CAPITAL CITY BANK GROUP INC
Form 10-Q
May 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2013

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

Florida	**59-2273542**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

217 North Monroe Street, Tallahassee, Florida 32301

(Address of principal executive office) (Zip Code)

(850) 402-7000
(Registrant's telephone number, including area code)

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 x No o

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 x No o

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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o
(Do not check if 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 o No x

At April 30, 2013, 17,318,789 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED MARCH 31, 2013

TABLE OF CONTENTS

PART I – Financial Information		**Page**
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition – March 31, 2013 and December 31, 2012	4
	Consolidated Statements of Comprehensive Income – Three Months Ended March 31, 2013 and 2012	5
	Consolidated Statements of Changes in Shareowners' Equity – Three Months Ended March 31, 2013 and 2012	6
	Consolidated Statements of Cash Flows – Three Months Ended March 31, 2013 and 2012	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	38
Item 4.	Controls and Procedures	38

PART II – Other Information

Item 1.	Legal Proceedings	38
Item 1A.	Risk Factors	38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3.	Defaults Upon Senior Securities	38
Item 4.	Mine Safety Disclosure	38
Item 5.	Other Information	38
Item 6.	Exhibits	39
Signatures		40

2

INTRODUCTORY NOTE

Caution Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q 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," "goal," and similar expressions are 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.

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K"): (a) "Introductory Note" in Part I, Item 1. "Business"; (b) "Risk Factors" in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) "Introduction" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II, Item 7, as well as:

§ our need and our ability to incur additional debt or equity financing;
§ the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision and deferred tax valuation allowance;
§ continued depression of the market value of the Company that could result in an impairment of goodwill;
§ 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;
§ 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;
§ the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
§ restrictions on our operations, including the inability to pay dividends without our regulators' consent;
§ the effects of the health and soundness of other financial institutions, including the FDIC's need to increase Deposit Insurance Fund assessments;
§ our ability to declare and pay dividends;
§ 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;
§ 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;
- the effects of security breaches and computer viruses that may affect our computer systems;
- 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 referenced 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. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands)	Unaudited March 31, 2013	December 31 2012
ASSETS		
Cash and Due From Banks	$52,677	$66,238
Federal Funds Sold and Interest Bearing Deposits	461,714	443,494
Total Cash and Cash Equivalents	514,391	509,732
Investment Securities, Available-for-Sale	307,502	296,985
Loans Held For Sale	11,422	14,189
Loans, Net of Unearned Income	1,454,899	1,507,113
Allowance for Loan Losses	(27,803)	(29,167)
Loans, Net	1,427,096	1,477,946
Premises and Equipment, Net	105,883	107,092
Goodwill	84,811	84,811
Other Intangible Assets	174	242
Other Real Estate Owned	58,421	53,426
Other Assets	95,613	89,561
Total Assets	$2,605,313	$2,633,984
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$616,017	$609,235
Interest Bearing Deposits	1,497,965	1,535,761
Total Deposits	2,113,982	2,144,996
Short-Term Borrowings	50,682	47,435
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	41,224	46,859
Other Liabilities	87,930	84,918
Total Liabilities	2,356,705	2,387,095
SHAREOWNERS' EQUITY		

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; 17,318,786 and 17,232,380 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	173	172
Additional Paid-In Capital	39,580	38,707
Retained Earnings	238,408	237,569
Accumulated Other Comprehensive Loss, Net of Tax	(29,553)	(29,559)
Total Shareowners’ Equity	248,608	246,889
Total Liabilities and Shareowners’ Equity	$2,605,313	$2,633,984

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

4

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
(Dollars in Thousands, Except Per Share Data)	2013	2012
INTEREST INCOME		
Interest and Fees on Loans	$20,154	$22,005
Investment Securities:		
Taxable Securities	590	794
Tax Exempt Securities	114	106
Funds Sold	270	225
Total Interest Income	21,128	23,130
INTEREST EXPENSE		
Deposits	415	643
Short-Term Borrowings	82	8
Subordinated Notes Payable	339	382
Other Long-Term Borrowings	347	436
Total Interest Expense	1,183	1,469
NET INTEREST INCOME	19,945	21,661
Provision for Loan Losses	1,070	4,793
Net Interest Income After Provision for Loan Losses	18,875	16,868
NONINTEREST INCOME		
Service Charges on Deposit Accounts	6,165	6,309
Data Processing Fees	653	675
Asset Management Fees	993	1,015
Retail Brokerage Fees	922	758
Mortgage Banking Fees	1,043	848
Bank Card Fees	2,661	2,771
Other	1,151	1,210
Total Noninterest Income	13,588	13,586
NONINTEREST EXPENSE		
Compensation	16,739	16,843
Occupancy, Net	2,248	2,266
Furniture and Equipment	2,153	2,201
Intangible Amortization	68	108
Other Real Estate	2,901	3,513
Other	7,091	7,666
Total Noninterest Expense	31,200	32,597
INCOME (LOSS) BEFORE INCOME TAXES	1,263	(2,143)

Income Tax Expense (Benefit)	424	(981)
NET INCOME (LOSS)	$839	$(1,162)
BASIC NET INCOME (LOSS) PER SHARE	$0.05	$(0.07)
DILUTED NET INCOME (LOSS) PER SHARE	$0.05	$(0.07)
Components of Other Comprehensive Income (Loss):		
Change in Net Unrealized Gain on Available-for-Sale Securities, Net of Tax Expense (Benefit)	$6	$(246)
Total Other Comprehensive Income (Loss)	$6	$(246)
TOTAL COMPREHENSIVE INCOME (LOSS)	$845	$(1,408)
Average Basic Common Shares Outstanding	17,302	17,181
Average Diluted Common Shares Outstanding	17,309	17,181

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

(Unaudited)

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance, January 1, 2013	17,232,380	$ 172	$ 38,707	$ 237,569	$ (29,559)	$ 246,889
Comprehensive Income:						
Net Income		—	—	839	—	839
Change in Net Unrealized Gain on Available-for-Sale Securities (net of tax expense of $1)		—	—	—	6	6
Total Comprehensive Income		—	—	—	—	845
Stock Performance Plan Compensation		—	216	—	—	216
Issuance of Common Stock	86,406	1	657	—	—	658
Balance, March 31, 2013	17,318,786	$ 173	$ 39,580	$ 238,408	$ (29,553)	$ 248,608

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance, January 1, 2012	17,160,274	$ 172	$ 37,838	$ 237,461	$ (23,529)	$ 251,942
Comprehensive Income:						
Net Loss		—	—	(1,162)	—	(1,162)
Change in Net Unrealized Gain on Available-for-Sale Securities (net of tax benefit of $150)		—	—	—	(246)	(246)
Total Comprehensive Loss		—	—	—	—	(1,408)
Stock Performance Plan Compensation		—	56	—	—	56
Issuance of Common Stock	21,816	—	207	—	—	207
Balance, March 31, 2012	17,182,090	$ 172	$ 38,101	$ 236,299	$ (23,775)	$ 250,797

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

6

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$839	$(1,162)
Adjustments to Reconcile Net Income (Loss) to Cash Provided by Operating Activities:		
Provision for Loan Losses	1,070	4,793
Depreciation	1,628	1,669
Amortization of Premiums, Discounts, and Fees (net)	992	827
Amortization of Intangible Assets	68	108
Net Decrease in Loans Held-for-Sale	2,767	7,664
Stock-Based Compensation	216	56
Deferred Income Taxes	1,715	277
Loss on Sales and Write-Downs of Other Real Estate Owned	1,883	2,097
Net Increase in Other Assets	(7,768)	(11,993)
Net Increase in Other Liabilities	3,012	9,890
Net Cash Provided By Operating Activities	6,422	14,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Purchases	(47,863)	(18,986)
Sales	—	805
Payments, Maturities, and Calls	36,270	39,586
Net Decrease in Loans	36,892	33,479
Proceeds From Sales of Other Real Estate Owned	6,101	6,479
Purchases of Premises and Equipment	(419)	(2,086)
Net Cash Provided By Investing Activities	30,981	59,277
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Deposits	(31,014)	13,185
Net Decrease in Short-Term Borrowings	(657)	(2,731)
Increase in Other Long-Term Borrowings	—	560
Repayment of Other Long-Term Borrowings	(1,731)	(793)
Issuance of Common Stock	658	207
Net Cash (Used In) Provided By Financing Activities	(32,744)	10,428
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,659	83,931
Cash and Cash Equivalents at Beginning of Period	509,732	385,314
Cash and Cash Equivalents at End of Period	$514,391	$469,245

Supplemental Cash Flow Disclosures:		
Interest Paid	$865	$1,152
Income Taxes Paid	$12	$24
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	$12,979	$4,076
Transfer of Current Portion of Long-Term Borrowings	$3,904	$1,547

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

CAPITAL CITY BANK GROUP, INC.

