$3.3 million, \$4.8 million, and \$0.5 million, respectively, at December 31, 2016 and Federal Home Loan Bank, Federal Reserve Bank and FNBB, Inc. stock at \$3.6 million, \$4.8 million and \$0.2 million, respectively, at December 31, 2015.

During the third quarter of 2013, the Company transferred certain securities from available for sale to held to maturity. Transfers of securities into the held to maturity categories from available for sale are made at fair value on the date of the transfer. The securities had an aggregate fair value of \$63.0 million with an aggregate net unrealized loss of \$523,000 on the date of the transfer. The net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive income in the accompanying balance sheet as of December 31, 2016 totaled \$270,000. This amount will be amortized out of accumulated other comprehensive income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

Securities with an amortized cost of \$332.7 million and \$370.1 million at December 31, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes.

The Bank, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”), is required to own capital stock in the FHLB based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock which is included in other securities is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value; however, redemption of this stock has historically been at par value.

As a member of the Federal Reserve Bank of Atlanta, the Bank is required to maintain stock in the Federal Reserve Bank of Atlanta based on a specified ratio relative to the Bank’s capital. Federal Reserve Bank stock is carried at cost and may be sold back to the Federal Reserve Bank at its carrying value.

*Investment Sales.* There were no sales of investment securities for each of the last three years.

*Maturity Distribution.* As of December 31, 2016, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately since they are not due at a certain maturity date.

	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value
<i>(Dollars in Thousands)</i>				
Due in one year or less	\$ 164,850	\$ 165,051	\$ 41,705	\$ 41,730
Due after one through five years	259,324	257,991	85,601	85,566
Mortgage-Backed Securities	1,312	1,430	50,059	49,450
U.S. Government Agency	89,379	89,715	-	-
Equity Securities	8,547	8,547	-	-
Total	\$ 523,412	\$ 522,734	\$ 177,365	\$ 176,746

*Other Than Temporarily Impaired Securities.* The following table summarizes the investment securities with unrealized losses at December 31, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
<i>(Dollars in Thousands)</i>						
<b>December 31, 2016</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 116,704	\$ 851	\$ -	\$ -	\$ 116,704	\$ 851
U.S. Government Agency	48,520	310	6,699	34	55,219	344
States and Political Subdivisions	81,521	380	294	1	81,815	381
Mortgage-Backed Securities	3	-	-	-	3	-
Total	246,748	1,541	6,993	35	253,741	1,576
<b>Held to Maturity</b>						
U.S. Government Treasury	35,210	81	-	-	35,210	81
States and Political Subdivisions	7,491	38	-	-	7,491	38
Mortgage-Backed Securities	36,710	599	4,010	38	40,720	637
Total	\$ 79,411	\$ 718	\$ 4,010	\$ 38	\$ 83,421	\$ 756
<b>December 31, 2015</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 150,061	\$ 213	\$ -	\$ -	\$ 150,061	\$ 213
U.S. Government Agency	43,508	200	9,644	63	53,152	263
States and Political Subdivisions	39,608	86	5,066	13	44,674	99
Total	233,177	499	14,710	76	247,887	575
<b>Held to Maturity</b>						
U.S. Government Treasury	92,339	160	-	-	92,339	160
U.S. Government Agency	5,006	5	-	-	5,006	5
States and Political Subdivisions	3,791	7	-	-	3,791	7
Mortgage-Backed Securities	13,267	185	11,889	222	25,156	407
Total	\$ 114,403	\$ 357	\$ 11,889	\$ 222	\$ 126,292	\$ 579

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers, (i) whether it has decided to sell the security, (ii) whether it is more likely than not that the Company will have to sell the security before its market value recovers, and (iii) whether the present value of expected cash flows is sufficient to recover the entire amortized cost basis. When assessing a security's expected cash flows, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost and (ii) the financial condition and near-term prospects of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.



At December 31, 2016, there were 396 positions (combined available for sale and held-to-maturity) with unrealized losses totaling \$2.3 million. Of the 396 positions, 115 were Ginnie Mae mortgage-backed securities (GNMA), U.S. Treasuries, or Small Business Administration (“SBA”) securities with an unrealized loss of \$1.7 million (\$640,000, \$930,000, and \$150,000, respectively), all of which carry the full faith and credit guarantee of the U.S. Government. All of these debt securities are in a loss position because they were acquired when the general level of interest rates was lower than that on December 31, 2016. The Company believes that the unrealized losses in these debt securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

### Note 3

#### LOANS, NET

*Loan Portfolio Composition.* The composition of the loan portfolio at December 31 was as follows:

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>
Commercial, Financial and Agricultural	\$ 216,404	\$ 179,816
Real Estate – Construction	58,443	46,484
Real Estate – Commercial Mortgage	503,978	499,813
Real Estate – Residential <sup>(1)</sup>	281,509	290,585
Real Estate – Home Equity	236,512	233,901
Consumer	264,443	241,676
Loans, Net of Unearned Income	\$ 1,561,289	\$ 1,492,275

<sup>(1)</sup> Includes loans in process with outstanding balances of \$9.6 million and \$8.5 million for 2016 and 2015, respectively.

Net deferred costs included in loans were \$0.5 million at December 31, 2016 and net deferred fees included in loans were \$0.5 million at December 31, 2015.

The Company has pledged a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity loans to support available borrowing capacity at the FHLB of Atlanta and has pledged a blanket floating lien on all consumer loans, commercial loans, and construction loans to support available borrowing capacity at the Federal Reserve Bank of Atlanta.

*Nonaccrual Loans.* Loans are generally placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans at December 31:

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>	
	<b>Nonaccrual</b>	<b>90 + Days</b>	<b>Nonaccrual</b>	<b>90 + Days</b>
Commercial, Financial and Agricultural \$	468	\$ -	\$ 96	\$ -
Real Estate – Construction	311	-	97	-
Real Estate – Commercial Mortgage	3,410	-	4,191	-
Real Estate – Residential	2,330	-	4,739	-
Real Estate – Home Equity	1,774	-	1,017	-
Consumer	240	-	165	-
Total Nonaccrual Loans	\$ 8,533	\$ -	\$ 10,305	\$ -

*Loan Portfolio Aging.* A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due (“DPD”).

The following table presents the aging of the recorded investment in past due loans by class of loans at December 31,

<i>(Dollars in Thousands)</i>	<b>30-59 DPD</b>	<b>60-89 DPD</b>	<b>90 + DPD</b>	<b>Total Past Due</b>	<b>Total Current</b>	<b>Total Loans</b>
<b>2016</b>						
Commercial, Financial and Agricultural	\$ 209	\$ 48	\$ -	\$ 257	\$ 215,679	\$ 216,404
Real Estate – Construction	949	282	-	1,231	56,901	58,443
Real Estate – Commercial Mortgage	835	1	-	836	499,732	503,978
Real Estate – Residential	1,199	490	-	1,689	277,490	281,509
Real Estate – Home Equity	577	51	-	628	234,110	236,512
Consumer	1,516	281	-	1,797	262,406	264,443
Total Past Due Loans	\$ 5,285	\$ 1,153	\$ -	\$ 6,438	\$ 1,546,318	\$ 1,561,289
<b>2015</b>						
Commercial, Financial and Agricultural	\$ 153	\$ 18	\$ -	\$ 171	\$ 179,549	\$ 179,816
Real Estate – Construction	690	-	-	690	45,697	46,484
Real Estate – Commercial Mortgage	754	1,229	-	1,983	493,639	499,813
Real Estate – Residential	567	347	-	914	284,932	290,585
Real Estate – Home Equity	787	97	-	884	232,000	233,901
Consumer	735	398	-	1,133	240,378	241,676
Total Past Due Loans	\$ 3,686	\$ 2,089	\$ -	\$ 5,775	\$ 1,476,195	\$ 1,492,275

*Allowance for Loan Losses.* The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. Loans are charged-off to the allowance when losses are deemed to be probable and reasonably quantifiable.

The following table details the activity in the allowance for loan losses by portfolio class for the years ended December 31. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial, Agricultural</b>	<b>Real Estate Construction</b>	<b>Real Estate Commercial Mortgage</b>	<b>Real Estate Residential</b>	<b>Real Estate Home Equity</b>	<b>Consumer</b>	<b>Total</b>
<b>2016</b>							
Beginning Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953
Provision for Loan Losses	817	67	(242)	(1,296)	(135)	1,608	819
Charge-Offs	(861)	-	(349)	(899)	(450)	(2,127)	(4,686)
Recoveries	337	-	408	1,231	409	960	3,345
Net Charge-Offs	(524)	-	59	332	(41)	(1,167)	(1,341)

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Ending Balance	\$	1,198	\$	168	\$	4,315	\$	3,445	\$	2,297	\$	2,008	\$	13,431
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**2015**

Beginning Balance	\$	784	\$	843	\$	5,287	\$	6,520	\$	2,882	\$	1,223	\$	17,539
Provision for Loan Losses		911		(742)		278		(964)		858		1,253		1,594
Charge-Offs		(1,029)		-		(1,250)		(1,852)		(1,403)		(1,901)		(7,435)
Recoveries		239		-		183		705		136		992		2,255
Net Charge-Offs		(790)		-		(1,067)		(1,147)		(1,267)		(909)		(5,180)
Ending Balance	\$	905	\$	101	\$	4,498	\$	4,409	\$	2,473	\$	1,567	\$	13,953

**2014**

Beginning Balance	\$	699	\$	1,580	\$	7,710	\$	9,073	\$	3,051	\$	982	\$	23,095
Provision for Loan Losses		742		(718)		897		(1,145)		1,069		1,060		1,905
Charge-Offs		(871)		(28)		(3,788)		(2,160)		(1,379)		(1,820)		(10,046)
Recoveries		214		9		468		752		141		1,001		2,585
Net Charge-Offs		(657)		(19)		(3,320)		(1,408)		(1,238)		(819)		(7,461)
Ending Balance	\$	784	\$	843	\$	5,287	\$	6,520	\$	2,882	\$	1,223	\$	17,539

The following table details the amount of the allowance for loan losses by portfolio class at December 31, disaggregated on the basis of the Company's impairment methodology.

