



CAPITAL CITY BANK GROUP

2021 ANNUAL REPORT

ANNUAL SHAREOWNERS' MEETING

APRIL 26, 2022 | 10 A.M. E.T.

About Capital City Bank Group, Inc.

Capital City Bank Group, Inc. (NASDAQ: CCBG) is one of the largest publicly traded financial holding companies headquartered in Florida and has approximately \$4.3 billion in assets. We provide a full range of banking services, including traditional deposit and credit services, mortgage banking, asset management, trust, merchant services, bankcards, securities brokerage services and financial advisory services, including the sale of life insurance, risk management and asset protection services. Our bank subsidiary, Capital City Bank, was founded in 1895 and now has 57 banking offices and 86 ATMs/ITMs in Florida, Georgia and Alabama.

For more information about Capital City Bank Group, Inc., visit www.ccbg.com.

DEAR SHAREOWNERS



Capital City had a very good year in 2021. Though the global pandemic continued to influence life on all fronts, the Capital City story reflected a year of meaningful progress, positive trajectory and accomplishments we can look back on with pride – both in terms of what was achieved and how.

Record earnings put an exclamation point on the year, and stand-out performances by a number of our banking teams and lines of business delivered noteworthy results and momentum. We also made headway on a number of major strategic initiatives, driven by a continuous and ongoing focus on identifying strategies that are sustainable and add long-term value for our shareowners.

Additionally, the evolving state of the pandemic provided us the deeply gratifying experience of serving and supporting our clients and associates through what has been a time of great need, which I count among our greatest accomplishments this year. As we endeavored to be responsive to their changing needs, we remained intensely engaged in both inward and outward-facing pandemic measures. From the Paycheck Protection Program (PPP) to providing for the health and well-being of our associates to ensuring our clients had uninterrupted access to banking services, each effort presented an opportunity to demonstrate the Capital City way of doing business, which throughout our history, has prioritized putting people first and doing the right thing.

The challenges we faced during the cycle were numerous and diverse, but with them came opportunities to leverage the strength of our brand, people-centered value system and deep-rooted relationship-banking philosophy to make a difference in our communities while continuing to drive advancement in the franchise.

I am pleased to share our 2021 results and vision for our future.

FINANCIAL HIGHLIGHTS

- > Record net income of \$33.4 million in 2021 represented diluted earnings per share of \$1.98 – an

increase of 5.3% over 2020 – and reflects a three-year average annual increase of 9.6%.

- > Despite the continued low interest-rate environment in 2021, we were pleased with how our operating revenues held firm. Strong core loan growth, higher PPP loan income and a very strong year in fee revenues contributed in 2021. Capital City Home Loans, our mortgage subsidiary, also had a solid year as the residential mortgage market normalized after a historically strong year in 2020.
- > We successfully navigated the uncertain credit environment posed by the pandemic over the past two years, and our credit quality remained very strong, resulting in a provision benefit of \$1.6 million and net loan recoveries of \$0.6 million in 2021. Problem assets also remained low, with nonperforming assets of only 0.10% at year end.
- > At December 31, 2021, total shareowners' equity was \$383.2 million, a \$62.3 million, or 19.4%, increase over 2020. Our regulatory capital ratios continue to significantly exceed levels necessary to be categorized as well capitalized.
- > We remain focused on protecting and growing shareowner value and were extremely pleased with our tangible book value growth of \$3.36 per share, or 24.4%, in 2021. In addition, our dividend grew 8.8% in 2021 and has grown 31% on average per year over the past three years.

Our Form 10-K is included on the following pages and provides a comprehensive analysis of our 2021 financial results beginning on page 35.

BUSINESS LINE HIGHLIGHTS

We realized strong core loan growth of \$100.2 million (excluding PPP loans) coming from an array of loan types, including construction, commercial real estate, residential and indirect auto, with particularly nice gains in our Bibb County (Ga.), Suncoast (Hernando, Pasco and Citrus counties, Fla.) and Northern Arc of Atlanta markets. In 2021, we again served our clients



by offering short-term loans in round two of PPP and originated a total of 3,508 loans, providing more than \$266 million in assistance and helping preserve 33,588 jobs over the two-year program.

Our PPP response called for countless hours of support from members of our lending, credit administration and loan operations teams, whose hard work carried the effort and ensured its success. Our local businesses are the lifeblood of our economies and as vital to the health of our communities as they are to the individuals whose dreams and tireless labors give them life. The most rewarding factor in our decision to offer and support PPP has been being afforded the opportunity to advocate for our clients and serve our communities in such a vital way, and I am proud beyond measure of how our bankers stepped up and delivered during this time of extreme need. *This is why we do what we do.*

Both our retail and commercial lines of business realized strong deposit growth again in 2021, attributable in part to continued economic stimulus programs. Deposit balances grew \$495 million this year, and by a total of \$1.2 billion since the beginning of the pandemic, with noninterest bearing deposits representing 56% of the growth and 45% of total deposits at year end.

Deposit-related fee growth of 11% reflected higher interchange revenue and increased account maintenance fees in large part from the conversion of approximately 32,000 legacy checking accounts to our enhanced Carefree Checking account in the third quarter. First offered in 2018 to provide clients more value than simply a place to keep and access their money, Carefree Checking includes additional benefits such as identify theft protection and shopping rewards, among others.

Our Wealth Division had a strong year marked by a 24% increase in fee revenue – the result of 17% growth in assets under management, which totaled \$2.324 billion at year end. Our Capital City Investments program was honored to be named 2021 Top Investment Program of the Year by LPL Financial, the largest independent Broker-Dealer in the nation and our investment and wealth management services partner since 2018. The title was awarded out of approximately 800 LPL Financial programs located at banks and credit unions across the nation and is based on numerous quantitative and qualitative criteria including display of innovation, leadership in driving change and excellence in execution.

The acquisition of Capital City Strategic Wealth (CCSW) in May was transformative for our Wealth Division

and the Company overall, as it brought with it an array of complementary new offerings such as insurance planning, risk management and asset protection services, as well as investment advisory and estate planning services. These offerings along with those available through Capital City Investments and Capital City Trust Company, enable us to deliver a diverse and comprehensive mix of products and services to meet a broad set of needs. Plus, other key advantages of the alliance, which began gaining traction in the latter part of 2021, include a combined 152 years in business and five additional wealth-management offices in Albany, Colquitt, Moultrie, Pelham and Valdosta, Ga. to expand our existing network. We are eager to watch this partnership grow as our franchises meld and the relationships between our teams solidify.

Now in its second year, our strategic alliance with Capital City Home Loans continues to bring considerable value to the franchise, generating \$1.5 billion in loan production and contributing \$0.23 per share to our 2021 earnings. Additionally, the partnership provides a consistent source of permanent residential portfolio loans and construction loans. All signs point to continued success in 2022.

Robust digital offerings and investing in the right technology to support our clients' banking needs and preferences remained an essential priority as industry and channel transformation continues to occur at a swift and relentless pace. Through the pandemic, we leveraged digital banking technology to better serve our clients in a contactless world and, going forward, remain resolute in our commitment to achieving the right balance between high touch and high tech: where exceptional client-service standards meet well-featured, client-friendly digital tools.

EXPANSION & INVESTING IN THE FUTURE

Both alliances with Capital City Home Loans and Capital City Strategic Wealth reflect a deliberate effort to expand existing product offerings and service areas, and deepen existing banking relationships. Along with the clear financial advantages, the relationships and brand recognition these partnerships bring will allow us to gain immediate traction in future market expansion plans.

In 2021, we established lending teams in Walton County, Fla., and Cobb and Gwinnett counties in the Northern Arc of Atlanta. Initial efforts in these new markets emphasize business and commercial lending offerings. However, plans for expanded banking services and joint office space with our CCHL partners are on the road map for 2022.

FINANCIAL HIGHLIGHTS

Expansion of our footprint and offerings will remain a strategic imperative as the financial services business undergoes transformative change. Evolution and change have been realities in our industry since long before the pandemic upended the ways of doing business in nearly every sector. Capital City has long been engaged in the practice of continually analyzing our offerings and operations, anticipating changes in client preferences and responding strategically to strengthen our competitive position. I believe these efforts served us well leading up to and during the pandemic, and I am confident will continue to do so in a post-pandemic world. We remain focused on identifying and implementing the right kind of change to grow Capital City Bank while holding true to our client-centered, relationship-driven way of doing business.

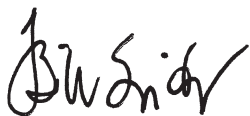
LOOKING FORWARD

As we leave 2021 in our rear view and I reflect on the moments that shaped and defined us through what has been an extraordinarily unusual time, I am not only encouraged about the future, but also proud of how the Capital City way of doing business shone through despite the hardships, uncertainty, first-of-its-kind experiences and curve balls – or perhaps, rather than *in spite of* those things, *because* of them.

The brand promise which guides us – More than your bank. Your banker. – is a call to arms steeped in humanity, which sent a powerful message to our clients and communities during a pandemic that robbed people of human connections. The difference between having a bank and having a banker was demonstrated in vibrant, living color, and Capital City is proud to have been the bankers our clients needed in this circumstance, as it has been through every event before it, large and small, for the last 127 years.

I am confident in the strength of our franchise and our long-term strategies to drive continued success in 2022 and beyond.

As always, I welcome your comments and questions.
Your banker,



William G. Smith, Jr.
Chairman, President and
Chief Executive Officer

(\$ in Thousands, Except Per Share Data)

FOR THE YEAR	2021	2020	2019
Net Income	\$33,396	\$31,576	\$30,807
PER COMMON SHARE DATA			
Net Income - Basic	\$1.98	\$1.88	\$1.84
Net Income - Diluted	1.98	1.88	1.83
Book Value - Diluted	22.63	19.05	19.40
KEY RATIOS			
Return on Average Assets	0.84%	0.93%	1.03%
Return on Average Equity	9.92%	9.36%	9.72%
Net Interest Margin	2.83%	3.30%	3.85%
Total Risk-Based Capital	17.15%	17.30%	17.90%
Tier 1 Leverage	8.95%	9.33%	11.25%
Tangible Capital	6.95%	6.25%	8.06%
BALANCE SHEET DATA			
Average Loans ⁽¹⁾	\$2,078,891	\$2,038,701	\$1,822,087
Average Earning Assets	3,652,486	3,083,675	2,697,098
Average Total Assets	3,984,064	3,391,071	2,987,056
Average Noninterest Bearing Deposits	1,523,717	1,254,214	1,012,581
Average Deposits	3,406,886	2,844,347	2,537,489
Average Shareowners' Equity	336,821	337,313	317,072

(1) Includes loans held for investment and loans held for sale.



BOARD OF DIRECTORS

William G. Smith, Jr.

Chairman, President and
Chief Executive Officer
Capital City Bank Group, Inc.
Serving Since 1982

Robert Antoine

Retired
Certified Internal Auditor and
Certified Public Accountant
Serving Since 2019

Thomas A. Barron

President
Capital City Bank
Serving Since 1982

Allan G. Bense

Chief Executive Officer
Bense Enterprises, Inc.
Serving Since 2013

William F. Butler

Founder and Principal
Real Estate InSync (REI)
Serving Since 2021

Stanley W. Connally, Jr.

Executive Vice President
of Operations, Southern Company
Chairman, President and
Chief Executive Officer of
Southern Company Services
Serving Since 2017

Cader B. Cox, III

Chairman and Secretary
Riverview Plantation, Inc.
Serving Since 1994

Marshall M. Criser, III

Chancellor
State University
System of Florida
Serving Since 2018

Kimberly A. Crowell

Principal
Kalo Companies
Serving Since 2021

Bonnie Davenport

President and Founding Principal
BKJ, Inc. Architecture
Serving Since 2021

J. Everitt Drew

President
SouthGroup Equities, Inc.
Serving Since 2003

W. Eric Grant

Vice President and
General Manager
CivicPlus
Serving Since 2017

Laura Johnson

Chief Executive Officer
Coton Colors
Serving Since 2017

John G. Sample, Jr.

Retired
Certified Public Accountant
Serving Since 2016

Ashbel C. Williams

Retired
Florida State Board of
Administration
Serving Since 2021

SENIOR MANAGEMENT

William G. Smith, Jr.

Chairman, President
and Chief Executive Officer
43 years of service

Thomas A. Barron

President,
Capital City Bank
47 years of service

J. Kimbrough Davis

Chief Financial Officer
40 years of service

Thomas W. Allen

Real Estate Management
13 years of service

Clifton E. Bradley

Community Banking
44 years of service

Sharon Bradley

Chief Diversity Officer
27 years of service

Edward G. Canup

Chief Revenue Officer
38 years of service

Bethany H. Corum

Chief Operating Officer
15 years of service

Marsha S. Crowle

Compliance
4 years of service

Brooke W. Hallock

Marketing
17 years of service

Randall H. Lashua

Omni Channel Delivery
15 years of service

William L. Moor, Jr.

Wealth Management
34 years of service

B. Randall Sharpton

Internal Audit
42 years of service

Gregory D. Shumate

Chief Executive Officer,
Capital City Home Loans
2 years of service

Ramsay H. Sims

Metro Banking
11 years of service

Cheryl B. Thompson

Information Technology
17 years of service

Dale A. Thompson

Credit Administration
42 years of service

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from _____ to _____

Capital City Bank Group, Inc.

(Exact name of Registrant as specified in its charter)

Florida

(State of Incorporation)

0-13358

(Commission File Number)

59-2273542

(IRS Employer Identification No.)

217 North Monroe Street, Tallahassee, Florida

(Address of principal executive offices)

32301

(Zip Code)

(850) 402-7821

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	CCBG	The Nasdaq Stock Market LLC

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock, \$0.01 par value per share, held by non-affiliates of the registrant on June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$332,551,460 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

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

<u>Class</u>	<u>Outstanding at February 25, 2022</u>
Common Stock, \$0.01 par value per share	16,941,721

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 26, 2022, are incorporated by reference in Part III.

CAPITAL CITY BANK GROUP, INC.
ANNUAL REPORT FOR 2021 ON FORM 10-K

TABLE OF CONTENTS

PART I	PAGE
Item 1. Business	4
Item 1A. Risk Factors	19
Item 1B. Unresolved Staff Comments	30
Item 2. Properties	30
Item 3. Legal Proceedings	30
Item 4. Mine Safety Disclosure	30
 PART II	
Item 5. Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities	31
Item 6. Selected Financial Data	33
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A. Quantitative and Qualitative Disclosure About Market Risk	57
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	114
Item 9A. Controls and Procedures	114
Item 9B. Other Information	114
 PART III	
Item 10. Directors, Executive Officers, and Corporate Governance	116
Item 11. Executive Compensation	116
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters	116
Item 13. Certain Relationships and Related Transactions, and Director Independence	116
Item 14. Principal Accountant Fees and Services	116
 PART IV	
Item 15. Exhibits and Financial Statement Schedules	117
Item 16. Form 10-K Summary	118
Signatures	119

INTRODUCTORY NOTE

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

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

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

- the magnitude and duration of the ongoing COVID-19 pandemic and its impact on the global and local economies and financial market conditions and our business, results of operations and financial condition, including the impact of our participation in government programs related to COVID-19;
- our ability to successfully manage credit risk, interest rate risk, liquidity risk, and other risks inherent to our industry;
- legislative or regulatory changes;
- changes in monetary and fiscal policies of the U.S. Government;
- inflation, interest rate, market and monetary fluctuations;
- the effects of security breaches and computer viruses that may affect our computer systems or fraud related to debit card products;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our allowance for credit losses, deferred tax asset valuation and pension plan;
- changes in accounting principles, policies, practices or guidelines;
- the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to declare and pay dividends, the payment of which is subject to our capital requirements;
- changes in the securities and real estate markets;
- structural changes in the markets for origination, sale and servicing of residential mortgages;
- uncertainty in the pricing of residential mortgage loans that we sell, as well as competition for the mortgage servicing rights related to these loans and related interest rate risk or price risk resulting from retaining mortgage servicing rights and the potential effects of higher interest rates on our loan origination volumes
- the effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
- the effects of natural disasters, harsh weather conditions (including hurricanes), widespread health emergencies, military conflict, terrorism, civil unrest or other geopolitical events;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
- increased competition and its effect on pricing;
- technological changes;
- negative publicity and the impact on our reputation;
- changes in consumer spending and saving habits;
- growth and profitability of our noninterest income;
- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

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

PART I

Item 1. Business

About Us

General

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

CCBG is one of the largest publicly traded financial holding companies headquartered in Florida and has approximately \$4.3 billion in assets. We provide a full range of banking services, including traditional deposit and credit services, mortgage banking, asset management, trust, merchant services, bankcards, securities brokerage services and financial advisory services, including the sale of life insurance, risk management and asset protection services. The Bank has 57 banking offices and 86 ATMs/ITMs in Florida, Georgia and Alabama. Through Capital City Home Loans, LLC, a Georgia limited liability company (“CCHL”), we have 26 additional offices in the Southeast for our mortgage banking business. The majority of the revenue from Core CCBG (excludes CCHL), approximately 88%, is derived from our Florida market areas while approximately 11% and 1% of the revenue is derived from our Georgia and other market areas, respectively. Approximately 54% of the revenue from CCHL is derived from our Georgia market areas while approximately 38% and 8% is derived from our Florida and other market areas, respectively.

Below is a summary of our financial condition and results of operations for the past three years, which we believe is a sufficient period for understanding our general business development. Our financial condition and results of operations are more fully discussed in our Management’s Discussion and Analysis on page 35 and our consolidated financial statements on page 62.

Dollars in millions

Year Ended December 31,	Assets	Deposits	Shareowners’ Equity	Revenue⁽¹⁾	Net Income
2021	\$4,263.8	\$3,712.9	\$383.2	\$213.9	\$33.4
2020	\$3,798.1	\$3,217.6	\$320.8	\$217.4	\$31.6
2019	\$3,089.0	\$2,645.5	\$327.0	\$165.9	\$30.8

⁽¹⁾Revenue represents interest income plus noninterest income

Dividends and management fees received from the Bank are CCBG’s primary source of income. Dividend payments by the Bank to CCBG depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions, including compliance with a minimum Common Equity Tier 1 Capital conservation buffer. See the section entitled “Regulatory Considerations” in this *Item 1* and Note 17 in the Notes to Consolidated Financial Statements for a discussion of the restrictions.

Item 6 contains other financial and statistical information about us.

Subsidiaries of CCBG

CCBG’s principal asset is the capital stock of CCB, our wholly owned banking subsidiary, which accounted for nearly 100% of consolidated assets and net income attributable to CCBG at December 31, 2021. CCBG also maintains an insurance subsidiary, Capital City Strategic Wealth, Inc. CCB has two primary subsidiaries, which are wholly owned, Capital City Trust Company and Capital City Investments, Inc. CCB also maintain a 51% membership interest in a consolidated subsidiary, CCHL, which we acquired on March 1, 2020. Refer to Note 1 – Significant Accounting Policies/Business Combination in our Consolidated Financial Statements for additional information on this strategic alliance. The nature of these subsidiaries is provided below.

Operating Segment

We have one reportable segment with two principal services: Banking Services and Wealth Management Services. Banking Services are operated at CCB and Wealth Management Services are operated under three separate subsidiaries (Capital City Trust Company, Capital City Investments, Inc., and Capital City Strategic Wealth, Inc.). Revenues from these principal services for the year ended 2021 totaled approximately 93.2% and 6.8% of our total revenue, respectively. In 2020 and 2019, Banking Services (CCB) revenue was approximately 94.7% and 95.3% of our total revenue for each respective year.

Capital City Bank

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

- *Business Banking* – We provide banking services to corporations and other business clients. Credit products are available for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing and letters of credit. We also provide treasury management services, and, through a marketing alliance with Elavon, Inc., merchant credit card transaction processing services.
- *Commercial Real Estate Lending* – We provide a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development. Credit products are available to purchase land and build structures for business use and for investors who are developing residential or commercial property.
- *Residential Real Estate Lending* – We provide products through our strategic alliance with CCHL and its existing network of locations to help meet the home financing needs of consumers, including conventional permanent and construction/ permanent (fixed, adjustable, or variable rate) financing arrangements, and FHA/VA/GNMA loan products. We offer both fixed and adjustable rate residential mortgage (ARM) loans. We offer these products through our existing network of CCHL locations. We do not originate subprime residential real estate loans.
- *Retail Credit* – We provide a full-range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and through a marketing alliance with ELAN, we offer credit card programs.
- *Institutional Banking* – We provide banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations including customized checking and savings accounts, cash management systems, tax-exempt loans, lines of credit, and term loans.
- *Retail Banking* – We provide a full-range of consumer banking services, including checking accounts, savings programs, interactive/automated teller machines (ATMs/ITMs), debit/credit cards, night deposit services, safe deposit facilities, online banking, and mobile banking.

Capital City Trust Company

Capital City Trust Company, or the Trust Company, provides asset management for individuals through agency, personal trust, IRA, and personal investment management accounts. Associations, endowments, and other nonprofit entities hire the Trust Company to manage their investment portfolios. Additionally, a staff of well-trained professionals serves individuals requiring the services of a trustee, personal representative, or a guardian. The market value of trust assets under discretionary management exceeded \$1.080 billion at December 31, 2021 with total assets under administration exceeding \$1.098 billion.

Capital City Investments, Inc.

We offer our customers access to retail investment products through LPL Financial pursuant to which retail investment products would be offered through LPL. LPL offers a full line of retail securities products, including U.S. Government bonds, tax-free municipal bonds, stocks, mutual funds, unit investment trusts, annuities, life insurance and long-term health care. Non-deposit investment and insurance products are: (i) not FDIC insured; (ii) not deposits, obligations, or guarantees by any bank; and (iii) subject to investment risk, including the possible loss of principal amount invested.

Capital City Strategic Wealth, Inc.

We provide a multi-disciplinary strategic planning approach that requires examining all facets of our clients' financial lives through our business, estate, financial, insurance and business planning, tax planning, and asset protection advisory services. Insurance sales within this division include life, health, disability, long-term care, and annuity solutions.

Lending Activities

One of our core goals is to support the communities in which we operate. We seek loans from within our primary market area, which is defined as the counties in which our banking offices are located. We will also originate loans within our secondary market area, defined as counties adjacent to those in which we have banking offices. There may also be occasions when we will have opportunities to make loans that are out of both the primary and secondary market areas, including participation loans. These loans are generally only approved if the applicant is known to us, underwriting is consistent with our criteria, and the applicant's primary business is in or near our primary or secondary market area. Approval of all loans is subject to our policies and standards described in more detail below.

We have adopted comprehensive lending policies, underwriting standards and loan review procedures. Management and our Board of Directors reviews and approves these policies and procedures on a regular basis (at least annually).

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

Residential Real Estate Loans

We originate 1-4 family, owner-occupied residential real estate loans at CCHL for sale in the secondary market. A vast majority of residential loan originations are fixed-rate loans which are sold in the secondary market on a non-recourse basis. We will frequently sell loans and retain the servicing rights. Note 4 – Mortgage Banking Activities in the Notes to Our Consolidated Financial Statements provides additional information on our servicing portfolio.

CCB also maintains a portfolio of residential loans held for investment and will periodically purchase newly originated 1-4 family secured adjustable rate loans from CCHL for that portfolio. Residential loans held for investment are generally underwritten in accordance with secondary market guidelines in effect at the time of origination, including loan-to-value, or LTV, and documentation requirements.

Residential real estate loans also include home equity lines of credit, or HELOCs, and home equity loans. Our home equity portfolio includes revolving open-ended equity loans with interest-only or minimal monthly principal payments and closed-end amortizing loans. Open-ended equity loans typically have an interest only 10-year draw period followed by a five-year repayment period of 0.75% of principal balance monthly and balloon payment at maturity. As of December 31, 2021, approximately 65% of our residential home equity loan portfolio consisted of first mortgages. Interest rates may be fixed or adjustable. Adjustable-rate loans are tied to the Prime Rate with a typical margin of 1.0% or more.

Commercial Loans

Our policy sets forth guidelines for debt service coverage ratios, LTV ratios and documentation standards. Commercial loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral and personal or other guarantees. We have established 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 our commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory. Many of the loans in the commercial portfolio have variable interest rates tied to the Prime Rate or U.S. Treasury indices.

Commercial Real Estate Loans

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

Consumer Loans

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

Expansion of Business

See MD&A (Business Overview) for disclosures regarding the expansion of our Business.

Competition

We operate in a highly competitive environment, especially with respect to services and pricing, that has undergone significant changes since the recent financial crisis. Since January 1, 2009, over 500 financial institutions have failed in the U.S., including many in Florida and Georgia. Nearly all of the failed banks were community banks. The assets and deposits of many of these failed community banks were acquired mostly by larger financial institutions. The banking industry has also experienced significant consolidation through mergers and acquisition, which we expect will continue during 2022. However, we believe that the larger financial institutions acquiring banks in our market areas are less familiar with the markets in which we operate and typically target a different client base. We also believe clients who bank at community banks tend to prefer the relationship style service of community banks compared to larger banks.