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 in this Quarterly Report on Form 10-Q include the accounts of CCBG and its wholly-owned subsidiary, Capital City Bank ("CCB" or the "Bank" and together with the Company). All material inter-company transactions and accounts have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The consolidated statement of financial condition at December 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

NOTE 2 – INVESTMENT SECURITIES

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

(Dollars in Thousands)	March 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Government Treasury	$94,550	$ 355	$ —	$94,905
U.S. Government Agency	52,178	216	22	52,372
States and Political Subdivisions	82,860	172	38	82,994
Mortgage-Backed Securities	66,167	890	40	67,017
Other Securities(1)	10,814	—	600	10,214
Total Investment Securities	$306,569	$ 1,633	$ 700	$307,502

(Dollars in Thousands)	December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Government Treasury	$96,745	$ 504	$ —	$97,249
U.S. Government Agency	51,468	221	25	51,664
States and Political Subdivisions	79,818	124	63	79,879
Mortgage-Backed Securities	56,217	805	40	56,982
Other Securities(1)	11,811	—	600	11,211
Total Investment Securities	$296,059	$ 1,654	$ 728	$296,985

(1) *Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $5.4 million and $4.8 million, respectively, at March 31, 2013 and $6.4 million and $4.8 million, respectively, at December 31, 2012.*

Securities with an amortized cost of $191.2 million and $152.3 million at March 31, 2013 and December 31, 2012, 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.

Maturity Distribution. As of March 31, 2013, 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.

(Dollars in Thousands)	Amortized Cost	Market Value
Due in one year or less	$ 85,517	$85,799
Due after one through five years	106,857	107,078
No Maturity	10,814	10,214
Mortgage-Backed Securities	66,167	67,017
U.S. Government Agency	37,214	37,394
Total Investment Securities	$ 306,569	$307,502

Other Than Temporarily Impaired Securities. The following tables summarize the investment securities with unrealized losses aggregated by major security type and length of time in a continuous unrealized loss position:

	March 31, 2013					
	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government Treasury	$—	$ —	$—	$ —	$—	$ —
U.S. Government Agency	21,891	19	762	3	22,653	22
States and Political Subdivisions	11,373	30	6,179	8	17,552	38
Mortgage-Backed Securities	4,711	20	1,532	20	6,243	40
Other Securities	—	—	600	600	600	600
Total Investment Securities	$37,975	$ 69	$9,073	$ 631	$47,048	$ 700

	December 31, 2012					
	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government Treasury	$—	$ —	$—	$ —	$—	$ —
U.S. Government Agency	8,464	23	790	2	9,254	25
States and Political Subdivisions	30,302	55	5,028	8	35,330	63
Mortgage-Backed Securities	3,921	15	1,624	25	5,545	40
Other Securities	—	—	600	600	600	600
Total Investment Securities	$42,687	$ 93	$8,042	$ 635	$50,729	$ 728

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: 1) the length of time and the extent

to which the fair value has been less than amortized cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost. 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 March 31, 2013, the Company had securities of $307.5 million with net pre-tax unrealized gains of $0.9 million on these securities, of which $47.0 million have unrealized losses totaling $0.7 million. Approximately $38.0 million of these securities, with an unrealized loss of $0.1 million, have been in a loss position for less than 12 months. Approximately $8.5 million of these securities, with an unrealized loss of approximately $31,000 have been in a loss position for greater than 12 months. These securities are in a loss position because they were acquired when the general level of interest rates was lower than that on March 31, 2013. The Company believes that the unrealized losses in these 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 March 31, 2013. One bank preferred stock issue for $0.6 million has also been in a loss position for greater than 12 months. The Company continues to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

NOTE 3 – LOANS, NET

Loan Portfolio Composition. The composition of the loan portfolio was as follows:

(Dollars in Thousands)	March 31, 2013	December 31, 2012
Commercial, Financial and Agricultural	$ 125,905	$ 139,850
Real Estate - Construction	37,949	37,512
Real Estate - Commercial Mortgage	599,517	613,625
Real Estate - Residential[1]	309,973	321,986
Real Estate - Home Equity	233,205	236,263
Consumer	148,350	157,877
Loans, Net of Unearned Income	$ 1,454,899	$ 1,507,113

(1) *Includes loans in process with outstanding balances of $8.2 million and $11.9 million for March 31, 2013 and December 31, 2012, respectively.*

Net deferred fees included in loans were $1.6 million at both March 31, 2013 and December 31, 2012.

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:

	March 31, 2013		December 31, 2012	
(Dollars in Thousands)	Nonaccrual	90 + Days	Nonaccrual	90 + Days

Commercial, Financial and Agricultural	$880	—	$1,069	—
Real Estate - Construction	1,919	—	4,071	—
Real Estate - Commercial Mortgage	26,707	—	41,045	—
Real Estate - Residential	10,665	—	13,429	—
Real Estate - Home Equity	4,685	—	4,034	—
Consumer	592	—	574	—
Total Nonaccrual Loans	$45,448	—	$64,222	—

10

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:

(Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
March 31, 2013						
Commercial, Financial and Agricultural	$244	$22	$—	$266	$124,758	$125,905
Real Estate - Construction	—	—	—	—	36,029	37,949
Real Estate - Commercial Mortgage	2,615	416	—	3,031	569,780	599,517
Real Estate - Residential	2,279	1,430	—	3,709	295,599	309,973
Real Estate - Home Equity	1,066	13	—	1,079	227,442	233,205
Consumer	1,068	121	—	1,189	146,568	148,350
Total Past Due Loans	$7,272	$2,002	$—	$9,274	$1,400,176	$1,454,899

(Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
December 31, 2012						
Commercial, Financial and Agricultural	$302	$314	$ —	$616	$138,165	$139,850
Real Estate - Construction	375	—	—	375	33,066	37,512
Real Estate - Commercial Mortgage	1,090	583	—	1,673	570,907	613,625
Real Estate - Residential	2,788	1,199	—	3,987	304,570	321,986
Real Estate - Home Equity	711	487	—	1,198	231,031	236,263
Consumer	1,693	392	—	2,085	155,218	157,877
Total Past Due Loans	$6,959	$2,975	$ —	$9,934	$1,432,957	$1,507,113

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 three months ended March 31, 2013 and 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total

March 31, 2013								
Beginning Balance	$ 1,253	$ 2,856	$ 11,081	$ 8,678	$2,945	$ 1,327	$ 1,027	$29,167
Provision for Loan Losses	(293)	141	923	174	227	(75)	(27)	1,070
Charge-Offs	(154)	(610)	(1,044)	(682)	(113)	(296)	—	(2,899)
Recoveries	51	—	38	96	18	262	—	465
Net Charge-Offs	(103)	(610)	(1,006)	(586)	(95)	(34)	—	(2,434)
Ending Balance	$ 857	$ 2,387	$ 10,998	$ 8,266	$3,077	$ 1,218	$ 1,000	$27,803
March 31, 2012								
Beginning Balance	$ 1,534	$ 1,133	$ 10,660	$ 12,518	$2,392	$ 1,887	$ 911	$31,035
Provision for Loan Losses	158	628	1,166	1,511	1,207	41	82	4,793
Charge-Offs	(268)	—	(1,532)	(1,967)	(892)	(732)	—	(5,391)
Recoveries	69	—	138	163	18	392	—	780
Net Charge-Offs	(199)	—	(1,394)	(1,804)	(874)	(340)		(4,611)
Ending Balance	$ 1,493	$ 1,761	$ 10,432	$ 12,225	$2,725	$ 1,588	$ 993	$31,217

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

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
March 31, 2013								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 180	$ 274	$ 6,244	$ 2,493	$ 544	$ 16	$ —	$ 9,751
Loans Collectively Evaluated for Impairment	677	2,113	4,754	5,773	2,533	1,202	1,000	18,052
Ending Balance	$ 857	$ 2,387	$ 10,998	$ 8,266	$ 3,077	$ 1,218	$ 1,000	$ 27,803
December 31, 2012								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 210	$ 714	$ 6,641	$ 2,778	$ 546	$ 32	$ —	$ 10,921
Loans Collectively Evaluated for Impairment	1,043	2,142	4,440	5,900	2,399	1,295	1,027	18,246
Ending Balance	$ 1,253	$ 2,856	$ 11,081	$ 8,678	$ 2,945	$ 1,327	$ 1,027	$ 29,167
March 31, 2012								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 241	$ 123	$ 5,543	$ 4,789	$ 580	$ 26	$ —	$ 11,302
Loans Collectively Evaluated for Impairment	1,252	1,638	4,889	7,436	2,145	1,562	993	19,915
Ending Balance	$ 1,493	$ 1,761	$ 10,432	$ 12,225	$ 2,725	$ 1,588	$ 993	$ 31,217

The Company's recorded investment in loans 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:

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
March 31, 2013								
Individually Evaluated for Impairment	$ 2,397	$ 2,080	$ 63,041	$ 22,073	$ 4,069	$ 647	$ —	$ 94,307

Collectively Evaluated for Impairment	123,508	35,869	536,476	287,900	229,136	147,703	—	1,360,592
Total	$ 125,905	$ 37,949	$ 599,517	$ 309,973	$ 233,205	$ 148,350	$ —	$ 1,454,899
December 31, 2012								
Individually Evaluated for Impairment	$ 2,325	$ 4,232	$ 74,650	$ 23,030	$ 3,858	$ 687	$ —	$ 108,782
Collectively Evaluated for Impairment	137,525	33,280	538,975	298,956	232,405	157,190	—	1,398,331
Total	$ 139,850	$ 37,512	$ 613,625	$ 321,986	$ 236,263	$ 157,877	$ —	$ 1,507,113
March 31, 2012								
Individually Evaluated for Impairment	$ 1,809	$ 1,266	$ 69,898	$ 33,826	$ 3,355	$ 46	$ —	$ 110,200
Collectively Evaluated for Impairment	130,310	28,972	554,630	327,607	237,445	176,159	—	1,455,123
Total	$ 132,119	$ 30,238	$ 624,528	$ 361,433	$ 240,800	$ 176,205	$ —	$ 1,565,323

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:

(Dollars in Thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance
March 31, 2013				
Commercial, Financial and Agricultural	$2,397	$ 667	$ 1,730	$ 180
Real Estate - Construction	2,080	—	2,080	274
Real Estate - Commercial Mortgage	63,041	15,492	47,549	6,244
Real Estate - Residential	22,073	2,865	19,208	2,493
Real Estate - Home Equity	4,069	1,028	3,041	544
Consumer	647	152	495	16
Total	$94,307	$ 20,204	$ 74,103	$ 9,751
December 31, 2012				
Commercial, Financial and Agricultural	$2,325	$ 527	$ 1,797	$ 210
Real Estate - Construction	4,232	—	4,232	714
Real Estate - Commercial Mortgage	74,650	22,594	52,056	6,641
Real Estate - Residential	23,030	2,635	20,395	2,778
Real Estate - Home Equity	3,858	890	2,968	546
Consumer	687	123	565	32
Total	$108,782	$ 26,769	$ 82,013	$ 10,921

The following table summarizes the average recorded investment and interest income recognized by class of impaired loans:

	For Three Months Ended March 31,			
	2013		2012	
(Dollars in Thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Commercial, Financial and Agricultural	$2,361	$ 42	$1,731	$ 20
Real Estate - Construction	3,156	2	889	4
Real Estate - Commercial Mortgage	68,845	541	67,761	481
Real Estate - Residential	22,552	206	35,075	235
Real Estate - Home Equity	3,963	19	3,441	25
Consumer	668	2	95	4

Total	$101,545	$ 812	$108,992	$ 769

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. 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 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:

(Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total Loans
March 31, 2013				
Special Mention	$ 5,166	$63,539	$ 133	$68,838
Substandard	4,421	148,708	1,399	154,528
Doubtful	158	1,499	—	1,657
Total Criticized Loans	$ 9,745	$213,746	$ 1,532	$225,023

(Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total Loans
December 31, 2012				
Special Mention	$ 4,380	$54,938	$ 142	$59,460
Substandard	10,863	177,277	1,624	189,764
Doubtful	158	1,515	—	1,673
Total Criticized Loans	$ 15,401	$233,730	$ 1,766	$250,897

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 defer cash payments required as part of the loan agreement through either a principal moratorium or extension of the loan term. 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. In the limited circumstances that a loan is removed from TDR classification it is the Company’s policy to also remove it from the impaired loan category, but to continue to individually evaluate loan impairment based on the contractual terms specified by the loan agreement.

The following table presents loans classified as TDRs:

	March 31, 2013		December 31, 2012	
(Dollars in Thousands)	Accruing	Nonaccruing	Accruing	Nonaccruing
Commercial, Financial and Agricultural	$1,621	$ 394	$1,462	$ 508
Real Estate - Construction	160	—	161	—
Real Estate - Commercial Mortgage	34,532	7,027	29,870	8,425
Real Estate - Residential	14,609	897	13,824	936
Real Estate - Home Equity	1,652	—	1,587	—
Consumer	534	—	570	10
Total TDRs	$53,108	$ 8,318	$47,474	$ 9,879

15

Loans classified as TDRs during the three months ended March 31, 2013 and 2012 are presented in the table below. The modifications made during the reporting period involved either an extension of the loan term or a principal moratorium and the financial impact of these modifications was not material.

(Dollars in Thousands)	March 31, 2013 Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment	March 31, 2012 Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	2	$ 26	$ 78	4	$ 656	$ 660
Real Estate - Construction	—	—	—	—	—	—
Real Estate - Commercial Mortgage	5	4,387	4,432	13	4,565	4,695
Real Estate - Residential	3	372	381	8	859	909
Real Estate - Home Equity	1	88	90	—	—	—
Consumer	1	35	33	—	—	—
Total TDRs	12	$ 4,908	$ 5,014	25	$ 6,080	$ 6,264

Loans modified as TDRs within the previous 12 months that have subsequently defaulted during the three months ended March 31, 2013 and 2012 are presented in the table below.

	Three Months Ended March 31,			
	2013		2012	
(Dollars in Thousands)	Number of Contracts	Post-Modified Recorded Investment	Number of Contracts	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	—	$ —	—	$ —
Real Estate - Construction	—	—	—	—
Real Estate - Commercial Mortgage	2	227	3	1,562
Real Estate - Residential	2	77	7	1,038
Real Estate - Home Equity	—	—	1	157
Consumer	—	—	—	—
Total TDRs	4	$ 304	11	$ 2,757

NOTE 4 - INTANGIBLE ASSETS

The Company had net intangible assets of $85.0 million and $85.1 million at March 31, 2013 and December 31, 2012, respectively. Intangible assets were as follows:

(Dollars in Thousands)	March 31, 2013 Gross Amount	Accumulated Amortization	December 31, 2012 Gross Amount	Accumulated Amortization

Core Deposit Intangibles	$47,176	$ 47,176	$47,176	$ 47,157
Goodwill	84,811	—	84,811	—
Customer Relationship Intangible	1,867	1,693	1,867	1,644
Total Intangible Assets	$133,854	$ 48,869	$133,854	$ 48,801

Net Core Deposit Intangibles: As of March 31, 2013, the Company's core deposit intangibles were fully amortized. At December 31, 2012, the Company had net core deposit intangibles of $19,000. Amortization expense for the first three months of 2013 and 2012 was $19,000 and $0.1 million, respectively.

Goodwill: As of March 31, 2013 and December 31, 2012, the Company had goodwill, net of accumulated amortization, 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.

As of March 31, 2013, the book value of the Company's equity exceeded its market capitalization, and as such, the Company performed goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, the Company concluded that goodwill was not impaired as of March 31, 2013. The Company will continue to evaluate goodwill for impairment as defined by ASC Topic 350.

Other: As of March 31, 2013 and December 31, 2012, the Company had a customer relationship intangible asset, net of accumulated amortization, of $0.1 million, respectively. This intangible asset was recorded as a result of the acquisition of trust customer relationships. Amortization expense for the first three months of 2013 and 2012 was approximately $49,000. Estimated annual amortization expense is approximately $0.2 million based on use of a 10-year useful life.

NOTE 5 - DEPOSITS

The composition of the Company's interest bearing deposits were as follows:

(Dollars in Thousands)	March 31, 2013	December 31, 2012
NOW Accounts	$ 765,030	$ 842,435
Money Market Accounts	299,118	267,766
Savings Deposits	200,492	184,541

Other Time Deposits	233,325	241,019
Total Interest Bearing Deposits	$ 1,497,965	$ 1,535,761

NOTE 6 - EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan covering substantially all full-time and eligible part-time associates and a Supplemental Executive Retirement Plan ("SERP") covering its executive officers.

The components of the net periodic benefit costs for the Company's qualified benefit pension plan were as follows:

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
Service Cost	$1,875	$1,750
Interest Cost	1,400	1,375
Expected Return on Plan Assets	(1,825)	(1,700)
Prior Service Cost Amortization	75	100
Net Loss Amortization	1,075	850
Net Periodic Benefit Cost	$2,600	$2,375
Discount Rate	4.25 %	5.00 %
Long-Term Rate of Return on Assets	8.00 %	8.00 %

The components of the net periodic benefit costs for the Company's SERP were as follows:

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
Service Cost	$—	$—
Interest Cost	35	46
Prior Service Cost Amortization	48	48
Net Gain Amortization	(63)	(98)
Net Periodic Benefit Cost	$20	$(4)
Discount Rate	4.25%	5.00%

NOTE 7 - 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. The amounts associated with the Company's off-balance sheet obligations were as follows:

	March 31, 2013			December 31, 2012		
(Dollars in Thousands)	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit(1)	$46,699	$242,553	$289,252	$48,618	$245,087	$293,705
Standby Letters of Credit	11,232	—	11,232	11,249	—	11,249
Total	$57,931	$242,553	$300,484	$59,867	$245,087	$304,954

(1) *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.

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.

In July 2012, Visa and MasterCard International entered into a memorandum of understanding to enter into a settlement agreement to resolve the aforementioned Covered Litigation matter. Visa's share of the claim is to be paid from the litigation reserve account. Subsequent to the memorandum of understanding, Visa increased the litigation reserve by $150 million and revised the conversion ratio for the Class B shares resulting in a $56,000 payment by the Company under the swap contract. The Company does not expect to make any additional payments to the counterparty other than certain fixed charges included in the liability, which are payable quarterly in the amount of approximately $25,000 until the settlement is finalized. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

NOTE 8 – 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. All 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 fairly generic and 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 an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses and related carrying cost obligations required under the contract.

A summary of fair values for assets and liabilities recorded at fair value consisted of the following:

(Dollars in Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
March 31, 2013				
ASSETS:				
Securities available for sale:				
U.S. Treasury	$94,905	$—	$ —	$94,905
U.S. Government Agency	—	52,372	—	52,372
States and Political Subdivisions	—	82,994	—	82,994
Mortgage-Backed Securities	—	67,017	—	67,017
Other Securities	—	10,214	—	10,214
December 31, 2012				
Securities available for sale:				
U.S. Treasury	$97,249	$—	$ —	$97,249
U.S. Government Agency	—	51,664	—	51,664
State and Political Subdivisions	—	79,879	—	79,879
Mortgage-Backed Securities	—	56,982	—	56,982
Other Securities	—	11,211	—	11,211

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. Loan impairment is measured using the present value of expected cash flows or the fair value of the collateral (less selling costs) if the loan is collateral dependent. 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. The inputs used in determining the present value of expected cash flows are not observable and therefore are considered Level 3 inputs. 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 loans had a carrying value of $94.3 million with a valuation allowance of $9.8 million at March 31, 2013 and $108.8 million and $10.9 million, respectively, at December 31, 2012.