	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
<i>(Dollars in Thousands)</i>							
<b>2016</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 80	\$ -	\$ 2,038	\$ 1,561	\$ 335	\$ 6	\$ 4,020
Loans Collectively							
Evaluated for Impairment	1,118	168	2,277	1,884	1,962	2,002	9,411
Ending Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431
<b>2015</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 77	\$ -	\$ 2,049	\$ 2,118	\$ 384	\$ 18	\$ 4,646
Loans Collectively							
Evaluated for Impairment	828	101	2,449	2,291	2,089	1,549	9,307
Ending Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953
<b>2014</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 293	\$ -	\$ 2,733	\$ 2,113	\$ 638	\$ 5	\$ 5,782
Loans Collectively							
Evaluated for Impairment	491	843	2,554	4,407	2,244	1,218	11,757
Ending Balance	\$ 784	\$ 843	\$ 5,287	\$ 6,520	\$ 2,882	\$ 1,223	\$ 17,539

The Company's recorded investment in loans as of December 31 related to each balance in the allowance for loan losses by portfolio class and disaggregated on the basis of the Company's impairment methodology was as follows:

	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
<i>(Dollars in Thousands)</i>							
<b>2016</b>							
Individually Evaluated for Impairment	\$ 1,042	\$ 247	\$ 23,855	\$ 15,596	\$ 3,375	\$ 174	\$ 44,289
Collectively Evaluated for Impairment	215,362	58,196	480,123	265,913	233,137	264,269	1,517,000
Total	\$ 216,404	\$ 58,443	\$ 503,978	\$ 281,509	\$ 236,512	\$ 264,443	\$1,561,289
<b>2015</b>							
Individually Evaluated for Impairment	\$ 834	\$ 97	\$ 20,847	\$ 18,569	\$ 3,144	\$ 261	\$ 43,752
Collectively Evaluated for Impairment	178,982	46,387	478,966	272,016	230,757	241,415	1,448,523
Total	\$ 179,816	\$ 46,484	\$ 499,813	\$ 290,585	\$ 233,901	\$ 241,676	\$1,492,275
<b>2014</b>							
Individually Evaluated for Impairment	\$ 1,040	\$ 401	\$ 32,242	\$ 20,120	\$ 3,074	\$ 216	\$ 57,093
Collectively Evaluated for Impairment	135,885	41,195	477,878	275,849	226,498	216,976	1,374,281
Total	\$ 136,925	\$ 41,596	\$ 510,120	\$ 295,969	\$ 229,572	\$ 217,192	\$1,431,374

*Impaired Loans.* Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The following table presents loans individually evaluated for impairment by class of loans at December 31:

	Unpaid	Recorded	Recorded
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<i>(Dollars in Thousands)</i>	<b>Principal Balance</b>	<b>Investment With No Allowance</b>	<b>Investment With Allowance</b>	<b>Related Allowance</b>
<b>2016</b>				
Commercial, Financial and Agricultural	\$ 1,042	\$ 565	\$ 477	\$ 80
Real Estate – Construction	247	-	247	-
Real Estate – Commercial Mortgage	23,855	8,954	14,901	2,038
Real Estate – Residential	15,596	2,509	13,087	1,561
Real Estate – Home Equity	3,375	1,871	1,504	335
Consumer	174	65	109	6
Total	\$ 44,289	\$ 13,964	\$ 30,325	\$ 4,020
<b>2015</b>				
Commercial, Financial and Agricultural	\$ 834	\$ 279	\$ 555	\$ 77
Real Estate – Construction	97	97	-	-
Real Estate – Commercial Mortgage	20,847	3,265	17,582	2,049
Real Estate – Residential	18,569	2,941	15,628	2,118
Real Estate – Home Equity	3,144	1,101	2,043	384
Consumer	261	79	182	18
Total	\$ 43,752	\$ 7,762	\$ 35,990	\$ 4,646

Nonaccrual loans include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. Therefore, the sum of nonaccrual loans and accruing troubled debt restructurings will differ from the total impaired amount.

The following table summarizes the average recorded investment and interest income recognized for each of the last three years by class of impaired loans:

	2016		2015		2014	
	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
<i>(Dollars in Thousands)</i>						
Commercial, Financial and Agricultural	\$ 886	\$ 49	\$ 1,002	\$ 46	\$ 1,440	\$ 62
Real Estate – Construction	69	1	335	-	637	4
Real Estate – Commercial Mortgage	21,376	920	27,644	1,093	41,435	1,725
Real Estate – Residential	17,314	786	19,105	842	21,122	1,070
Real Estate – Home Equity	3,076	115	3,001	86	3,000	72
Consumer	207	9	201	7	294	9
Total	\$ 42,928	\$ 1,880	\$ 51,288	\$ 2,074	\$ 67,928	\$ 2,942

*Credit Risk Management.* The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis (at least annually).

Reporting systems have been implemented to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Management and the Credit Risk Oversight Committee periodically review our lines of business to monitor asset quality trends and the appropriateness of credit policies. In addition, total borrower exposure limits are established and concentration risk is monitored. As part of this process, the overall composition of the portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the loan portfolio are monitored and reported to the Board on a quarterly basis and have strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. Detailed below are the types of loans within the Company's loan portfolio and risk characteristics unique to each.

Commercial, Financial, and Agricultural – Loans in this category are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral and personal or other guarantees. Lending policy establishes debt service coverage ratio limits that require a borrower's cash flow to be sufficient to cover principal and interest payments on all new and existing debt. The majority of these loans are secured by the assets being financed or other business assets such as accounts receivable, inventory, or equipment. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy guidelines.



Real Estate Construction – Loans in this category consist of short-term construction loans, revolving and non-revolving credit lines and construction/permanent loans made to individuals and investors to finance the acquisition, development, construction or rehabilitation of real property. These loans are primarily made based on identified cash flows of the borrower or project and generally secured by the property being financed, including 1-4 family residential properties and commercial properties that are either owner-occupied or investment in nature. These properties may include either vacant or improved property. Construction loans are generally based upon estimates of costs and value associated with the completed project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy guidelines. The disbursement of funds for construction loans is made in relation to the progress of the project and as such these loans are closely monitored by on-site inspections.

Real Estate Commercial Mortgage – Loans in this category consists of commercial mortgage loans secured by property that is either owner-occupied or investment in nature. These loans are primarily made based on identified cash flows of the borrower or project with consideration given to underlying real estate collateral and personal guarantees. Lending policy establishes debt service coverage ratios and loan to value ratios specific to the property type. Collateral values are determined based upon third party appraisals and evaluations.

Real Estate Residential – Residential mortgage loans held in the Company's loan portfolio are made to borrowers that demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current income, employment status, current assets, and other financial resources, credit history, and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. Collateral values are determined based upon third party appraisals and evaluations. The Company does not originate sub-prime loans.

Real Estate Home Equity – Home equity loans and lines are made to qualified individuals for legitimate purposes generally secured by senior or junior mortgage liens on owner-occupied 1-4 family homes or vacation homes. Borrower qualifications include favorable credit history combined with supportive income and debt ratio requirements and combined loan to value ratios within established policy guidelines. Collateral values are determined based upon third party appraisals and evaluations.

Consumer Loans – This loan portfolio includes personal installment loans, direct and indirect automobile financing, and overdraft lines of credit. The majority of the consumer loan portfolio consists of indirect and direct automobile loans. Lending policy establishes maximum debt to income ratios, minimum credit scores, and includes guidelines for verification of applicants' income and receipt of credit reports.

*Credit Quality Indicators.* As part of the ongoing monitoring of the Company's loan portfolio quality, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment performance, credit documentation, and current economic/market trends, among other factors. Risk ratings are assigned to each loan and revised as needed through established monitoring procedures for individual loan relationships over a predetermined amount and review of smaller balance homogenous loan pools. The Company uses the definitions noted below for categorizing and managing its criticized loans. Loans categorized as "Pass" do not meet the criteria set forth for the Special Mention, Substandard, or Doubtful categories and are not considered criticized.

Special Mention – Loans in this category are presently protected from loss, but weaknesses are apparent which, if not corrected, could cause future problems. Loans in this category may not meet required underwriting criteria and have no mitigating factors. More than the ordinary amount of attention is warranted for these loans.

Substandard – Loans in this category exhibit well-defined weaknesses that would typically bring normal repayment into jeopardy. These loans are no longer adequately protected due to well-defined weaknesses that affect the repayment capacity of the borrower. The possibility of loss is much more evident and above average supervision is required for these loans.

Doubtful – Loans in this category have all the weaknesses inherent in a loan categorized as Substandard, with the characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the risk category of loans by segment at December 31:

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial, Agriculture</b>	<b>Real Estate</b>	<b>Consumer</b>	<b>Total Criticized Loans</b>
<b>2016</b>				
Special Mention	\$ 3,300	\$ 23,183	\$ 216	\$ 26,699
Substandard	1,158	39,800	549	41,507
Doubtful	-	-	-	-
Total Criticized Loans	\$ 4,458	\$ 62,983	\$ 765	\$ 68,206
<b>2015</b>				
Special Mention	\$ 5,938	\$ 27,838	\$ 69	\$ 33,845
Substandard	1,307	51,425	819	53,551
Doubtful	-	-	-	-
Total Criticized Loans	\$ 7,245	\$ 79,263	\$ 888	\$ 87,396

*Troubled Debt Restructurings ("TDRs").* TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower that it would not otherwise consider. In these instances, as part of a work-out alternative, the Company will make concessions including the extension of the loan term, a principal moratorium, a reduction in the interest rate, or a combination thereof. The impact of the TDR modifications and defaults are factored into the allowance for loan losses on a loan-by-loan basis as all TDRs are, by definition, impaired loans. Thus, specific reserves are established based upon the results of either a discounted cash flow analysis or the underlying collateral value, if the loan is deemed to be collateral dependent. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan.