As a result, we expect to be able to effectively compete in our markets with larger financial institutions through providing superior client service and leveraging our knowledge and experience in providing banking products and services in our market areas. Thus, a further reduction of the number of community banks could continue to enhance our competitive position and opportunities in many of our markets. However, larger financial institutions can benefit from economies of scale. Therefore, these larger institutions may be able to offer banking products and services at more competitive prices than us. Additionally, these larger financial institutions may offer financial products that we do not offer.

We may also begin to see competition from new banks that are being formed. In late 2016, the first *de novo* bank charter since the 2007-2009 downturn was approved for a Florida-based bank and additional Florida chartered banks have been approved subsequently. While the number of new bank formations has not returned to pre-downturn levels, increased *de novo* bank applications could signal additional competition from new community banks.

Our primary market area consists of 20 counties in Florida, four counties in Georgia, and one county in Alabama. In these markets, we compete against a wide range of banking and nonbanking institutions including banks, savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions. Most of Florida's major banking concerns have a presence in Leon County, where our main office is located. Our Leon County deposits totaled \$1.232 billion, or 37% of our consolidated deposits at December 31, 2021.

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

County	Market Share as of June 30, ⁽¹⁾		
	2021	2020	2019
Florida			
Alachua	4.6%	4.5%	4.5%
Bay	0.2%	0.0%	N/A
Bradford	32.4%	30.6%	40.2%
Citrus	4.1%	3.6%	3.4%
Clay	2.8%	2.0%	2.1%
Dixie	18.9%	18.7%	19.4%
Gadsden	81.1%	80.8%	81.6%
Gilchrist	39.6%	38.7%	39.7%
Gulf	14.6%	12.8%	12.6%
Hernando	3.9%	3.5%	2.9%
Jefferson	24.4%	23.0%	21.9%
Leon	11.9%	13.3%	13.1%
Levy	26.4%	24.2%	25.0%
Madison	14.5%	14.0%	13.7%
Putnam	23.2%	20.7%	20.8%
St. Johns	0.7%	0.6%	0.6%
Suwannee	6.8%	7.1%	6.7%
Taylor	73.2%	72.4%	23.0%
Wakulla	10.5%	8.3%	9.3%
Washington	11.2%	11.0%	13.1%
Georgia			
Bibb	3.3%	3.2%	2.7%
Grady	14.8%	14.0%	13.0%
Laurens	7.9%	8.4%	8.3%
Troup	6.1%	6.5%	6.3%
Alabama			
Chambers	9.3%	9.6%	8.7%

⁽¹⁾ Obtained from the FDIC Summary of Deposits Report for the year indicated.

Seasonality

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

Human Capital Matters

We are dedicated to creating personal relationships with our customers and implementing solutions that are right for them. Our associates (our employees) are critical to achieving this mission, and it is crucial that we continue to attract and retain experienced associates. As part of these efforts, we strive to offer a competitive compensation and benefits program, foster a community where everyone feels included and empowered to do to their best work, and give associates the opportunity to give back to their communities and make a social impact.

At February 14, 2022, we had approximately 751 associates, which included approximately 718 full-time associates and approximately 33 part-time associates. None of our associates are represented by a labor union or covered by a collective bargaining agreement. At February 14, 2022, approximately 73% of our current workforce was female while 27% was male, and approximately 20% are ethnic minorities. The average tenure of our associates was approximately 10 years.

Compensation and Benefits Program. Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our shareowners. We provide our associates with compensation packages that include base salary, annual incentive bonuses, and equity awards tied to the value of our stock price. We believe that a compensation program with both short-term and long-term awards provides fair and competitive compensation and aligns associate and shareowner interests, including by incentivizing business and individual performance (pay for performance), motivating based on long-term company performance and integrating compensation with our business plans. In addition to cash and equity compensation, we also offer associates benefits such as life and health (medical, dental & vision) insurance, paid time off, paid parental leave, a 401(k) plan, and a pension plan.

Diversity and Inclusion. We believe that an equitable and inclusive environment with diverse teams produces more creative solutions, results in better services and is crucial to our efforts to attract and retain key talent. We strive to promote inclusion through our corporate values of integrity, advocacy, partnership, relationships, community, and exceptional service. In 2021, we formed the Diversity, Equity and Inclusion (DE&I) Charter and formed the DE&I Council. Our DE&I Council consists of a diverse group of members from all levels of the organization. The Council's focus is on diversity and inclusion in our workforce, workplace, and community. They are responsible for connecting our diversity and inclusion activities with our broader business strategies. Additionally, we created a Chief Diversity Officer position to provide direction and leadership as we build processes, initiatives, and special programs aimed at DE&I. Additionally during 2021, we partnered with a third party DE&I firm whose mission is to embed equity and inclusion into work systems and culture, enhancing outcomes for employees and customers. Our partnership will further develop and enhance our DE&I plan and includes development of focus group conversations, interviews with Senior Leadership, research of existing policies and documentation and outline of gaps in existing policies. All associates receive DE&I education, awareness and training each year. In January 2022, we added four new directors to our CCBG Board of Directors. Of these four directors 50% are white males, 25% minority female and 25% non-minority female. The CCBG outside directors are made up of 11 non-shareowner individuals. Of the 11 individuals, 27% are female and 18% are ethnic minority. We continue to focus on building an inclusive culture through a variety of diversity and inclusion initiatives, including related to internal promotions and hiring practices. Our associate resource groups also help to build an inclusive culture through company events, participation in our recruitment efforts, and input into our hiring strategies.

Community Involvement. We aim to give back to the communities where we live and work, and believe that this commitment helps in our efforts to attract and retain associates. Our commitment to help our community starts with our associates. Community involvement is a hallmark for our organization, and it comes naturally to our associates. We encourage our associates to volunteer their hours with service organizations and philanthropic groups in the communities we serve. We recorded 8,697, 8,169, and 15,034 community service hours in 2021, 2020 and 2019, respectively. Furthermore, our Foundation donated \$0.2 million each year, for the years 2019-2021, to various non-profit organizations in the communities we serve. Our community commitment to further financial literacy in our market remains an ongoing goal and focus for our associates and directors. We continue to focus on ways to better our communities in which we operate through monetary resources and volunteer hours.

Access, affordability, and financial inclusion. In 2021, our foundation made grants totaling approximately \$0.1 million to Community Reinvestment Act eligible organizations in our market area. Working with CCHL, we are committed to providing educational outreach regarding home ownership and financial access for minorities. We are a long-time supporter of Habitat for Humanity, with our associates providing volunteer hours on home builds. In late 2020, we partnered with Habitat for Humanity, Warrick Dunn Charities, and Capital City Home Loans to build and furnish a home in early 2021. During tax season, we provide locations for community residents to access Volunteer Income Tax Assistance (VITA) services. VITA is a nationwide IRS program that offers free tax preparation assistance to people who generally make \$54,000 or less, persons with disabilities, the elderly, and limited English speaking taxpayers who need assistance in preparing their own tax returns.

Small Business Lending. We are focused on supporting small businesses throughout our communities. The global pandemic exposed the challenges of small business. Capital City Bank is proud to have participated in the Paycheck Protection Program (PPP), originating 3,508 loans totaling more than \$263 million. During the pandemic, our company financially supported locally-owned restaurants to provide meals and gift cards for our associates.

Health and Safety. The success of our business is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety and wellness of our associates. We provide our associates and their families with access to a variety of flexible and convenient health and welfare programs, including benefits that support their physical and mental health, by providing tools and resources to help them improve or maintain their health status. We also offer choices to our associates where possible so they can customize their benefits to meet their needs and the needs of their families. In response to the COVID-19 pandemic, we implemented significant operating environment changes that we determined were in the best interest of our associates, as well as the communities in which we operate, and which comply with government regulations. This included having the option for our non-critical on site associates to work from home, while implementing additional safety measures for associates continuing critical on-site work. We continue to follow local and federal guidance, including guidance prescribed by the Centers for Disease Control and Prevention ("CDC"), regarding COVID-19 precautions and health measures.

Environmental Matters

We are responsible for protecting our planet and understand that reducing our business’s carbon footprint is key to a sustainable future. We are committed to measuring and minimizing our collective impact on the environment while contributing to environmental stewardship and responsible business operations. We strive to embed environmental sustainability throughout our products, services, operations, and culture to drive efficiencies and responsible resource use while creating comfortable, safe, and healthy workplaces for our associates. As part of our corporate responsibility, we continue to focus our efforts on sustainability within our business and our community.

We are focused on sustainability and resource conservation and, as a result, seek to reduce resource consumption through efficiency initiatives in our branches and offices. We do this through company-wide recycling programs, the implementation of LED lighting in our workplaces, and working to reduce our reliance on disposable products. As we renovate or build new facilities, we try to leverage renewable sources for power and HVAC through the employment of solar panels. During 2021 we purchased renewable energy certificates to offset our energy usage during the year and plan on continuing this practice in 2022. We have also invested in tools and capabilities that allow our team members to work remotely as appropriate. We work hard to ensure that our lending activities do not encourage business activities that could cause irreparable damage to our reputation or the environment. As a result, we try to conduct business responsibly and actively work with shareowners to best serve our various constituents. We monitor the environmental, social, and human rights risks of our customers along with credit risks. This process involves management and Board oversight and controls such as enhanced due diligence and a reputation risk review. In general, we evaluate each credit or transaction on its individual merits, with larger deals receiving more attention and deeper analysis.

Regulatory Considerations

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

Capital City Bank Group, Inc.

We are registered with the Board of Governors of the Federal Reserve as a bank holding company under the Bank Holding Company Act of 1956 (“BHC Act”) and have also elected to be a financial holding company. As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The BHC Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Gramm-Leach-Bliley Financial Modernization Act, and other federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Permitted Activities

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

In contrast to financial holding companies, bank holding companies are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

Changes in Control

Subject to certain exceptions, the BHC Act and the Change in Bank Control Act (“CBCA”), together with the applicable regulations, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any acquisition of “control” of a bank or bank holding company. Under the BHC Act, a company (a broadly defined term that includes partnerships among other things) that acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution is deemed to control the institution and to be a bank holding company. A company that acquires less than 5% of any class of voting security (and that does not exhibit the other control factors) is presumed not to have control. For ownership levels between the 5% and 25% thresholds, the Federal Reserve has developed an extensive body of law on the circumstances in which control may or may not exist. Further, on January 30, 2020, the Federal Reserve finalized a rule that simplifies and increases the transparency of its rules for determining when one company controls another company for purposes of the BHC Act. The rule became effective September 30, 2020. It has and will likely continue to have a meaningful impact on control determinations related to investments in banks and bank holding companies and investments by bank holding companies in nonbank companies.

Under the CBCA, if an individual or a company that acquires 10% or more of any class of voting securities of an insured depository institution or its holding company and either that institution or company has registered securities under Section 12 of the Exchange Act, or no other person will own a greater percentage of that class of voting securities immediately after the acquisition, then that investor is presumed to have control and may be required to file a change in bank control notice with the institution’s or the holding company’s primary federal regulator. Our common stock is registered under Section 12 of the Exchange Act so we are subject to these rules.

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

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

Prohibitions Against Tying Arrangements

Banks are subject to the prohibitions of 12 U.S.C. 1972 on certain tying arrangements. We are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Capital; Dividends; Source of Strength

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

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. Additionally, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policies and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. The Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Bank holding companies are expected to consult with the Federal Reserve before redeeming any equity or other capital instrument included in Tier 1 or Tier 2 capital prior to stated maturity, if such redemption could have a material effect on the level or composition of the organization's capital base. In addition, a bank holding company may not repurchase shares equal to 10% or more of its net worth if it would not be well-capitalized (as defined by the Federal Reserve) after giving effect to such repurchase. Bank holding companies experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the Federal Reserve before redeeming or repurchasing common stock or other regulatory capital instruments.

In accordance with Federal Reserve policy, which has been codified by the Dodd-Frank Act, we are expected to act as a source of financial strength to CCB and to commit resources to support CCB in circumstances in which we might not otherwise do so. In furtherance of this policy, the Federal Reserve may require a financial holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the financial holding company. Further, federal bank regulatory authorities have additional discretion to require a financial holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

Safe and Sound Banking Practices

Bank holding companies and their nonbanking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices or that constitute a violation of law or regulations. Under certain conditions the Federal Reserve may conclude that some actions of a bank holding company, such as a payment of a cash dividend, would constitute an unsafe and unsound banking practice. The Federal Reserve also has the authority to regulate the debt of bank holding companies, including the authority to impose interest rate ceilings and reserve requirements on such debt. The Federal Reserve may also require a bank holding company to file written notice and obtain its approval prior to purchasing or redeeming its equity securities, unless certain conditions are met.

Capital City Bank

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

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

Safety and Soundness Standards / Risk Management

The federal banking agencies have adopted guidelines establishing operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the financial institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit an acceptable compliance plan or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the financial institution's rate of growth, require the financial institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

The bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses. New products and services, third party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

Reserves

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

Dividends

CCB is subject to legal limitations on the frequency and amount of dividends that can be paid to CCBG. The Federal Reserve may restrict the ability of CCB to pay dividends if such payments would constitute an unsafe or unsound banking practice. Additionally, financial institutions are now required to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets in order to avoid restrictions on capital distributions and other payments. If a financial institution's capital conservation buffer falls below the minimum requirement, its maximum payout amount for capital distributions and discretionary payments declines to a set percentage of eligible retained income based on the size of the buffer. See "Capital Regulations," below for additional details on this new capital requirement.

In addition, Florida law and Federal regulation place restrictions on the declaration of dividends from state chartered banks to their holding companies. Under the Florida Financial Institutions Code, the board of directors of a state-chartered bank, after it charges off bad debts, depreciation and other worthless assets, if any, and makes provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually or annually declare a dividend of up to the aggregate net profits of that period combined with the bank's retained net profits for the preceding two years. In addition, with the approval of the Florida Office of Financial Regulation and Federal Reserve, the bank's board of directors may declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank's common stock then issued and outstanding. However, a Florida state-chartered bank may not declare any dividend if (i) its net income (loss) from the current year combined with the retained net income (loss) for the preceding two years aggregates a loss or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Office of Financial Regulation or a federal regulatory agency. Under Federal Reserve regulations, a state member bank may, without the prior approval of the Federal Reserve, pay a dividend in an amount that, when taken together with all dividends declared during the calendar year, does not exceed the sum of the bank's net income during the current calendar year and the retained net income of the prior two calendar years. The Federal Reserve may approve greater amounts.

Insurance of Accounts and Other Assessments

Deposits at U.S. domiciled banks are insured by the FDIC, subject to limits and conditions of applicable laws and regulations. Our deposit accounts are insured by the Deposit Insurance Fund, or DIF, generally up to a maximum of \$250,000 per separately insured depositor. In order to fund the DIF, all insured depository institutions are required to pay quarterly assessments to the FDIC that are based on an institutions assignment to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. The FDIC has the discretion to adjust an institution's risk rating and may terminate its insurance of deposits upon a finding that the institution engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The FDIC may also prohibit any FDIC-insured institution from engaging in any activity it determines to pose a serious risk to the DIF.

Transactions with Affiliates and Insiders

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

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

Community Reinvestment Act

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

In September 2020, the Federal Reserve issued an Advance Notice of Proposed Rulemaking ("ANPR") that invited public comment on an approach to modernize the regulations that implement the CRA by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR sought feedback on ways to evaluate how banks meet the needs of low- and moderate-income communities and address inequities in credit access. We continue to evaluate the impact of any CRA changes and their impact to our financial condition, results of operations, and liquidity, which cannot be predicted at this time.

Capital Regulations

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

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

Under the final rules, minimum requirements increased for both the quality and quantity of capital held by banking organizations. In this respect, the final rules implemented strict eligibility criteria for regulatory capital instruments and improved the methodology for calculating risk-weighted assets to enhance risk sensitivity. Consistent with the international Basel III framework, the rules included a new minimum ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets of 4.5%. The rules also created a Common Equity Tier 1 Capital conservation buffer of 2.5% of risk-weighted assets. This buffer is added to each of the three risk-based capital ratios to determine whether an institution has established the buffer. The rules raised the minimum ratio of Tier 1 Capital to Risk-Weighted Assets from 4% to 6% and included a minimum leverage ratio of 4% for all banking organizations. If a financial institution's capital conservation buffer falls below 2.5% (e.g., if the institution's Common Equity Tier 1 Capital to Risk-Weighted Assets is less than 7.0%), then capital distributions and discretionary payments will be limited or prohibited based on the size of the institution's buffer. The types of payments subject to this limitation include dividends, share buybacks, discretionary payments on Tier 1 instruments, and discretionary bonus payments.

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

Commercial Real Estate Concentration Guidelines

The federal banking regulators have implemented guidelines to address increased concentrations in commercial real estate loans. These guidelines describe the criteria regulatory agencies will use as indicators to identify institutions potentially exposed to commercial real estate concentration risk. An institution that has (i) experienced rapid growth in commercial real estate lending, (ii) notable exposure to a specific type of commercial real estate, (iii) total reported loans for construction, land development, and other land representing 100% or more of total risk-based capital, or (iv) total commercial real estate (including construction) loans representing 300% or more of total risk-based capital and the outstanding balance of the institutions commercial real estate portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of a potential concentration risk.

At December 31, 2021, CCB's ratio of construction, land development and other land loans to total risk-based capital was 71%, its ratio of total commercial real estate loans to total risk-based capital was 188% and, therefore, CCB was under the 100% and 300% thresholds, respectively, set forth in clauses (iii) and (iv) above. As a result, we are not deemed to have a concentration in commercial real estate lending under applicable regulatory guidelines.

Prompt Corrective Action

The federal banking agencies are required to take "prompt corrective action" with respect to financial institutions that do not meet minimum capital requirements. The law establishes five categories for this purpose: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." To be considered "well-capitalized," an insured depository institution must maintain minimum capital ratios and must not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. An institution that fails to remain well-capitalized becomes subject to a series of restrictions that increase in severity as its capital condition weakens. Such restrictions may include a prohibition on capital distributions, restrictions on asset growth or restrictions on the ability to receive regulatory approval of applications. The regulations apply only to banks and not to BHCs. However, the Federal Reserve is authorized to take appropriate action at the holding company level, based on the undercapitalized status of the holding company's subsidiary banking institutions. In certain instances relating to an undercapitalized banking institution, the BHC would be required to guarantee the performance of the undercapitalized subsidiary's capital restoration plan and could be liable for civil money damages for failure to fulfill those guarantee commitments.

In addition, failure to meet capital requirements may cause an institution to be directed to raise additional capital. Federal law further mandates that the agencies adopt safety and soundness standards generally relating to operations and management, asset quality and executive compensation, and authorizes administrative action against an institution that fails to meet such standards. Failure to meet capital guidelines may subject a banking organization to a variety of other enforcement remedies, including additional substantial restrictions on its operations and activities, termination of deposit insurance by the FDIC and, under certain conditions, the appointment of a conservator or receiver.

At December 31, 2021, we exceeded the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy to be classified as "well capitalized" and are unaware of any material violation or alleged violation of these regulations, policies or directives (see table below). Rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change our capital position in a relatively short period of time, making additional capital infusions necessary. Our capital ratios can be found in Note 17 to the Notes to our Consolidated Financial Statements.

Interstate Banking and Branching

The Dodd-Frank Act relaxed interstate branching restrictions by modifying the federal statute governing de novo interstate branching by state member banks. Consequently, a state member bank may open its initial branch in a state outside of the bank's home state by way of an interstate bank branch, so long as a bank chartered under the laws of that state would be permitted to open a branch at that location.

Anti-money Laundering

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

The USA Patriot Act, and BSA Acts and the related federal regulations require banks to establish anti-money laundering programs that include policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers and of beneficial owners of their legal entity customers.

The Anti-Money Laundering Act ("AMLA"), which amends the BSA, was enacted in early 2021. The AMLA is intended to be a comprehensive reform and modernization of U.S. bank secrecy and anti-money laundering laws. In particular, it codifies a risk-based approach to anti-money laundering compliance for financial institutions, requires the U.S. Department of the Treasury to promulgate priorities for anti-money laundering and countering the financing of terrorism policy, requires the development of standards for testing technology and internal processes for BSA compliance, expands enforcement- and investigation-related authority (including increasing available sanctions for certain BSA violations), and expands BSA whistleblower incentives and protections.

Many AMLA provisions will require additional rulemakings, reports and other measures, and the impact of the AMLA will depend on, among other things, rulemaking and implementation guidance. In June 2021, the Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury, issued the priorities for anti-money laundering and countering the financing of terrorism policy required under the AMLA. The priorities include corruption, cybercrime, terrorist financing, fraud, transnational crime, drug trafficking, human trafficking and proliferation financing.

There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Office of Foreign Assets Control of the U.S. Department of Treasury, or “OFAC.” OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States, based on U.S. foreign policy and national security goals. OFAC issues regulations that restrict transactions by U.S. persons or entities (including banks), located in the U.S. or abroad, with certain foreign countries, their nationals or “specially designated nationals.” OFAC regularly publishes listings of foreign countries and designated nationals that are prohibited from conducting business with any U.S. entity or individual. While OFAC is responsible for promulgating, developing and administering these controls and sanctions, all of the bank regulatory agencies are responsible for ensuring that financial institutions comply with these regulations.

Privacy

A variety of federal and state privacy laws govern the collection, safeguarding, sharing and use of customer information, and require that financial institutions have policies regarding information privacy and security. The Gramm-Leach-Bliley Act and related regulations require banks and their affiliated companies to adopt and disclose privacy policies, including policies regarding the sharing of personal information with third parties. Some state laws also protect the privacy of information of state residents and require adequate security of such data, and certain state laws may require us to notify affected individuals of security breaches of computer databases that contain their personal information. These laws may also require us to notify law enforcement, regulators or consumer reporting agencies in the event of a data breach, as well as businesses and governmental agencies that own data.

Overdraft Fee Regulation

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

Consumer Laws and Regulations

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

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

Future Legislative Developments

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

Legislative and Regulatory Responses to the COVID-19 Pandemic

The COVID-19 pandemic has continued to cause extensive disruptions to the global economy, to businesses, and to the lives of individuals throughout the world. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law. The CARES Act was a \$2.2 trillion economic stimulus bill that was intended to provide relief in response to the COVID-19 pandemic. There have also been a number of regulatory actions intended to help mitigate the adverse economic impact of the COVID-19 pandemic on borrowers, including several mandates from the bank regulatory agencies, requiring financial institutions to work constructively with borrowers affected by the COVID-19 pandemic.

The bank regulatory agencies ensured that adequate flexibility will be given to financial institutions that work with borrowers affected by the COVID-19 pandemic and further indicated that the regulators would not criticize institutions that do so in a safe and sound manner. Further, the bank regulatory agencies have encouraged financial institutions to report accurate information to credit bureaus regarding relief provided to borrowers and have urged the importance of financial institutions to continue assisting those borrowers impacted by the COVID-19 pandemic. In 2020, the bank regulatory agencies also issued a joint policy statement to facilitate mortgage servicers' ability to place consumers in short-term payment forbearance programs. This policy statement was followed by an interim final rule that makes it easier for consumers to transition out of financial hardship caused by the COVID-19 pandemic. The rule makes it clear that servicers do not violate Regulation X (which places restrictions and requirements upon lenders, mortgage brokers, or servicers of home loans related to consumers when they apply for and receive mortgage loans) by offering certain COVID-19-related loss mitigation options based on an evaluation of limited application information collected from the borrower. A final rule issued by the bank regulatory agencies on June 28, 2021 permits servicers to also offer certain COVID-19 related loan modification options based on the evaluation of an incomplete application. Federal and state moratoria on evictions and foreclosures that were implemented during 2020 in response to COVID-19 were extended late into 2021. Although these programs generally have expired, governmental authorities may take additional actions in the future to limit the adverse impact of COVID-19 on borrowers and tenants.

The CARES Act amended the SBA's loan program, in which the Bank participates, to create a guaranteed, unsecured loan program (the "PPP") to fund operational costs of eligible businesses, organizations and self-employed persons during COVID-19. The PPP authorized financial institutions to make federally-guaranteed loans to qualifying small businesses and non-profit organizations. These loans carry an interest rate of 1% per annum and a maturity of two years for loans originated prior to June 5, 2020 and five years for loans originated on or after June 5, 2020. The PPP provides that such loans may be forgiven if the borrowers meet certain requirements with respect to maintaining employee headcount and payroll and the use of the loan proceeds after the loan is originated. The initial phase of the PPP, after being extended multiple times by Congress, expired on August 8, 2020. However, on January 11, 2021, the SBA reopened the PPP for First Draw PPP loans to small businesses and non-profit organizations that did not receive a loan through the initial PPP phase. Further, on January 13, 2021, the SBA reopened the PPP for Second Draw PPP loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. Maximum loan amounts were also increased for accommodation and food service businesses. Although the PPP ended in accordance with its terms on May 31, 2021, outstanding PPP loans continue to go through the process of either obtaining forgiveness from the SBA or pursuing claims under the SBA guaranty.