Loans Held for Sale. Loans held for sale were $11.4 million and $14.2 million as of March 31, 2013 and December 31, 2012, respectively. 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 the first three months of 2013, 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 will obtain updated appraisals on foreclosed assets and realize valuation adjustments as necessary. The fair value of foreclosed assets is estimated using Level 3 inputs due to the volatility of the real estate market, and judgment and estimation involved in the real estate valuation process. Foreclosed assets measured at fair value upon initial recognition totaled $13.0 million during the three months ended March 31, 2013. The Company disposed of $6.7 million in foreclosed assets, recognized subsequent write-downs totaling $1.1 million for properties that were re-valued, and realized miscellaneous adjustments totaling $0.1 million during the three months ended March 31, 2013. The carrying value of foreclosed assets was $58.4 million at March 31, 2013 and $53.4 million at December 31, 2012.

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.

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 consisted of the following:

(Dollars in Thousands)	March 31, 2013 Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$52,677	$52,677	$—	$—
Short-Term Investments	461,714	461,714	—	—
Investment Securities	307,502	94,905	212,597	—

Loans Held for Sale	11,422	—	11,422	—
Loans, Net of Allowance for Loan Losses	1,427,096	—	—	1,322,918
LIABILITIES:				
Deposits	$2,113,982	$—	$2,114,482	$—
Short-Term Borrowings	50,682	—	50,504	—
Subordinated Notes Payable	62,887	—	62,889	—
Long-Term Borrowings	41,224	—	43,962	—

(Dollars in Thousands)	December 31, 2012 Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$66,238	$66,238	$—	$—
Short-Term Investments	443,494	443,494	—	—
Investment Securities	296,985	97,249	199,736	—
Loans Held for Sale	14,189	—	14,189	—
Loans, Net of Allowance for Loan Losses	1,477,946	—	—	1,370,056
LIABILITIES:				
Deposits	$2,144,996	$—	$2,145,547	$—
Short-Term Borrowings	47,435	—	46,503	—
Subordinated Notes Payable	62,887	—	62,896	—
Long-Term Borrowings	46,859	—	50,003	—

All non-financial instruments are excluded from the above table. The disclosures also do not include certain intangible assets such as client relationships, deposit base intangibles and goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

NOTE 9 – OTHER COMPREHENSIVE INCOME (LOSS)

The amounts allocated to other comprehensive income (loss) are presented in the table below. Reclassification adjustments related to securities held for sale are included in net gain (loss) on securities transactions in the accompanying consolidated statements of comprehensive income. For the periods presented, reclassifications adjustments related to securities held for sale was not material.

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
Other Comprehensive Income (Loss):		
Securities Available for Sale:		
Change in net unrealized gain, net of tax expense of $1 and tax benefit of $150	$6	$(246)
Net Other Comprehensive Income (Loss)	$6	$(246)

The components of accumulated other comprehensive loss, net of tax, as of each period end were as follows:

	2013	2012
Net unrealized gain on securities available for sale	$579	$818
Net unfunded liability for defined benefit pension plan and SERP plan	(30,132)	(24,593)
Accumulated Other Comprehensive Loss	$(29,553)	$(23,775)

NOTE 10 – ACCOUNTING STANDARDS UPDATES

ASU 2013-02 "Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to separately present the amount reclassified out of accumulated other comprehensive income ("AOCI") for each component of AOCI and to disclose, for each affected line item in the income statement, the amount of AOCI that has been reclassified into that line item. If the reclassification doesn't go directly to an income statement line it is acceptable to cross reference that amount to another footnote that provides the required disclosure. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

Item 2. 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. 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 2013 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, 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,"
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 our 2012 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

However, other factors besides those listed in our Quarterly Report or in our 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

We are a bank 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 66 full-service 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.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on 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 service charges on deposit accounts, asset management fees, retail securities brokerage fees, mortgage banking fees, bank card fees, and data processing fees.

A detailed discussion regarding the economic conditions in our markets and our long-term strategic objectives is included as part of the MD&A section of our 2012 Form 10-K.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2013	2012				2011		
(Dollars in Thousands, Except Per Share Data)	First	Fourth	Third	Second	First	Fourth	Third	Se
Summary of Operations:								
Interest Income	$21,128	$21,787	$22,326	$22,437	$23,130	$23,912	$24,891	$2
Interest Expense	1,183	1,232	1,295	1,372	1,469	1,515	1,791	2
Net Interest Income	19,945	20,555	21,031	21,065	21,661	22,397	23,100	2
Provision for Loan Losses	1,070	2,766	2,864	5,743	4,793	7,600	3,718	3
Net Interest Income After Provision for Loan Losses	18,875	17,789	18,167	15,322	16,868	14,797	19,382	1
Noninterest Income	13,588	14,118	13,575	13,906	13,586	13,873	14,193	1
Noninterest Expense	31,200	29,468	30,201	32,293	32,597	31,103	30,647	3
Income (Loss) Before Income Taxes	1,263	2,439	1,541	(3,065)	(2,143)	(2,433)	2,928	3
Income Tax Expense (Benefit)	424	564	420	(1,339)	(981)	(1,898)	951	1
Net Income (Loss)	$839	$1,875	$1,121	$(1,726)	$(1,162)	$(535)	$1,977	$2
Net Interest Income (FTE)	$20,079	$20,697	$21,179	$21,219	$21,833	$22,560	$23,326	$2
Per Common Share:								
Net Income (Loss) Basic	$0.05	$0.11	$0.07	$(0.10)	$(0.07)	$(0.03)	$0.12	$0
Net Income (Loss) Diluted	0.05	0.11	0.07	(0.10)	(0.07)	(0.03)	0.12	0
Cash Dividends Declared	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0
Diluted Book Value	14.35	14.31	14.54	14.48	14.60	14.68	15.20	1
Market Price:								
High	12.54	11.91	10.96	8.73	9.91	11.11	11.18	1
Low	10.95	9.04	7.00	6.35	7.32	9.43	9.81	9
Close	12.35	11.37	10.64	7.37	7.45	9.55	10.38	1

Selected Average Balances:								
Loans, Net	$1,496,432	$1,518,280	$1,541,262	$1,570,827	$1,596,480	$1,646,715	$1,667,720	$1
Earning Assets	2,240,889	2,178,946	2,209,166	2,262,847	2,268,307	2,146,463	2,202,927	2
Total Assets	2,598,680	2,534,011	2,566,239	2,624,417	2,636,907	2,509,915	2,563,251	2
Deposits	2,102,967	2,051,099	2,075,482	2,135,653	2,161,388	2,032,975	2,061,913	2
Shareowners' Equity	249,557	253,017	251,746	252,644	254,447	264,276	263,902	2
Common Equivalent Average Shares:								
Basic	17,302	17,229	17,215	17,192	17,181	17,160	17,152	1
Diluted	17,309	17,256	17,228	17,192	17,181	17,161	17,167	1
Performance Ratios:								
Return on Average Assets	0.13%	0.29%	0.17%	(0.26)%	(0.18)%	(0.08)%	0.31%	0
Return on Average Equity	1.36	2.95	1.77	(2.75)	(1.84)	(0.80)	2.97	3
Net Interest Margin (FTE)	3.64	3.78	3.82	3.77	3.87	4.17	4.20	4
Noninterest Income as % of Operating Revenue	40.62	40.81	39.31	39.88	38.64	38.34	38.14	3
Efficiency Ratio	92.67	84.68	86.89	91.18	92.04	85.37	81.69	8
Asset Quality:								
Allowance for Loan Losses	$27,803	$29,167	$30,222	$29,929	$31,217	$31,035	$29,658	$3
Allowance for Loan Losses to Loans	1.90%	1.93%	1.97%	1.93%	1.98%	1.91%	1.79%	1
Nonperforming Assets ("NPAs")	103,869	117,648	127,247	132,829	136,826	137,623	114,592	1
NPAs to Total Assets	3.99	4.47	5.10	5.02	5.14	5.21	4.54	4
NPAs to Loans plus ORE	6.81	7.47	8.02	8.23	8.36	8.14	6.67	6
Allowance to Non-Performing Loans	61.17	45.42	40.80	40.03	39.65	41.37	55.54	5
Net Charge-Offs to Average Loans	0.66	1.00	0.66	1.80	1.16	1.50	1.22	1
Capital Ratios:								
Tier I Capital	14.95%	14.35%	14.43%	14.17%	14.17%	13.96%	14.05%	1

Total Capital	16.32	15.72	15.80	15.54	15.54	15.32	15.41	1
Tangible Capital	6.49	6.35	6.86	6.40	6.42	6.51	7.19	6
Leverage	9.81	9.90	9.83	9.60	9.71	10.26	10.20	9

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

- ♦ Net income of $0.8 million, or $0.05 per diluted share for the first quarter of 2013 compared to net income of $1.9 million, or $0.11 per diluted share in the fourth quarter of 2012, and a net loss of $1.2 million, or $0.07 per diluted share for the first quarter of 2012.

- ♦ Total credit costs (loan loss provision plus other real estate owned (“OREO”) expenses) were $4.0 million, $4.7 million, and $8.3 million for the quarters ended March 31, 2013, December 31, 2012, and March 31, 2012, respectively. The improvement primarily reflects improving credit quality trends and lower loan losses.