The following table presents loans classified as TDRs at December 31:

<i>(Dollars in Thousands)</i>	2016		2015	
	Accruing	Nonaccruing	Accruing	Nonaccruing
Commercial, Financial and Agricultural	\$ 772	\$ 40	\$ 897	\$ -
Real Estate – Construction	-	-	-	-
Real Estate – Commercial Mortgage	20,673	1,259	16,621	1,070
Real Estate – Residential	13,969	444	14,979	1,582
Real Estate – Home Equity	2,647	-	2,914	-
Consumer	172	-	223	35
Total TDRs	\$ 38,233	\$ 1,743	\$ 35,634	\$ 2,687

Loans classified as TDRs during 2016, 2015, and 2014 are presented in the table below. The modifications made during the reporting period involved either an extension of the loan term, a principal moratorium, a reduction in the interest rate, or a combination thereof. The financial impact of these modifications was not material.

<i>(Dollars in Thousands)</i>	2016		2015		2014	
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>
Commercial, Financial and Agricultural	-	\$ -	1	\$ 40	3	\$ 320
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	3	5,012	4	631	3	1,769
Real Estate – Residential	6	590	14	1,531	11	1,972
Real Estate – Home Equity	5	206	21	1,005	10	883
Consumer	-	-	3	110	1	34
Total TDRs	14	\$ 5,808	43	\$ 3,317	28	\$ 4,978

<sup>(1)</sup> Recorded investment reflects charge-offs and additional funds advanced at time of restructure, if applicable.

The following table provides information on how TDRs were modified during the periods included.

<i>(Dollars in Thousands)</i>	2016		2015		2014	
	Number of Contracts	Post-Modified Recorded Investment	Number of Contracts	Post-Modified Recorded Investment	Number of Contracts	Post-Modified Recorded Investment
Extended amortization	3	\$ 4,703	16	\$ 973	10	\$ 1,894
Interest rate adjustment	-	-	5	284	1	156
Extended amortization and Interest rate adjustment	11	1,105	22	2,060	8	1,179
General						156

Other	-		-		-		9		1,749
Total TDRs	14	\$	5,808		43	\$	3,317	28	\$ 4,978

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The following table presents loans classified as TDRs for which there was a payment default during the years presented and the loans were modified within the twelve months prior to default.

	2016		2015		2014	
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>
<i>(Dollars in Thousands)</i>						
Commercial, Financial and Agricultural	-	\$ -	-	\$ -	-	\$ -
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	-	-	-	-	1	60
Real Estate – Residential	-	-	-	-	2	177
Real Estate – Home Equity	-	-	-	-	1	153
Total TDRs	-	\$ -	-	\$ -	4	\$ 390

<sup>(1)</sup> Recorded investment reflects charge-offs and additional funds advanced at time of restructure, if applicable.

#### Note 4

#### PREMISES AND EQUIPMENT

The composition of the Company's premises and equipment at December 31 was as follows:

		2016		2015
<i>(Dollars in Thousands)</i>				
Land	\$	24,376	\$	24,534
Buildings		112,417		112,563
Fixtures and Equipment		45,863		55,265
Total		182,656		192,362
Accumulated Depreciation		(87,180)		(93,543)
Premises and Equipment, Net	\$	95,476	\$	98,819

#### Note 5

#### GOODWILL

As of December 31, 2016 and December 31, 2015, the Company had goodwill of \$84.8 million. Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. A goodwill impairment test consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's

implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.

During the fourth quarter of 2016, the Company performed its annual goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit was less than its estimated fair value, therefore, no impairment was recorded. The Company will continue to evaluate goodwill for impairment as defined by ASC Topic 350.

## Note 6

### OTHER REAL ESTATE OWNED

The following table presents other real estate owned activity as of December 31,

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>		<b>2014</b>
Beginning Balance	\$	19,290	\$	35,680	\$ 48,071
Additions		4,016		5,752	15,271
Valuation Write-Downs		(2,363)		(1,713)	(3,142)
Sales		(10,305)		(20,155)	(23,791)
Other		-		(274)	(729)
Ending Balance	\$	10,638	\$	19,290	\$ 35,680

Net expenses applicable to other real estate owned as of December 31, was as follows:

<i>(Dollars in Thousands)</i>	<b>2016</b>		<b>2015</b>		<b>2014</b>
Gains from the Sale of Properties	\$ (410)	\$	(938)	\$	(774)
Losses from the Sale of Properties	1,272		2,169		2,094
Rental Income from Properties	(88)		(250)		(523)
Property Carrying Costs	511		2,277		2,872
Valuation Adjustments	2,364		1,713		3,142
Total	\$ 3,649	\$	4,971	\$	6,811

As of December 31, 2016, the Company had \$1.9 million of loans secured by residential real estate in the process of foreclosure.

## Note 7

### DEPOSITS

The composition of the Company's interest bearing deposits at December 31 was as follows:

<i>(Dollars in Thousands)</i>		<b>2016</b>		<b>2015</b>
NOW Accounts	\$	904,014	\$	848,330
Money Market Accounts		252,800		248,367
Savings Deposits		304,680		269,162
Other Time Deposits		159,610		178,707
Total Interest Bearing Deposits	\$	1,621,104	\$	1,544,566

At December 31, 2016 and 2015, \$1.7 million and \$1.2 million, respectively, in overdrawn deposit accounts were reclassified as loans.

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 totaled \$9.8 million and \$10.4 million at December 31, 2016 and December 31, 2015, respectively.

At December 31, the scheduled maturities of time deposits were as follows:

<i>(Dollars in Thousands)</i>	<b>2016</b>
General	



2017	\$	134,251
2018		16,117
2019		5,209
2020		1,877
2021 and thereafter		2,156
Total	\$	159,610

Interest expense on deposits for the three years ended December 31, was as follows:

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
NOW Accounts	\$ 292	\$ 254	\$ 318
Money Market Accounts	120	134	190
Savings Deposits	144	126	112
Time Deposits < \$250,000	306	377	463
Time Deposits > \$250,000	17	53	16
Total	\$ 879	\$ 944	\$ 1,099

**Note 8****SHORT-TERM BORROWINGS**

Short-term borrowings included the following:

		<b>Securities</b>	<b>Other</b>
	<b>Federal Funds Purchased</b>	<b>Sold Under Repurchase Agreements<sup>(1)</sup></b>	<b>Short-Term Borrowings<sup>(2)</sup></b>
<i>(Dollars in Thousands)</i>			
<b>2016</b>			
Balance at December 31	\$ -	\$ 6,490	\$ 6,259
Maximum indebtedness at any month end	-	74,911	7,961
Daily average indebtedness outstanding	11	32,732	4,019
Average rate paid for the year	1.00%	0.05%	3.28%
Average rate paid on period-end borrowings	-%	0.05%	3.05%
<b>2015</b>			
Balance at December 31	\$ -	\$ 60,977	\$ 81
Maximum indebtedness at any month end	-	64,935	2,003
Daily average indebtedness outstanding	12	57,689	780
Average rate paid for the year	0.74%	0.05%	3.98%
Average rate paid on period-end borrowings	-%	0.05%	5.23%
<b>2014</b>			
Balance at December 31	\$ -	\$ 47,411	\$ 2,014
Maximum indebtedness at any month end	-	47,413	2,035
Daily average indebtedness outstanding	11	42,877	1,514
Average rate paid for the year	0.76%	0.05%	3.76%
Average rate paid on period-end borrowings	-%	0.05%	3.76%

<sup>(1)</sup> Balances are fully collateralized by government treasury or agency securities held in the Company's investment portfolio.

<sup>(2)</sup> Comprised of FHLB advances (\$3.3 million) and line of credit advance (\$3.0 million).

**Note 9****LONG-TERM BORROWINGS**

*Federal Home Loan Bank Advances.* FHLB long-term advances totaled \$14.9 million at December 31, 2016 and \$28.3 million at December 31, 2015. The advances mature at varying dates from 2018 through 2025 and had a

weighted-average rate of 2.81% and 3.13% at December 31, 2016 and 2015, respectively. The FHLB advances are collateralized by a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans. Interest on the FHLB advances is paid on a monthly basis.

Scheduled minimum future principal payments on FHLB advances at December 31 were as follows:

<i>(Dollars in Thousands)</i>		<b>2016</b>
2017	\$	1,635
2018		2,575
2019		4,520
2020		1,919
2021		930
2022 and thereafter		3,302
Total	\$	14,881

*Junior Subordinated Deferrable Interest Notes.* The Company has issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I. The second note for \$32.0 million was issued to CCBG Capital Trust II. The two trusts are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, the accounts of the trusts are not included in the Company's consolidated financial statements. See Note 1 - Summary of Significant Accounting Policies for additional information about the Company's consolidation policy. Details of the Company's transaction with the two trusts are provided below.

In November 2004, CCBG Capital Trust I issued \$30.0 million of trust preferred securities which represent interest in the assets of the trust. The interest payments are due quarterly at 3-month LIBOR plus a margin of 1.90%, adjusted quarterly. The trust preferred securities will mature on December 31, 2034, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company at any time after December 31, 2009 and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 31, June 30, September 30, and December 31 of each year. CCBG Capital Trust I also issued \$928,000 of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$30.9 million junior subordinated deferrable interest note issued by the Company, which has terms similar to the trust preferred securities.

In May 2005, CCBG Capital Trust II issued \$31.0 million of trust preferred securities which represent interest in the assets of the trust. The interest payments are due quarterly at 3-month LIBOR plus a margin of 1.80%, adjusted annually. The trust preferred securities will mature on June 15, 2035, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 15, June 15, September 15, and December 15 of each year. CCBG Capital Trust II also issued \$959,000 of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$32.0 million junior subordinated deferrable interest note issued by the Company, which has terms substantially similar to the trust preferred securities.

The Company has the right to defer payments of interest on the two notes at any time or from time to time for a period of up to twenty consecutive quarterly interest payment periods. Under the terms of each note, in the event that under certain circumstances there is an event of default under the note or the Company has elected to defer interest on the note, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock. As of December 31, 2016, the Company has paid all interest payments in full.