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, changes in the Fed Funds target interest rate, changes in interest rates payable on reserve accounts, the imposition of changes in reserve requirements against member banks' deposits and assets of foreign banking centers and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, which may affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks and are expected to continue to do so in the future. The Federal Reserve's policies are primarily influenced by its dual mandate of price stability and full employment, and to a lesser degree by short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. Government. Future changes in monetary policy and the effect of such changes on our business and earnings in the future cannot be predicted.

Website Access to Company's Reports

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

Item 1A. Risk Factors

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

Market Risks

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

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

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

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

Interest rates and economic conditions affect consumer demand for housing and can create volatility in the mortgage industry. These risks can have a material impact on the volume of mortgage originations and refinancings, adversely affecting mortgage banking revenues and the profitability of our mortgage banking business.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under the section captioned "Net Interest Income" and "Market Risk and Interest Rate Sensitivity" elsewhere in this report for further discussion related to interest rate sensitivity and our management of interest rate risk.

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

A large portion of our investment securities portfolio at December 31, 2021 has been designated as available-for-sale pursuant to U.S. generally accepted accounting principles relating to accounting for investments. Such principles require that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in shareowners' equity (net of tax) as accumulated other comprehensive income/losses. Shareowners' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. The fair value of our investment portfolio may decline, causing a corresponding decline in shareowners' equity.

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

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

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

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

While our common stock is listed and traded on the Nasdaq Global Select Market, there has historically been limited trading activity in our common stock. The average daily trading volume of our common stock over the 12-month period ending December 31, 2021 was approximately 29,919 shares. Due to the limited trading activity of our common stock, relatively small trades may have a significant impact on the price of our common stock.

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

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

We may be adversely impacted by the transition from LIBOR as a reference rate.

The United Kingdom's Financial Conduct Authority and the administrator of LIBOR have announced that the publication of the most commonly used U.S. dollar London Interbank Offered Rate ("LIBOR") settings will cease to be published or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be published as of December 31, 2021. Given consumer protection, litigation, and reputation risks, the bank regulatory agencies have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and that they will examine bank practices accordingly. Therefore, the agencies encouraged banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. Prior to December 31, 2021, we discontinued originating LIBOR-based loans.

At December 31, 2021, we have 108 loans totaling approximately \$77 million that are indexed to LIBOR. We believe our current portfolio of LIBOR based loan contracts contain the necessary fallback language, however, the timing and manner in which each customer's contract transitions to a replacement index will vary on a case-by-case basis. We also have \$34 million in floating rate investment securities that are indexed to LIBOR. We are currently evaluating fallback language for each investment security. Lastly, we have two floating rate subordinated debenture notes totaling \$53 million and a related interest rate swap contract for \$30 million that are indexed to LIBOR (Refer to Note 12 – Long Term Borrowings and Note 5 – Derivatives in our Consolidated Financial Statements). The subordinated debenture notes do not contain fallback language allowing for a replacement rate, but will convert to a fixed rate (LIBOR plus margin) at the time of LIBOR cessation. The interest rate swap contract adheres to ISDA protocol which requires conversion to the fallback SOFR rate at the time of LIBOR cessation. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of other benchmark rates. Since replacement rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR.

COVID-19 Risks

The ongoing global COVID-19 outbreak could harm our business and results of operations. The magnitude and duration of the pandemic's impact will depend on future developments, which are highly uncertain and are difficult to predict.

The COVID-19 pandemic continues to negatively impact economic and commercial activity and financial markets, both globally and within the United States. Stay-at-home orders, travel restrictions and closure of non-essential businesses and similar orders imposed across the United States to restrict the spread of COVID-19 in 2021 resulted in significant business and operational disruptions, including business closures, supply chain disruptions, and mass layoffs and furloughs. Although local jurisdictions were not subject to stay-at-home orders, worker shortages, vaccine and testing requirements, new variants of COVID-19 and other health and safety recommendations have impacted the ability of businesses to return to pre-pandemic levels of activity and employment.

The COVID-19 pandemic has had a specific impact on our business, including: (1) causing some of our borrowers to be unable to meet existing payment obligations, particularly borrowers disproportionately affected by business shutdowns and travel restrictions; (2) requiring us to increase our allowance for loan losses; and (3) affecting consumer and business spending, borrowing and savings habits. The ultimate risk posed by the COVID-19 pandemic remains highly uncertain; however, COVID-19 poses a material risk to our business, financial condition and results of operations. Other factors likely to have an adverse effect on our results of operations include:

- risks to the capital markets due to the volatility in financial markets that may impact the performance of our investment securities portfolio;
- effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls;
- declines in demand for loans and other banking services and products, as well as increases in our non-performing loans, owing to the effects of COVID-19 in the markets served by the Bank and on the business of borrowers of the Bank;
- declines in demand resulting from adverse impacts of the virus on businesses deemed to be “non-essential” by governments in the markets served by the Bank;
- reduced fees as we waive certain fees for our customers impacted by the COVID-19 pandemic; and
- higher operating costs, increased cybersecurity risks and potential loss of productivity while some of our associates work remotely.

Lastly, our commercial real estate and multi-family loans are dependent on the profitable operation and management of the properties securing such loans. The longer the pandemic persists, the stronger the likelihood that COVID-19 could have a significant adverse impact by reducing the revenue and cash flows of our borrowers, impacting the borrowers’ ability to repay their loans, increasing the risk of delinquencies and defaults, and reducing the collateral value underlying the loans.

The extent to which the COVID-19 pandemic will ultimately affect our financial condition and results of operations is unknown and will depend, among other things, on the duration of the pandemic, the actions undertaken by national, state and local governments and health officials to contain the virus or mitigate its effects, the safety and effectiveness of the vaccines that have been developed and the ability of pharmaceutical companies and governments to continue to manufacture and distribute those vaccines, changes to interest rates, and how quickly and to what extent economic conditions improve and normal business and operating conditions resume. Any one or a combination of these factors could negatively impact our business, financial condition and results of operations and prospects.

Credit Risks

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

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

- **Commercial Real Estate Loans.** Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over the loan period, but rather have a balloon payment due at maturity. A borrower’s ability to make a balloon payment typically will depend on the borrower’s ability to either refinance the loan or timely sell the underlying property. At December 31, 2021, commercial mortgage loans comprised approximately 34.4% of our total loan portfolio.
- **Commercial Loans.** Repayment is generally dependent upon the successful operation of the borrower’s business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. At December 31, 2021, commercial loans comprised approximately 11.6% of our total loan portfolio.

- **Construction Loans.** The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. At December 31, 2021, construction loans comprised approximately 9.0% of our total loan portfolio.
- **Vacant Land Loans.** Because vacant or unimproved land is generally held by the borrower for investment purposes or future use, payments on loans secured by vacant or unimproved land will typically rank lower in priority to the borrower than a loan the borrower may have on their primary residence or business. These loans are susceptible to adverse conditions in the real estate market and local economy. At December 31, 2021, vacant land loans comprised approximately 3.42% of our total loan portfolio.
- **HELOCs.** Our open-ended home equity loans have an interest-only draw period followed by a five-year repayment period of 0.75% of the principal balance monthly and a balloon payment at maturity. Upon the commencement of the repayment period, the monthly payment can increase significantly, thus, there is a heightened risk that the borrower will be unable to pay the increased payment. Further, these loans also involve greater risk because they are generally not fully amortizing over the loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment may depend on the borrower's ability to either refinance the loan or timely sell the underlying property. At December 31, 2021, HELOCs comprised approximately 9.7% of our total loan portfolio.
- **Consumer Loans.** Consumer loans (such as automobile loans and personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss. At December 31, 2021, consumer loans comprised approximately 16.7% of our total loan portfolio, with indirect auto loans making up a majority of this portfolio at approximately 93.1% of the total balance.

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

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

Our interest-earning assets are heavily concentrated in mortgage loans secured by real estate, particularly real estate located in Florida and Georgia. At December 31, 2021, approximately 72% of our loans included real estate as a primary, secondary, or tertiary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower; however, the value of the collateral may decline during the time the credit is extended. If we are required to liquidate the collateral securing a loan during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

Additionally, at December 31, 2021, substantially all of our loans secured by real estate are secured by commercial and residential properties located in Northern Florida and Middle Georgia. The concentration of our loans in these areas subjects us to risk that a downturn in the economy or recession in these areas could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect us than if our lending were more geographically diversified. In addition, since a large portion of our portfolio is secured by properties located in Florida and Georgia, the occurrence of a natural disaster, such as a hurricane, or a man-made disaster could result in a decline in loan originations, a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us. We may suffer further losses due to the decline in the value of the properties underlying our mortgage loans, which would have an adverse impact on our results of operations and financial condition.

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

Due to the lack of diversified industry within the markets served by CCB and the relatively close proximity of our geographic markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate. At December 31, 2021, approximately 38% and 34% of our \$1.931 billion loan portfolio was secured by commercial real estate and residential real estate, respectively. As of this same date, approximately 9% was secured by property under construction.

In the event we are required to foreclose on a property securing one of our mortgage loans or otherwise pursue our remedies in order to protect our investment, we may be unable to recover funds in an amount equal to our projected return on our investment or in an amount sufficient to prevent a loss to us due to prevailing economic conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real estate or other collateral underlying our loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans, and consequently, we would sustain loan losses.

An inadequate allowance for credit losses would reduce our earnings.

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

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

At December 31, 2021, our allowance for credit losses for loans held for investment was \$21.6 million, which represented approximately 1.12% of our total loans held for investment. We had \$4.3 million in nonaccruing loans at December 31, 2021. The allowance is based on management's reasonable estimate and may not prove sufficient to cover future loan losses. Although management uses the best information available to make determinations with respect to the allowance for credit losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to our nonperforming or performing loans. In addition, regulatory agencies, as an integral part of their examination process, periodically review our estimated losses on loans. Our regulators may require us to recognize additional losses based on their judgments about information available to them at the time of their examination. Accordingly, the allowance for credit losses may not be adequate to cover all future loan losses and significant increases to the allowance may be required in the future if, for example, economic conditions worsen. A material increase in our allowance for credit losses would adversely impact our net income and capital in future periods, while having the effect of overstating our current period earnings.

We may incur significant costs associated with the ownership of real property as a result of foreclosures, which could reduce our net income.

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

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

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

Certain expenditures associated with the ownership of real estate, including real estate taxes, insurance and maintenance costs, may adversely affect the income from the real estate. Furthermore, we may need to advance funds to continue to operate or to protect these assets. As a result, the cost of operating real property assets may exceed the rental income earned from such properties or we may be required to dispose of the real property at a loss.

Liquidity Risks

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

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet client loan requests, client deposit maturities and withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. If we are unable to raise funds through deposits, borrowings, earnings and other sources, it could have a substantial negative effect on our liquidity. In particular, a majority of our liabilities during 2021 were checking accounts and other liquid deposits, which are generally payable on demand or upon short notice. By comparison, a substantial majority of our assets were loans, which cannot generally be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts at the same time, regardless of the reason. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. If we are unable to maintain adequate liquidity, it could materially and adversely affect our business, results of operations or financial condition.

We may be unable to pay dividends in the future.

In 2021, our Board of Directors declared four quarterly cash dividends. Declarations of any future dividends will be contingent on our ability to earn sufficient profits and to remain well capitalized, including our ability to hold and generate sufficient capital to comply with the CET1 conservation buffer requirement. In addition, due to our contractual obligations with the holders of our trust preferred securities, if we defer the payment of accrued interest owed to the holders of our trust preferred securities, we may not make dividend payments to our shareowners.

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

Regulatory and Compliance Risks

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

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

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

Our failure to comply with these laws and regulations could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition. Please refer to the Section entitled "Business – Regulatory Considerations" on page 10.

U.S. federal banking agencies may require us to increase our regulatory capital, long-term debt or liquidity requirements, which could result in the need to issue additional qualifying securities or to take other actions, such as to sell company assets.

We are subject to U.S. regulatory capital and liquidity rules. These rules, among other things, establish minimum requirements to qualify as a well-capitalized institution. If CCB fails to maintain its status as well capitalized under the applicable regulatory capital rules, the Federal Reserve will require us to agree to bring the bank back to well-capitalized status. For the duration of such an agreement, the Federal Reserve may impose restrictions on our activities. If we were to fail to enter into or comply with such an agreement or fail to comply with the terms of such agreement, the Federal Reserve may impose more severe restrictions on our activities, including requiring us to cease and desist activities permitted under the Bank Holding Company Act of 1956.

Capital and liquidity requirements are frequently introduced and amended. It is possible that regulators may increase regulatory capital requirements, change how regulatory capital is calculated or increase liquidity requirements.

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

Further changes to and compliance with the regulatory capital and liquidity requirements may impact our operations by requiring us to liquidate assets, increase borrowings, issue additional equity or other securities, cease or alter certain operations, sell company assets or hold highly liquid assets, which may adversely affect our results of operations. We may be prohibited from taking capital actions such as paying or increasing dividends or repurchasing securities.

Changes in accounting standards or assumptions in applying accounting policies could adversely affect us.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported value of our assets or liabilities and results of operations and are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. If those assumptions, estimates or judgments were incorrectly made, we could be required to correct and restate prior-period financial statements. Accounting standard-setters and those who interpret the accounting standards, the SEC, banking regulators and our independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report our financial statements. In some cases, we could be required to apply a new or revised standard retrospectively, resulting in us revising prior-period financial statements.

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

Since September 11, 2001, banking regulators have intensified their focus on anti-money laundering and Bank Secrecy Act compliance requirements, particularly the anti-money laundering provisions of the USA PATRIOT Act. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control, or OFAC. Since 2004, federal banking regulators and examiners have been extremely aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to the institution's Bank Secrecy Act/anti-money laundering compliance. Consequently, numerous formal enforcement actions have been instituted against financial institutions. If CCB's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that it has already acquired or may acquire in the future are deficient, CCB would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans.

Fee revenues from overdraft protection programs constitute a significant portion of our noninterest income and may be subject to increased supervisory scrutiny.

Revenues derived from transaction fees associated with overdraft protection programs offered to our customers represent a significant portion of our noninterest income. In 2021, the Company collected approximately \$9.9 million in net overdraft transaction fees. In recent months, certain members of Congress and the leadership of the CFPB have expressed a heightened interest in bank overdraft protection programs. In December 2021, the CFPB published a report providing data on banks' overdraft and non-sufficient funds fee revenues as well as observations regarding consumer protection issues relating to participation in such programs. The CFPB has indicated that it intends to pursue enforcement actions against banking organizations, and their executives, that oversee overdraft practices that are deemed to be unlawful. In addition, the Comptroller of the Currency has identified potential options for reform of national bank overdraft protection practices, including providing a grace period before the imposition of a fee, refraining from charging multiple fees in a single day and eliminating fees altogether.

In response to this increased congressional and regulatory scrutiny, and in anticipation of enhanced supervision and enforcement of overdraft protection practices in the future, certain banking organizations have begun to modify their overdraft protection programs, including by discontinuing the imposition of overdraft transaction fees. These competitive pressures from our peers, as well as any adoption by our regulators of new rules or supervisory guidance or more aggressive examination and enforcement policies in respect of banks' overdraft protection practices, could cause us to modify our program and practices in ways that may have a negative impact on our revenue and earnings, which, in turn, could have an adverse effect on our financial condition and results of operations. In addition, as supervisory expectations and industry practices regarding overdraft

Operational Risks

Many types of operational risks can affect our earnings negatively.

We regularly assess and monitor operational risk in our businesses. Despite our efforts to assess and monitor operational risk, our risk management framework may not be effective in all cases. Factors that can impact operations and expose us to risks varying in size, scale and scope include:

- failures of technological systems or breaches of security measures, including, but not limited to, those resulting from computer viruses or cyber-attacks;
- unsuccessful or difficult implementation of computer systems upgrades;
- human errors or omissions, including failures to comply with applicable laws or corporate policies and procedures;
- theft, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties;
- breakdowns in processes, breakdowns in internal controls or failures of the systems and facilities that support our operations;
- deficiencies in services or service delivery;
- negative developments in relationships with key counterparties, third-party vendors, or employees in our day-to-day operations; and
- external events that are wholly or partially beyond our control, such as pandemics, geopolitical events, political unrest, natural disasters or acts of terrorism.

While we have in place many controls and business continuity plans designed to address these factors and others, these plans may not operate successfully to mitigate these risks effectively. If our controls and business continuity plans do not mitigate the associated risks successfully, such factors may have a negative impact on our business, financial condition or results of operations. In addition, an important aspect of managing our operational risk is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our risk management program to support our risk culture. Nonetheless, if we fail to provide the appropriate environment that sensitizes all of our employees to managing risk, our business could be impacted adversely.

We are subject to certain operational risks, including, but not limited to, customer, employee or third-party fraud and data processing system failures and errors.

We rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards, adverse business decisions or their implementation, or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and/or suffer damage to our reputation.

Pandemics, natural disasters, global climate change, acts of terrorism and global conflicts may have a negative impact on our business and operations.

Pandemics, including the continuing COVID-19 pandemic, natural disasters, global climate change, acts of terrorism, global conflicts or other similar events have in the past, and may in the future have, a negative impact on our business and operations. These events impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations and may have other adverse effects on us in ways that we are unable to predict.

Our business operations could be disrupted if significant portions of our workforce were unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. Further, work-from-home and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks, which may result in inefficiencies or delays, and may affect our ability to, or the manner in which we, conduct our business activities. Disruptions to our clients could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. The escalation of the pandemic may also negatively impact regional economic conditions for a period of time, resulting in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability.

Litigation may adversely affect our results.

We are subject to litigation in the ordinary course of business. Claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of litigation and regulatory matters as well as the timing of ultimate resolution are inherently difficult to predict.

Actual legal and other costs of resolving claims may be greater than our legal reserves. The ultimate resolution of a pending legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

In addition, governmental authorities have, at times, sought criminal penalties against companies in the financial services sector for violations, and, at times, have required an admission of wrongdoing from financial institutions in connection with resolving such matters. Criminal convictions or admissions of wrongdoing in a settlement with the government can lead to greater exposure in civil litigation and reputational harm.

Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm, which adversely impact our business prospects. Further, we may be exposed to substantial uninsured liabilities, which could adversely affect our results of operations and financial condition.

Strategic Risks

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

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

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

Our directors, executive officers, and principal shareowners beneficially owned approximately 23.7% of the outstanding shares of our common stock at December 31, 2021. William G. Smith, Jr., our Chairman, President and Chief Executive Officer beneficially owned 17.2% of our shares as of that date. Accordingly, these directors, executive officers, and principal shareowners, if acting together, may be able to influence or control matters requiring approval by our shareowners, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. Moreover, because William G. Smith, Jr. is the Chairman, President, and Chief Executive Officer of CCBG and Chairman of CCB, he has substantial control over all matters on a day-to-day basis, including the nomination and election of directors.

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

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

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

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

For example, our Articles of Incorporation permit our Board of Directors to issue preferred stock without shareowner action. The ability to issue preferred stock could discourage a company from attempting to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. We are also subject to certain provisions of the Florida Business Corporation Act and our Articles of Incorporation that relate to business combinations with interested shareowners. Other provisions in our Articles of Incorporation or Bylaws that may discourage takeover attempts or make them more difficult include:

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

Reputational Risks

Damage to our reputation could harm our businesses, including our competitive position and business prospects.

Our ability to attract and retain customers, clients, investors and employees is impacted by our reputation. Harm to our reputation can arise from various sources, including officer, director or employee fraud, misconduct and unethical behavior, security breaches, litigation or regulatory outcomes, compensation practices, lending practices, the suitability or reasonableness of recommending particular trading or investment strategies, including the reliability of our research and models, prohibiting clients from engaging in certain transactions and employee sales practices. Additionally, our reputation may be harmed by failing to deliver products, subpar standards of service and quality expected by our customers, clients and the community, compliance failures, the inability to manage technology change or maintain effective data management, cyber incidents, internal and external fraud, inadequacy of responsiveness to internal controls, unintended disclosure of personal, proprietary or confidential information, conflicts of interest and breach of fiduciary obligations, the handling of health emergencies or pandemics, and the activities of our clients, customers, counterparties and third parties, including vendors. Our reputation may also be negatively impacted by our environmental, social, and governance practices and disclosures, our businesses and our customers, including practices and disclosures related to climate change. Actions by the financial services industry generally or by certain members or individuals in the industry also can adversely affect our reputation. In addition, adverse publicity or negative information posted on social media by employees, the media or otherwise, whether or not factually correct, may adversely impact our business prospects or financial results.

We are subject to complex and evolving laws and regulations regarding privacy, know-your-customer requirements, data protection, cross-border data movement and other matters. Principles concerning the appropriate scope of consumer and commercial privacy vary considerably in different jurisdictions, and regulatory and public expectations regarding the definition and scope of consumer and commercial privacy may remain fluid. It is possible that these laws may be interpreted and applied by various jurisdictions in a manner inconsistent with our current or future practices, or that is inconsistent with one another. If personal, confidential or proprietary information of customers or clients in our possession, or in the possession of third parties (including their downstream service providers) or financial data aggregators, is mishandled, misused or mismanaged, or if we do not timely or adequately address such information, we may face regulatory, reputational and operational risks which could adversely affect our financial condition and results of operations.

We could suffer reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to use our products and services, or give rise to litigation or enforcement actions, which could adversely affect our business.

Our actual or perceived failure to address these and other issues, such as operational risks, gives rise to reputational risk that could harm us and our business prospects. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions, legal risks and reputational harm, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties, and cause us to incur related costs and expenses.

Technology Risks

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

At December 31, 2021, Capital City Bank had 57 banking offices. Of these locations, we lease the land, buildings, or both at six locations and own the land and buildings at the remaining 51. CCHL had 26 loan production offices, all of which were leased. Capital City Strategic Wealth, Inc. maintained five offices, all of which were leased.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities

Common Stock Market Prices and Dividends

Our common stock trades on the Nasdaq Global Select Market under the symbol "CCBG." We had a total of 1,157 shareowners of record at February 25, 2022.

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

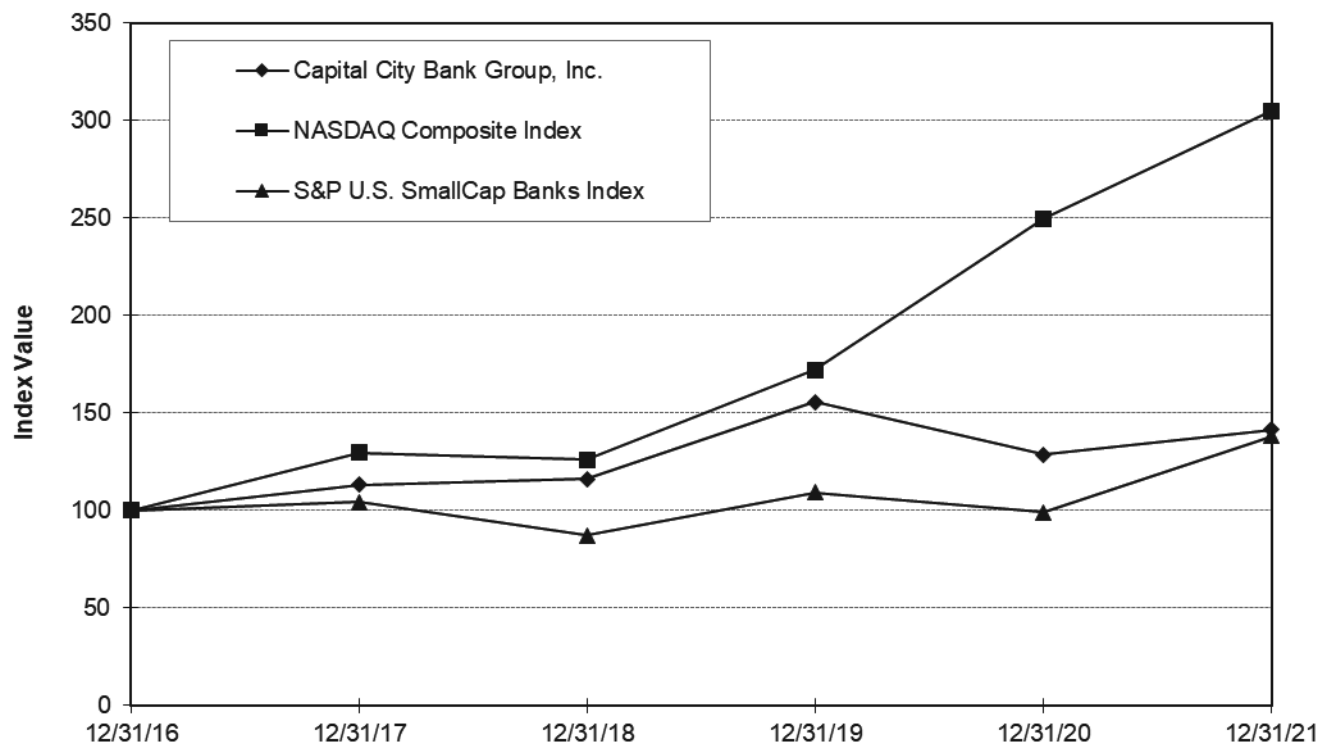
	2021				2020			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Common stock price:								
High	\$ 29.00	\$ 26.10	\$ 27.39	\$ 28.98	\$ 26.35	\$ 21.71	\$ 23.99	\$ 30.62
Low	24.77	22.02	24.55	21.42	18.14	17.55	16.16	15.61
Close	26.40	24.74	25.79	26.02	24.58	18.79	20.95	20.12
Cash dividends per share	0.16	0.16	0.15	0.15	0.15	0.14	0.14	0.14

Florida law and Federal regulations impose restrictions on our ability to pay dividends and limitations on the amount of dividends that the Bank can pay annually to us. See Item 1. "Capital; Dividends; Sources of Strength" and "Dividends" in the Business section on page 11 and 13, Item 1A. "Market Risks" in the Risk Factors section on page 19, Item 7. "Liquidity and Capital Resources – Dividends" – in Management's Discussion and Analysis of Financial Condition and Operating Results on page 55 and Note 17 in the Notes to Consolidated Financial Statements.