- ♦ Tax equivalent net interest income for the first quarter of 2013 totaled $20.1 million, a $0.6 million, or 3.0%, decrease from the fourth quarter of 2012 and a $1.7 million, or 8.0%, decline from the first quarter of 2012. The decrease compared to both prior periods was due to a reduction in loan income primarily attributable to declining loan balances and unfavorable asset repricing, partially offset by a reduction in interest expense and a lower level of foregone interest on loans.

- ♦ Noninterest income for the first quarter of 2013 totaled $13.6 million, a decrease of $0.5 million, or 3.8%, from the fourth quarter of 2012 primarily attributable to a decline in deposit fees reflective of lower utilization of our overdraft product due to client receipt of tax refunds as well as two less processing days. Compared to the same prior year period, noninterest income remained flat as higher retail brokerage fees and mortgage banking fees were offset by lower deposit fees and bank card fees.

- ♦ Noninterest expense for the first quarter of 2013 totaled $31.2 million, an increase of $1.7 million, or 5.9%, over the fourth quarter of 2012 and a decrease of $1.4 million, or 4.3%, from the first quarter of 2012. The increase compared to the fourth quarter of 2012 was primarily attributable to higher pension plan expense and OREO expense. The favorable variance in noninterest expense compared to the first quarter of 2012 was attributable to lower compensation expense, OREO expense, professional fees, legal fees, advertising costs, and postage.

Financial Condition

- ♦ Average earning assets totaled $2.241 billion for the first quarter of 2013, an increase of $61.9 million, or 2.8% over the fourth quarter of 2012, and a decline of $27.4 million, or 1.2%, from the first quarter of 2012. The increase compared to the fourth quarter of 2012 primarily reflects a higher level of deposits resulting from the seasonal influx of public funds. The slight decline from the same prior year period was due to reduction in the loan portfolio resulting from the resolution of problem loans.

- ♦ Average loans decreased $21.8 million, or 1.4%, from the fourth quarter of 2012 and $100.0 million, or 6.3%, from the first quarter of 2012 due to weak loan demand attributable to consumer and business deleveraging, the lack of consumer confidence, and a sluggish economy. Normal amortization and a higher level of payoffs as well as the resolution of problem loans also affected the balance of loans.

- ♦ Average deposit balances were $2.103 billion for the first quarter of 2013, an increase of $51.9 million, or 2.5%, over the fourth quarter of 2012 and a decrease of $58.4 million, or 2.7%, from the first quarter of 2012. Higher public funds balances partially offset by lower certificates of deposit balances drove the increase compared to the fourth quarter of 2012, while the reduction from the first quarter of 2012 reflects lower public funds, certificates of deposit and noninterest bearing deposit balances.

- ♦ Nonperforming assets totaled $103.9 million at March 31, 2013, a decrease of $13.8 million from December 31, 2012 and $33.0 million from March 31, 2012. Nonperforming assets represented 3.99% of total assets at March 31, 2013 compared to 4.47% at December 31, 2012 and 5.14% at March 31, 2012.

- ♦ As of March 31, 2013, we are well-capitalized with a risk based capital ratio of 16.32% and a tangible common equity ratio of 6.49% compared to 15.72% and 6.35%, respectively, at December 31, 2012, and 15.54% and 6.42%, respectively, at March 31, 2012.

RESULTS OF OPERATIONS

Net Income

For the first quarter of 2013, we realized net income of $0.8 million, or $0.05 per diluted share, compared to net income of $1.9 million, or $0.11 per diluted share in the fourth quarter of 2012 and a net loss of $1.2 million, or $0.07 per diluted share for the first quarter of 2012.

Compared to the fourth quarter of 2012, performance reflects lower operating revenues of $1.1 million and a $1.7 million increase in noninterest expense, offset by a $1.7 million reduction in the loan loss provision. Compared to the first quarter of 2012, the increase in net income was due to a lower loan loss provision of $3.7 million and lower noninterest expense of $1.4 million, which was partially offset by lower operating revenues of $1.7 million and higher income tax expense of $1.4 million.

A condensed earnings summary of each major component of our financial performance is provided below:

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2013	December 31, 2012	March 31, 2012
Interest Income	$21,128	$21,787	$23,130
Taxable Equivalent Adjustments	134	142	172
Total Interest Income (FTE)	21,262	21,929	23,302
Interest Expense	1,183	1,232	1,469
Net Interest Income (FTE)	20,079	20,697	21,833
Provision for Loan Losses	1,070	2,766	4,793
Taxable Equivalent Adjustments	134	142	172
Net Interest Income After Provision for Loan Losses	18,875	17,789	16,868
Noninterest Income	13,588	14,118	13,586
Noninterest Expense	31,200	29,468	32,597
Income (Loss) Before Income Taxes	1,263	2,439	(2,143)
Income Tax Expense (Benefit)	424	564	(981)
Net Income (Loss)	$839	$1,875	$(1,162)
Basic Net Income (Loss) Per Share	$0.05	$0.11	$(0.07)
Diluted Net Income (Loss) Per Share	$0.05	$0.11	$(0.07)

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. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 37.

Tax equivalent net interest income for the first quarter of 2013 was $20.1 million compared to $20.7 million for the fourth quarter of 2012 and $21.8 million for the first quarter of 2012. The decrease in tax equivalent net interest income compared to the prior periods was due to a continued decline in loan income, partially offset by a reduction in interest expense and a lower level of foregone interest on loans.

Tax equivalent interest income for the first quarter of 2013 was $21.3 million compared to $21.9 million for the fourth quarter of 2012 and $23.3 million for the first quarter of 2012. The decrease in interest income when compared to both periods reflects unfavorable asset repricing and declining loan balances, which has been partially offset by lower foregone interest on nonaccrual loans.

Interest expense was $1.2 million for both the first quarter of 2013 and fourth quarter of 2012, respectively, and $1.5 million for the first quarter of 2012. The lower interest expense is attributable to favorable repricing on FHLB advances and certificates of deposit, which reflects both lower balances and favorable repricing.

The net interest margin for the first quarter of 2013 was 3.64%, a decrease of 14 basis points from the fourth quarter of 2012 and a decline of 23 basis points from the first quarter of 2012. The decrease for all comparable periods was primarily attributable to the adverse impact of lower rates and a change in the mix of earning assets, which more than offset the repricing of our deposit base.

The decline in the loan portfolio, coupled with the low rate environment continues to put downward pressure on our net interest income. The loan portfolio yield has been declining because the average rate on new loans is lower than the loans being paid off and the existing adjustable rate loans repricing lower. Lowering our cost of funds, to the extent we can, and continuing to shift the mix of our deposits will help to partially mitigate the unfavorable impact of weak loan demand and repricing, although any further impact is expected to be minimal.

Given the unfavorable asset repricing and low rate environment, we anticipate continued pressure on the margin during the remainder of 2013.

Provision for Loan Losses

The provision for loan losses for the first quarter of 2013 was $1.1 million compared to $2.8 million in the fourth quarter of 2012 and $4.8 million for the first quarter of 2012. The decrease in the loan loss provision compared to both prior periods reflects a lower level of impaired loan additions and related reserves as well as improving trends in loan delinquencies, classified loans, and loan losses. Net charge-offs for the first quarter of 2013 totaled $2.4 million, or 0.66% (annualized), of average loans compared to $3.8 million, or 1.00%, for the fourth quarter of 2012 and $4.6 million, or 1.16%, in the first quarter of 2012. The decline in net charge-offs compared to both prior periods reflects both a lower level of loan defaults and related loss content.

Charge-off activity for the respective periods is set forth below:

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2013	December 31, 2012	March 31, 2012
CHARGE-OFFS			
Commercial, Financial and Agricultural	$154	$166	$268
Real Estate – Construction	610	227	—
Real Estate – Commercial Mortgage	1,043	468	1,532
Real Estate – Residential	683	2,877	1,967
Real Estate – Home Equity	113	745	892
Consumer	296	488	732
Total Charge-offs	2,899	4,971	5,391
RECOVERIES			
Commercial, Financial and Agricultural	51	87	69
Real Estate – Construction	—	7	—
Real Estate – Commercial Mortgage	38	468	138
Real Estate – Residential	96	83	163
Real Estate – Home Equity	18	250	18

Consumer	262	255	392
Total Recoveries	465	1,150	780
Net Charge-offs	$2,434	$3,821	$4,611
Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Interest	0.66 %	1.00 %	1.16 %

Noninterest Income

Noninterest income for the first quarter of 2013 totaled $13.6 million, a decrease of $0.5 million, or 3.8%, from the fourth quarter of 2012 reflective of lower deposit fees of $0.6 million, asset management fees of $0.1 million, and other income of $0.2 million, partially offset by higher retail brokerage fees of $0.2 million and mortgage banking fees of $0.1 million. Compared to the first quarter of 2012, noninterest income remained flat as higher retail brokerage fees of $0.2 million and mortgage banking fees of $0.2 million were offset by lower deposit fees of $0.2 million, bank card fees of $0.1 million, and other income of $0.1 million.

Noninterest income represented 40.62% of operating revenues in the first quarter of 2013 compared to 40.81% in the fourth quarter of 2012 and 38.64% in the first quarter of 2012. The increase over the first quarter of 2012 reflects a lower level of operating revenues.

The table below reflects the major components of noninterest income.