The Company has entered into agreements to guarantee the payments of distributions on the trust preferred securities and payments of redemption of the trust preferred securities. Under these agreements, the Company also agrees, on a subordinated basis, to pay expenses and liabilities of the two trusts other than those arising under the trust preferred securities. The obligations of the Company under the two junior subordinated notes, the trust agreements establishing the two trusts, the guarantee and agreement as to expenses and liabilities, in aggregate, constitute a full and unconditional guarantee by the Company of the two trusts' obligations under the two trust preferred security issuances.

On April 12, 2016, we retired \$10 million in face value of trust preferred securities that were auctioned as part of a liquidation of a pooled collateralized debt obligation fund. The trust preferred securities were originally issued through CCBG Capital Trust I. Our winning bid equated to approximately 75% of the \$10 million par value, with the 25% discount resulting in a pre-tax gain of approximately \$2.5 million. We utilized internal resources and a \$3.75 million draw on a short-term borrowing facility to fund the repurchase.

Despite the fact that the accounts of CCBG Capital Trust I and CCBG Capital Trust II are not included in the Company's consolidated financial statements, the \$20.0 million and \$31.0 million, respectively, in trust preferred securities issued by these subsidiary trusts are included in the Tier 1 Capital of Capital City Bank Group, Inc. as allowed by Federal Reserve guidelines.

**Note 10****INCOME TAXES**

The provision for income taxes reflected in the statements of comprehensive income is comprised of the following components:

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Current:			
Federal	\$ 2,295	\$ 497	\$ (51)
State	115	115	(2,916)
	2,410	612	(2,967)
Deferred:			
Federal	2,742	3,258	4,270
State	712	475	249
Change in Valuation Allowance	3	114	102
	3,457	3,847	4,621
Total:			
Federal	5,037	3,755	4,219
State	827	590	(2,667)
Change in Valuation Allowance	3	114	102
Total	\$ 5,867	\$ 4,459	\$ 1,654

Income taxes provided were different than the tax expense computed by applying the statutory federal income tax rate of 35% to pre-tax income as a result of the following:

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Tax Expense at Federal Statutory Rate	\$ 6,165	\$ 4,751	\$ 3,820
Increases (Decreases) Resulting From:			
Tax-Exempt Interest Income	(662)	(395)	(327)
Change in Reserve for Uncertain Tax Positions	-	-	(2,902)
State Taxes, Net of Federal Benefit	538	390	892
Other	121	562	243
Change in Valuation Allowance	3	114	102
Tax-Exempt Cash Surrender Value Life Insurance Benefit	(298)	(303)	(174)
Excess Death Benefit Payment	-	(660)	-
Actual Tax Expense	\$ 5,867	\$ 4,459	\$ 1,654

Deferred income tax liabilities and assets result from differences between assets and liabilities measured for financial reporting purposes and for income tax return purposes. These assets and liabilities are measured using the enacted tax

rates and laws that are currently in effect. The net deferred tax asset and the temporary differences comprising that balance at December 31, 2016 and 2015 are as follows:

*(Dollars in Thousands)*

	2016	2015
Deferred Tax Assets Attributable to:		
Allowance for Loan Losses	\$ 5,182	\$ 5,383
Accrued Pension/SERP	16,107	13,901
State Net Operating Loss and Tax Credit Carry-Forwards	4,804	5,061
Other Real Estate Owned	3,550	5,012
Federal Net Operating Loss and Tax Credit Carry-Forwards	401	1,241
Other	4,238	4,351
Total Deferred Tax Assets	\$ 34,282	\$ 34,949
Deferred Tax Liabilities Attributable to:		
Depreciation on Premises and Equipment	\$ 5,480	\$ 5,982
Deferred Loan Fees and Costs	3,342	2,883
Intangible Assets	4,319	4,019
Other	724	687
Total Deferred Tax Liabilities	13,865	13,571
Valuation Allowance	1,445	1,442
Net Deferred Tax Asset	\$ 18,972	\$ 19,936

In the opinion of management, it is more likely than not that all of the deferred tax assets, with the exception of certain state net operating loss carry-forwards, certain state tax credit carry-forwards, and certain capital loss carry-forwards expected to expire prior to utilization, will be realized. Accordingly, a valuation allowance of \$1.4 million is recorded at December 31, 2016. At December 31, 2016, the Company had state loss and tax credit carry-forwards of approximately \$4.8 million, which expire at various dates from 2017 through 2035, federal capital loss carry-forwards of approximately \$0.1 million which expire at various dates from 2019 through 2020, and federal tax credit carry-forwards of approximately \$0.3 million which never expire.

The Company had no unrecognized tax benefits at December 31, 2016, December 31, 2015 and December 31, 2014.

A reconciliation of the beginning and ending unrecognized tax benefit is as follows:

<i>(Dollars in Thousands)</i>	2016	2015	2014
Balance at January 1,	\$ -	\$ -	3,228
Decrease Due to Settlements With Taxing Authorities	-	-	(3,228)
Balance at December 31	\$ -	\$ -	-

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income taxes accounts. For the years ended December 31, 2016 and December 31, 2015, there were no previously accrued interest and penalties reversed in the income statement. For the year ended December 31, 2014, the company reversed previously accrued interest and penalties of \$800,000. There were no



amounts for accrued interest and penalties at December 31, 2016 and 2015.

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as file various returns in states where its banking offices are located. The Company is no longer subject to U.S. federal or state tax examinations for years before 2013.

## **Note 11**

### **STOCK-BASED COMPENSATION**

As of December 31, 2016, the Company had three stock-based compensation plans, consisting of the 2011 Associate Incentive Plan (“AIP”), the 2011 Associate Stock Purchase Plan (“ASPP”), and the 2011 Director Stock Purchase Plan (“DSPP”). These plans, which were approved by the shareowners in April 2011, replaced substantially similar plans approved by the shareowners in 2004. Total compensation expense associated with these plans for 2014 through 2016 was \$1.9 million, \$1.4 million, and \$1.8 million, respectively.

*AIP.* The AIP allows the Company's Board of Directors to award key associates various forms of equity-based incentive compensation. Under the 2011 AIP there were 875,000 shares reserved for issuance. In 2016, the Company, pursuant to the terms and conditions of the AIP, created the 2016 Incentive Plan ("2016 Plan"), under which all participants in the 2016 Plan were eligible to earn performance shares. Awards under the 2016 Plan were tied to internally established performance goals. At base level targets, the grant-date fair value of the shares eligible to be awarded in 2016 was approximately \$1.0 million. Approximately 75% of the award is in the form of stock and 25% in the form of a cash bonus. For 2016, a total of 51,128 shares were eligible for issuance, but additional shares could be earned if performance exceeded established goals. A total of 61,473 shares were earned for 2016 reflective of goal achievement that exceeded the base level targets. The Company recognized expense of \$1.2 million, \$1.1 million, and \$1.2 million for years ended 2016, 2015 and 2014, respectively. After deducting the shares earned in 2016, 630,248 shares remain eligible for issuance under the 2011 AIP.

*Executive Long-Term Incentive Plan ("LTIP").* In 2007, the Company established a Performance Share Unit Plan under the provisions of the AIP that allows William G. Smith, Jr., the Chairman, President, and Chief Executive Officer of CCBG, Inc. to earn shares based on the compound annual growth rate in diluted earnings per share over a three-year period. At December 31, 2016, there were three LTIP agreements in place for the years 2014-2016. The Company recognized \$0.3 million, \$0.3 million, and \$0.5 million in expense for years 2016, 2015 and 2014, respectively, under these LTIP agreements. In addition, the Company entered into similar LTIP agreements with Thomas A. Barron, the President of CCB for the years 2015-2016 that allows shares to be earned based on the compound annual growth rate in diluted earnings per share over a three-year period. At December 31, 2016, there were two LTIP agreements in place for the years 2015-2016. The Company recognized \$0.2 million in expense for 2016 and no expense for the year ended 2015.

*DSPP.* The Company's DSPP allows the directors to purchase the Company's common stock at a price equal to 90% of the closing price on the date of purchase. Stock purchases under the DSPP are limited to the amount of the directors' annual retainer and meeting fees. Under the 2011 DSPP there were 150,000 shares reserved for issuance. For 2016, the Company issued 15,530 shares and recognized approximately \$23,000 in expense under the DSPP. For 2015, the Company issued 12,494 shares under the DSPP and recognized approximately \$19,000 in expense related to this plan. For 2014, the Company issued 10,932 shares and recognized approximately \$14,000 in expense related to the DSPP. As of December 31, 2016, there are 58,720 shares eligible for issuance under the 2011 DSPP.

*ASPP.* Under the Company's ASPP, substantially all associates may purchase the Company's common stock through payroll deductions at a price equal to 90% of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ASPP are limited to 10% of an associate's eligible compensation, up to a maximum of \$25,000 (fair market value on each enrollment date) in any plan year. Under the 2011 ASPP there were 593,750 shares of common stock reserved for issuance. For 2016, 44,782 shares were acquired and approximately \$100,000 in expense was recognized under the ASPP. For 2015, 21,088 shares were acquired under the ASPP and approximately \$52,000 in expense was recognized related to this plan. For 2014, 28,630 shares were acquired and approximately \$64,000 in expense was recognized related to the ASPP. As of December 31, 2016, 352,450 shares remained eligible for issuance under the ASPP.

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of each of the purchase rights granted under the ASPP was \$2.22 for 2016. For 2015 and 2014, the weighted average fair value purchase right granted was \$2.36 and \$2.12, respectively. In calculating compensation, the fair value of each stock purchase right was estimated on the date of grant using the following weighted average assumptions:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Dividend yield	1.1%	0.8%	0.3%
Expected volatility	19.5%	19.0%	21.5%
Risk-free interest rate	0.4%	0.1%	0.1%
Expected life (in years)	0.5	0.5	0.5

**Note 12**

**EMPLOYEE BENEFIT PLANS**

**Pension Plan**

The Company sponsors a noncontributory pension plan covering substantially all of its associates. Benefits under this plan generally are based on the associate's total years of service and average of the five highest years of compensation during the ten years immediately preceding their departure. The Company's general funding policy is to contribute amounts sufficient to meet minimum funding requirements as set by law and to ensure deductibility for federal income tax purposes.