Performance Graph

This performance graph compares the cumulative total shareowner return on our common stock with the cumulative total shareowner return of the Nasdaq Composite Index and the S&P U.S. Small Cap Banks Index for the past five years. The graph assumes that \$100 was invested on December 31, 2016 in our common stock and each of the above indices, and that all dividends were reinvested. The shareowner return shown below represents past performance and should not be considered indicative of future performance.

Total Return Performance



Period Ending

<i>Index</i>	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Capital City Bank Group, Inc.	\$ 100.00	\$ 113.28	\$ 116.11	\$ 155.53	\$ 128.55	\$ 141.44
Nasdaq Composite	100.00	129.64	125.96	172.18	249.51	304.85
SNL \$1B-\$5B Bank Index	100.00	104.33	87.06	109.22	99.19	138.09

Item 6. Selected Financial Data

(Dollars in Thousands, Except Per Share Data)

	2021	2020	2019
Interest Income	\$ 106,351	\$ 106,197	\$ 112,836
Net Interest Income	102,861	101,326	103,343
Provision for Credit Losses	(1,553)	9,645	2,027
Noninterest Income	107,545	111,165	53,053
Noninterest Expense ⁽¹⁾	162,508	149,962	113,609
Income Attributable to Noncontrolling Interests ⁽²⁾	(6,220)	(11,078)	-
Net Income Attributable to CCBG	33,396	31,576	30,807
Per Common Share:			
Basic Net Income	\$ 1.98	\$ 1.88	\$ 1.84
Diluted Net Income	1.98	1.88	1.83
Cash Dividends Declared	0.62	0.57	0.48
Diluted Book Value	22.63	19.05	19.40
Diluted Tangible Book Value ⁽³⁾	17.12	13.76	14.37
Performance Ratios:			
Return on Average Assets	0.84 %	0.93 %	1.03 %
Return on Average Equity	9.92	9.36	9.72
Net Interest Margin (FTE)	2.83	3.30	3.85
Noninterest Income as % of Operating Revenues	51.11	52.32	33.92
Efficiency Ratio	77.11	70.43	72.40
Asset Quality:			
Allowance for Credit Losses ("ACL")	\$ 21,606	\$ 23,816	\$ 13,905
ACL to Loans Held for Investment ("HFI")	1.12 %	1.19 %	0.75 %
Nonperforming Assets ("NPAs")	4,339	6,679	5,425
NPAs to Total Assets	0.10	0.18	0.18
NPAs to Loans HFI plus OREO	0.22	0.33	0.29
ACL to Non-Performing Loans	499.93	405.66	310.99
Net Charge-Offs to Average Loans HFI	(0.03)	0.12	0.13
Capital Ratios:			
Tier 1 Capital	16.14 %	16.19 %	17.16 %
Total Capital	17.15	17.30	17.90
Common Equity Tier 1 Capital	13.86	13.71	14.47
Tangible Common Equity ⁽³⁾	6.95	6.25	8.06
Leverage	8.95	9.33	11.25
Equity to Assets	8.99	8.45	10.59
Dividend Pay-Out	31.31	30.32	26.23
Averages for the Year:			
Loans Held for Investment	\$ 2,000,563	\$ 1,957,576	\$ 1,811,738
Earning Assets	3,652,486	3,083,675	2,697,098
Total Assets	3,984,064	3,391,071	2,987,056
Deposits	3,406,886	2,844,347	2,537,489
Shareowners' Equity	336,821	337,313	317,072
Year-End Balances:			
Loans Held for Investment	\$ 1,931,465	\$ 2,006,426	\$ 1,835,929
Earning Assets	3,949,111	3,475,904	2,806,913
Total Assets	4,263,849	3,798,071	3,088,953
Deposits	3,712,862	3,217,560	2,645,454
Shareowners' Equity	383,166	320,837	327,016
Other Data:			
Basic Average Shares Outstanding	16,862,932	16,784,711	16,769,507
Diluted Average Shares Outstanding	16,892,947	16,821,950	16,827,413
Shareowners of Record ⁽⁴⁾	1,157	1,201	1,243
Banking Locations ⁽⁴⁾	57	57	57
Full-Time Equivalent Associates ⁽⁴⁾⁽⁵⁾	954	954	796

⁽¹⁾ For 2021, includes pension settlement charge of \$3.1 million

⁽²⁾ Acquired 51% membership interest in Brand Mortgage Group, LLC, re-named as Capital City Home Loans, on March 1, 2020 - fully consolidated

⁽³⁾ Diluted tangible book value and tangible common equity ratio are non-GAAP financial measures. For additional information, including a reconciliation to GAAP, refer to page 34

⁽⁴⁾ As of February 25th of the following year.

⁽⁵⁾ Reflects 748 full-time equivalent associates at Core CCBG and 198 full-time equivalent associates at CCHL.

NON-GAAP FINANCIAL MEASURES

We present a tangible common equity ratio and a tangible book value per diluted share that, in each case, removes the effect of goodwill that resulted from merger and acquisition activity. We believe these measures are useful to investors because it allows investors to more easily compare our capital adequacy to other companies in the industry. The generally accepted accounting principles (“GAAP”) to non-GAAP reconciliation for selected year-to-date financial data is provided below.

Non-GAAP Reconciliation - Selected Financial Data

<i>(Dollars in Thousands, except per share data)</i>	2021	2020	2019
Shareowners' Equity (GAAP)	\$ 383,166	\$ 320,837	\$ 327,016
Less: Goodwill and Other Intangibles (GAAP)	93,253	89,095	84,811
Tangible Shareowners' Equity (non-GAAP)	A <u>289,913</u>	<u>231,742</u>	<u>242,205</u>
Total Assets (GAAP)	4,263,849	3,798,071	3,088,953
Less: Goodwill and Other Intangibles (GAAP)	93,253	89,095	84,811
Tangible Assets (non-GAAP)	B \$ <u>4,170,596</u>	\$ <u>3,708,976</u>	\$ <u>3,004,142</u>
Tangible Common Equity Ratio (non-GAAP)	A/B <u>6.95%</u>	<u>6.25%</u>	<u>8.06%</u>
Actual Diluted Shares Outstanding (GAAP)	C 16,935,389	16,844,997	16,855,161
Tangible Book Value per Diluted Share (non-GAAP)	A/C <u>17.12</u>	<u>13.76</u>	<u>14.37</u>

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes included in the Annual Report on Form 10-K. The MD&A is divided into subsections entitled "Business Overview," "Executive Overview," "Results of Operations," "Financial Condition," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2021 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and its subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

BUSINESS OVERVIEW

Our Business

We are a financial holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly owned subsidiary, Capital City Bank (the "Bank" or "CCB"). We provide a full range of banking services, including traditional deposit and credit services, mortgage banking, asset management, trust, merchant services, bankcards, securities brokerage services and financial advisory services, including the sale of life insurance, risk management and asset protection services. The Bank has 57 banking offices and 86 ATMs/ITMs in Florida, Georgia and Alabama. Through Capital City Home Loans, LLC, a Georgia limited liability company ("CCHL"), we have 26 additional offices in the Southeast for our mortgage banking business. Please see the section captioned "About Us" beginning on page 4 for more detailed information about our business.

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

Strategic Review

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

Strategic Initiatives. In 2020, we celebrated our 125th anniversary and reflected on our past history and what has fostered our longevity – client relationships, community service, and our people have allowed us to evolve, change, and thrive over time. In 2021, we initiated a new five year strategic plan “2025 In Focus” that will guide us in the areas of client experience, channel optimization, market expansion, and culture. As part of 2025 In Focus, we aim to take our brand of relationship banking to the next level, further deepen relationships within our communities, expand into new higher growth markets, diversify our revenue sources, invest in new technology that will support the expansion of client relationships and scale within our lines of business and drive higher profitability.

Markets. We maintain a blend of large and small markets in Florida and Georgia all in close proximity to major interstate thoroughfares such as Interstates I-10 and I-75. Our larger markets include Tallahassee (Leon County, Florida), Gainesville (Alachua County, Florida), Macon (Bibb County, Georgia), and Suncoast (Hernando/Pasco/Citrus, Florida). The larger employers in these markets are state and local governments, healthcare providers, educational institutions, and small businesses, providing stability and good growth dynamics that have historically grown in excess of the national average. We serve an additional fifteen smaller, less competitive, rural markets located on the outskirts of and centered between our larger markets where we are positioned as a market leader. In 12 of 18 markets in Florida and two of four Georgia markets, we frequently rank within the top four banks in terms of deposit market share. Furthermore, in the counties in which we operate, we maintain an 8.3% deposit market share in the Florida counties and 2.4% in the Georgia counties. Our markets provide for a strong core deposit funding base, a key differentiator and driver of our profitability and franchise value.

Recent Acquisition/Expansion Activity. In 2020, we began our expansion into the western panhandle area of Florida by opening a full-service banking office in Bay County, Florida and a loan production office in Walton County with plans to open a full-service banking office in Walton County in late 2022. In 2021, we began our expansion plans into the Northern Arc of Atlanta (Gwinnett and Cobb counties) with plans for opening a full-service office in Gwinnett in late 2022. Further, we will expand our presence and commitment to our Gainesville market, opening a third full-service banking office in early 2023. Significant progress was made in 2021 in hiring leadership and banking teams in the Northern Arc and Walton markets.

On March 1, 2020, CCB completed its acquisition of a 51% membership interest in Brand Mortgage Group, LLC (“Brand”) which is now operated as a Capital City Home Loans (“CCHL”) – Refer to Note 1 – Significant Accounting Policies/Business Combination for additional information on this transaction.

On April 30, 2021, a newly formed subsidiary of CCBG, Capital City Strategic Wealth, LLC (“CCSW”) acquired substantially all of the assets of Strategic Wealth Group, LLC and certain related businesses (“SWG”) – Refer to Note 1 – Significant Accounting Policies/Business Combination for additional information on this transaction.

EXECUTIVE OVERVIEW

For 2021, net income attributable to common shareowners totaled \$33.4 million, or \$1.98 per diluted share, compared to net income of \$31.6 million, or \$1.88 per diluted share for 2020 and \$30.8 million, or \$1.83 per diluted share, for 2019.

The increase in net income attributable to common shareowners for 2021 was attributable to a decrease in the provision for credit losses of \$11.2 million, higher net interest income of \$1.5 million and lower income taxes of \$0.4 million, partially offset by higher noninterest expense of \$12.5 million and lower noninterest income of \$3.6 million. Net income attributable to common shareowners included a \$4.9 million decrease in the deduction to record the 49% non-controlling interest in the earnings of CCHL.

The increase in net income attributable to common shareowners for 2020 reflected higher noninterest income of \$58.1 million, partially offset by higher noninterest expense of \$36.4 million, a \$7.6 million increase in the provision for credit losses, lower net interest income of \$2.0 million, and higher income taxes of \$0.2 million. Net income attributable to common shareowners included an \$11.1 million deduction to record the 49% non-controlling interest in the earnings of CCHL which was fully consolidated in CCBG’s financial statements on March 1, 2020.

Below are **Summary Highlights** that impacted our performance for 2021:

- *2021 net income attributable to common shareowners totaled \$33.4 million, a record year*
- *Operating revenues (excluding mortgage revenues and SBA PPP loan income) improved 1.4%*
- *CCHL contributed \$0.23 per share versus \$0.52 per share in 2020*
- *Average loans, excluding PPP loans, grew \$76 million and average investment securities increased \$203 million*
- *Negative credit loss provision of \$1.6 million*
- *Noninterest expense included pension settlement charges totaling \$3.1 million or \$0.15 per share*
- *Average Deposits grew \$563 million, or 19.8%, reflective of government stimulus related inflows*
- *Capital growth of \$62.3 million (\$3.69 per share), or 19.4%, reflective of strong earnings and a favorable adjustment of \$34.1 million related to our year-end pension plan re-measurement*

For more detailed information, refer to the following additional sections of the MD&A “Results of Operations” and “Financial Condition”.

RESULTS OF OPERATIONS

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

Table 1
CONDENSED SUMMARY OF EARNINGS

<i>(Dollars in Thousands, Except Per Share Data)</i>	2021	2020	2019
Interest Income	\$ 106,351	\$ 106,197	\$ 112,836
Taxable Equivalent Adjustments	349	430	526
Total Interest Income (FTE)	106,700	106,627	113,362
Interest Expense	3,490	4,871	9,493
Net Interest Income (FTE)	103,210	101,756	103,869
Provision for Credit Losses	(1,553)	9,645	2,027
Taxable Equivalent Adjustments	349	430	526
Net Interest Income After Provision for Credit Losses	104,414	91,681	101,316
Noninterest Income	107,545	111,165	53,053
Noninterest Expense	162,508	149,962	113,609
Income Before Income Taxes	49,451	52,884	40,760
Income Tax Expense	9,835	10,230	9,953
Income Attributable to Noncontrolling Interests	(6,220)	(11,078)	-
Net Income Attributable to Common Shareowners	\$ 33,396	\$ 31,576	\$ 30,807
Basic Net Income Per Share	\$ 1.98	\$ 1.88	\$ 1.84
Diluted Net Income Per Share	\$ 1.98	\$ 1.88	\$ 1.83

Net Interest Income

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

For 2021, our taxable equivalent net interest income increased \$1.5 million, or 1.4%. This follows a decrease of \$2.1 million, or 2.0% in 2020. The increase in 2021 was primarily due to higher small business ("SBA PPP") loan income combined with a lower cost of funds, partially offset by lower income from the investment portfolio due to lower reinvestment rates. The decrease in 2020 was driven primarily by lower rates for most of the year, which negatively impacted our variable and adjustable rate earning assets. Partially offsetting this decline was a lower cost of funds.

For 2021, taxable equivalent interest income increased \$0.1 million, or 0.1%, over 2020. For 2020, taxable equivalent interest income decreased \$6.7 million, or 5.9%, from 2019. The increase in 2021 was primarily due to fee income on SBA PPP loans partially offset by lower rates on earning assets. The decline in 2020 was primarily due to lower rates on earning assets.

For 2021, interest expense decreased \$1.4 million, or 28.4%, from 2020. For 2020, interest expense decreased \$4.6 million, or 48.7%, from 2019. The decline in both years was primarily due to lower rates on our negotiated rate deposits which are tied to an adjustable rate index. Our cost of funds decreased six basis points to 10 basis points in 2021 and decreased 19 basis points to 16 basis points in 2020. The decrease in both years was primarily due to lower interest rates paid on our negotiated rate products.

Our interest rate spread (defined as the taxable-equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) decreased 43 basis points in 2021 and decreased 43 basis points in 2020. Our net interest margin (defined as taxable-equivalent interest income less interest expense divided by average earning assets) of 2.83% in 2021 was a 47 basis point decrease from 2020. The net interest margin of 3.30% in 2020 was a 55 basis point decrease from 2019. The decline in the interest rate spread and net interest margin in both years was primarily due to lower yielding earning assets due to lower rates, in addition to strong growth in lower yielding overnight funds.

The Federal Open Market Committee (FOMC) did not change the federal funds target rate range of 0.00% - 0.25% during 2021. As 2021 progressed, the market began to anticipate more aggressive rate increases for 2022 than initially expected, ending 2021 with estimates of three rate increases of 25 basis points each by the end of 2022. As we continue to closely monitor and manage our net interest margin, we review and implement various loan strategies that align with our overall risk appetite to enhance our performance on an ongoing basis. We continue to maintain relatively short duration portfolios on both sides of the Statement of Financial Condition and believe we are well positioned to respond to changing market conditions.

Table 2
AVERAGE BALANCES AND INTEREST RATES

<i>(Taxable Equivalent Basis - Dollars in Thousands)</i>	2021			2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Loans Held for Sale ⁽¹⁾⁽²⁾	\$ 78,328	\$ 2,555	3.24 %	\$ 81,125	\$ 2,895	3.57 %	\$ 10,349	\$ 471	4.55 %
Loans Held for Investment ⁽¹⁾⁽²⁾	2,000,563	94,332	4.76	1,957,576	92,261	4.71	1,811,738	94,191	5.20
Taxable Investment Securities	778,953	8,724	1.12	574,199	10,176	1.77	612,541	13,123	2.14
Tax-Exempt Investment Securities ⁽²⁾	3,772	91	2.39	5,123	124	2.42	24,471	390	1.60
Fed Funds Sold & Int Bearing Dep	790,870	998	0.13	465,652	1,171	0.25	237,999	5,187	2.18
Total Earning Assets	3,652,486	106,700	2.92 %	3,083,675	106,627	3.46 %	2,697,098	113,362	4.20 %
Cash & Due From Banks	72,409			68,386			52,453		
Allowance for Credit Losses	(22,960)			(20,690)			(14,622)		
Other Assets	282,129			259,700			252,127		
TOTAL ASSETS	\$ 3,984,064			\$ 3,391,071			\$ 2,987,056		
LIABILITIES									
NOW Accounts	\$ 965,320	\$ 294	0.03 %	\$ 826,280	\$ 930	0.11 %	\$ 805,134	\$ 5,502	0.68 %
Money Market Accounts	278,606	134	0.05	235,931	223	0.09	235,845	946	0.40
Savings Accounts	537,023	263	0.05	423,529	207	0.05	370,430	182	0.05
Time Deposits	102,220	148	0.14	104,393	188	0.18	113,499	210	0.19
Total Interest Bearing Deposits	1,883,169	839	0.04 %	1,590,133	1,548	0.10 %	1,524,908	6,840	0.45 %
Short-Term Borrowings	53,511	1,360	2.54	69,119	1,690	2.44	9,275	109	1.19
Subordinated Notes Payable	52,887	1,228	2.29	52,887	1,472	2.74	52,887	2,287	4.26
Other Long-Term Borrowings	1,887	63	3.33	5,304	161	3.03	7,393	257	3.48
Total Interest Bearing Liabilities	1,991,454	3,490	0.18 %	1,717,443	4,871	0.28 %	1,594,463	9,493	0.60 %
Noninterest Bearing Deposits	1,523,717			1,254,214			1,012,581		
Other Liabilities	111,567			72,400			62,940		
TOTAL LIABILITIES	3,626,738			3,044,057			2,669,984		
Temporary Equity	20,505			9,701			-		
TOTAL SHAREOWNERS' EQUITY	336,821			337,313			317,072		
TOTAL LIABILITIES, TEMPORARY EQUITY AND SHAREOWNERS' EQUITY	\$ 3,984,064			\$ 3,391,071			\$ 2,987,056		
Interest Rate Spread			2.75 %			3.18 %			3.61 %
Net Interest Income		\$ 103,210			\$ 101,756			\$ 103,869	
Net Interest Margin ⁽³⁾			2.83 %			3.30 %			3.85 %

⁽¹⁾ Average balances include net loan fees, discounts and premiums, and nonaccrual loans. Interest income includes loan fees of \$6.6 million for 2021, \$2.6 million for 2020, and \$0.9 million for 2019. SBA PPP loans averaged \$92.4 million in 2021 and \$125.4 million in 2020.

⁽²⁾ Interest income includes the effects of taxable equivalent adjustments using a 21% tax rate.

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

Table 3
RATE/VOLUME ANALYSIS⁽¹⁾

<i>(Taxable Equivalent Basis - Dollars in Thousands)</i>	2021 vs. 2020				2020 vs. 2019			
	Increase (Decrease) Due to Change In				Increase (Decrease) Due to Change In			
	Total	Calendar ⁽³⁾	Volume	Rate	Total	Calendar ⁽³⁾	Volume	Rate
Earnings Assets:								
Loans Held for Sale ⁽²⁾	\$ (340)	\$ (8)	\$ (100)	\$ (232)	\$ 2,452	\$ 1	\$ 3,222	\$ (771)
Loans Held for Investment ⁽²⁾	2,071	(252)	2,092	231	(1,958)	258	7,773	(9,989)
Taxable Investment Securities	(1,451)	(28)	3,657	(5,080)	(2,947)	36	(857)	(2,126)
Tax-Exempt Investment Securities ⁽²⁾	(34)	-	(33)	(1)	(266)	1	(309)	42
Funds Sold	(173)	(3)	821	(991)	(4,016)	14	4,948	(8,978)
Total	\$ 73	\$ (291)	\$ 6,437	\$ (6,073)	(6,735)	\$ 310	\$ 14,777	\$ (21,822)
Interest Bearing Liabilities:								
NOW Accounts	\$ (636)	\$ (3)	\$ 159	\$ (792)	(4,572)	\$ 15	\$ 130	\$ (4,717)
Money Market Accounts	(89)	(1)	44	(132)	(723)	3	-	(726)
Savings Accounts	56	-	56	-	25	1	24	-
Time Deposits	(40)	(1)	(3)	(36)	(22)	1	(18)	(5)
Short-Term Borrowings	(330)	(4)	(383)	57	1,581	1	716	864
Subordinated Notes Payable	(244)	(4)	-	(240)	(815)	6	-	(821)
Other Long-Term Borrowings	(98)	-	(104)	6	(96)	1	(73)	(24)
Total	\$ (1,381)	\$ (13)	\$ (231)	\$ (1,137)	(4,622)	\$ 28	\$ 779	\$ (5,429)
Changes in Net Interest Income	\$ 1,454	\$ (278)	\$ 6,668	\$ (4,936)	\$ (2,113)	\$ 282	\$ 13,998	\$ (16,393)

⁽¹⁾ This table shows the change in taxable equivalent net interest income for comparative periods based on either changes in average volume or changes in average rates for interest earning assets and interest bearing liabilities. Changes which are not solely due to volume changes or solely due to rate changes have been attributed to rate changes. SBA PPP loan income totaled \$7.9 million in 2021 and \$3.2 million in 2020.

⁽²⁾ Interest income includes the effects of taxable equivalent adjustments using a 21% tax rate to adjust on tax-exempt loans and securities and securities to a taxable equivalent basis.

⁽³⁾ Reflects one extra calendar day in 2020.

Provision for Credit Losses

For 2021, we recorded a provision benefit of \$1.6 million (\$2.8 million benefit for loans HFI and \$1.2 million expense for unfunded loan commitments) compared to provision expense of \$9.6 million for 2020 (\$9.0 million expense for loans HFI and \$0.6 million expense for unfunded loan commitments), and \$2.0 million for 2019. Prior to 2020, the provision for unfunded loan commitments was recorded in other expense. We discuss the various factors that have impacted our provision expense in more detail under the heading Allowance for Credit Losses.

Noninterest Income

For 2021, noninterest income totaled \$107.5 million, a \$3.6 million decrease from 2020 primarily attributable to lower mortgage banking revenues of \$10.9 million, partially offset by strong gains in wealth management fees of \$2.7 million, bank card fees of \$2.2 million, and deposit fees of \$1.1 million. The decline in mortgage banking revenues was driven generally by lower refinancing activity, a shift in production mix (lower government versus conventional product), and lower market driven gain on sale margins. The increase in deposit fees reflected the conversion, in the third quarter of 2021, of the remaining free checking accounts to a monthly maintenance fee account type. The increase in wealth management fees was primarily attributable to higher retail brokerage transaction volume and advisory accounts added from the acquisition of Capital City Strategic Wealth on April 30, 2021. To a lesser extent, higher trust fees contributed to the increase in wealth management fees driven by higher assets under management. The increase in bank card fees generally reflected an increase in card-not-present debit card transactions and increased consumer spending.

For 2020, noninterest income totaled \$111.2 million, a \$58.1 million increase over 2019 primarily attributable to higher mortgage banking revenues of \$58.0 million added through the strategic alliance with CCHL. Deposit fees declined \$1.7 million primarily due to the impact of government stimulus in the second quarter related to the COVID-19 pandemic, but improved for the second half of the year due to higher utilization of our overdraft product. Strong debit card fee growth of \$1.0 million and a \$0.6 million increase in wealth management fees significantly offset the aforementioned decline in deposit fees.