	Three Months Ended		
(Dollars in Thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Service Charges on Deposit Accounts	$6,165	$6,764	$6,309
Data Processing Fees	653	671	675
Asset Management Fees(1)	993	1,100	1,015
Retail Brokerage Fees(1)	922	718	758
Mortgage Banking Fees	1,043	910	848
Interchange Fees(2)	1,793	1,726	1,526
ATM/Debit Card Fees(2)	868	886	1,245
Other	1,151	1,343	1,210
Total Noninterest Income	$13,588	$14,118	$13,586

(1) *Together "Wealth Management Fees"*
(2) *Together "Bank Card Fees"*

Significant components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Deposit service charge fees decreased $599,000, or 8.9%, from the fourth quarter of 2012 and $144,000, or 2.3%, from the first quarter of 2012. The decline from the fourth quarter was primarily due to an expected lower utilization of our overdraft protection service during the first quarter as clients receive tax refunds and, to a lesser extent, two fewer processing days in the first quarter of 2013. Compared to the first quarter of 2012, the reduction was due to a higher level of charged off checking accounts.

Wealth Management Fees. Fees from asset management activities decreased $107,000, or 9.7%, from the fourth quarter of 2012 and $22,000, or 2.1%, from the first quarter of 2012. The decrease in fees compared to the fourth quarter of 2012 reflects a higher level of fees billed during the fourth quarter reflective of accounts that are on an annual billing cycle. The decrease in fees compared to the same period of 2012 reflects a lower level of assets under management, primarily due to account distributions. At March 31, 2013, assets under management totaled $625.0 million compared to $614.3 million at December 31, 2012, and $688.6 million at March 31, 2012. Retail brokerage fees from the sale of retail investment and insurance products increased $204,000, or 28.4%, over the fourth quarter of 2012 and increased $164,000, or 21.6%, over the first quarter of 2012. The change for each period reflected higher trading activity by clients.

Mortgage Banking Fees. Mortgage banking fees increased $133,000, or 14.6%, over the fourth quarter of 2012 and $195,000, or 22.9%, over the first quarter of 2012 driven by a higher level of loans funded and a higher margin

realized for sold loans. The mix of new loan production between refinance and home purchase for the first quarter of 2013 was 50%/50%.

Bank Card Fees. Bank card fees (including interchange fees and ATM/debit card fees) increased $49,000, or 1.9%, over the fourth quarter of 2012 and decreased $110,000, or 4.0%, from the first quarter of 2012. The variance for both prior periods reflects higher and lower card utilization, respectively.

Other. Other income decreased by $192,000, or 14.3%, from the fourth quarter of 2012 and $59,000, or 4.9%, from the first quarter of 2012. The decline from the fourth quarter of 2012 was primarily attributable to a lower level of gains from the sale of OREO properties. The reduction from the first quarter of 2012 was primarily due to a lower level of fees for our working capital finance product.

Noninterest Expense

Noninterest expense for the first quarter of 2013 totaled $31.2 million, an increase of $1.7 million, or 5.9%, over the fourth quarter of 2012 and a decrease of $1.4 million, or 4.3%, from the first quarter of 2012. The increase compared to the fourth quarter of 2012 was primarily due to higher compensation expense of $1.0 million and an increase in OREO expense of $1.0 million, partially offset by lower professional fees of $0.2 million. The favorable variance compared to the first quarter of 2012 was primarily due to lower compensation expense of $0.1 million, OREO expense of $0.6 million, professional fees of $0.2 million, legal fees of $0.1 million, advertising costs of $0.1 million, and postage expense of $0.1 million. Expense management continues to be a key strategic focus as we evaluate opportunities to optimize our delivery channels, review our vendor relationships, and better manage our discretionary expenses.

The table below reflects the major components of noninterest expense.

	Three Months Ended		
(Dollars in Thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Salaries	$12,346	$11,785	$12,742
Associate Benefits	4,393	3,987	4,101
Total Compensation	16,739	15,772	16,843
Premises	2,248	2,200	2,266
Equipment	2,153	2,212	2,201
Total Occupancy	4,401	4,412	4,467
Legal Fees	1,001	1,017	1,104
Professional Fees	1,137	1,308	1,321
Processing Services	1,127	1,037	963
Advertising	322	391	395
Travel and Entertainment	194	214	184
Printing and Supplies	249	228	289
Telephone	492	489	479
Postage	314	351	445
Insurance – Other	1,040	1,031	1,033
Intangible Amortization	68	108	108
Other Real Estate Owned	2,901	1,917	3,513
Miscellaneous	1,215	1,193	1,453
Total Other	10,060	9,284	11,287
Total Noninterest Expense	$31,200	$29,468	$32,597

Significant components of noninterest expense are discussed in more detail below.

Compensation. Total compensation expense increased $967,000, or 6.1%, over the fourth quarter of 2012 and decreased $104,000, or 0.6%, from the first quarter of 2012. The increase in compensation was driven by higher salary expense of $561,000 and associate benefit expense of $406,000. Higher payroll taxes of $183,000, unemployment taxes of $226,000, and cash incentive expense of $138,000 drove the increase in salary expense. The increase in associate benefit expense was due to a higher level of expense for our pension plan of $395,000. The increase in payroll taxes reflects the reset of social security taxes and the increase in unemployment taxes is attributable to timing as a large portion of the annual premium is paid in the first quarter. Cash incentive expense increased due to the reset of these plans for 2013 performance metrics. The increase in expense for our pension plan was primarily attributable to the utilization of a lower discount rate in 2013 due to lower long-term bond interest rates. Compared to the first quarter of 2012, the decrease was due to lower salary expense of $396,000 partially offset by higher associate benefit expense of $292,000. Salary expense decreased due to lower base salary expense driven by reduced headcount. Higher pension plan expense drove the increase in associate benefit expense attributable to the aforementioned decrease in the discount rate.

Occupancy. Occupancy expense (including premises and equipment) totaled $4.4 million for the first quarter of 2013, comparable to the fourth quarter as higher equipment expense of approximately $50,000 was offset by lower premises expense. Compared to the first quarter of 2012, occupancy expense decreased by $66,000, or 1.5%, due to lower maintenance agreement expense of $101,000, partially offset by higher expense for software licenses of $50,000. The reduction in maintenance agreement expense reflects progress realized in the renegotiation of vendor agreements and the increase in software license expense was due to the implementation of a new loan delivery system.

Other. Other noninterest expense increased $776,000, or 8.4%, over the fourth quarter of 2012 and decreased $1.2 million, or 10.9%, from the first quarter of 2012. The increase compared to the fourth quarter of 2012 primarily reflects higher OREO expense of $984,000, partially offset by lower professional fees of $171,000. The increase in OREO expense was due to a higher level of property valuation adjustments. Lower audit fees drove the reduction in professional fees. The decrease compared to the first quarter of 2012 was attributable to lower expense for OREO properties, professional fees, advertising, legal fees, and postage. The reduction in OREO expense was due to a lower level of loss on sale from property dispositions. Lower audit fees drove the decline in professional fees. Advertising costs decreased due to a reduced level of both media and product promotional activities. The reduction in legal fees reflected a reduced level of legal support needed for problem asset resolutions. The decline in postage expense reflected cost reduction strategies implemented late in 2012.

Our operating efficiency ratio (expressed as noninterest expense as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 92.67% for the first quarter of 2013 compared to 84.68% for the fourth quarter of 2012 and 92.04% for the first quarter of 2012. The increase in this ratio over the fourth quarter of 2012 was primarily driven by lower operating revenues (net interest income plus noninterest income) and higher noninterest expense.

Income Taxes

We realized income tax expense of $0.4 million in the first quarter of 2013 compared to income tax expense of $0.6 million for the fourth quarter of 2012 and an income tax benefit of $1.0 million for the first quarter of 2012. Income tax expense for the fourth quarter of 2012 reflects the benefit of the resolution of certain tax contingencies which favorably impacted income tax expense. The income tax benefit realized in the first quarter of 2012 was a result of the loss incurred for the quarter.

FINANCIAL CONDITION

Average assets totaled approximately $2.599 billion for the first quarter of 2013, an increase of $64.7 million, or 2.6%, over the fourth quarter of 2012 and a decrease of $38.2 million, or 1.5%, from the first quarter of 2012. Average earning assets were $2.241 billion for the first quarter of 2013, an increase of $61.9 million, or 2.8%, over the fourth quarter of 2012, and a decline of $27.4 million, or 1.2%, from the first quarter of 2012. We discuss these variances in more detail below.

Investment Securities

In the first quarter of 2013, our average investment portfolio increased $1.4 million, or 0.5%, from the fourth quarter of 2012 and decreased $2.8 million, or 0.9%, from the first quarter of 2012. As a percentage of average earning assets, the investment portfolio represented 13.2% in the first quarter of 2013, compared to 13.5% in the fourth quarter of 2012 and 13.2% in the first quarter of 2012. The increase in the average balance of the investment portfolio compared to the fourth quarter of 2012 quarter was primarily attributable to increases in high-quality municipal bond investments. The declines compared to the first quarter 2012 resulted from maturing U.S. Treasury holdings that were partially replaced by U.S. Government Agencies and high-quality municipal bond investments. When appropriate, we will continue to look to deploy a portion of the overnight funds position in the investment portfolio during the remainder of 2013.

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. As of March 31, 2013, all securities are classified as available-for-sale,

which offers management full flexibility in managing our liquidity and interest rate sensitivity without adversely impacting our regulatory capital levels. It is neither management's 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. Securities in the available-for-sale 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.