The following table details on a consolidated basis the changes in benefit obligation, changes in plan assets, the funded status of the plan, components of pension expense, amounts recognized in the Company's consolidated statements of financial condition, and major assumptions used to determine these amounts.

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(Dollars in Thousands)

2016

2015

2014

Change in Projected Benefit Obligation:

Benefit Obligation at Beginning of Year	\$	141,039	\$	140,359	\$	115,285
Service Cost		6,453		6,859		5,634
Interest Cost		5,587		5,750		5,513
Actuarial Loss (Gain)		9,118		(6,880)		22,632
Benefits Paid		(9,412)		(4,825)		(8,438)
Expenses Paid		(200)		(224)		(267)
Projected Benefit Obligation at End of Year	\$	152,585	\$	141,039	\$	140,359

Change in Plan Assets:

Fair Value of Plan Assets at Beginning of Year	\$	105,792	\$	108,172	\$	103,842
Actual Return on Plan Assets		7,633		(2,331)		8,035
Employer Contributions		10,000		5,000		5,000
Benefits Paid		(9,412)		(4,825)		(8,438)
Expenses Paid		(200)		(224)		(267)
Fair Value of Plan Assets at End of Year	\$	113,813	\$	105,792	\$	108,172

Funded Status of Plan and Accrued Liability

Recognized at End of Year:

Other Liabilities	\$	38,772	\$	35,247	\$	32,186
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Accumulated Benefit Obligation at End of Year	\$	130,109	\$	121,609	\$	119,750
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Components of Net Periodic Benefit Costs:

Service Cost	\$	6,453	\$	6,859	\$	5,634
Interest Cost		5,587		5,750		5,513
Expected Return on Plan Assets		(7,736)		(7,820)		(7,487)
Amortization of Prior Service Costs		278		309		309
Net Loss Amortization		3,201		3,564		1,365
Net Periodic Benefit Cost	\$	7,783	\$	8,662	\$	5,334

Weighted-Average Assumptions Used to Determine

Benefit Obligation:

Discount Rate	4.21%	4.52%	4.15%
Rate of Compensation Increase	3.25%	3.25%	3.25%
Measurement Date	12/31/16	12/31/15	12/31/14

Weighted-Average Assumptions Used to Determine

Benefit Cost:

Discount Rate	4.52%	4.15%	5.00%
Expected Return on Plan Assets	7.50%	7.50%	7.50%
Rate of Compensation Increase	3.25%	3.25%	3.25%

Amortization Amounts from Accumulated Other

Comprehensive Income:

Net Actuarial Loss	\$	9,221	\$	3,272	\$	22,083
Prior Service Cost		(278)		(309)		(309)
Net Loss		(3,201)		(3,564)		(1,365)

General

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Deferred Tax (Benefit) Expense		(2,216)		232		(7,873)
Other Comprehensive Loss (Gain), net of tax	\$	3,526	\$	(369)	\$	12,536

Amounts Recognized in Accumulated Other Comprehensive Income:

Net Actuarial Losses	\$	40,392	\$	34,373	\$	34,665
Prior Service Cost		488		766		1,075
Deferred Tax Benefit		(15,772)		(13,556)		(13,788)
Accumulated Other Comprehensive Loss, net of tax	\$	25,108	\$	21,583	\$	21,952

The Company expects to recognize \$3.8 million of the net actuarial loss and \$0.2 million of the prior service cost reflected in accumulated other comprehensive income at December 31, 2016 as a component of net periodic benefit cost during 2017.

Effective December 31, 2015, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for the defined benefit and supplemental executive retirement plans. This new estimation approach discounts the individual expected cash flows underlying the service cost and interest cost using the applicable spot rates derived from the yield curve used to discount the cash flows for the benefit obligations. Historically, the estimated service and interest cost components utilized a single weighted-average discount rate derived from the yield curve used to measure the benefit obligations at the beginning of the period. The Company elected this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. The change was accounted for as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly was accounted for prospectively. While the benefit obligations for the plans measured under this approach were unchanged, the more granular application of the spot rates decreased the combined service and interest costs for the defined benefit retirement plan by \$0.7 million in 2016.

*Plan Assets.* The Company's pension plan asset allocation at year-end 2016 and 2015, and the target asset allocation for 2017 are as follows:

	<b>Target Allocation 2017</b>	<b>Percentage of Plan Assets at Year-End<sup>(1)</sup></b>	
		<b>2016</b>	<b>2015</b>
Equity Securities	70%	66%	68%
Debt Securities	25%	20%	20%
Cash and Cash Equivalents	5%	14%	12%
Total	100%	100%	100%

(1) Represents asset allocation at year-end which may differ from the average target allocation for the year due to the year-end cash contribution to the plan.

The Company's pension plan assets are overseen by the CCBG Retirement Committee. Capital City Trust Company acts as the investment manager for the plan. The investment strategy is to maximize return on investments while minimizing risk. The Company believes the best way to accomplish this goal is to take a conservative approach to its investment strategy by investing in high-grade equity and debt securities. The overall expected long-term rate of return on assets is a weighted-average expectation for the return on plan assets. The Company considers historical performance data and economic/financial data to arrive at expected long-term rates of return for each asset category.

The major categories of assets in the Company's pension plan as of December 31 are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 19 – Fair Value Measurements).

(Dollars in Thousands)

Level 1:

General

2016

2015

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Equities	\$	-	\$	18,197
Mutual Funds - Real Estate		4,731		3,442
Mutual Funds - Fixed Income		16,189		14,738
Mutual Funds - Equity		75,159		53,649
Cash and Cash Equivalents		15,345		12,402
Level 2:				
U.S. Government Agency		2,389		3,364
Total Fair Value of Plan Assets	\$	113,813	\$	105,792



*Expected Benefit Payments.* As of December 31, expected benefit payments related to the defined benefit pension plan were as follows:

<i>(Dollars in Thousands)</i>		<b>2016</b>
2017	\$	9,190
2018		11,076
2019		10,913
2020		10,290
2021		11,748
2022 through 2026		56,735
Total	\$	109,952

*Contributions.* The following table details the amounts contributed to the pension plan in 2015 and 2016, and the expected amount to be contributed in 2017.

<i>(Dollars in Thousands)</i>	<b>2015</b>	<b>2016</b>	<b>Expected Contribution 2017<sup>(1)</sup></b>
Actual Contributions	\$ 5,000	\$ 10,000	\$ 5,000

<sup>(1)</sup> For 2017, the Company will have the option to make a cash contribution to the plan or utilize pre-funding balances.

### Supplemental Executive Retirement Plan

The Company has a Supplemental Executive Retirement Plan (“SERP”) covering selected executive officers. Benefits under this plan generally are based on the same service and compensation as used for the pension plan, except the benefits are calculated without regard to the limits set by the Internal Revenue Code on compensation and benefits. The net benefit payable from the SERP is the difference between this gross benefit and the benefit payable by the pension plan.

The following table details on a consolidated basis the changes in benefit obligation, the funded status of the plan, components of pension expense, amounts recognized in the Company's consolidated statements of financial condition, and major assumptions used to determine these amounts.



*(Dollars in Thousands)***2016****2015****2014**

## Change in Projected Benefit Obligation:

Benefit Obligation at Beginning of Year	\$	4,842	\$	3,003	\$	2,379
Service Cost		-		3		-
Interest Cost		162		133		104
Actuarial Loss		737		1,703		520
Projected Benefit Obligation at End of Year	\$	5,741	\$	4,842	\$	3,003

Funded Status of Plan and Accrued Liability  
Recognized at End of Year:

Other Liabilities	\$	5,741	\$	4,842	\$	3,003
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Accumulated Benefit Obligation at End of Year	\$	4,913	\$	4,348	\$	2,982
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## Components of Net Periodic Benefit Costs:

Service Cost	\$	-	\$	3	\$	-
Interest Cost		162		133		104
Amortization of Prior Service Cost		-		7		164
Net Loss (Gain) Amortization		759		179		(661)
Net Periodic Benefit Cost	\$	921	\$	322	\$	(393)

Weighted-Average Assumptions Used to Determine  
Benefit Obligation:

Discount Rate	3.92%	4.13%	4.15%
Rate of Compensation Increase	3.25%	3.25%	3.25%
Measurement Date	12/31/16	12/31/15	12/31/14

Weighted-Average Assumptions Used to Determine  
Benefit Cost:

Discount Rate	4.13%	4.15%	5.00%
Rate of Compensation Increase	3.25%	3.25%	3.25%

Amortization Amounts from Accumulated Other  
Comprehensive Income:

Net Actuarial Loss	\$	737	\$	1,703	\$	520
Prior Service Cost		-		(7)		(164)
Net (Loss) Gain		(759)		(179)		660
Deferred Tax Expense (Benefit)		8		(585)		(392)
Other Comprehensive Loss (Gain), net of tax	\$	(14)	\$	932	\$	624

Amounts Recognized in Accumulated Other  
Comprehensive Income:

Net Actuarial Loss (Gain)	\$	870	\$	892	\$	(632)
Prior Service Cost		-		-		7
Deferred Tax (Benefit) Liability		(336)		(344)		241
Accumulated Other Comprehensive Loss (Gain), net of tax	\$	534	\$	548	\$	(384)

The Company expects to recognize approximately \$0.6 million of the net actuarial loss reflected in accumulated other comprehensive income at December 31, 2016 as a component of net periodic benefit cost during 2017.

Effective December 31, 2015, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for the supplemental executive retirement plans to mirror the change previously noted for the defined benefit plan. While the benefit obligations for the plans measured under this approach were unchanged, the more granular application of the spot rates decreased the combined service and interest costs for the supplemental executive retirement plan by \$34,000 for 2016.