Noninterest income as a percent of total operating revenues (net interest income plus noninterest income) was 51.11% in 2021, 52.32% in 2020, and 33.92% in 2019. The addition of CCHL mortgage banking revenues was the primary factor driving the improvement in this metric in 2020. In 2021, lower mortgage banking revenues drove the decrease in the percentage. The table below reflects the major components of noninterest income.

Table 4
NONINTEREST INCOME

<i>(Dollars in Thousands)</i>	2021	2020	2019
Deposit Fees	\$ 18,882	\$ 17,800	\$ 19,472
Bank Card Fees	15,274	13,044	11,994
Wealth Management Fees	13,693	11,035	10,480
Mortgage Banking Revenues	52,425	63,344	5,321
Other	7,271	5,942	5,786
Total Noninterest Income	<u>\$ 107,545</u>	<u>\$ 111,165</u>	<u>\$ 53,053</u>

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

Deposit Fees. For 2021, deposit fees (service charge fees, insufficient fund/overdraft fees (“NSF/OD”), and business account analysis fees) totaled \$18.9 million compared to \$17.8 million in 2020 and \$19.5 million in 2019. The \$1.1 million, or 6.1%, increase in 2021 reflected the conversion, in the third quarter of 2021, of the remaining free checking accounts to a monthly maintenance fee account type. The \$1.7 million, or 8.6%, decrease in 2020 was attributable to lower NSF/OD fees and reflected the impact of significant government stimulus in the second quarter related to the COVID-19 pandemic. For the second quarter of 2020, fees were down \$1.3 million compared to the first quarter of 2020 and reflected lower utilization of our overdraft product as consumer and business demand for this service was reduced by the impact of the significant cash stimulus provided by the economic impact payments (EIP) and SBA PPP loans. The decline in fees realized in the second quarter reversed in the third and fourth quarters of 2020 as employment conditions and economic activity began to recover resulting in higher utilization of our overdraft product.

Bank Card Fees. Bank card fees totaled \$15.3 million in 2021 compared to \$13.0 million in 2020 and \$12.0 million in 2019. Bank card fees reflected strong growth in 2021 and 2020 and generally reflected an increase in card-not-present debit card transactions and increased on-line spending by our clients. An account acquisition initiative that began in early 2019 and various debit and credit card promotions have also contributed to the increases.

Wealth Management Fees. Wealth management fees including both trust fees (i.e., managed accounts and trusts/estates) and retail brokerage fees (i.e., investment, insurance products, and retirement accounts) totaled \$13.7 million in 2021 compared to \$11.0 million in 2020 and \$10.5 million in 2019. The increase in fees for 2021 reflected higher retail brokerage fees of \$1.8 million and trust fees of \$0.8 million. Higher retail brokerage transaction volume and advisory accounts added from the acquisition of Capital City Strategic Wealth on April 30, 2021 drove the increase in retail brokerage fees. The increase in trust fees was primarily attributable to an increase in assets under management. The increase in fees for 2020 was attributable to a \$0.3 million increase in retail brokerage fees and a \$0.2 million increase in trust fees. Higher transactions volumes and the addition of new investment advisors drove the increase in retail brokerage fees in 2020. Growth in assets under management contributed to the growth in trust fees in 2020. At December 31, 2021, total assets under management were approximately \$2.324 billion compared to \$1.979 billion at December 31, 2020 and \$1.774 billion at December 31, 2019.

Mortgage Banking Revenues. Mortgage banking revenues totaled \$52.4 million in 2021 compared to \$63.3 million in 2020 and \$5.3 million in 2019. The decrease in 2021 was driven generally by lower refinancing volume, a shift in production mix (lower government versus conventional product), and lower market driven gain on sale margins. The increase in 2020 reflected revenues added from the strategic alliance with CCHL and the favorable impact that the lower residential mortgage rate environment had on home purchase, construction, and refinancing activity in our combined markets. We provide a detailed overview of our mortgage banking operation, including a detailed break-down of mortgage banking revenues, mortgage servicing activity, and warehouse funding within Note 4 - Mortgage Banking Activities in the Notes to Consolidated Financial Statements. Production volume totaled \$1.52 billion in 2021 and \$1.56 billion in 2020. Refinancing activity represented 30% of loan production in 2021 and 40% in 2020. CCHL contributed approximately \$3.9 million to CCBG consolidated earnings in 2021 and \$8.7 million in 2020.

Other. Other noninterest income totaled \$7.3 million in 2021 compared to \$5.9 million in 2020 and \$5.8 million in 2019. The \$1.4 million increase in 2021 was primarily attributable to higher servicing fees of \$1.0 million at CCHL reflecting a higher volume of servicing retained loan sales in 2021. The \$0.1 million favorable variance in 2020 reflected higher loan servicing fees added by CCHL substantially offset by lower loan related activity based fees.

Noninterest Expense

For 2021, noninterest expense totaled \$162.5 million compared to \$150.0 million for 2020. The \$12.5 million increase was attributable to the addition of expenses at CCHL (March 1, 2020 acquisition) of \$2.3 million and higher expenses at the core bank totaling \$10.2 million. The increase in expenses at the core bank were primarily due to higher compensation expense of \$3.7 million (merit raises, pension/service cost expense, and realized loan cost), pension settlement expense of \$3.1 million, and an increase in other expense of \$5.0 million, partially offset by lower other real estate (“ORE”) expense of \$1.6 million. The increase in other expense was primarily attributable to higher expense of \$2.1 million for the non-service cost component of our pension plan attributable to the utilization of a lower discount rate for plan liabilities. Higher processing fees of \$0.7 million (debit card volume), professional fees of \$0.6 million, occupancy expense of \$0.5 million, and FDIC insurance of \$0.5 million (higher asset size) also contributed to the increase in other expense.

For 2020, noninterest expense totaled \$150.0 million, an increase of \$36.4 million over 2019 primarily attributable to the addition of expenses at CCHL, including compensation expense of \$32.4 million, occupancy expense of \$2.8 million, and other expense of \$4.8 million. Core CCBG noninterest expense decreased \$3.6 million and reflected lower compensation expense of \$2.5 million, ORE expense of \$0.4 million, and other expense of \$2.2 million, partially offset by higher occupancy expense of \$1.5 million. The decrease in compensation expense was primarily attributable to lower commission expense of \$2.2 million related to the transfer of our legacy mortgage production division to CCHL and, to a lesser extent, higher realized loan cost of \$0.4 million related to the aforementioned increase in SBA PPP loan originations. A \$1.0 million gain from the sale of a banking office in the first quarter of 2020 drove the reduction in ORE expense. The decline in other expense was primarily attributable to lower service cost expense for our pension plan. Higher expense for furniture, fixtures and equipment (“FF&E”) depreciation and maintenance agreements (related to technology investment and upgrades), higher than normal premises maintenance, and pandemic related cleaning/supply costs drove the increase in occupancy.

Our operating efficiency ratio (expressed as noninterest expense as a percent of taxable equivalent net interest income plus noninterest income) was 77.11%, 70.43% and 72.40% in 2021, 2020 and 2019, respectively. The increase in this metric for 2021 reflected higher noninterest expense, largely the aforementioned higher level of pension plan expenses. The improvement in this metric in 2020 was primarily attributable to higher noninterest income driven by our strategic alliance with CCHL.

Expense management is an important part of our culture and strategic focus. We will continue to review and evaluate opportunities to optimize our delivery operations and invest in technology that provides favorable returns/scale and/or mitigates risk. The table below reflects the major components of noninterest expense.

Table 5
NONINTEREST EXPENSE

<i>(Dollars in Thousands)</i>	2021	2020	2019
Salaries	\$ 85,211	\$ 80,846	\$ 50,688
Associate Benefits	16,259	15,434	15,664
Total Compensation	<u>101,470</u>	<u>96,280</u>	<u>66,352</u>
Premises	10,879	10,512	8,734
Equipment	13,053	12,147	9,702
Total Occupancy, net	<u>23,932</u>	<u>22,659</u>	<u>18,436</u>
Legal Fees	1,411	1,570	1,722
Professional Fees	5,633	4,863	4,345
Processing Services	6,569	5,832	5,779
Advertising	2,683	2,998	2,056
Travel and Entertainment	1,063	855	1,045
Telephone	2,975	2,869	2,645
Insurance – Other	2,096	1,607	1,007
Pension Settlement	3,072	-	-
Other Real Estate, Net	(1,488)	104	546
Miscellaneous	13,092	10,325	9,676
Total Other Expense	<u>37,106</u>	<u>31,023</u>	<u>28,821</u>
Total Noninterest Expense	<u>\$ 162,508</u>	<u>\$ 149,962</u>	<u>\$ 113,609</u>

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

Compensation. Compensation expense totaled \$101.5 million in 2021, \$96.3 million in 2020, and \$66.4 million in 2019. For 2021, the \$5.2 million, or 5.4%, increase was attributable to higher salary expense of \$4.4 million and associate benefit expense of \$0.8 million. Higher salary expense of \$3.1 million and associate benefit expense of \$0.6 million at the core bank drove a majority of the increase with the addition of CCHL compensation expense for a full 12 month period in 2021 versus 10 months in 2020 driving the remaining portion of the variance. The higher level of salary expense at the core bank reflected higher base salaries of \$1.8 million, primarily merit raises, and lower realized loan cost of \$0.8 million (credit offset to salary expense). The increase in associate benefit expense was attributable to higher pension plan service cost of \$1.1 million partially offset by lower associate insurance expense of \$0.4 million.

For 2020, the \$29.9 million, or 45.1%, increase in compensation expense reflected the addition of \$32.4 million in compensation expense from CCHL. Core bank compensation expense declined by \$2.5 million, primarily attributable to lower commission expense of \$2.2 million (transfer of residential mortgage operations to CCHL), higher realized loan cost of \$0.4 million and lower associate benefit expense of \$0.9 million (primarily stock compensation and to a lesser extent associate insurance), partially offset by higher cash incentives of \$0.2 million, base salaries of \$0.3 million, and contractual employment of \$0.3 million (tax advisory services for CCHL transaction).

Occupancy. Occupancy expense (including premises and equipment) totaled \$23.9 million for 2021, \$22.7 million for 2020, and \$18.4 million for 2019. For 2021, the \$1.2 million, or 5.3%, increase was attributable to higher occupancy expense at the core bank of \$0.5 million with the remainder of the variance reflective of CCHL occupancy expense for a full 12 month period versus 10 months in 2020. The increase at the core bank was attributable to higher FF&E depreciation and software license expense and reflected additional ATM/ITM investments and other systems infrastructure investments for business line support and risk management.

For 2020, the \$4.3 million, or 23.4%, increase reflected the addition of \$2.8 million in occupancy expense from CCHL. Core bank occupancy expense increased \$1.5 million primarily due to higher FF&E depreciation and maintenance agreement expense (related to technology investment and upgrades), maintenance for premises, and pandemic related cleaning/supply costs. Pandemic related costs reflected in occupancy expense for 2020 at the core bank totaled approximately \$0.3 million and will phase out over a period of time as the pandemic subsides.

Other. Other noninterest expense totaled \$37.1 million in 2021, \$31.0 million in 2020, and \$28.8 million in 2019. For 2021, the \$6.1 million, or 19.7%, increase was driven by higher other expenses at the core bank of \$5.9 million, primarily higher miscellaneous expense of \$2.1 million for the non-service cost component of our pension plan attributable to the utilization of a lower discount rate for plan liabilities. Additionally, we incurred a \$3.1 million pension settlement charge in 2021 related to a high level of lump sum payments to 2021 retirees. We could realize additional pension settlement expense in 2022 should we experience a higher than normal level of retirements. Higher processing fees of \$0.7 million (debit card volume), professional fees of \$0.6 million (temporary staffing support), and FDIC insurance premiums of \$0.5 million (larger asset size), partially offset by lower ORE expense of \$1.6 million (gains from the sale of banking offices) contributed to the increase.

For 2020, the \$2.2 million, or 7.6%, increase in other expense reflected the addition of \$4.8 million in expenses from CCHL partially offset by a \$2.6 million decrease in other expenses at the core bank. Lower pension plan expense of \$1.9 million (higher unrealized gain amortization due to a lower discount rate for pension liability), ORE expense of \$0.4 million (primarily due to a \$1.0 million gain from the sale of a banking office), and travel/entertainment expense of \$0.4 million (partially due to lower travel during pandemic) drove the decrease in other expenses at the core bank.

Income Taxes

For 2021, we realized income tax expense of \$9.8 million (effective rate of 20%) compared to \$10.2 million (effective rate of 19%) for 2020 and \$9.9 million (effective rate of 24%) for 2019. The increase in our effective tax rate in 2021 was attributable to a decrease in CCHL income. The decrease in our effective tax rate in 2020 reflected the impact of converting CCHL to a partnership for tax purposes. In addition, 2020 income taxes reflected net discrete tax expense items totaling \$0.3 million. Absent discrete items, we expect our annual effective tax rate to approximate 19%-20% in 2022.

In September 2019, Florida enacted a corporate tax rate reduction from 5.5% to 4.5% retroactive to January 1, 2019. As a result, our deferred tax accounts were re-measured resulting in a discrete tax expense of \$0.4 million. In September 2021, Florida enacted a corporate tax rate reduction from 4.5% to 3.535% retroactive to January 1, 2021 with an expiration date of December 31, 2021, therefore, there was no material impact to our deferred tax accounts. Our 2021, 2020, and 2019 state tax rate was adjusted to reflect the one percentage point (2019 and 2020) and two percentage point (2021) reductions each year. Absent legislative action, the Florida tax rate will revert to 5.5% effective January 1, 2022.

FINANCIAL CONDITION

Average assets totaled approximately \$3.984 billion for 2021, an increase of \$593.0 million, or 17.5%, over 2020. Average earning assets were approximately \$3.652 billion for 2021, an increase of \$568.8 million, or 18.4%, over 2020. Compared to 2020, average overnight funds increased \$325.2 million, while investment securities increased \$203.4 million and average loans held for investment were higher by \$43.0 million. We discuss these variances in more detail below.

Table 2 provides information on average balances and rates, Table 3 provides an analysis of rate and volume variances and Table 6 highlights the changing mix of our interest earning assets over the last three years.

Loans

In 2021, average loans HFI increased \$43.0 million, or 2.2%, compared to an increase of \$145.8 million, or 8.1%, in 2020. Compared to 2020, we realized average growth in all categories except institutional loans, commercial loans, and home equity loans. For 2021, SBA PPP loans averaged \$92.5 million, a decrease of \$32.9 million from 2020. At December 31, 2021, SBA PPP loans totaled \$0.1 million.

In 2021, average loans held for sale (“HFS”) decreased \$2.8 million from 2020 due to lower volume of loans sold from CCHL. Loans HFI and HFS as a percentage of average earning assets decreased to 56.9% in 2021 compared to 66.1% in 2020 and 67.6% in 2019, primarily attributable to higher levels of overnight funds due to growth in deposits.

We continue to make minor modifications on some of our lending programs to mitigate the impact that consumer and business deleveraging has had on our portfolio. These programs, coupled with economic improvements in our anchor markets and loan purchases, have helped to increase overall loan growth.

We will periodically purchase newly originated 1-4 family real estate secured adjustable rate loans from CCHL. The strategic alliance with CCHL provides us a larger pool of loan purchase opportunities, including participation loans for construction/perm product.

Table 6
SOURCES OF EARNING ASSET GROWTH

<i>(Average Balances – Dollars In Thousands)</i>	2020 to 2021 Change	Percentage Total Change	Components of Average Earning Assets		
			2021	2020	2019
Loans:					
Loans HFS	\$ (2,797)	(0.5) %	2.1 %	2.6 %	0.4 %
Loans HFI:					
Commercial, Financial, and Agricultural	(49,055)	(8.6)	8.5	11.7	9.4
Real Estate – Construction	31,707	5.6	4.3	4.0	3.7
Real Estate – Commercial Mortgage	28,945	5.1	18.6	21.1	22.7
Real Estate – Residential	11,975	2.1	10.0	11.5	13.2
Real Estate – Home Equity	(2,368)	(0.4)	5.3	6.4	7.5
Consumer	21,783	3.7	8.0	8.8	10.7
Total Loans HFS and HFI	\$ 40,190	7.0 %	56.8 %	66.1 %	67.6 %
Investment Securities:					
Taxable	\$ 204,754	36.0 %	21.3 %	18.6 %	22.7 %
Tax-Exempt	(1,351)	(0.2)	0.1	0.2	0.9
Total Securities	\$ 203,403	35.8 %	21.4 %	18.8 %	23.6 %
Funds Sold	325,218	57.2	21.8	15.1	8.8
Total Earning Assets	\$ 568,811	100 %	100 %	100 %	100 %

Our average total loans (HFS and HFI)-to-deposit ratio was 61.0% in 2021, 71.7% in 2020, and 71.8% in 2019.

The composition of our HFI loan portfolio at December 31st for each of the past three years is shown in Table 7. Table 8 arrays our HFI loan portfolio at December 31, 2021, by maturity period. As a percentage of the HFI loan portfolio, loans with fixed interest rates represented 39.3% at December 31, 2021 compared to 42.4% at December 31, 2020. This decline occurred in our fixed rate loans, primarily due to the payoff of PPP loans, which are short-term in nature.

Table 7
LOANS HFI BY CATEGORY

<i>(Dollars in Thousands)</i>	2021	2020	2019
Commercial, Financial and Agricultural	\$ 223,086	\$ 393,930	\$ 255,365
Real Estate – Construction	174,394	135,831	115,018
Real Estate – Commercial Mortgage	663,550	648,393	625,556
Real Estate – Residential	360,021	352,543	361,450
Real Estate – Home Equity	187,821	205,479	197,360
Consumer	322,593	270,250	281,180
Total Loans HFI , Net of Unearned Income	\$ 1,931,465	\$ 2,006,426	\$ 1,835,929

Table 8
LOANS HFI MATURITIES

	Maturity Periods				Total
	One Year or Less	Over One Through Five Years	Five Through Fifteen Years	Over Fifteen Years	
<i>(Dollars in Thousands)</i>					
Commercial, Financial and Agricultural	\$ 39,578	\$ 121,369	\$ 48,125	\$ 14,014	\$ 223,086
Real Estate – Construction	98,581	33,171	5,935	36,707	174,394
Real Estate – Commercial Mortgage	32,306	67,738	321,028	242,478	663,550
Real Estate – Residential	25,978	96,630	105,358	132,055	360,021
Real Estate – Home Equity	4,139	15,253	100,097	68,332	187,821
Consumer ⁽¹⁾	5,760	136,128	180,591	114	322,593
Total	<u>\$ 206,342</u>	<u>\$ 470,289</u>	<u>\$ 761,134</u>	<u>\$ 493,700</u>	<u>\$ 1,931,465</u>
Total Loans HFI with Fixed Rates	\$ 90,262	\$ 304,701	\$ 331,406	\$ 31,671	\$ 758,040
Total Loans HFI with Floating or Adjustable Rates	116,080	165,588	429,728	462,029	1,173,425
Total	<u>\$ 206,342</u>	<u>\$ 470,289</u>	<u>\$ 761,134</u>	<u>\$ 493,700</u>	<u>\$ 1,931,465</u>

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

Credit Quality

Table 9 provides the components of nonperforming assets and various other credit quality and risk metrics at December 31st for the last three years. Information regarding our accounting policies related to nonaccruals, past due loans, and troubled debt restructurings is provided in Note 3 – Loans Held for Investment and Allowance for Credit Losses.

Overall credit quality continues to remain strong. Nonperforming assets (nonaccrual loans and other real estate) totaled \$4.3 million at December 31, 2021 compared to \$6.7 million at December 31, 2020. At December 31, 2021, nonperforming assets as a percentage of total assets was stable at 0.10%. Nonaccrual loans totaled \$4.3 million at December 31, 2021, a \$1.5 million decrease from December 31, 2020.

Table 9
CREDIT QUALITY

<i>(Dollars in Thousands)</i>	2021	2020	2019
Nonaccruing Loans:			
Commercial, Financial and Agricultural	\$ 90	\$ 161	\$ 446
Real Estate – Construction	-	179	-
Real Estate – Commercial Mortgage	604	1,412	1,434
Real Estate – Residential	2,097	3,130	1,392
Real Estate – Home Equity	1,319	695	797
Consumer	212	294	403
Total Nonaccruing Loans (“NALs”) ⁽¹⁾	<u>4,322</u>	<u>5,871</u>	<u>4,472</u>
Other Real Estate Owned	17	808	953
Total Nonperforming Assets (“NPAs”)	<u>\$ 4,339</u>	<u>\$ 6,679</u>	<u>\$ 5,425</u>
Past Due Loans 30 – 89 Days	\$ 3,600	\$ 4,594	\$ 4,871
Performing Troubled Debt Restructurings	7,643	13,887	16,888
Classified Loans	\$ 17,912	\$ 17,631	\$ 20,847
Nonaccruing Loans/Loans	0.22 %	0.29 %	0.24 %
Nonperforming Assets/Total Assets	0.10	0.18	0.18
Nonperforming Assets/Loans Plus OREO	0.22	0.33	0.29
Allowance/Nonaccruing Loans	499.93 %	405.66 %	310.99 %

⁽¹⁾ Nonaccruing TDRs totaling \$0.3 million, \$0.5 million, and \$0.7 million are included in NALs at December 31, 2021, December 31, 2020 and December 31, 2019, respectively.

Nonaccrual Loans. Nonaccrual loans totaled \$4.3 million at December 31, 2021, a \$1.5 million decrease from December 31, 2020. Gross additions to nonaccrual status during 2021 totaled \$7.3 million compared to \$11.4 million in 2020.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or management deems the collectability of the principal and interest to be doubtful. Once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured. If interest on our loans classified as nonaccrual during 2021 had been recognized on a fully accruing basis, we would have recorded an additional \$0.2 million of interest income for the year ended December 31, 2021.

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

OREO totaled \$0.02 million at December 31, 2021 versus \$0.8 million at December 31, 2020. During 2021, we added properties totaling \$1.7 million, sold properties totaling \$2.8 million, and recorded net favorable valuation adjustments totaling \$0.3 million. For 2020, we added properties totaling \$2.3 million, sold properties totaling \$1.7 million, and recorded valuation adjustments totaling \$0.8 million.

Troubled Debt Restructurings. TDRs are loans on which, due to the deterioration in the borrower's financial condition, the original terms have been modified and deemed a concession to the borrower. From time to time we will modify a loan as a workout alternative. Most of these instances involve an extension of the loan term, an interest rate reduction, or a principal moratorium. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan in calendar years after the year in which the restructuring took place.

Loans classified as TDRs at December 31, 2021 totaled \$8.0 million compared to \$14.3 million at December 31, 2020. Accruing TDRs made up approximately \$7.6 million of our TDR portfolio at December 31, 2021 of which \$0.8 million was over 30 days past due. The weighted average rate for the loans within the accruing TDR portfolio was 5.54%. During 2021, we modified three loan contracts totaling approximately \$0.6 million compared to three loan contracts totaling approximately \$0.2 million during 2020. Our TDR default rate (default balance as a percentage of average TDRs) in 2021 and 2020 was 4.1% and 2.9%, respectively.

COVID Loan Extensions. To assist our clients during the COVID-19 pandemic, beginning in March 2020, we began allowing short term 60 to 90 day loan extensions for affected borrowers. We have extended loans totaling \$333 million of which approximately 75% were for commercial borrowers and 25% were for consumer borrowers. At December 31, 2020, approximately \$324 million, or 97% of the loan balances associated with these borrowers resumed making regularly scheduled payments. In 2021, this extension program was discontinued, and to date there have been a nominal level of defaults related to this loan pool.

Past Due Loans. A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due. Past due loans at December 31, 2021 totaled \$3.6 million compared to \$4.6 million at December 31, 2020.

Potential Problem Loans. Potential problem loans are defined as those loans which are now current but where management has doubt as to the borrower's ability to comply with present loan repayment terms. At December 31, 2021, we had \$1.5 million in loans of this type which were not included in either of the nonaccrual, TDR or 90 day past due loan categories compared to \$2.3 million at December 31, 2020. Management monitors these loans closely and reviews their performance on a regular basis.

Loan Concentrations. Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities which cause them to be similarly impacted by economic or other conditions and such amount exceeds 10% of total loans. Due to the lack of diversified industry within our markets and the relatively close proximity of the markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of our HFI loan portfolio has historically been secured with real estate, approximately 72% at December 31, 2021 and 67% at December 31, 2020. This percentage increased in 2021 due to the lower balance in the commercial loan category which reflected \$178 million in SBA PPP loans at December 31, 2020. The primary types of real estate collateral are commercial properties and 1-4 family residential properties.

We have established an internal lending limit of \$10 million for the total aggregate amount of credit that will be extended to a client and any related entities within our Board approved policies. This compares to our legal lending limit of approximately \$87 million.

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

Table 10
REAL ESTATE LOANS BY PROPERTY TYPE

	2021		2020	
	Investor Real Estate	Owner Occupied Real Estate	Investor Real Estate	Owner Occupied Real Estate
Vacant Land, Construction, and Land Development	18.1 %	-	14.7 %	-
Improved Property	28.4	53.5 %	28.5	56.8 %
Total Real Estate Loans	46.5 %	53.5 %	43.2 %	56.8 %

A major portion of our real estate loan category is centered in the owner occupied category which carries a lower risk of non-collection than certain segments of the investor category. Approximately 42% of the investor real estate category was secured by residential real estate at December 31, 2021.