At March 31, 2013, the investment portfolio contained a net pre-tax unrealized gain of $0.9 million compared to $0.9 million at December 31, 2012 and $1.3 million March 31, 2012. Approximately 83 positions totaling $46.4 million of our investment securities have an unrealized loss totaling $0.1 million. All positions have been in a loss position for less than 12 months with the exception of one GNMA mortgage-backed security ("MBS"), one Small Business Administration ("SBA") investment, and 22 municipal bonds rated "AA-" or better. These 24 positions carry a total unrealized loss of $31,000, but are not considered impaired, and are expected to mature at par or better. The remaining positions consist of municipal bonds rated "AA-" or better, Small Business Administration ("SBA") investments, Federal Farm Credit bonds (FFCB) and GNMA MBS. The SBA and GNMA investments carry the full faith and credit of the U.S. Government. Excluded from these figures is a $0.6 million unrealized loss on a preferred stock investment that was carried at a zero book value as of March 31, 2013 and December 31, 2012. No additional impairment was recorded during the first quarter of 2013, but we continue to closely monitor the fair value of this security as the issuer of this security continues to experience negative operating trends.

The average maturity of the total portfolio at March 31, 2013 was 1.70 years compared to 1.57 years and 1.41 years at December 31, 2012 and March 31 2012, respectively. The average life of the total portfolio in the first quarter of 2013 extended compared to the previous quarter and prior year, as slightly longer GNMA MBS and US Treasuries were purchased.

Loans

During the first quarter of 2013, compared to the fourth quarter of 2012 and the first quarter of 2012, average loans declined by $21.8 million and $100.0 million, respectively. Most loan categories have experienced declines with the reduction primarily in the commercial real estate, residential and consumer loan categories. Our core loan portfolio continues to be impacted by normal amortization and a higher level of payoffs that have outpaced our new loan production. New loan production continues to be impacted by weak loan demand attributable to the trend toward consumers and businesses deleveraging, the lack of consumer confidence, and a persistently sluggish economy.

The resolution of problem loans, which has the effect of lowering the loan portfolio as loans are either charged off or transferred to OREO, also contributed to the overall decline. During the first quarter of 2013, loan charge-offs and loans transferred to OREO accounted for $15.9 million, or 29%, of the net reduction in total loans of $55.0 million from the fourth quarter of 2012. Compared to the first quarter of 2012, loan resolution accounted for $51.4 million, or 45.7%, of the net reduction in loans of $112.6 million. The problem loan resolutions and reductions in portfolio balances noted in this paragraph are based on “as of” balances, not averages.

Efforts to stimulate new loan growth are ongoing. During 2012, we modified lending programs in our business and commercial real estate areas to try and mitigate the significant impact that consumer and business deleveraging is having on our portfolio. We will not relax our underwriting standards in order to achieve designated growth goals and, where appropriate, have adjusted our standards to reflect risks inherent in the current economic environment.

Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled $103.9 million at the end of the first quarter of 2013, a decrease of $13.8 million from the fourth quarter of 2012 and $33.0 million from the first quarter of 2012. Nonaccrual loans totaled $45.4 million at the end of the first quarter of 2013, a decrease of $18.8 million and $33.3 million, respectively, from the same prior year periods. Nonaccrual loan additions in the first quarter of 2013 totaled $7.7 million compared to $12.5 million and $19.7 million for the fourth quarter of 2012 and first quarter of 2012, respectively. The balance of OREO totaled $58.4 million at the end of the first quarter of 2013, an increase of $5.0 million over the fourth quarter of 2012 and $0.3 million over the first quarter of 2012. For the first quarter of 2013, we added properties totaling $13.0 million, sold properties totaling $6.8 million, and recorded valuation adjustments totaling $1.2 million. Nonperforming assets represented 3.99% of total assets at March 31, 2013 compared to 4.47% at December 31, 2012 and 5.14% at March 31, 2012.

(Dollars in Thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Nonaccruing Loans:			
Commercial, Financial and Agricultural	$880	$1,069	$808
Real Estate - Construction	1,919	4,071	943
Real Estate - Commercial Mortgage	26,707	41,045	46,886
Real Estate - Residential	10,665	13,429	25,445
Real Estate - Home Equity	4,685	4,034	4,097
Consumer	592	574	547
Total Nonperforming Loans (“NPLs”[1])	$45,448	$64,222	$78,726
Other Real Estate Owned	58,421	53,426	58,100
Total Nonperforming Assets (“NPAs”)	$103,869	$117,648	$136,826
Past Due Loans 30 – 89 Days	$9,274	$9,934	$9,193
Past Due Loans 90 Days or More (accruing)	—	—	25
Performing Troubled Debt Restructurings	53,108	47,474	37,373
Nonperforming Loans/Loans	3.10 %	4.22 %	4.99 %

Nonperforming Assets/Total Assets	3.99		4.47		5.14	
Nonperforming Assets/Loans Plus OREO	6.81		7.47		8.36	
Allowance/Nonperforming Loans	61.17	%	45.42	%	39.65	%

(1) *Nonperforming TDRs are included in the Nonaccrual/NPL totals*

30

Activity within our nonperforming asset portfolio is provided in the table below.

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
NPA Beginning Balance:	$117,648	$137,623
Change in Nonaccrual Loans:		
Beginning Balance	64,222	75,023
Additions	7,723	19,684
Charge-Offs	(2,725)	(4,723)
Transferred to OREO	(12,897)	(3,724)
Paid Off/Payments	(3,600)	(3,050)
Restored to Accrual	(7,275)	(4,484)
Ending Balance	45,448	78,726
Change in OREO:		
Beginning Balance	53,426	62,600
Additions	12,979	4,076
Valuation Write-downs	(1,145)	(685)
Sales	(6,740)	(7,891)
Other	(99)	—
Ending Balance	58,421	58,100
NPA Net Change	(13,779)	(797)
NPA Ending Balance	$103,869	$136,826

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

	Three Months Ended March 31,	
(Dollars in Thousands)	2013	2012
TDR Beginning Balance:	$57,353	$50,651
Additions	5,014	6,264
Charge-Offs	—	(969)
Paid Off/Payments	(637)	(3,282)
Defaults	(304)	(2,518)
TDR Ending Balance	$61,426	$50,146

Allowance for Loan Losses

We maintain an allowance for loan losses at a level that management believes to be sufficient to provide for probable losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from 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. All related risks of lending are considered when assessing the adequacy of the loan loss reserve. The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes collection of the principal is unlikely. The allowance for loan losses is based on management's judgment of overall loan quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on changes in the assessment of the loan portfolio's overall credit quality. We evaluate the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses was $27.8 million at March 31, 2013 compared to $29.2 million at December 31, 2012 and $31.2 million at March 31, 2012. The allowance for loan losses was 1.90% of outstanding loans and provided coverage of 61% of nonperforming loans at March 31, 2013 compared to 1.93% and 45%, respectively, at December 31, 2012 and 1.98% and 40%, respectively, at March 31, 2012. The decrease in the allowance balance compared to both prior periods reflects a reduction in both impaired and general reserve levels. The reduction in impaired loan reserves reflects the migration of loans to OREO and related charge-offs which outpaced reserve additions for newly impaired loans. The reduction in general reserves was primarily driven by overall slower problem loan migration as reflected by a reduction in loan delinquencies and classified loans, and lower loss content attributable to improving trends in loan charge-offs. It is management's opinion that the allowance at March 31, 2013 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Deposits

Average total deposits were $2.103 billion for the first quarter of 2013, an increase of $51.9 million, or 2.5%, over the fourth quarter of 2012 and lower by $58.4 million, or 2.7%, from the first quarter of 2012. The increase in deposits when compared to the fourth quarter of 2012 resulted primarily from the higher level of public funds, partially offset by a reduction in certificates of deposit. When compared to the first quarter of 2012, the decline was a result of lower public funds, certificates of deposit and noninterest bearing accounts, partially offset by growth in savings and money market accounts.

We continue to experience a favorable shift in the mix of our deposits as higher cost certificates of deposit balances are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts. On average for the first quarter of 2013, noninterest bearing deposits comprised 28.5% of our total deposits compared to certificates of deposits, which only represented 11.3% of deposits. This compares to 28.3% and 13.1%, respectively, for the first quarter of 2012. We believe prudent pricing discipline will continue to be the key to managing our mix of deposits. Therefore, we do not typically attempt to compete with competitors by paying higher rates on deposits.

MARKET RISK AND INTEREST RATE SENSITIVITY

Market Risk and Interest Rate Sensitivity

Overview. Market risk management arises from changes in interest rates, exchange rates, commodity prices, and equity prices. We have risk management policies to monitor and limit exposure to market risk and 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 re-price on a different basis than interest-earning assets. When interest-bearing liabilities mature or re-price 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 re-price 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 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.

We prepare a current base case and three alternative simulations, at least once per quarter, and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our interest rate risk management goal is to avoid unacceptable variations in net interest income and capital levels due to fluctuations in market rates. 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 maintaining our core deposits as a significant component of our total funding sources, and by adjusting pricing rates to market conditions on a continuing basis.

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by plus or minus 100, 200, and 300 basis points ("bp"), although we may elect not to use particular scenarios that we determined are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

We augment our interest rate shock analysis with alternative external interest rate scenarios on a quarterly basis. These alternative interest rate scenarios may include non-parallel rate ramps.