*Expected Benefit Payments.* As of December 31, expected benefit payments related to the SERP were as follows:

<i>(Dollars in Thousands)</i>		<b>2016</b>
2017	\$	1,649
2018		2,193
2019		2,142
2020		-
2021		-
2022 through 2026		-
Total	\$	5,984

#### **401(k) Plan**

The Company has a 401(k) Plan which enables associates to defer a portion of their salary on a pre-tax basis. The plan covers substantially all associates of the Company who meet minimum age requirements. The plan is designed to enable participants to elect to have an amount from 1% to 15% of their compensation withheld in any plan year placed in the 401(k) Plan trust account. Matching contributions of 50% from the Company are made up to 6% of the participant's compensation for eligible associates. During 2016, the Company made matching contributions of \$0.6 million. For the years 2015 and 2014, the Company made matching contributions of \$0.5 and \$0.5 million, respectively. The participant may choose to invest their contributions into twenty-seven investment options available to 401(k) participants, including the Company's common stock. A total of 50,000 shares of CCBG common stock have been reserved for issuance. Shares issued to participants have historically been purchased in the open market.

#### **Other Plans**

The Company has a Dividend Reinvestment and Optional Stock Purchase Plan. A total of 250,000 shares have been reserved for issuance. In recent years, shares for the Dividend Reinvestment and Optional Stock Purchase Plan have been acquired in the open market and, thus, the Company did not issue any shares under this plan in 2016, 2015 and 2014.

#### **Note 13**

#### **EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

*(Dollars and Per Share Data in Thousands)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Numerator:			
Net Income	\$ 11,746	\$ 9,116	\$ 9,260
Denominator:			
Denominator for Basic Earnings Per Share	16,989	17,273	17,425
Weighted-Average Shares			
Effects of Dilutive Securities Stock Compensation Plans	72	45	63
Denominator for Diluted Earnings Per Share Adjusted Weighted-Average			
Shares and Assumed Conversions	17,061	17,318	17,488
Basic Earnings Per Share	\$ 0.69	\$ 0.53	\$ 0.53
Diluted Earnings Per Share	\$ 0.69	\$ 0.53	\$ 0.53

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**Note 14**

**REGULATORY MATTERS**

*Regulatory Capital Requirements.* The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of common equity tier 1, total capital (as defined in the regulations) to risk-weighted assets (as defined) and of tier 1 capital (as defined) to average assets (as defined). Under the Basel III rules, the Company must hold a capital conservation buffer above the well capitalized risk-based capital ratios. The capital conservation buffer is being phased in as follows: 0.625% in 2016, 1.25% in 2017, 1.875% in 2018, and 2.50% in 2019. Management believes, as of December 31, 2016 and 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum common equity tier 1, total risk-based, tier 1 risk based and tier 1 leverage ratios as set forth in the following tables. There are not conditions or events since the notification that management believes have changed the Bank's category. The Company and Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are also presented in the table.

(Dollars in Thousands)	Actual		Required For Capital Adequacy Purposes		To Be Well- Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2016</b>						
Common Equity Tier 1:						
CCBG	\$ 220,211	12.61%	\$ 78,587	4.50%	*	*
CCB	268,811	15.44%	78,356	4.50%	\$ 113,182	6.50%
Tier 1 Capital:						
CCBG	270,801	15.51%	104,783	6.00%	*	*
CCB	268,811	15.44%	104,475	6.00%	139,300	8.00%
Total Capital:						
CCBG	284,232	16.28%	139,710	8.00%	*	*
CCB	282,242	16.21%	139,300	8.00%	174,126	10.00%
Tier 1 Leverage:						
CCBG	270,801	10.23%	105,909	4.00%	*	*
CCB	268,811	10.18%	105,652	4.00%	132,066	5.00%
<b>2015</b>						
Common Equity Tier 1:						
CCBG	\$ 215,075	12.84%	\$ 75,385	4.50%	*	*
CCB	266,138	15.93%	75,162	4.50%	\$ 108,567	6.50%
Tier 1 Capital:						
CCBG	275,075	16.42%	100,513	6.00%	*	*
CCB	266,138	15.93%	100,216	6.00%	133,621	8.00%
Total Capital:						
CCBG	289,028	17.25%	134,018	8.00%	*	*
CCB	280,901	16.77%	133,621	8.00%	167,026	10.00%
Tier 1 Leverage:						
CCBG	275,075	10.65%	103,342	4.00%	*	*
CCB	266,138	10.33%	103,095	4.00%	128,869	5.00%

\* Not applicable to bank holding companies.

**Dividend Restrictions.** In the ordinary course of business, the Company is dependent upon dividends from its banking subsidiary to provide funds for the payment of dividends to shareowners and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Company's banking subsidiary to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits of the banking subsidiary for that year combined with the retained net profits for proceeding two years. In 2017, the bank



subsidiary may declare dividends without regulatory approval of \$0.2 million plus an additional amount equal to net profits of the Company's subsidiary bank for 2017 up to the date of any such dividend declaration.

**Note 15**

**OTHER COMPREHENSIVE INCOME (LOSS)**

FASB Topic ASC 220, "Comprehensive Income" requires that certain transactions and other economic events that bypass the income statement be displayed as other comprehensive income. Total comprehensive income is reported in the consolidated statements of comprehensive income and changes in shareowners' equity.

The following table summarizes the tax effects for each component of other comprehensive income (loss):

<i>(Dollars in Thousands)</i>	<b>Before Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>Net of Tax Amount</b>
<b>2016</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ (828)	\$ 322	\$ (506)
Amortization of losses on securities transferred from available for sale to held to maturity	82	(32)	50
Total Investment Securities	(746)	290	(456)
Benefit Plans:			
Reclassification adjustment for amortization of prior service cost	278	(107)	171
Reclassification adjustment for amortization of net loss	3,960	(1,528)	2,432
Current year actuarial loss	(9,958)	3,843	(6,115)
Total Benefit Plans	(5,720)	2,208	(3,512)
Total Other Comprehensive Loss	\$ (6,466)	\$ 2,498	\$ (3,968)
<b>2015</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ (373)	\$ 143	\$ (230)
Amortization of losses on securities transferred from available for sale to held to maturity	76	(31)	45
Total Investment Securities	(297)	112	(185)
Benefit Plans:			
Reclassification adjustment for amortization of prior service cost	316	(122)	194
Reclassification adjustment for amortization of net loss	3,743	(1,444)	2,299
Current year actuarial loss	(4,975)	1,919	(3,056)
Total Benefit Plans	(916)	353	(563)
Total Other Comprehensive Loss	\$ (1,213)	\$ 465	\$ (748)
<b>2014</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ 251	\$ (103)	\$ 148
Amortization of losses on securities transferred from available for sale to			
General			186

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held to maturity	70	(27)	43
Total Investment Securities	321	(130)	191
Benefit Plans:			
Reclassification adjustment for amortization of prior service cost	473	(182)	291
Reclassification adjustment for amortization of net loss	705	(272)	433
Current year actuarial loss	(22,603)	8,719	(13,884)
Total Benefit Plans	(21,425)	8,265	(13,160)
Total Other Comprehensive Loss	\$ (21,104)	\$ 8,135	\$ (12,969)

Accumulated other comprehensive loss was comprised of the following components:

(Dollars in Thousands)	Securities Available for Sale	Retirement Plans	Accumulated Other Comprehensive Loss
<b>Balance as of January 1, 2016</b>	\$ (127)	\$ (22,130)	\$ (22,257)
Other comprehensive loss during the period	(456)	(3,512)	(3,968)
<b>Balance as of December 31, 2016</b>	\$ (583)	\$ (25,642)	\$ (26,225)
<b>Balance as of January 1, 2015</b>	\$ 59	\$ (21,568)	\$ (21,509)
Other comprehensive loss during the period	(186)	(562)	(748)
<b>Balance as of December 31, 2015</b>	\$ (127)	\$ (22,130)	\$ (22,257)
<b>Balance as of January 1, 2014</b>	\$ (132)	\$ (8,408)	\$ (8,540)
Other comprehensive income (loss) during the period	191	(13,160)	(12,969)
<b>Balance as of December 31, 2014</b>	\$ 59	\$ (21,568)	\$ (21,509)

#### Note 16

#### RELATED PARTY TRANSACTIONS

At December 31, 2016 and 2015, certain officers and directors were indebted to the Company's bank subsidiary in the aggregate amount of \$8.5 million and \$9.7 million, respectively. During 2016, \$9.9 million in new loans were made and repayments totaled \$11.1 million. In the opinion of management, these loans were made on similar terms as loans to other individuals of comparable creditworthiness and were all current at year-end.

Deposits from certain directors, executive officers, and their related interests totaled \$17.9 million and \$19.0 million at December 31, 2016 and 2015, respectively.

Under a lease agreement expiring in 2024, the Bank leases land from a partnership in which several directors and officers have an interest. The lease agreement with Smith Interests General Partnership L.L.P. provides for annual lease payments of approximately \$170,000, to be adjusted for inflation in future years.

On June 15, 2016, the Company entered into a negotiated private transaction to repurchase 426,845 shares of its common stock from the Estate of Robert H. Smith, a 5% beneficial owner of the Company's common stock. The purchase price per share was \$14.50. The transaction was reviewed, processed and approved in accordance with the

## Company's Related Party Transaction Policy.

William G. Smith, III, the son of our Chairman, President and Chief Executive Officer, William G. Smith, Jr., is employed as a Vice President of Capital City Bank. In 2016, William G. Smith, III's total compensation (consisting of annual base salary, annual bonus, and stock-based compensation) was approximately \$124,000.

**Note 17****OTHER NONINTEREST EXPENSE**

Components of other noninterest expense in excess of 1% of the sum of total interest income and noninterest income, which are not disclosed separately elsewhere, are presented below for each of the respective years.

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Legal Fees	2,311	2,506	3,187
Professional Fees	3,424	3,789	3,732
Telephone	2,296	1,976	1,903
Advertising	1,702	1,391	1,461
Processing Services	6,471	6,540	6,062
Insurance – Other	2,060	2,737	2,934
Other	8,021	8,211	8,235
Total	\$ 26,285	\$ 27,150	\$ 27,514

**Note 18****COMMITMENTS AND CONTINGENCIES**

*Lending Commitments.* The Company is a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its clients. These financial instruments consist of commitments to extend credit and standby letters of credit.