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance for credit losses is adjusted by a credit loss provision which is reported in earnings and reduced by the charge-off of loan amounts, net of recoveries. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Expected credit loss inherent in non-cancellable off-balance sheet credit exposures is provided through the credit loss provision, but recorded as a separate liability included in other liabilities.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

Detailed information regarding the methodology for estimating the amount reported in the allowance for credit losses is provided in Note 1 – Significant Accounting Policies/Allowance for Credit Losses in the Consolidated Financial Statements.

Note 3 – Loans Held for Investment and Allowance for Credit Losses in the Consolidated Financial Statements provides the activity in the allowance and the allocation by loan type for each of the past three years.

For 2021, we realized net loan recoveries totaling \$0.6 million, or 0.03%, of average HFI loans, compared to net loan charge-offs of \$2.4 million, or 0.12%, for 2020, and \$2.3 million, or 0.13%, for 2019. At December 31, 2021, the allowance represented 1.12% of HFI loans and provided coverage of 500% of nonperforming loans compared to 1.19% and 406%, respectively, at December 31, 2020 and 0.75% and 311%, respectively, at December 31, 2019. At December 31, 2020, excluding SBA PPP loans (100% government guaranteed), the allowance represented 1.30% of loans held for investment. SBA PPP loans at December 31, 2021 were \$0.1 million.

At December 31, 2021, the allowance for credit losses totaled \$21.6 million compared to \$23.8 million at December 31, 2020 and \$13.9 million at December 31, 2019. The \$2.2 million decrease in the allowance for credit losses in 2021 reflected improvements in forecasted economic conditions, favorable loan migration and net loan recoveries totaling \$0.6 million, partially offset by incremental reserves needed for loan growth (excluding SBA PPP). The \$9.9 million increase in the allowance for credit losses in 2020 was attributable to the build of reserves attributable to a deterioration in economic conditions, primarily a higher rate of unemployment due to the COVID-19 pandemic and its potential effect on rates of default. The adoption of Accounting Standards Codification 326 ("CECL") on January 1, 2020 had an impact of \$4.0 million (\$3.3 million increase in the allowance for credit losses and \$0.7 million increase in the allowance for unfunded loan commitments, which is recorded in other liabilities.

Table 11**ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES**

	2021		2020		2019	
	ACL Amount	Percent of Loans to Total Loans	ACL Amount	Percent of Loans to Total Loans	ACL Amount	Percent of Loans to Total Loans
<i>(Dollars in Thousands)</i>						
Commercial, Financial and Agricultural	\$ 2,191	11.6 %	\$ 2,204	19.6 %	\$ 1,675	13.9 %
Real Estate:						
Construction	3,302	9.0	2,479	6.8	370	6.2
Commercial	5,810	34.4	7,029	32.3	3,416	33.9
Residential	4,129	18.6	5,440	17.6	3,128	20.1
Home Equity	2,296	9.7	3,111	10.2	2,224	10.7
Consumer	3,878	16.7	3,553	13.5	3,092	15.2
Total	<u>\$ 21,606</u>	<u>100 %</u>	<u>\$ 23,816</u>	<u>100 %</u>	<u>\$ 13,905</u>	<u>100 %</u>

Investment Securities

Our average investment portfolio balance increased \$203.4 million, or 35.1%, in 2021 and decreased \$57.7 million, or 9.1%, in 2020. As a percentage of average earning assets, our investment portfolio represented 21.4% in 2021, compared to 18.8% in 2020. In 2021, the growth in the investment portfolio was primarily attributable to an investment purchase program implemented to take advantage of higher rates and deploy a portion of our excess liquidity. We continue to review various investment strategies to prudently deploy our excess overnight funds.

In 2021, average taxable investments increased \$204.8 million, or 35.7%, while tax-exempt investments decreased \$1.4 million, or 26.4%. Taxable bonds increased as part of our overall investment strategy, and non-taxable investments decreased as the tax-equivalent yield was generally unattractive throughout 2021 compared to taxable investments. At December 31, 2021, municipal securities (taxable and non-taxable) comprised 4.7% of the portfolio. We may consider the purchase of municipal issues if the yields become more attractive compared to taxable securities, or if they are CRA-eligible investments.

Our investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale ("AFS") and Held-for-Maturity ("HTM"). In 2021 and 2020, we purchased securities under both the AFS and HTM designations. At December 31, 2021, \$654.6 million, or 65.8% of our investment portfolio was classified as AFS, with \$339.6 million, or 34.1%, classified as HTM. At December 31, 2020, the AFS and HTM portfolio comprised 65.7% and 34.3%, respectively. Table 12 provides the composition of our investment securities portfolio.

Table 12
INVESTMENT SECURITIES COMPOSITION

<i>(Dollars in Thousands)</i>	2021		2020		2019	
	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent
Available for Sale						
U.S. Government Treasury	\$ 187,868	18.9 %	\$ 104,519	21.1 %	\$ 232,778	36.2 %
U.S. Government Agency	237,578	23.9	208,531	42.2	156,078	24.3
States and Political Subdivisions	46,980	4.7	3,632	0.7	6,319	1.0
Mortgage-Backed Securities	88,869	8.9	515	0.1	773	0.1
Corporate Debt Securities	86,222	8.7	-	-	-	-
Other Securities	7,094	0.7	7,673	1.6	7,653	1.2
Total	<u>654,611</u>	<u>65.8</u>	<u>324,870</u>	<u>65.7</u>	<u>403,601</u>	<u>62.8</u>
Held to Maturity						
U.S. Government Treasury	115,499	11.6	5,001	1.0	20,036	3.1
States and Political Subdivisions	-	-	-	-	1,376	0.2
Mortgage-Backed Securities	224,102	22.5	164,938	33.3	218,127	33.9
Total	<u>339,601</u>	<u>34.1</u>	<u>169,939</u>	<u>34.3</u>	<u>239,539</u>	<u>37.2</u>
Equity Securities	<u>861</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Securities	<u>\$ 995,073</u>	<u>100 %</u>	<u>\$ 494,809</u>	<u>100 %</u>	<u>\$ 643,140</u>	<u>100 %</u>

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

At December 31, 2021, there were 401 positions (combined AFS and HTM) with unrealized losses totaling \$10.2 million. GNMA mortgage-backed securities, U.S. Treasuries, and SBA securities carry the full faith and credit guarantee of the U.S. Government, and are 0% risk-weighted assets. A large portion of the SBA securities float monthly or quarterly with the prime rate and are uncapped. None of these positions with unrealized losses are considered credit impaired, and all are expected to mature at par. See Note 2 – Investment Securities for our unrealized losses by security type.

The average maturity of our investment portfolio at December 31, 2021 was 3.62 years compared to 2.09 years at December 31, 2020. Balances of all security types increased over the prior year, with the exception of SBA securities. The average life of our investment portfolio increased as longer duration securities were purchased to take advantage of the steeper yield-curve during 2021. See Table 13 for a break-down of maturities by investment type.

The weighted average taxable equivalent yield of our investment portfolio at December 31, 2021 was 1.12% versus 1.77% in 2020. This decrease in yield reflected lower reinvestment rates during 2021. Our bond portfolio contained no investments in obligations, other than U.S. Governments, of any state, municipality, political subdivision or any other issuer that exceeded 10% of our shareowners' equity at December 31, 2021.

Table 13 and Note 2 in the Notes to Consolidated Financial Statements present a detailed analysis of our investment securities as to type, maturity and yield at December 31.

Table 13**MATURITY DISTRIBUTION OF INVESTMENT SECURITIES**

(Dollars in Thousands)	Within 1 year		1 - 5 years		5 - 10 years		After 10 years		Total	
	Amount	WY ⁽³⁾	Amount	WY ⁽³⁾	Amount	WY ⁽³⁾	Amount	WY ⁽³⁾	Amount	WY ⁽³⁾
Available for Sale										
U.S. Government Treasury	\$ 5,041	1.70 %	\$ 182,827	0.59 %	\$ -	- %	\$ -	- %	\$ 187,868	0.62 %
U.S. Government Agency	35,079	0.86	197,909	1.30	4,590	0.79	-	-	237,578	1.23
States and Political Subdivisions	2,439	1.95	13,795	1.05	30,746	1.76	-	-	46,980	0.41
Mortgage-Backed Securities ⁽¹⁾	8	2.88	74,448	1.17	14,413	1.77	-	-	88,869	1.27
Corporate Debt Securities	396	0.98	52,967	1.13	32,859	1.78	-	-	86,222	1.38
Other Securities ⁽²⁾	-	-	-	-	-	-	7,094	5.34	7,094	5.34
Total	\$ 42,963	1.03 %	\$ 521,946	1.01 %	\$ 82,608	1.71 %	\$ 7,094	5.34 %	\$ 654,611	1.07 %
Held to Maturity										
U.S. Government Treasury	\$ -	- %	\$ 115,499	0.66 %	\$ -	- %	\$ -	- %	\$ 115,499	0.66 %
Mortgage-Backed Securities ⁽¹⁾	1,249	2.86	183,087	1.58	39,766	1.42	-	-	224,102	1.56
Total	\$ 1,249	2.86 %	\$ 298,586	1.22 %	\$ 39,766	1.42 %	\$ -	- %	\$ 339,601	1.22 %
Equity Securities	\$ -	- %	\$ -	- %	\$ -	- %	\$ 861	1.20 %	\$ 861	1.20 %
Total Investment Securities	\$ 44,212	1.08 %	\$ 820,532	1.09 %	\$ 122,374	1.62 %	\$ 7,955	5.49 %	\$ 995,073	1.12 %

⁽¹⁾ Based on weighted-average maturity.

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

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

Deposits and Short Term Borrowings

Average total deposits for 2021 were \$3.407 billion, an increase of \$562.5 million, or 19.8%, over 2020. Average deposits increased \$306.9 million, or 12.1%, from 2019 to 2020. Both year-over-year increases occurred in all deposit types except certificates of deposit, with the largest increases occurring in noninterest bearing, NOW accounts, and savings accounts.

Strong deposit growth occurred during the year reflecting federal stimulus inflows as well as core deposit growth. In addition, the seasonal growth of public funds occurred in the fourth quarter of 2021 and is expected to continue into the first quarter of 2022. Deposit levels remain strong as we continue to see growth in our non-maturity deposits. Our mix of deposits continues to improve as certificates of deposit are replaced with noninterest bearing demand accounts.

We continue to closely monitor several metrics such as the sensitivity of our deposit rates, our overall liquidity position, and competitor rates when pricing deposits. This strategy is consistent with previous rate cycles and allows us to manage the mix of our deposits rather than compete on rate. We believe this enabled us to maintain a low cost of funds (interest expense/average earning assets) of nine basis points for 2021 and 16 basis points for 2020.

Table 2 provides an analysis of our average deposits, by category, and average rates paid thereon for each of the last three years. Table 14 reflects the shift in our deposit mix over the last year and Table 15 provides a maturity distribution of time deposits in denominations of \$250,000 and over at December 31, 2021.

Average short-term borrowings decreased \$15.6 million in 2021 due to the decline in warehouse line borrowings at CCHL that are used to support our held for sale loan portfolio. See Note 11 in the Notes to Consolidated Financial Statements for additional information on short-term borrowings.

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

Table 14
SOURCES OF DEPOSIT GROWTH

<i>(Average Balances - Dollars in Thousands)</i>	2020 to	Percentage	Components of		
	2021	of Total	Total Deposits		
	Change	Change	2021	2020	2019
Noninterest Bearing Deposits	\$ 269,503	47.9 %	44.7 %	44.1 %	39.9 %
NOW Accounts	139,040	24.7	28.3	29.0	31.7
Money Market Accounts	42,675	7.6	8.2	8.3	9.3
Savings	113,494	20.2	15.8	14.9	14.6
Time Deposits	(2,173)	(0.4)	3	3.7	4.5
Total Deposits	\$ 562,539	100 %	100 %	100 %	100 %

Table 15
MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSITS GREATER THAN \$250,000

<i>(Dollars in Thousands)</i>	2021	
	Time Certificates of Deposit	Percent
Three months or less	\$ 3,244	35.3 %
Over three through six months	2,214	24.1
Over six through twelve months	1,923	20.9
Over twelve months	1,809	19.7
Total	\$ 9,190	100 %

Market Risk and Interest Rate Sensitivity

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

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

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

The statement of financial condition is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. We prepare a current base case and several alternative interest rate simulations (-100,+100, +200, +300, and +400 basis points (bp)), at least once per quarter, and report the analysis to ALCO, our Market Risk Oversight Committee (“MROC”), our Enterprise Risk Oversight Committee (“EROC”) and the Board of Directors. (The -200bp rate scenario was not modeled starting in the second half of 2019 due to the low interest rate environment below 2.00%). We augment our interest rate shock analysis with alternative interest rate scenarios on a quarterly basis that may include ramps, parallel shifts, and a flattening or steepening of the yield curve (non-parallel shift). In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our goal is to structure the statement of financial condition so that net interest earnings at risk over 12-month and 24-month periods and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels. We attempt to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by managing the mix of our core deposits, and by adjusting our rates to market conditions on a continuing basis. At December 31, 2019, the instantaneous rate shock of down 100 bp over 24-months was slightly outside of desired parameters due to limited repricing of deposits relative to the decline in rates.

Analysis. Measures of net interest income at risk produced by simulation analysis are indicators of an institution’s short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, and do not necessarily indicate the long-term prospects or economic value of the institution.

Table 16
ESTIMATED CHANGES IN NET INTEREST INCOME⁽¹⁾

Percentage Change (12-month shock)	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-15.0 %	-12.5 %	-10.0 %	-7.5 %	-7.5 %
December 31, 2021	36.6 %	27.2 %	17.8 %	8.7 %	-6.2 %
December 31, 2020	39.0 %	28.7 %	18.7 %	9.0 %	-3.0 %

Percentage Change (24-month shock)	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-17.5 %	-15.0 %	-12.5 %	-10.0 %	-10.0 %
December 31, 2021	55.0 %	40.5 %	26.1 %	12.2 %	-11.1 %
December 31, 2020	54.2 %	38.3 %	22.6 %	7.6 %	-10.9 %

The Net Interest Income (“NII”) at Risk position was less favorable at December 31, 2021 compared to December 31, 2020 for the 12-month shock for all rate scenarios. The year-over-year unfavorable comparison was primarily driven by lack of PPP fees compared to the prior year. The model indicates that in the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of 100 bp will have a negative impact on the net interest margin.

All measures of Net Interest Income at Risk are within our prescribed policy limits over both the 12-month and 24-month periods, with the exception of rates down 100 bp over 24-months. We are slightly out of compliance in this rates down 100 bp scenario as we have a limited ability to lower our deposit rates the full 100 bp relative to the decline in market rate. In addition, this analysis incorporates an instantaneous, parallel shock and assumes we move with market rates and do not lag our deposit rates.

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

Table 17
ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY⁽¹⁾

Changes in Interest Rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-30.0 %	-25.0 %	-20.0 %	-15.0 %	-15.0 %
December 31, 2021	31.5 %	24.6 %	16.5 %	8.2 %	-19.0 %
December 31, 2020	50.0 %	31.4 %	10.6 %	-3.9 %	-0.6 %
EVE Ratio (policy minimum 5.0%)	16.8 %	15.7 %	14.5 %	13.2 %	9.6 %

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

At December 31, 2021, the economic value of equity was favorable in all rising rate environments and was within prescribed tolerance levels. Factors that can impact EVE values year-over-year include the absolute level of rates, the overall structure of the balance sheet (including liquidity levels), pre-payment speeds, loan floors and the change of model assumptions.

Although the change in EVE exceeds policy guidelines in the down 100 bps rate scenario, the EVE Ratio (EVE/EVA) was 9.6% for the fourth quarter 2021 and was within policy guidelines. EVE is out of compliance only if BOTH the EVE and EVE ratio are outside of policy guidelines. Therefore, EVE is currently in compliance with policy in all rate scenarios.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to fund loan commitments, purchase securities, accommodate deposit withdrawals or repay other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies that are formulated and monitored by our ALCO and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For 2021 and 2020, our principal source of funding was client deposits, supplemented by our short-term and long-term borrowings, primarily from our trust-preferred securities, 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.

At December 31, 2021, we had the ability to generate approximately \$1.287 billion in additional liquidity through all of our available resources beyond our overnight funds sold position. In addition to the primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. We recognize the importance of maintaining liquidity and have developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases certain credit facilities may no longer be available. We conduct quarterly liquidity stress tests and the results are reported to ALCO, MROC, EROC and the Board of Directors. We believe the liquidity available to us is sufficient to meet our ongoing needs.

We also view our investment portfolio as a liquidity source and have the option to pledge securities in our portfolio as collateral for borrowings or deposits, and/or sell selected securities. Our portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, municipal governments, and corporate entities. The weighted-average maturity of our portfolio was 3.62 years at December 31, 2021 and had a net unrealized pre-tax loss of \$6.1 million in the AFS portfolio.

Our average net overnight funds sold position (defined as funds sold plus interest-bearing deposits with other banks less funds purchased) was \$790.9 million in 2021 compared to an average net overnight funds sold position of \$465.7 million in 2020. The increase in this position in 2021 reflected strong deposit growth, primarily related to government stimulus program inflows.

We expect capital expenditures over the next 12 months to be approximately \$8.0 million, which will consist primarily of technology purchases for banking offices, business applications, and information technology security needs as well as furniture and fixtures and banking office remodels. We expect that these capital expenditures will be funded with existing resources without impairing our ability to meet our ongoing obligations.

Borrowings

At December 31, 2021, total advances from the FHLB consisted of \$1.5 million in outstanding debt comprised of five notes. In 2021, the Bank made FHLB advance payments totaling \$0.7 million. One advance matured, and one was paid off, with no new fixed rate advances obtained in 2021. The FHLB notes are collateralized by a floating lien on certain 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005.

In the second quarter of 2020, we entered into a derivative cash flow hedge of our interest rate risk related to our subordinated debt. The notional amount of the derivative is \$30 million (\$10 million of the CCBG Capital Trust I borrowing and \$20 million of the CCBG Capital Trust II borrowing). The interest rate swap agreement requires CCBG to pay fixed and receive variable (Libor plus spread) and has an average all-in fixed rate of 2.50% for 10 years. Additional detail on the interest rate swap agreement is provided in Note 5 – Derivatives in the Consolidated Financial Statements.

For 2021, average short term borrowings consisting primarily of CCHL lines of credit, declined \$15.6 million compared to the prior year. This decline occurred as residential lending was less robust than the prior year, reducing the short-term need for borrowing lines.

See Note 11 – Short Term Borrowings and Note 12 – Long Term Borrowings in the Notes to Consolidated Financial Statements for additional information on borrowings.

In the ordinary course of business, we have entered into contractual obligations and have made other commitments to make future payments. Refer to the accompanying notes to consolidated financial statements elsewhere in this report for the expected timing of such payments as of December 31, 2021. These include payments related to (i) long-term borrowings (Note 12 – Long-Term Borrowings), (ii) short-term borrowings (Note 11 – Short-Term Borrowings), (iii) operating leases (Note 7 – Leases), (iv) time deposits with stated maturities (Note 10 – Deposits), and (v) commitments to extend credit and standby letters of credit (Note 21 – Commitments and Contingencies).

Capital Resources

Shareowners' equity was \$383.2 million at December 31, 2021 compared to \$320.8 million at December 31, 2020. For 2021, shareowners' equity was positively impacted by net income attributable to common shareowners of \$33.4 million, a \$34.1 million decrease in the accumulated other comprehensive loss for our pension plan, a \$1.1 million increase in fair value of the interest rate swap related to subordinated debt, net adjustments totaling \$1.3 million related to transactions under our stock compensation plans, stock compensation accretion of \$0.8 million, and reclassification of \$9.3 million from temporary equity to decrease the redemption value of the non-controlling interest in CCHL. Shareowners' equity was reduced by common stock dividends of \$10.5 million (\$0.62 per share) and a \$7.3 million decrease in the unrealized gain on investment securities. Additional historical information on capital changes is provided in the Consolidated Statements of Changes in Shareowners' Equity in the Consolidated Financial Statements.

We continue to maintain a strong capital position. The ratio of shareowners' equity to total assets at December 31, 2021 was 8.99% and 8.45% at December 31, 2020. Further, our tangible common equity, was 6.95% at December 31, 2021 compared to 6.25% at December 31, 2020. The improvement in the ratios in 2021 was substantially due to a favorable adjustment to our unfunded pension liability, which is discussed further below.

We are subject to regulatory risk-based capital requirements that measure capital relative to risk-weighted assets and off-balance sheet financial instruments. At December 31, 2021, our total risk-based capital ratio was 17.15% compared to 17.30% at December 31, 2020. Our common equity tier 1 capital ratio was 13.86% and 13.71%, respectively, on these dates. Our leverage ratio was 8.95% and 9.33%, respectively, on these dates. For a detailed discussion of our regulatory capital requirements, refer to the "Regulatory Considerations – Capital Regulations" section on page 15. See Note 17 in the Notes to Consolidated Financial Statements for additional information as to our capital adequacy.

At December 31, 2021, our common stock had a book value of \$22.63 per diluted share compared to \$19.05 at December 31, 2020. Book value is impacted by the net unrealized gains and losses on investment securities. At December 31, 2021, the net unrealized loss was \$4.6 million compared to an unrealized gain of \$2.7 million at December 31, 2020. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Accounting Standards Codification Topic 715. At December 31, 2021, the net pension liability reflected in accumulated other comprehensive loss was \$13.2 million compared to \$47.3 million at December 31, 2020. The favorable adjustment to our unfunded pension liability was attributable to the higher discount rate used to calculate the present value of the pension obligation and higher than estimated return on plan assets. The higher discount rate reflected the increase in long-term interest rates in 2021. This adjustment also favorably impacted our tangible capital ratio. Further, book value is impacted by the periodic adjustment made to record temporary equity at redemption value. At December 31, 2021, \$9.3 million had been reclassified from temporary equity to retained earnings during 2021 to decrease the redemption value of the non-controlling interest in CCHL.

In February 2014, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our outstanding common stock over a five-year period. Repurchases may be made in the open market or in privately negotiated transactions; however, we are not obligated to repurchase any specified number of shares. In January 2019, the 2014 plan was terminated and our Board of Directors approved a new share repurchase plan that authorizes the repurchase of up to 750,000 shares of our outstanding common stock over a five-year period. Terms of this plan are substantially similar to the 2014 plan. No shares were repurchased in 2021. 99,952 shares were repurchased in 2020 at an average price of \$20.39 and 77,000 shares were repurchased in 2019 at an average price of \$23.40. Since 2014, a total of 1,361,682 shares of our outstanding common stock have been repurchased at an average price of \$17.93 under our stock repurchase plans.

Dividends

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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. See Note 21 in the Notes to Consolidated Financial Statements.

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

In conjunction with the sale and securitization of loans held for sale and their related servicing rights, we may be exposed to liability resulting from recourse, repurchase and make-whole agreements. If it is determined subsequent to our sale of a loan or its related servicing rights that a breach of the representations or warranties made in the applicable sale agreement has occurred, which may include guarantees that prepayments will not occur within a specified and customary time frame, we may have an obligation to either (a) repurchase the loan for the unpaid principal balance, accrued interest and related advances, (b) indemnify the purchaser against any loss it suffers or (c) make the purchaser whole for the economic benefits of the loan and its related servicing rights.

Our repurchase, indemnification and make-whole obligations vary based upon the terms of the applicable agreements, the nature of the asserted breach and the status of the mortgage loan at the time a claim is made. We establish reserves for estimated losses of this nature inherent in the origination of mortgage loans by estimating the losses inherent in the population of all loans sold based on trends in claims and actual loss severities experienced. The reserve will include accruals for probable contingent losses in addition to those identified in the pipeline of claims received. The estimation process is designed to include amounts based on actual losses experienced from actual activity.

ACCOUNTING POLICIES

Critical Accounting Policies and Estimates

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

Allowance for Credit Losses. The amount of the allowance for credit losses represents management's best estimate of current expected credit losses considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions, and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for changes in loan risk grades, loss experience trends, loan prepayment trends, differences in current portfolio-specific risk characteristics, environmental conditions, future expectations, or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. Detailed information on the Allowance for Credit Losses valuation, and the assumptions used are provided in Note 1 – Significant Accounting Policies of the Notes to Consolidated Financial Statements.

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

We evaluate goodwill for impairment on an annual basis and in 2017 adopted Accounting Standards Update 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying Accounting for Goodwill Impairment which allows for a qualitative assessment of goodwill impairment indicators. If the assessment indicates that impairment has more than likely occurred, the Company must compare the estimated fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment charge is recorded equal to the excess.

During the fourth quarter, we performed our annual impairment testing. We proceeded with qualitative assessment by evaluating impairment indicators and concluded there were none that indicated that goodwill impairment had occurred.