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, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

ESTIMATED CHANGES IN NET INTEREST INCOME [(1)]

Changes in Interest Rates	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit (±)	10.0%	7.5%	5.0%	5.0%
March 31, 2013	2.2%	3.4%	2.9%	-1.1%
December 31, 2012	0.01%	2.0%	2.2%	-0.9%

The Net Interest Income at Risk position improved for the first quarter of 2013, when compared to the prior quarter-end, for all rising rate scenarios. Our largest exposure in the rising rate scenarios is at the up 300 bp level, with a measure of 2.2%, which is still within our policy limit of +/-10.0%. This is an improvement over the prior quarter reflecting higher levels of repricing assets, primarily overnight funds, coupled with decreased levels of interest bearing non-maturity deposits. All measures of net interest income at risk are within our prescribed policy limits.

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, and 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 [(1)]

Changes in Interest Rates	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit (±)	12.5%	10.0%	7.5%	7.5%
March 31, 2013	4.9%	7.9%	6.9%	-4.5%
December 31, 2012	3.8%	7.1%	6.6%	-4.7%

As of March 2013, the improvement in the economic value of equity in the "up rate" scenarios was more favorable than it was as of December 2012. This favorable variance is primarily attributable to the overall change in market interest rates during the first quarter of 2013. In both quarters, in the up 300 basis point scenario (relative to the up 200 and 100 basis point scenarios), the level of improvement in the economic value of equity declines. This is attributable to

the varied assumptions on the non-maturity deposits. Based on historical data, interest rates on non-maturity deposits are increased in escalating increments in the rising rate scenarios, with the up 300 scenario being the most aggressive. All measures of economic value of equity are within our prescribed policy limits.

(1) *Down 200 and 300 basis point 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 meet loan commitments, purchase securities or repay deposits and 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. Our principal source of funding has been our client 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 March 31, 2013, we had the ability to generate approximately $585.6 million in additional liquidity through all of our available resources. In addition to 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 Contingency 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 that certain credit facilities may no longer be available. The liquidity available to us is considered sufficient to meet our ongoing needs.

We view our investment portfolio as a source of liquidity 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 and federal agencies, and municipal governments. The weighted average life of the portfolio is approximately 1.7 years and as of March 31, 2013 and had a net unrealized pre-tax gain of $0.9 million.

Our average liquidity (defined as funds sold plus interest bearing deposits with other banks less funds purchased) of $448.4 million during the first quarter of 2013 compared to an average net overnight funds *sold* position of $366.0 million in the prior quarter and an average overnight funds *sold* position of $373.0 million in the first quarter of 2012. The higher balance when compared to the linked quarter reflects higher average public funds deposits and a decrease in the loan portfolio. The higher average balance when compared to the first quarter of 2012 resulted from a decrease in the loan portfolio.

The loan portfolio continues to decline and the deployment of the excess liquidity remains in overnight funds. Given the current economic conditions, we intend to reduce the level of overnight funds during the remainder of 2013.

Capital expenditures are expected to approximate $3.0 million over the next 12 months, which consist primarily of office remodeling, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

Borrowings

At March 31, 2013, advances from the FHLB consisted of $48.7 million in outstanding debt consisting of 45 notes. During the first quarter of 2013, the Bank made FHLB advance payments totaling approximately $0.9 million and paid off four advances totaling $2.6 million. Two advances totaling $1.4 million matured and no additional FHLB advances were obtained. 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 our 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. The interest payment for the CCBG Capital Trust I borrowing is due quarterly and adjusts quarterly to a variable rate of 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 adjusts annually to a variable rate of 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. Under the terms of each trust preferred securities note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock. As of February 2012, in consultation with the Federal Reserve, we elected to defer the interest payments on the notes. We will, however, continue the accrual of the interest on the notes in accordance with our contractual obligations.

In accordance with the Holding Company Resolution, CCBG must receive approval from the Federal Reserve prior to incurring new debt, refinancing existing debt, or making interest payments on its trust preferred securities.

Capital

Equity capital was $248.6 million as of March 31, 2013, compared to $246.9 million as of December 31, 2012 and $250.8 million as of March 31, 2012. Our leverage ratio was 9.81%, 9.90%, and 9.71%, respectively, and our tangible capital ratio was 6.49%, 6.35%, and 6.42%, respectively, for the same periods. Our risk-adjusted capital ratio of 16.32% at March 31, 2013, exceeds the 10% threshold to be designated as “well-capitalized” under the risk-based regulatory guidelines.

During the first three months of 2013, shareowners’ equity increased $1.7 million, or 2.8%, on an annualized basis. During this same period, shareowners’ equity was positively impacted by net income of $0.8 million, stock compensation accretion of $0.2 million, and the issuance of stock totaling $0.7 million.

At March 31, 2013, our common stock had a book value of $14.35 per diluted share compared to $14.31 at December 31, 2012 and $14.60 at March 31, 2012. Book value is impacted by changes in the amount of our net unrealized gain or loss on investment securities available-for-sale and changes to the amount of our unfunded pension liability both of which are recorded through other comprehensive income. At March 31, 2013, the net unrealized gain on investment securities available for sale was $0.6 million and the amount of our unfunded pension liability was $30.1 million.

State and federal regulations place certain restrictions on the payment of dividends by both CCBG and the Bank. Florida law and Federal regulations limit the amount of dividends that the Bank can pay annually to us. Pursuant to the Federal Reserve Resolutions (discussed in further detail within our 2012 Form 10-K), without prior approval, CCBG is prohibited from paying dividends to shareowners and CCB is prohibited from paying dividends to CCBG. In December 2011, we suspended dividend payments to our shareowners.

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 March 31, 2013, we had $289.3 million in commitments to extend credit and $11.2 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 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 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 its ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, advances available from the FHLB and the Federal Reserve, and investment security maturities provide a sufficient source of funds to meet these commitments.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2012 Form 10-K. The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("GAAP") and reporting practices applicable to the banking industry requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

We have identified accounting for (i) the allowance for loan and lease losses, (ii) valuation of goodwill and other intangible assets, and (iii) pension benefits as our most critical accounting policies and estimates in that they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2012 Form 10-K.

TABLE I

AVERAGE BALANCES & INTEREST RATES

	Three Months Ended March 31, 2013			December 31, 2012			March 31, 2012		
(Taxable Equivalent Basis - Dollars in Thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Loans, Net of Unearned Income(1)(2)	$1,496,432	$20,228	5.48 %	$1,518,280	$20,837	5.46 %	$1,596,480	$22,121	5.57 %
Taxable Investment Securities	215,087	590	1.10	219,985	697	1.26	242,481	794	1.31
Tax-Exempt Investment Securities(2)	80,946	174	0.86	74,647	172	0.92	56,313	162	1.15
Funds Sold	448,424	270	0.24	366,034	223	0.24	373,033	225	0.24
Total Earning Assets	2,240,889	21,262	3.85 %	2,178,946	21,929	4.00 %	2,268,307	23,302	4.13 %
Cash & Due From Banks	50,679			51,344			49,427		
Allowance for Loan Losses	(30,467)			(30,605)			(31,382)		
Other Assets	337,579			334,326			350,555		
TOTAL ASSETS	$2,598,680			$2,534,011			$2,636,907		
LIABILITIES									
NOW Accounts	$788,660	$156	0.08 %	$714,682	$131	0.07 %	$823,406	$192	0.09 %
Money Market Accounts	282,847	54	0.08	275,458	57	0.08	277,558	75	0.11
Savings Accounts	193,033	23	0.05	182,760	23	0.05	165,603	20	0.05
Other Time Deposits	238,441	181	0.31	247,679	218	0.35	284,129	356	0.50
Total Interest Bearing Deposits	1,502,981	414	0.11 %	1,420,579	429	0.12 %	1,550,696	643	0.17 %
Short-Term Borrowings	55,255	82	0.60	45,893	69	0.59	45,645	8	0.07
Subordinated Notes Payable	62,887	339	2.15	62,887	351	2.19	62,887	382	2.40
Other Long-Term Borrowings	42,898	348	3.29	42,673	383	3.57	44,286	436	3.96
Total Interest Bearing Liabilities	1,664,021	1,183	0.29 %	1,572,032	1,232	0.31 %	1,703,514	1,469	0.35 %
Noninterest Bearing Deposits	599,986			630,520			610,692		

Other Liabilities	85,116			78,442			68,254		
TOTAL LIABILITIES	2,349,123			2,280,994			2,382,460		
SHAREOWNERS' EQUITY									
TOTAL SHAREOWNERS' EQUITY	249,557			253,017			254,447		
TOTAL LIABILITIES & EQUITY	$2,598,680			$2,534,011			$2,636,907		
Interest Rate Spread			3.56 %			3.69 %			3.78 %
Net Interest Income		$20,079			$20,697			$21,833	
Net Interest Margin(3)			3.64 %			3.78 %			3.87 %

(1) *Average balances include nonaccrual loans. Interest income for the periods in this table includes loan fees of $386,000, $404,000, and $402,000.*

(2) *Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate.*

(3) *Taxable equivalent net interest income divided by average earning assets.*

37

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "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. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2012.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2013, the end of the period covered by this Form 10-Q, 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 March 31, 2013, the end of the period covered by this Form 10-Q, we maintained effective disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). There have been no significant changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to lawsuits arising out of the normal course of business. In management's opinion, there is no known pending 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 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2012 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2012 Form 10-K, as updated, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

None.

Item 5. Other Information

None.

Item 6. Exhibits

(A)	Exhibits
31.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned Chief Financial Officer hereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.

(Registrant)

/s/ J. Kimbrough Davis
J. Kimbrough Davis
Executive Vice President and Chief Financial Officer
(Mr. Davis is the Principal Financial Officer and has been duly authorized to sign on behalf of the Registrant)

Date: May 9, 2013

Exhibit Index

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