The Company's maximum exposure to credit loss under standby letters of credit and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance sheet instruments. As of December 31, the amounts associated with the Company's off-balance sheet obligations were as follows:

<i>(Dollars in Thousands)</i>	<b>2016</b>			<b>2015</b>		
	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>
Commitments to Extend Credit <sup>(1)</sup>	\$ 69,993	\$ 332,420	\$ 402,413	\$ 57,571	\$ 306,642	\$ 364,213
Standby Letters of Credit	4,768	-	4,768	6,095	-	6,095
Total	\$ 74,761	\$ 332,420	\$ 407,181	\$ 63,666	\$ 306,642	\$ 370,308

<sup>(1)</sup> *Commitments include unfunded loans, revolving lines of credit, and other unused commitments.*

Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities. In general, management does not anticipate any material losses as a result of participating in these types of transactions. However, any potential losses arising from such transactions are reserved for in the same manner as management reserves for its other credit facilities.

For both on- and off-balance sheet financial instruments, the Company requires collateral to support such instruments when it is deemed necessary. The Company evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies, but may include deposits held in financial institutions; U.S. Treasury securities; other marketable securities; real estate; accounts receivable; property, plant and equipment; and inventory.

*Other Commitments.* In the normal course of business, the Company enters into lease commitments which are classified as operating leases. Rent expense incurred under these leases was approximately \$0.5 million in 2016, \$0.5 million in 2015, and \$0.5 million in 2014. Minimum lease payments under these leases due in each of the five years subsequent to December 31, 2016, are as follows (dollars in millions): 2017, \$0.5; 2018, \$0.5; 2019, \$0.4; 2020, \$0.4, thereafter, \$2.4.

*Contingencies.* The Company is a party to lawsuits and claims arising out of the normal course of business. In management's opinion, there are no known pending claims or litigation, the outcome of which would, individually or in the aggregate, have a material effect on the consolidated results of operations, financial position, or cash flows of the Company.

*Indemnification Obligation.* The Company is a member of the Visa U.S.A. network. Visa U.S.A believes that its member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation") that relates to several antitrust lawsuits challenging the practices of Visa and MasterCard International. In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a \$3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares. Further information on the swap contract is contained within Note 19 below. Fixed charges included in the swap liability are payable quarterly until the litigation reserve is fully liquidated and at which time the aforementioned swap contract will be terminated. Quarterly payments during 2016 totaled \$287,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

**Note 19****FAIR VALUE MEASUREMENTS**

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
  
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated, by market data by correlation or other means.
  
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

*Securities Available for Sale.* U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the bond's terms and conditions, among other things.

In general, the Company does not purchase securities that have a complicated structure. The Company's entire portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or



mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is easily obtained. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

*Fair Value Swap.* The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents the amount due and payable to the counterparty based upon the revised share conversion rate, if any, during the period. At December 31, 2016, there were no amounts payable.

A summary of fair values for assets and liabilities at December 31 consisted of the following:

<i>(Dollars in Thousands)</i>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
<b>2016</b>				
Securities Available for Sale:				
U.S. Government Treasury	\$ 286,278	\$ -	\$ -	\$ 286,278
U.S. Government Agency	-	131,640	-	131,640
States and Political Subdivisions	-	94,839	-	94,839
Mortgage-Backed Securities	-	1,430	-	1,430
Equity Securities	-	8,547	-	8,547
<b>2015</b>				
Securities Available for Sale:				
U.S. Government Treasury	\$ 250,346	\$ -	\$ -	\$ 250,346
U.S. Government Agency	-	101,824	-	101,824
State and Political Subdivisions	-	88,362	-	88,362
Mortgage-Backed Securities	-	1,901	-	1,901
Equity Securities	-	8,595	-	8,595

#### **Assets Measured at Fair Value on a Non-Recurring Basis**

Certain assets are measured at fair value on a non-recurring basis (i.e., the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances). An example would be assets exhibiting evidence of impairment. The following is a description of valuation methodologies used for assets measured on a non-recurring basis.

**Impaired Loans.** Impairment for collateral dependent loans is measured using the fair value of the collateral less selling costs. The fair value of collateral is determined by an independent valuation or professional appraisal in conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. Valuation techniques are consistent with those techniques applied in prior periods. Impaired collateral dependent loans had a carrying value of \$6.3 million with a valuation allowance of \$0.6 million at December 31, 2016 and \$8.8 million and \$0.9 million, respectively, at December 31, 2015.

**Loans Held for Sale.** These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products, which is considered a Level 2 fair value measurement.

*Other Real Estate Owned.* During 2016 and 2015, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset less estimated cost to sell. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. On an ongoing basis, we obtain updated appraisals on foreclosed assets and record valuation adjustments as necessary. The fair value of foreclosed assets is estimated using Level 3 inputs due to the judgment and estimation involved in the real estate valuation process.

#### **Assets and Liabilities Disclosed at Fair Value**

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities, for which it is practical to estimate fair value and the following is a description of valuation methodologies used for those assets and liabilities.

*Cash and Short-Term Investments.* The carrying amount of cash and short-term investments is used to approximate fair value, given the short time frame to maturity and as such assets do not present unanticipated credit concerns.

*Securities Held to Maturity.* Securities held to maturity are valued in accordance with the methodology previously noted in the caption “Assets and Liabilities Measured at Fair Value on a Recurring Basis – Securities Available for Sale”.

*Loans.* The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows and estimated discount rates that reflect the credit, interest rate, and liquidity risks inherent in each loan category. The calculated present values are then reduced by an allocation of the allowance for loan losses against each respective loan category.

*Deposits.* The fair value of Noninterest Bearing Deposits, NOW Accounts, Money Market Accounts and Savings Accounts are the amounts payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using present value techniques and rates currently offered for deposits of similar remaining maturities.

*Subordinated Notes Payable.* The fair value of each note is calculated using present value techniques, based upon projected cash flows and estimated discount rates as well as rates being offered for similar obligations.

*Short-Term and Long-Term Borrowings.* The fair value of each note is calculated using present value techniques, based upon projected cash flows and estimated discount rates as well as rates being offered for similar debt.

A summary of estimated fair values of significant financial instruments at December 31 consisted of the following:

<i>(Dollars in Thousands)</i>	<b>2016</b>			
	<b>Carrying Value</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>ASSETS:</b>				
Cash	\$ 48,268	\$ 48,268	\$ -	\$ -
Short-Term Investments	247,779	247,779	-	-
Investment Securities, Available for Sale	522,734	286,278	236,456	-
Investment Securities, Held to Maturity	177,365	119,157	57,589	-
Loans Held for Sale	10,886	-	10,886	-
Loans, Net of Allowance for Loan Losses	1,547,858	-	-	1,543,576
<b>LIABILITIES:</b>				
Deposits	\$ 2,412,286	\$ -	\$ 2,272,572	\$ -
Short-Term Borrowings	12,749	-	12,802	-
Subordinated Notes Payable	52,887	-	42,024	-
Long-Term Borrowings	14,881	-	15,122	-

<i>(Dollars in Thousands)</i>	<b>2015</b>			
	<b>Carrying Value</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>ASSETS:</b>				
Cash	\$ 51,288	\$ 51,288	\$ -	\$ -
Short-Term Investments	327,617	327,617	-	-
Investment Securities, Available for Sale	451,028	250,346	200,682	-
Investment Securities, Held to Maturity	187,892	134,439	52,968	-
Loans Held for Sale	11,632	-	11,632	-
Loans, Net of Allowance for Loan Losses	1,478,322	-	-	1,483,926
<b>LIABILITIES:</b>				
Deposits	\$ 2,302,849	\$ -	\$ 2,228,210	\$ -
Short-Term Borrowings	61,058	-	64,947	-
Subordinated Notes Payable	62,887	-	49,230	-
Long-Term Borrowings	28,265	-	30,448	-

All non-financial instruments are excluded from the above table. The disclosures also do not include goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.



**Note 20****PARENT COMPANY FINANCIAL INFORMATION**

The following are condensed statements of financial condition of the parent company at December 31:

**Parent Company Statements of Financial Condition**

*(Dollars in Thousands, Except Per Share Data)*

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and Due From Subsidiary Bank	\$ 9,618	\$ 13,527
Investment in Subsidiary Bank	325,337	327,794
Other Assets	5,563	5,164
Total Assets	\$ 340,518	\$ 346,485
<b>LIABILITIES</b>		
Short-Term Borrowings	3,000	0
Subordinated Notes Payable	\$ 52,887	\$ 62,887
Other Liabilities	9,463	9,246
Total Liabilities	65,350	72,133
<b>SHAREOWNERS' EQUITY</b>		
Common Stock, \$.01 par value; 90,000,000 shares authorized; 16,844,698 and 17,156,919 shares	168	172
issued and outstanding at December 31, 2016 and December 31, 2015, respectively		
Additional Paid-In Capital	34,188	38,256
Retained Earnings	267,037	258,181
Accumulated Other Comprehensive Loss, Net of Tax	(26,225)	(22,257)
Total Shareowners' Equity	275,168	274,352
Total Liabilities and Shareowners' Equity	\$ 340,518	\$ 346,485

The operating results of the parent company for the three years ended December 31 are shown below:





**Parent Company Statements of Operations**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>OPERATING INCOME</b>			
Income Received from Subsidiary Bank:			
Overhead Fees	\$ 4,700	\$ 4,604	\$ 4,468
Dividends	9,300	9,200	6,000
Other Income	2,675	424	138
Total Operating Income	16,675	14,228	10,606
<b>OPERATING EXPENSE</b>			
Salaries and Associate Benefits	4,247	3,395	3,156
Interest on Subordinated Notes Payable	1,527	1,368	1,328
Professional Fees	1,114	1,078	1,024
Advertising	160	105	141
Legal Fees	167	168	243
Other	718	699	624
Total Operating Expense	7,933	6,813	6,516
Earnings Before Income Taxes and Equity in Undistributed			
Earnings of Subsidiary Bank	8,742	7,415	4,090
Income Tax Benefit	(1,492)	(342)	(433)
Earnings Before Equity in Undistributed Earnings of Subsidiary Bank	10,234	7,757	4,523
Equity in Undistributed Earnings of Subsidiary Bank	1,512	1,359	4,737
Net Income	\$ 11,746	\$ 9,116	\$ 9,260