Pension Assumptions. We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute, at a minimum, amounts sufficient to meet minimum funding requirements as set by law. Pension expense is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The service cost component of pension expense is reflected as “Compensation Expense” in the Consolidated Statements of Income. All other components of pension expense are reflected as “Other Expense”.

The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration both current market conditions and anticipated long-term market conditions.

The discount rate is determined by matching the anticipated defined pension plan cash flows to the spot rates of a corporate A-rated bond index/yield curve and solving for the single equivalent discount rate which would produce the same present value. This methodology is applied consistently from year-to-year. The discount rate utilized in 2021 was 2.88%. The estimated impact to 2021 pension expense of a 25 basis point increase or decrease in the discount rate would have been an approximate \$1.1 million decrease or increase, respectively. We anticipate using a 3.11% discount rate in 2022.

Based on the balances at the December 31, 2021 measurement date, the estimated impact in accumulated other comprehensive income of a 25 basis point increase or decrease in the discount rate is a decrease or increase of approximately \$4.6 million (after-tax).

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government agency debt securities, and other securities (typically temporary liquid funds awaiting investment). The weighted-average expected long-term rate of return on plan assets utilized for 2021 was 6.75%. The estimated impact to 2021 pension expense of a 25 basis point increase or decrease in the rate of return would have been an approximate \$0.4 million decrease or increase, respectively. We anticipate using a rate of return on plan assets of 6.75% for 2022.

The assumed rate of annual compensation increases of 4.00% in 2021 reflected expected trends in salaries and the employee base. We anticipate using a compensation increase of approximately 4.40% for 2022 reflecting current market trends.

Detailed information on the pension plan, the actuarially determined disclosures, and the assumptions used are provided in Note 15 of the Notes to Consolidated Financial Statements.

Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

We recognize interest and/or penalties related to income tax matters in other expenses.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Item 8. Financial Statements and Supplementary Data

2021 Report of Independent Registered Public Accounting Firm (PCAOB ID 686)

2020 Report of Independent Registered Public Accounting Firm (PCAOB ID 42)

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

PAGE

59	Report of Independent Registered Public Accounting Firm
62	Consolidated Statements of Financial Condition
63	Consolidated Statements of Income
64	Consolidated Statements of Comprehensive Income
65	Consolidated Statements of Changes in Shareowners' Equity
66	Consolidated Statements of Cash Flows
67	Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Shareowners, Board of Directors and Audit Committee
Capital City Bank Group, Inc.
Tallahassee, Florida

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of Capital City Bank Group, Inc. (the Company) as of December 31, 2021, the related consolidated statements of income, comprehensive income, changes in shareowners' equity and cash flows for the year ended December 31, 2021, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2022, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below arises from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

The Company's loans held for investment portfolio totaled \$1.93 billion as of December 31, 2021, and the allowance for credit losses on loans held for investment was \$21.6 million. The Company's unfunded loan commitments totaled \$728.6 million, with an allowance for credit loss of \$2.9 million. The Company's held-to-maturity securities portfolios totaled \$339.6 million as of December 31, 2021, and there was no allowance for credit losses on held-to-maturity securities. Together these three allowance for credit amounts represent the allowance for credit losses (ACL).

As more fully described in *Notes 1, 2, 3 and 21* to the Company's consolidated financial statements, the Company estimates its exposure to expected credit losses as of the balance sheet date, for existing financial instruments held at amortized cost and off-balance sheet exposures, such as unfunded loan commitments, lines of credit and other unused commitments that are not unconditionally cancelable by the Company.

The determination of the ACL requires management to exercise significant judgment and consider numerous subjective factors, including determining qualitative factors utilized to adjust historical loss rates, loan credit risk grading and identifying loans requiring individual evaluation among others. As disclosed by management, different assumptions and conditions could result in a materially different amount for the estimate of the ACL.

We identified the ACL at December 31, 2021, as a critical audit matter. Auditing the ACL involved a high degree of subjectivity in evaluating management's estimates, such as evaluating management's identification of credit quality indicators, grouping of loans determined to be similar into pools, estimating the remaining life of loans in a pool, assessment of economic conditions and other environmental factors, evaluating the adequacy of specific allowances associated with individually evaluated loans and assessing the appropriateness of loan credit risk grades.

The primary procedures we performed as of December 31, 2021, to address this critical audit matter included:

- Obtained an understanding of the Company's process for establishing the ACL, including the qualitative factor adjustments of the ACL
- Tested the design and operating effectiveness of controls, including those related to technology, over the ACL, including:
 - loan data completeness and accuracy
 - reconciliation of loan balances accounted for at amortized cost and underlying detail
 - classifications of loans by loan pool
 - historical charge-off data
 - review of appraisals
 - the establishment of qualitative adjustments
 - back testing and stress testing
 - loan credit risk ratings
 - establishment of specific ACL on individually evaluated loan
 - management's review and disclosure controls over the ACL
- Tested the completeness and accuracy of the information utilized in the ACL, including evaluating the relevance and reliability of such information
- Tested the ACL model's computational accuracy
- Evaluated the qualitative adjustments to the ACL including assessing the basis for adjustments and the reasonableness of the significant assumptions including consideration of impact of the COVID-19 pandemic
- Tested the loan review functions and evaluated the reasonableness of loan credit risk ratings
- Evaluated the reasonableness of specific allowances on individually evaluated loans
- Evaluated the overall reasonableness of assumptions used by management considering trends identified within peer groups
- Evaluated the accuracy and completeness of ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* disclosures in the consolidated financial statements
- Evaluated credit quality trends in delinquencies, non-accruals, charge-offs and loan risk ratings
- Tested estimated utilization rate of unfunded loan commitments
- Reviewed documentation prepared to assess the methodology utilized in the ACL calculation for securities for reasonableness

BKD, LLP

We have served as the Company's auditor since 2021.

Little Rock, Arkansas

March 1, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Capital City Bank Group, Inc. (the Company) as of December 31, 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for credit losses in 2020.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company's auditor from 2007 to 2021.

Tallahassee, Florida
March 1, 2021

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

<i>(Dollars in Thousands)</i>	As of December 31,	
	2021	2020
ASSETS		
Cash and Due From Banks	\$ 65,313	\$ 67,919
Federal Funds Sold and Interest Bearing Deposits	970,041	860,630
Total Cash and Cash Equivalents	<u>1,035,354</u>	<u>928,549</u>
Investment Securities, Available for Sale, at fair value (amortized cost of \$660,732 and \$321,191)	654,611	324,870
Investment Securities, Held to Maturity (fair value of \$339,699 and \$175,175)	339,601	169,939
Equity Securities	861	-
Total Investment Securities	<u>995,073</u>	<u>494,809</u>
Loans Held For Sale, at fair value	52,532	114,039
Loans, Held for Investment	1,931,465	2,006,426
Allowance for Credit Losses	(21,606)	(23,816)
Loans Held for Investment, Net	<u>1,909,859</u>	<u>1,982,610</u>
Premises and Equipment, Net	83,412	86,791
Goodwill and Other Intangibles	93,253	89,095
Other Real Estate Owned	17	808
Other Assets	94,349	101,370
Total Assets	<u>\$ 4,263,849</u>	<u>\$ 3,798,071</u>
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	\$ 1,668,912	\$ 1,328,809
Interest Bearing Deposits	2,043,950	1,888,751
Total Deposits	<u>3,712,862</u>	<u>3,217,560</u>
Short-Term Borrowings	34,557	79,654
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	884	3,057
Other Liabilities	67,735	102,076
Total Liabilities	<u>3,868,925</u>	<u>3,455,234</u>
Temporary Equity	11,758	22,000
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; 16,892,060 and 16,790,573 shares issued and outstanding at December 31, 2021 and 2020, respectively	169	168
Additional Paid-In Capital	34,423	32,283
Retained Earnings	364,788	332,528
Accumulated Other Comprehensive Loss, Net of Tax	(16,214)	(44,142)
Total Shareowners' Equity	<u>383,166</u>	<u>320,837</u>
Total Liabilities, Temporary Equity, and Shareowners' Equity	<u>\$ 4,263,849</u>	<u>\$ 3,798,071</u>

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME

<i>(Dollars in Thousands, Except Per Share Data)</i>	For the Years Ended December 31,		
	2021	2020	2019
INTEREST INCOME			
Loans, including Fees	\$ 96,561	\$ 94,752	\$ 94,215
Investment Securities:			
Taxable	8,724	10,176	13,122
Tax Exempt	68	98	312
Federal Funds Sold and Interest Bearing Deposits	998	1,171	5,187
Total Interest Income	<u>106,351</u>	<u>106,197</u>	<u>112,836</u>
INTEREST EXPENSE			
Deposits	839	1,548	6,840
Short-Term Borrowings	1,360	1,690	109
Subordinated Notes Payable	1,228	1,472	2,287
Other Long-Term Borrowings	63	161	257
Total Interest Expense	<u>3,490</u>	<u>4,871</u>	<u>9,493</u>
NET INTEREST INCOME	102,861	101,326	103,343
Provision for Credit Losses	(1,553)	9,645	2,027
Net Interest Income After Provision for Credit Losses	<u>104,414</u>	<u>91,681</u>	<u>101,316</u>
NONINTEREST INCOME			
Deposit Fees	18,882	17,800	19,472
Bank Card Fees	15,274	13,044	11,994
Wealth Management Fees	13,693	11,035	10,480
Mortgage Banking Revenues	52,425	63,344	5,321
Other	7,271	5,942	5,786
Total Noninterest Income	<u>107,545</u>	<u>111,165</u>	<u>53,053</u>
NONINTEREST EXPENSE			
Compensation	101,470	96,280	66,352
Occupancy, Net	23,932	22,659	18,436
Other Real Estate Owned, Net	(1,488)	104	546
Pension Settlement	3,072	-	-
Other	35,522	30,919	28,275
Total Noninterest Expense	<u>162,508</u>	<u>149,962</u>	<u>113,609</u>
INCOME BEFORE INCOME TAXES	49,451	52,884	40,760
Income Tax Expense	9,835	10,230	9,953
NET INCOME	\$ 39,616	\$ 42,654	\$ 30,807
Income Attributable to Noncontrolling Interests	(6,220)	(11,078)	-
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	<u>\$ 33,396</u>	<u>\$ 31,576</u>	<u>\$ 30,807</u>
BASIC NET INCOME PER SHARE	<u>\$ 1.98</u>	<u>\$ 1.88</u>	<u>\$ 1.84</u>
DILUTED NET INCOME PER SHARE	<u>\$ 1.98</u>	<u>\$ 1.88</u>	<u>\$ 1.83</u>
Average Basic Common Shares Outstanding	<u>16,863</u>	<u>16,785</u>	<u>16,770</u>
Average Diluted Common Shares Outstanding	<u>16,893</u>	<u>16,822</u>	<u>16,827</u>

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

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

<i>(Dollars in Thousands)</i>	For the Years Ended December 31,		
	2021	2020	2019
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	\$ 33,396	\$ 31,576	\$ 30,807
Other comprehensive income (loss), before tax:			
Investment Securities:			
Change in net unrealized (loss) gain on securities available for sale	(9,647)	2,473	3,833
Derivative:			
Change in net unrealized gain on effective cash flow derivative	1,476	574	-
Benefit Plans:			
Reclassification adjustment for amortization of prior service cost	234	(880)	15
Reclassification adjustment for amortization of net loss	10,806	4,391	4,623
Defined benefit plan settlement	3,072	-	-
Current year actuarial gain (loss)	31,339	(27,924)	(7,642)
Total Benefit Plans	45,451	(24,413)	(3,004)
Other comprehensive income (loss), before tax:	37,280	(21,366)	829
Deferred tax (expense) benefit related to other comprehensive income	(9,352)	5,405	(195)
Other comprehensive income (loss), net of tax	27,928	(15,961)	634
TOTAL COMPREHENSIVE INCOME	\$ 61,324	\$ 15,615	\$ 31,441

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

<i>(Dollars in Thousands, Except Per Share Data)</i>	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Total
Balance, January 1, 2019	16,747,571	\$ 167	\$ 31,058	\$ 300,177	\$ (28,815)	\$ 302,587
Net Income		-	-	30,807	-	30,807
Other Comprehensive Income, Net of Tax		-	-	-	634	634
Cash Dividends (\$0.48 per share)		-	-	(8,047)	-	(8,047)
Stock Based Compensation		-	1,569	-	-	1,569
Stock Compensation Plan Transactions, net	100,973	1	1,270	-	-	1,271
Repurchase of Common Stock	(77,000)	-	(1,805)	-	-	(1,805)
Balance, December 31, 2019	<u>16,771,544</u>	<u>168</u>	<u>32,092</u>	<u>322,937</u>	<u>(28,181)</u>	<u>327,016</u>
Impact of Adopting ASC 326 (CECL)	-	-	-	(3,095)	-	(3,095)
Net Income		-	-	31,576	-	31,576
Reclassification to Temporary Equity ⁽¹⁾		-	-	(9,323)	-	(9,323)
Other Comprehensive Loss, Net of Tax		-	-	-	(15,961)	(15,961)
Cash Dividends (\$0.57 per share)		-	-	(9,567)	-	(9,567)
Stock Based Compensation		-	892	-	-	892
Stock Compensation Plan Transactions, net	118,981	1	1,340	-	-	1,341
Repurchase of Common Stock	(99,952)	(1)	(2,041)	-	-	(2,042)
Balance, December 31, 2020	<u>16,790,573</u>	<u>168</u>	<u>32,283</u>	<u>332,528</u>	<u>(44,142)</u>	<u>320,837</u>
Net Income		-	-	33,396	-	33,396
Reclassification to Temporary Equity ⁽¹⁾		-	-	9,323	-	9,323
Other Comprehensive Income, Net of Tax		-	-	-	27,928	27,928
Cash Dividends (\$0.62 per share)		-	-	(10,459)	-	(10,459)
Stock Based Compensation		-	843	-	-	843
Stock Compensation Plan Transactions, net	101,487	1	1,297	-	-	1,298
Balance, December 31, 2021	<u><u>16,892,060</u></u>	<u><u>\$ 169</u></u>	<u><u>\$ 34,423</u></u>	<u><u>\$ 364,788</u></u>	<u><u>\$ (16,214)</u></u>	<u><u>\$ 383,166</u></u>

⁽¹⁾Adjustments to redemption value for non-controlling interest in CCHL

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

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

<i>(Dollars in Thousands)</i>	For the Years Ended December 31,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income Attributable to Common Shareowners	\$ 33,396	\$ 31,576	\$ 30,807
Adjustments to Reconcile Net Income to Cash From Operating Activities:			
Provision for Credit Losses	(1,553)	9,645	2,027
Depreciation	7,607	7,230	6,253
Amortization of Premiums, Discounts, and Fees, net	14,072	7,533	5,206
Amortization of Intangible Assets	107	-	-
Pension Settlement Charges	3,072	-	-
Originations of Loans Held for Sale	(1,541,356)	(606,337)	(232,259)
Proceeds From Sales of Loans Held for Sale	1,655,288	565,151	234,940
Net Gain From Sales of Loans Held for Sale	(52,425)	(63,344)	(5,321)
Net Additions for Capitalized Mortgage Servicing Rights	72	(2,792)	-
Change in Valuation Provision for Mortgage Servicing Rights	(250)	250	-
Stock Compensation	843	892	1,569
Net Tax Benefit from Stock Compensation	(4)	(84)	(14)
Deferred Income Taxes	(4,157)	(53)	1,225
Net Change in Operating Leases	(165)	(156)	90
Net (Gain) Loss on Sales and Write-Downs of Other Real Estate Owned	(1,662)	(393)	214
Proceeds From Insurance Claim for Operating Loss	-	-	268
Loss on Disposal of Premises and Equipment	-	-	30
Net Decrease (Increase) in Other Assets	10,885	(38,353)	9,830
Net (Decrease) Increase in Other Liabilities	(7,846)	40,624	(1,176)
Net Cash Provided By (Used In) Operating Activities	115,924	(48,611)	53,689
CASH FLOWS FROM INVESTING ACTIVITIES			
Securities Held to Maturity:			
Purchases	(251,525)	(32,250)	(92,186)
Payments, Maturities, and Calls	78,544	99,251	68,185
Securities Available for Sale:			
Purchases	(523,961)	(108,728)	(119,685)
Proceeds from the Sale of Securities	495	-	-
Payments, Maturities, and Calls	178,425	186,499	162,260
Purchases of Loans Held for Investment	(114,913)	(43,804)	(25,256)
Net Decrease (Increase) in Loans	183,249	(130,020)	(39,608)
Net Cash Paid for Acquisitions	(4,482)	(2,405)	-
Proceeds From Insurance Claims on Premises	-	-	814
Proceeds From Sales of Other Real Estate Owned	4,502	2,835	2,360
Purchases of Premises and Equipment, net	(5,193)	(9,738)	(3,759)
Noncontrolling Interest Contributions	7,139	5,766	-
Net Cash Used In Investing Activities	(447,720)	(32,594)	(46,875)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase in Deposits	495,302	572,106	113,598
Net (Decrease) Increase in Short-Term Borrowings	(45,938)	73,156	(7,497)
Repayment of Other Long-Term Borrowings	(1,332)	(3,363)	(1,694)
Dividends Paid	(10,459)	(9,567)	(8,047)
Payments to Repurchase Common Stock	-	(2,042)	(1,805)
Issuance of Common Stock Under Compensation Plans	1,028	1,041	1,054
Net Cash Provided By Financing Activities	438,601	631,331	95,609
NET INCREASE IN CASH AND CASH EQUIVALENTS	106,805	550,126	102,423
Cash and Cash Equivalents at Beginning of Year	928,549	378,423	276,000
Cash and Cash Equivalents at End of Year	\$ 1,035,354	\$ 928,549	\$ 378,423
Supplemental Cash Flow Disclosures:			
Interest Paid	\$ 3,547	\$ 4,841	\$ 9,521
Income Taxes Paid	\$ 16,339	\$ 9,171	\$ 6,255
Noncash Investing and Financing Activities:			
Loans and Premises Transferred to Other Real Estate Owned	\$ 1,717	\$ 2,297	\$ 1,298

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

Notes to Consolidated Financial Statements

Note 1

SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

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

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

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provide the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (“VIE’s”) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. Two of CCBG’s wholly owned subsidiaries, CCBG Capital Trust I (established November 1, 2004) and CCBG Capital Trust II (established May 24, 2005) are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company’s consolidated financial statements.

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

Use of Estimates

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

Business Combination

On April 30, 2021, a newly formed subsidiary of CCBG, Capital City Strategic Wealth, LLC (“CCSW”) acquired substantially all of the assets of Strategic Wealth Group, LLC and certain related businesses (“SWG”), including advisory, service, and insurance carrier agreements, and the assignment of all related revenues thereof. Under the terms of the purchase agreement, SWG principles became officers of CCSW and will continue the operation of their five offices in South Georgia offering wealth management services and comprehensive risk management and asset protection services for individuals and businesses. CCBG paid \$4.5 million in cash consideration and recorded goodwill of \$2.8 million and a customer relationship intangible asset of \$1.6 million.

On March 1, 2020, CCB completed its acquisition of a 51% membership interest in Brand Mortgage Group, LLC (“Brand”), which is now operated as Capital City Home Loans (“CCHL”). CCHL was consolidated into CCBG’s financial statements effective March 1, 2020. Assets acquired totaled \$52 million (consisting primarily of loans held for sale) and liabilities assumed totaled \$42 million (consisting primarily of warehouse line borrowings). The primary reasons for the acquisition and strategic alliance with Brand was to gain access to an expanded residential mortgage product line-up and investor base (including a mandatory delivery channel for loan sales), to hedge our net interest income business and to generate other operational synergies and cost savings. CCB made a \$7.1 million cash payment for its 51% membership interest and entered into a buyout agreement for the remaining 49% noncontrolling interest resulting in temporary equity with a fair value of \$7.4 million. Goodwill totaling \$4.3 million was recorded in connection with this acquisition. Factors that contributed to the purchase price resulting in goodwill include Brand’s strong management team and expertise in the mortgage industry, historical record of earnings, and operational synergies created as part of the strategic alliance.

Recently Adopted Accounting Pronouncements

On January 1, 2020, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, Accounting Standards Codification (“ASC”) 326-30 provides a new credit loss model for available-for-sale debt securities. The most significant change requires credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities that management does not intend to sell or believes that it is not more likely than not they will be required to sell. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Our accounting policies changed significantly with the adoption of CECL on January 1, 2020. Prior to January 1, 2020, allowances were based on incurred credit losses in accordance with accounting policies disclosed in Note 1 of the Consolidated Financial Statements included in the 2019 Form 10-K. The adoption of ASC 326 (“CECL”) had an impact of \$4.0 million (\$3.3 million increase in the allowance for credit losses and \$0.7 million increase in the allowance for unfunded loan commitments (liability account)) that was offset by a corresponding decrease in retained earnings of \$3.1 million and \$0.9 million increase in deferred tax assets. Refer to Note 3 and to the accounting policies disclosed in Note 1 of the Consolidated Financial Statements included in the 2020 Form 10-K for additional information regarding the impact of the adoption of ASC 326 (“CECL”).

The Company also adopted ASU 2019-12 *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, ASU 2020-01 *Investments – Equity Securities (Topic 321) and Investments – Equity Method and Joint Ventures (Topic 323)*, ASU 2020-08 *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, and ASU 2020-09 *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762* with no material impact on its financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods and all other cash equivalents have a maturity of 90 days or less. The Company is required to maintain average reserve balances with the Federal Reserve Bank based upon a percentage of deposits. On March 26, 2020, the Federal Reserve reduced the amount of the required reserve balance to zero.

The Company maintains certain cash balances that are restricted under warehouse lines of credit and master repurchase agreements. The restricted cash balance at December 31, 2021 was \$0.5 million.

Investment Securities

Investment securities are classified as held-to-maturity (“HTM”) and carried at amortized cost when the Company has the positive intent and ability to hold them until maturity. Investment securities not classified as held-to-maturity or trading securities are classified as available-for-sale (“AFS”) and carried at fair value. Investment securities classified as equity securities that do not have readily determinable fair values, are measured at cost and remeasured to fair value when impaired or upon observable transaction prices. The Company determines the appropriate classification of securities at the time of purchase. For reporting and risk management purposes, we further segment investment securities by the issuer of the security which correlates to its risk profile: U.S. government treasury, U.S. government agency, state and political subdivisions, mortgage-backed securities, and corporate debt securities. Certain equity securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are classified as available-for-sale and carried at cost.

Interest income includes amortization and accretion of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Securities transferred from available-for-sale to held-to-maturity are recorded at amortized cost plus or minus any unrealized gain or loss at the time of transfer. Any existing unrecognized gain or loss continues to be reported in accumulated other comprehensive income (net of tax) and amortized as an adjustment to interest income over the remaining life of the security. Any existing allowance for credit loss is reversed at the time of transfer. Subsequent to transfer, the allowance for credit losses on the transferred security is evaluated in accordance with the accounting policy for held-to-maturity securities. Additionally, any allowance amounts reversed or established as part of the transfer are presented on a gross basis in the consolidated statement of income.

The accrual of interest is generally suspended on securities more than 90 days past due with respect to principal or interest. When a security is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income and thus not included in the estimate of credit losses.

Credit losses and changes thereto, are established as an allowance for credit loss through a provision for credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Certain debt securities in the Company’s investment portfolio were issued by a U.S. government entity or agency and are either explicitly or implicitly guaranteed by the U.S. government. The Company considers the long history of no credit losses on these securities indicates that the expectation of nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default. Further, certain municipal securities held by the Company have been pre-refunded and secured by government guaranteed treasuries. Therefore, for the aforementioned securities, the Company does not assess or record expected credit losses due to the zero loss assumption.

Impairment - Available-for-Sale Securities.

Unrealized gains on available-for-sale securities are excluded from earnings and reported, net of tax, in other comprehensive income. For available-for-sale securities that are in an unrealized loss position, the Company first assesses whether it intends to sell, or whether it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For available-for-sale securities that do not meet the aforementioned criteria or have a zero loss assumption, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded through a provision for credit loss expense, limited by the amount that fair value is less than the amortized cost basis. Any impairment that is not credit related is recognized in other comprehensive income.

Allowance for Credit Losses - Held-to-Maturity Securities.

Management measures expected credit losses on each individual held-to-maturity debt security that has not been deemed to have a zero assumption. Each security that is not deemed to have zero credit losses is individually measured based on net realizable value, or the difference between the discounted value of the expected cash flows, based on the original effective rate, and the recorded amortized basis of the security. To the extent a shortfall is related to credit loss, an allowance for credit loss is recorded through a provision for credit loss expense.

Loans Held for Investment

Loans held for investment (“HFI”) are stated at amortized cost which includes the principal amount outstanding, net premiums and discounts, and net deferred loan fees and costs. Accrued interest receivable on loans is reported in other assets and is not included in the amortized cost basis of loans. Interest income is accrued on the effective yield method based on outstanding principal balances and includes loan late fees. Fees charged to originate loans and direct loan origination costs are deferred and amortized over the life of the loan as a yield adjustment.