The cash flows for the parent company for the three years ended December 31 were as follows:

**Parent Company Statements of Cash Flows**

<i>(Dollars in Thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 11,746	\$ 9,116	\$ 9,260
Adjustments to Reconcile Net Income to Net Cash Provided By			
Operating Activities:			
Equity in Undistributed Earnings of Subsidiary Bank	(1,512)	(1,359)	(4,737)
Stock Compensation	1,260	1,109	1,349
Gain on Retirement of Trust Preferred Securities	(2,487)	-	-
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(Increase) Decrease in Other Assets	(399)	191	387
Increase in Other Liabilities	345	444	532
Net Cash Provided By Operating Activities	8,953	9,501	6,791

**CASH FROM FINANCING ACTIVITIES:**

Redemption of Subordinated Notes	(7,500)	-	-
Proceeds from Short-Term Borrowings	3,750	-	-
Repayment of Short-Term Borrowings	(750)	-	-
Dividends Paid	(2,890)	(2,241)	(1,568)
Issuance of Common Stock Under Compensation Plans	840	507	578
Payments to Repurchase Common Stock	(6,312)	(5,981)	(269)
Net Cash Used In Financing Activities	(12,862)	(7,715)	(1,259)
Net (Decrease) Increase in Cash	(3,909)	1,786	5,532
Cash at Beginning of Year	13,527	11,741	6,209
Cash at End of Year	\$ 9,618	\$ 13,527	\$ 11,741

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures.

*Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this evaluation under the framework in Internal Control - Integrated Framework, our management has concluded we maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f), as of December 31, 2016.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

Ernst & Young LLP, an independent registered certified public accounting firm, has audited our consolidated financial statements as of and for the year ended December 31, 2016, and opined as to the effectiveness of internal control over financial reporting as of December 31, 2016, as stated in its attestation report, which is included herein on page 109.

*Change in Internal Control.* Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control. There have been no changes in our internal control during our most recently completed fiscal quarter that materially affected, or is likely to materially affect our internal control over financial reporting.

***Item 9B. Other Information***

None.

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**Report of Independent Registered Certified Public Accounting Firm**

The Board of Directors and Shareowners of

Capital City Bank Group, Inc.

We have audited Capital City Bank Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Capital City Bank Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Capital City Bank Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2016 consolidated financial statements of Capital City Bank Group, Inc. and our report dated March 2, 2017 expressed an unqualified opinion thereon.

Tampa, Florida

March 2, 2017

## Part III

### *Item 10. Directors, Executive Officers, and Corporate Governance*

Incorporated herein by reference to the sections entitled “Proposal No. 1 – Election of Directors”, “Corporate Governance at Capital City,” “Share Ownership” and “Board Committee Membership” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 25, 2017.

### *Item 11. Executive Compensation*

Incorporated herein by reference to the sections entitled “Compensation Discussion and Analysis,” “Executive Compensation” and “Director Compensation” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 25, 2017.

### *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowners Matters*

The 2011 Associate Incentive Plan, 2011 Associate Stock Purchase Plan, and 2011 Director Stock Purchase Plan were approved by the Registrant’s shareowners. The following table provides certain information regarding the Registrant’s equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
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Equity Compensation Plans Approved by Securities Holders	—	\$	—	1,041,418 <sup>(1)</sup>
Equity Compensation Plans Not Approved by Securities Holders	—		—	—
<b>Total</b>	—	\$	—	1,041,418

- (1) Consists of 630,248 shares available for issuance under our 2011 Associate Incentive Plan, 352,450 shares available for issuance under our 2011 Associate Stock Purchase Plan, and 58,720 shares available for issuance under our 2011 Director Stock Purchase Plan. Of these plans, the only plan under which options may be granted in the future is our 2011 Associate Incentive Plan.

The other information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned “Share Ownership” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 25, 2017.

***Item 13. Certain Relationships and Related Transactions, and Director Independence***

Incorporated herein by reference to the sections entitled “Transactions With Related Persons” and “Corporate Governance at Capital City” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 25, 2017.

***Item 14. Principal Accountant Fees and Services***

Incorporated herein by reference to the section entitled “Audit Committee Matters” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 25, 2017.



## PART IV

### *Item 15. Exhibits and Financial Statement Schedules*

The following documents are filed as part of this report

1. Financial Statements

Report of Independent Registered Certified Public Accounting Firm

Consolidated Statements of Financial Condition at the End of Fiscal Years 2016 and 2015

Consolidated Statements of Income for Fiscal Years 2016, 2015, and 2014

Consolidated Statements of Comprehensive Income for Fiscal Years 2016, 2015, and 2014

Consolidated Statements of Changes in Shareowners' Equity for Fiscal Years 2016, 2015, and 2014

Consolidated Statements of Cash Flows for Fiscal Years 2016, 2015, and 2014

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Other schedules and exhibits are omitted because the required information either is not applicable or is shown in the financial statements or the notes thereto.

3. Exhibits Required to be Filed by Item 601 of Regulation S-K

Reg. S-K

Exhibit

Table

<u>Item No.</u>	<u>Description of Exhibit</u>
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Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareowners' Matters
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- 3.1 Amended and Restated Articles of Incorporation - incorporated herein by reference to Exhibit 3 of the Registrant's 1996 Proxy Statement (filed 4/11/96) (No. 0-13358).
- 3.2 Amended and Restated Bylaws - incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K (filed 11/30/07) (No. 0-13358).
- 4.1 See Exhibits 3.1 and 3.2 for provisions of Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, which define the rights of the Registrant's shareowners.
- 4.2 Capital City Bank Group, Inc. 2011 Director Stock Purchase Plan - incorporated herein by reference to Exhibit 10.2 of the Registrant's Form 8-K (filed 5/2/11) (No. 0-13358).
- 4.3 Capital City Bank Group, Inc. 2011 Associate Stock Purchase Plan - incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K (filed 5/2/11) (No. 0-13358).
- 4.4 Capital City Bank Group, Inc. 2011 Associate Incentive Plan - incorporated herein by reference to Exhibit 10.3 of the Registrant's Form 8-K (filed 5/2/11) (No. 0-13358).
- 4.5 In accordance with Regulation S-K, Item 601(b)(4)(iii)(A) certain instruments defining the rights of holders of long-term debt of Capital City Bank Group, Inc. not exceeding 10% of the total assets of Capital City Bank Group, Inc. and its consolidated subsidiaries have been omitted; the Registrant agrees to furnish a copy of any such instruments to the Commission upon request.
- 10.1 Capital City Bank Group, Inc. 1996 Dividend Reinvestment and Optional Stock Purchase Plan - incorporated herein by reference to Exhibit 10 of the Registrant's Form S-3 (filed 01/30/97) (No. 333-20683).
- 10.2 Capital City Bank Group, Inc. Supplemental Executive Retirement Plan - incorporated herein by reference to Exhibit 10(d) of the Registrant's Form 10-K (filed 3/27/03) (No. 0-13358).
- 10.3 Capital City Bank Group, Inc. 401(k) Profit Sharing Plan – incorporated herein by reference to Exhibit 4.3 of Registrant's Form S-8 (filed 09/30/97) (No. 333-36693).
- 10.6 Form of Participant Agreement for Long-Term Incentive Plan. - incorporated by reference herein to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K (filed 3/6/15)(No. 0-13358).
- 10.7 Participant Agreement, dated February 25, 2015, by and between Thomas A. Barron and the Registrant – incorporated by reference herein to Exhibit 10.1 of the Registrant's Form 8-K (filed 2/25/15)(No. 0-13358).

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10.8 Participant Agreement, dated February 21, 2017, by and between J. Kimbrough Davis and the Registrant – incorporated by reference herein to Exhibit 10.1 of the Registrant’s Form 8-K (filed 2/27/17)(No. 0-13358).

11 Statement re Computation of Per Share Earnings.\*

14 Capital City Bank Group, Inc. Code of Ethics for the Chief Financial Officer and Senior Financial Officers - incorporated herein by reference to Exhibit 14 of the Registrant’s Form 8-K (filed 3/11/05) (No. 0-13358).

21 Capital City Bank Group, Inc. Subsidiaries, as of December 31, 2016.\*\*

23.1 Consent of Independent Registered Certified Public Accounting Firm.\*\*

31.1 Certification of CEO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

31.2 Certification of CFO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

101.INS XBRL Instance Document\*\*

101.SCH XBRL Taxonomy Extension Schema Document\*\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*\*

\* Information required to be presented in Exhibit 11 is provided in Note 13 to the consolidated financial statements under Part II, Item 8 of this Form 10-K in accordance with the provisions of U.S. generally accepted accounting principles.

\*\* Filed electronically herewith.

**Item 16. Form 10-K Summary**

None.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowners Matters



## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 2, 2017, on its behalf by the undersigned, thereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.

/s/ William G. Smith, Jr.

William G. Smith, Jr.

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 2, 2017 by the following persons in the capacities indicated.

/s/ William G. Smith, Jr.

William G. Smith, Jr.

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

/s/ J. Kimbrough Davis

J. Kimbrough Davis

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 2, 2017, on its behalf by the undersigned, thereunto duly authorized.

Directors:

/s/ Thomas A. Barron  
Thomas A. Barron

/s/ John K. Humphress  
John K. Humphress

/s/ Allan G. Bense  
Allan G. Bense

/s/ Lina S. Knox  
Lina S. Knox

/s/ Frederick Carroll, III  
Frederick Carroll, III

/s/ Henry Lewis III  
Henry Lewis III

/s/ Cader B. Cox, III  
Cader B. Cox, III

/s/ John G. Sample, Jr  
John G. Sample, Jr

/s/ Stanley W. Connally, Jr.  
Stanley W. Connally, Jr

/s/ Laura Johnson  
Laura Johnson

/s/ Eric Grant  
Eric Grant

/s/ William G. Smith, Jr.  
William G. Smith, Jr.

/s/ J. Everitt Drew  
J. Everitt Drew

**Exhibit Index**

Reg. S-K

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