The Company defines loans as past due when one full payment is past due or a contractual maturity is over 30 days late. The accrual of interest is generally suspended on loans more than 90 days past due with respect to principal or interest. When a loan is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income and thus a policy election has been made to not include in the estimate of credit losses. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

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

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures designed to maximize loan income within an acceptable level of risk. Reporting systems are used to monitor loan originations, loan ratings, concentrations, loan delinquencies, nonperforming and potential problem loans, and other credit quality metrics. The ongoing review of loan portfolio quality and trends by Management and the Credit Risk Oversight Committee support the process for estimating the allowance for credit losses.

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. The allowance for credit losses is adjusted by a credit loss provision which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Expected credit loss inherent in non-cancellable off-balance sheet credit exposures is accounted for as a separate liability included in other liabilities.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the starting basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management’s view of current conditions and forecasts.

The methodology for estimating the amount of credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans; and second, a pooled component for expected credit losses for pools of loans that share similar risk characteristics.

Loans That Do Not Share Risk Characteristics (Individually Analyzed)

Loans that do not share similar risk characteristics are evaluated on an individual basis. Loans deemed to be collateral dependent have differing risk characteristics and are individually analyzed to estimate the expected credit loss. A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is dependent on the liquidation and sale of the underlying collateral. For collateral dependent loans where foreclosure is probable, the expected credit loss is measured based on the difference between the fair value of the collateral (less selling cost) and the amortized cost basis of the asset. For collateral dependent loans where foreclosure is not probable, the Company has elected the practical expedient allowed by ASC 326-20 to measure the expected credit loss under the same approach as those loans where foreclosure is probable. For loans with balances greater than \$250,000 the fair value of the collateral is obtained through independent appraisal of the underlying collateral. For loans with balances less than \$250,000, the Company has made a policy election to measure expected loss for these individual loans utilizing loss rates for similar loan types. The aforementioned measurement criteria are applied for collateral dependent troubled debt restructurings.

Loans That Share Similar Risk Characteristics (Pooled Loans)

The general steps in determining expected credit losses for the pooled loan component of the allowance are as follows:

- Segment loans into pools according to similar risk characteristics
- Develop historical loss rates for each loan pool segment
- Incorporate the impact of forecasts
- Incorporate the impact of other qualitative factors
- Calculate and review pool specific allowance for credit loss estimate

A discounted cash flow (“DCF”) methodology is utilized to calculate expected cash flows for the life of each individual loan. The discounted present value of expected cash flow is then compared to the loan’s amortized cost basis to determine the credit loss estimate. Individual loan results are aggregated at the pool level in determining total reserves for each loan pool.

The primary inputs used to calculate expected cash flows include historical loss rates which reflect probability of default (“PD”) and loss given default (“LGD”), and prepayment rates. The historical look-back period is a key factor in the calculation of the PD rate and is based on management’s assessment of current and forecasted conditions and may vary by loan pool. Loans subject to the Company’s risk rating process are further sub-segmented by risk rating in the calculation of PD rates. LGD rates generally reflect the historical average net loss rate by loan pool. Expected cash flows are further adjusted to incorporate the impact of loan prepayments which will vary by loan segment and interest rate conditions. In general, prepayment rates are based on observed prepayment rates occurring in the loan portfolio and consideration of forecasted interest rates.

In developing loss rates, adjustments are made to incorporate the impact of forecasted conditions. Certain assumptions are also applied, including the length of the forecast and reversion periods. The forecast period is the period within which management is able to make a reasonable and supportable assessment of future conditions. The reversion period is the period beyond which management believes it can develop a reasonable and supportable forecast, and bridges the gap between the forecast period and the use of historical default and loss rates. The remainder period reflects the remaining life of the loan. The length of the forecast and reversion periods are periodically evaluated and based on management’s assessment of current and forecasted conditions and may vary by loan pool. For purposes of developing a reasonable and supportable assessment of future conditions, management utilizes established industry and economic data points and sources, including the Federal Open Market Committee forecast, with the forecasted unemployment rate being a significant factor. PD rates for the forecast period will be adjusted accordingly based on management’s assessment of future conditions. PD rates for the remainder period will reflect the historical mean PD rate. Reversion period PD rates reflect the difference between forecast and remainder period PD rates calculated using a straight-line adjustment over the reversion period.

Loss rates are further adjusted to account for other risk factors that impact loan defaults and losses. These adjustments are based on management’s assessment of trends and conditions that impact credit risk and resulting credit losses, more specifically internal and external factors that are independent of and not reflected in the quantitative loss rate calculations. Risk factors management considers in this assessment include trends in underwriting standards, nature/volume/terms of loan originations, past due loans, loan review systems, collateral valuations, concentrations, legal/regulatory/political conditions, and the unforeseen impact of natural disasters.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which it is exposed to credit risk through a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense and is recorded in other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life and applies the same estimated loss rate as determined for current outstanding loan balances by segment. Off-balance sheet credit exposures are identified and classified in the same categories as the allowance for credit losses with similar risk characteristics that have been previously mentioned.

Mortgage Banking Activities

Mortgage Loans Held for Sale and Revenue Recognition

Mortgage loans held for sale (“HFS”) are carried at fair value under the fair value option with changes in fair value recorded in mortgage banking revenues on the consolidated statements of income. The fair value of mortgage loans held for sale committed to investors is calculated using observable market information such as the investor commitment, assignment of trade (AOT) or other mandatory delivery commitment prices. The Company bases loans committed to Agency investors based on the Agency’s quoted mortgage backed security (MBS) prices. The fair value of mortgage loans held for sale not committed to investors is based on quoted best execution secondary market prices. If no such quoted price exists, the fair value is determined using quoted prices for a similar asset or assets, such as MBS prices, adjusted for the specific attributes of that loan, which would be used by other market participants.

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and are recorded in mortgage banking revenues on the consolidated statements of income. Sales proceeds reflect the cash received from investors through the sale of the loan and servicing release premium. If the related mortgage loan is sold servicing retained, the MSR addition is recorded in mortgage banking revenues on the consolidated statements of income. Mortgage banking revenues also includes the unrealized gains and losses associated with the changes in the fair value of mortgage loans held for sale, and the realized and unrealized gains and losses from derivative instruments.

Mortgage loans held for sale are considered sold when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through either an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets. The Company typically considers the above criteria to have been met upon acceptance and receipt of sales proceeds from the purchaser.

Government National Mortgage Association (GNMA) optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer’s option and without GNMA’s prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. Under Financial Accounting Standards Board (“FASB”) ASC Topic 860, “Transfers and Servicing,” this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the statement of financial condition, regardless of whether there is intent to exercise the buy-back option. These loans are reported in other assets with the offsetting liability being reported in other liabilities.

Derivative Instruments (IRLC/Forward Commitments)

The Company holds and issues derivative financial instruments such as interest rate lock commitments (IRLCs) and other forward sale commitments. IRLCs are subject to price risk primarily related to fluctuations in market interest rates. To hedge the interest rate risk on certain IRLCs, the Company uses forward sale commitments, such as to-be-announced securities (TBAs) or mandatory delivery commitments with investors. Management expects these forward sale commitments to experience changes in fair value opposite to the changes in fair value of the IRLCs thereby reducing earnings volatility. Forward sale commitments are also used to hedge the interest rate risk on mortgage loans held for sale that are not committed to investors and still subject to price risk. If the mandatory delivery commitments are not fulfilled, the Company pays a pair-off fee. Best effort forward sale commitments are also executed with investors, whereby certain loans are locked with a borrower and simultaneously committed to an investor at a fixed price. If the best effort IRLC does not fund, there is no obligation to fulfill the investor commitment.

The Company considers various factors and strategies in determining what portion of the IRLCs and uncommitted mortgage loans held for sale to economically hedge. All derivative instruments are recognized as other assets or other liabilities on the consolidated statements of financial condition at their fair value. Changes in the fair value of the derivative instruments are recognized in mortgage banking revenues on the consolidated statements of income in the period in which they occur. Gains and losses resulting from the pairing-out of forward sale commitments are recognized in mortgage banking revenues on the consolidated statements of income. The Company accounts for all derivative instruments as free-standing derivative instruments and does not designate any for hedge accounting.

Mortgage Servicing Rights ("MSRs") and Revenue Recognition

The Company sells residential mortgage loans in the secondary market and may retain the right to service the loans sold. Upon sale, an MSR asset is capitalized, which represents the then current fair value of future net cash flows expected to be realized for performing servicing activities. As the Company has not elected to subsequently measure any class of servicing assets under the fair value measurement method, the Company follows the amortization method. MSRs are amortized to noninterest income (other income) in proportion to and over the period of estimated net servicing income, and assessed for impairment at each reporting date. MSRs are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value, and included in other assets, net, on the consolidated statements of financial condition.

The Company periodically evaluates its MSRs asset for impairment. Impairment is assessed based on fair value at each reporting date using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). As mortgage interest rates fall, prepayment speeds are usually faster and the value of the MSRs asset generally decreases, requiring additional valuation reserve. Conversely, as mortgage interest rates rise, prepayment speeds are usually slower and the value of the MSRs asset generally increases, requiring less valuation reserve. A valuation allowance is established, through a charge to earnings, to the extent the amortized cost of the MSRs exceeds the estimated fair value by stratification. If it is later determined that all or a portion of the temporary impairment no longer exists for a stratification, the valuation is reduced through a recovery to earnings. An other-than-temporary impairment (i.e., recoverability is considered remote when considering interest rates and loan pay off activity) is recognized as a write-down of the MSRs asset and the related valuation allowance (to the extent a valuation allowance is available) and then against earnings. A direct write-down permanently reduces the carrying value of the MSRs asset and valuation allowance, precluding subsequent recoveries.

Derivative/Hedging Activities

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to the likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("standalone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the statement of financial condition or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods, in which the hedged transactions will affect earnings.

Long-Lived Assets

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

Long-lived assets are evaluated for impairment if circumstances suggest that their carrying value may not be recoverable, by comparing the carrying value to estimated undiscounted cash flows. If the asset is deemed impaired, an impairment charge is recorded equal to the carrying value less the fair value. See Note 6 – Premises and Equipment for additional information.

Leases

The Company has entered into various operating leases, primarily for banking offices. Generally, these leases have initial lease terms from one to ten years. Many of the leases have one or more lease renewal options. The exercise of lease renewal options is at the Company's sole discretion. The Company does not consider exercise of any lease renewal options reasonably certain. Certain of the lease contain early termination options. No renewal options or early termination options have been included in the calculation of the operating right-of-use assets or operating lease liabilities. Certain of the lease agreements provide for periodic adjustments to rental payments for inflation. At the commencement date of the lease, the Company recognizes a lease liability at the present value of the lease payments not yet paid, discounted using the discount rate for the lease or the Company's incremental borrowing rate. As the majority of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. The incremental borrowing rate is based on the term of the lease. Incremental borrowing rates on January 1, 2019 were used for operating leases that commenced prior to that date. At the commencement date, the Company also recognizes a right-of-use asset measured at (i) the initial measurement of the lease liability; (ii) any lease payments made to the lessor at or before the commencement date less any lease incentives received; and (iii) any initial direct costs incurred by the lessee. Leases with an initial term of 12 months or less are not recorded on the Statement of Financial Condition. For these short-term leases, lease expense is recognized on a straight-line basis over the lease term. The Company has no leases classified as finance leases. See Note 7 – Leases for additional information.

Bank Owned Life Insurance (BOLI)

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

Goodwill and Other Intangibles

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. In accordance with FASB ASC Topic 350, the Company determined it has one goodwill reporting unit. Goodwill is tested for impairment annually during the fourth quarter or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Other intangible assets relate to customer intangibles purchased as part of a business acquisition. Intangible assets are tested for impairment at least annually or whenever changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. See Note 8 – Goodwill and Other Intangibles for additional information.

Other Real Estate Owned

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

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 21 – Commitments and Contingencies for additional information.

Noncontrolling Interest

To the extent the Company's interest in a consolidated entity represents less than 100% of the entity's equity, the Company recognizes noncontrolling interests in subsidiaries. In the case of the CCHL acquisition (previously noted under Business Combination), the noncontrolling interest represents equity which is redeemable or convertible for cash at the option of the equity holder and is classified within temporary equity in the mezzanine section of the Consolidated Statements of Financial Condition. The call/put option is redeemable at the option of either CCBG (call) or the noncontrolling interest holder (put) on or after January 1, 2025, and therefore, not entirely within CCBG's control. The subsidiary's net income or loss and related dividends are allocated to CCBG and the noncontrolling interest holder based on their relative ownership percentages. The noncontrolling interest carrying value is adjusted on a quarterly basis to the higher of the carrying value or current redemption value, at the Statement of Financial Condition date, through a corresponding adjustment to retained earnings. The redemption value is calculated quarterly and is based on the higher of a predetermined book value or pre-tax earnings multiple. To the extent the redemption value exceeds the fair value of the noncontrolling interest, the Company's earnings per share attributable to common shareowners is adjusted by that amount. The Company uses an independent valuation expert to assist in estimating the fair value of the noncontrolling interest using: 1) the discounted cash flow methodology under the income approach, and (2) the guideline public company methodology under the market approach. The estimated fair value is derived from equally weighting the result of each of the two methodologies. The estimation of the fair value includes significant assumptions concerning: (1) projected loan volumes; (2) projected pre-tax profit margins; (3) tax rates and (4) discount rates.

Income Taxes

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

The Company files a consolidated federal income tax return and a separate federal tax return for CCHL. Each subsidiary files a separate state income tax return.

Earnings Per Common Share

Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 16 — Earnings Per Share.

Comprehensive Income

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

Stock Based Compensation

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

Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, and investment securities, and revenue related to the sale of residential mortgages in the secondary market, as these activities are subject to other GAAP discussed elsewhere within our disclosures. The Company recognizes revenue from these activities as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Descriptions of the major revenue-generating activities that are within the scope of ASC 606, which are presented in the accompanying statements of income as components of non-interest income are as follows:

Deposit Fees - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Wealth Management - trust fees and retail brokerage fees – trust fees represent monthly fees due from wealth management clients as consideration for managing the client's assets. Trust services include custody of assets, investment management, fees for trust services and similar fiduciary activities. Revenue is recognized when the Company's performance obligation is completed each month or quarter, which is the time that payment is received. Also, retail brokerage fees are received from a third party broker-dealer, for which the Company acts as an agent, as part of a revenue-sharing agreement for fees earned from customers that are referred to the third party. These fees are for transactional and advisory services and are paid by the third party on a monthly basis and recognized ratably throughout the quarter as the Company's performance obligation is satisfied.

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

Gains and Losses from the Sale of Bank Owned Property – the performance obligation in the sale of other real estate owned typically will be the delivery of control over the property to the buyer. If the Company is not providing the financing of the sale, the transaction price is typically identified in the purchase and sale agreement. However, if the Company provides seller financing, the Company must determine a transaction price, depending on if the sale contract is at market terms and taking into account the credit risk inherent in the arrangement.

Insurance Commissions – insurance commissions recorded by the Company are received from various insurance carriers based on contractual agreements to sell policies to customers on behalf of the carriers. The performance obligation for the Company is to sell life and health insurance policies to customers. This performance obligation is met when a new policy is sold (effective date) or when an existing policy renews. New policies and renewals generally have a one year term. In the agreements with the insurance carriers, a commission rate is agreed upon. The commission is recognized at the time of the sale of the policy (effective date) or when a policy renews. Insurance commissions are recorded within other noninterest income.

Other non-interest income primarily includes items such as mortgage banking fees (gains from the sale of residential mortgage loans held for sale), bank-owned life insurance, and safe deposit box fees, none of which are subject to the requirements of ASC 606.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affects the determination of the amount and timing of revenue from the above-described contracts with clients.

Accounting Standard Updates

ASU 2020-04, "Reference Rate Reform (Topic 848). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or re-measurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. It is anticipated this ASU will simplify any modifications executed between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements. Further, *ASU 2021-01, "Reference Rate Reform (Topic 848): Scope,"* clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

Note 2
INVESTMENT SECURITIES

Investment Portfolio Composition. The following tables summarize the amortized cost and related fair value of investment securities available-for-sale and securities held-to-maturity, the corresponding amounts of gross unrealized gains and losses, and allowance for credit losses.

<i>(Dollars in Thousands)</i>	Available for Sale				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
December 31, 2021					
U.S. Government Treasury	\$ 190,409	\$ 65	\$ 2,606	\$ -	\$ 187,868
U.S. Government Agency	238,490	1,229	2,141	-	237,578
States and Political Subdivisions	47,762	44	811	(15)	46,980
Mortgage-Backed Securities	89,440	27	598	-	88,869
Corporate Debt Securities	87,537	10	1,304	(21)	86,222
Other Securities ⁽¹⁾	7,094	-	-	-	7,094
Total	\$ 660,732	\$ 1,375	\$ 7,460	\$ (36)	\$ 654,611
December 31, 2020					
U.S. Government Treasury	\$ 103,547	\$ 972	\$ -	\$ -	\$ 104,519
U.S. Government Agency	205,972	2,743	184	-	208,531
States and Political Subdivisions	3,543	89	-	-	3,632
Mortgage-Backed Securities	456	59	-	-	515
Other Securities ⁽¹⁾	7,673	-	-	-	7,673
Total	\$ 321,191	\$ 3,863	\$ 184	\$ -	\$ 324,870
Held to Maturity					
<i>(Dollars in Thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	
December 31, 2021					
U.S. Government Treasury	\$ 115,499	\$ -	\$ 1,622	\$ 113,877	
Mortgage-Backed Securities	224,102	2,819	1,099	225,822	
Total	\$ 339,601	\$ 2,819	\$ 2,721	\$ 339,699	
December 31, 2020					
U.S. Government Treasury	\$ 5,001	\$ 13	\$ -	\$ 5,014	
Mortgage-Backed Securities	164,938	5,223	-	170,161	
Total	\$ 169,939	\$ 5,236	\$ -	\$ 175,175	

⁽¹⁾ Includes Federal Home Loan Bank and Federal Reserve Bank recorded at cost of \$2.0 million and \$5.1 million, respectively, at December 31, 2021 and of \$2.9 million and \$4.8 million, respectively, at December 31, 2020.

At December 31, 2021, the investment portfolio had \$0.9 million in equity securities. These securities do not have a readily determinable fair value and were not credit impaired. Additionally, Mortgage-Backed Securities at December 31, 2021 were comprised solely of residential mortgages.

Securities with an amortized cost of \$463.8 million and \$308.2 million at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes.

At December 31, 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareowners' equity.

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 fair value; however, redemption of this stock has historically been at par value.

As a member of the Federal Reserve Bank of Atlanta, the Bank is required to maintain stock in the Federal Reserve Bank of Atlanta based on a specified ratio relative to the Bank's capital. Federal Reserve Bank stock is carried at cost.

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

Maturity Distribution. The following table shows the Company's AFS and HTM investment securities maturity distribution based on contractual maturity at December 31, 2021. 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. Equity securities do not have a contractual maturity date.

<i>(Dollars in Thousands)</i>	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 40,322	\$ 39,916	\$ -	\$ -
Due after one through five years	297,352	293,514	115,499	113,877
Due after five thru ten years	67,522	66,006	-	-
Mortgage-Backed Securities	89,440	88,869	224,102	225,822
U.S. Government Agency	159,002	159,212	-	-
Other Securities	7,094	7,094	-	-
Total	<u>\$ 660,732</u>	<u>\$ 654,611</u>	<u>\$ 339,601</u>	<u>\$ 339,699</u>

Unrealized Losses. The following table summarizes the investment securities with unrealized losses at December 31, aggregated by major security type and length of time in a continuous unrealized loss position:

<i>(Dollars in Thousands)</i>	<u>Less Than 12 Months</u>		<u>Greater Than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2021						
Available for Sale						
U.S. Government Treasury	\$ 172,206	\$ 2,606	\$ -	\$ -	\$ 172,206	\$ 2,606
U.S. Government Agency	127,484	1,786	17,986	355	145,470	2,141
States and Political Subdivisions	42,122	811	-	-	42,122	811
Mortgage-Backed Securities	81,832	598	-	-	81,832	598
Corporate Debt Securities	69,354	1,304	-	-	69,354	1,304
Total	<u>492,998</u>	<u>7,105</u>	<u>17,986</u>	<u>355</u>	<u>510,984</u>	<u>7,460</u>
Held to Maturity						
U.S. Government Treasury	113,877	1,622	-	-	113,877	1,622
Mortgage-Backed Securities	115,015	1,099	-	-	115,015	1,099
Total	<u>\$ 228,892</u>	<u>\$ 2,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,892</u>	<u>\$ 2,721</u>
December 31, 2020						
Available for Sale						
U.S. Government Agency	\$ 28,266	\$ 156	\$ 4,670	\$ 28	\$ 32,936	\$ 184
Total	<u>28,266</u>	<u>156</u>	<u>4,670</u>	<u>28</u>	<u>32,936</u>	<u>184</u>

At December 31, 2021, there were 401 positions (combined AFS and HTM securities) with unrealized losses totaling \$10.2 million. At December 31, 2020 there were 47 AFS securities with unrealized losses totaling \$0.2 million. For 2021, 59 of these of these positions were U.S. government treasury securities guaranteed by the U.S. government. 234 of these positions were U.S. government agency and mortgage-backed securities issued by U.S. government sponsored entities. The declines in the fair value of these securities are attributable to changes in interest rates and not credit quality. 44 of these positions were municipal bonds and 64 were corporate debt securities. A majority of the decline in fair value of these securities were attributable to changes in interest rates. The Company recorded a provision for credit loss of \$36,000 in 2021 for certain municipal securities and collateralized loan obligation securities. None of the securities held by the Company were past due or in nonaccrual status at December 31, 2021.

Credit Quality Indicators

The Company monitors the credit quality of its investment securities through various risk management procedures, including the monitoring of credit ratings. A large portion of the debt securities in the Company's investment portfolio were issued by a U.S. government entity or agency and are either explicitly or implicitly guaranteed by the U.S. government. The Company believes the long history of no credit losses on these securities indicates that the expectation of nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default. Further, certain municipal securities held by the Company have been pre-refunded and secured by government guaranteed treasuries. Therefore, for the aforementioned securities, the Company does not assess or record expected credit losses due to the zero loss assumption. The Company monitors the credit quality of its municipal and corporate securities portfolio via credit ratings which are updated on a quarterly basis. On a quarterly basis, municipal and corporate securities in an unrealized loss position are evaluated to determine if the loss is attributable to credit related factors and if an allowance for credit loss is needed.

Note 3

LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR CREDIT LOSSES

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

<i>(Dollars in Thousands)</i>	2021	2020
Commercial, Financial and Agricultural ⁽¹⁾	\$ 223,086	\$ 393,930
Real Estate – Construction	174,394	135,831
Real Estate – Commercial Mortgage	663,550	648,393
Real Estate – Residential ⁽²⁾	360,021	352,543
Real Estate – Home Equity	187,821	205,479
Consumer ⁽³⁾	322,593	270,250
Loans Held for Investment, Net of Unearned Income	<u>\$ 1,931,465</u>	<u>\$ 2,006,426</u>

⁽¹⁾ Includes SBA PPP loan balance of \$0.1 million and \$175.3 million for 2021 and 2020, respectively.

⁽²⁾ Includes loans in process with outstanding balances of \$13.6 million and \$10.9 million for 2021 and 2020, respectively.

⁽³⁾ Includes overdraft balances of \$1.1 million and \$0.7 million for December 31, 2021 and 2020, respectively.

Net deferred costs, which include premiums on purchased loans, included in loans were \$3.9 million at December 31, 2021 and net deferred fees were \$0.1 million at December 31, 2020. Net deferred fees at December 31, 2020 included \$3.2 million in net fees for SBA PPP loans.

Accrued interest receivable on loans which is excluded from amortized cost totaled \$5.3 million at December 31, 2021 and \$6.9 million at December 31, 2020, and is reported separately in Other Assets.

The Company has pledged a floating lien on certain 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.

Loan Purchases. The Company will periodically purchase newly originated 1-4 family real estate secured adjustable rate loans from CCHL, a related party effective on March 1, 2020 (see Note 1 – Significant Accounting Policies). These loan purchases totaled \$97.5 million and \$48.4 million for the years ended December 31, 2021 and 2020, respectively, and were not credit impaired. In addition, during 2021, the Company purchased \$17.4 million of commercial real estate loans from a third party that were not credit impaired.

The Company transferred \$9.4 million of home equity loan from HFI to HFS during 2021. There were no transfers during 2020.

Allowance for Credit Losses. The methodology for estimating the amount of credit losses reported in the allowance for credit losses ("ACL") has two basic components: first, an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans; and second, a pooled component for expected credit losses for pools of loans that share similar risk characteristics. This methodology is discussed further in Note 1 – Significant Accounting Policies.

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

<i>(Dollars in Thousands)</i>	Commercial,		Real Estate			Consumer	Total
	Financial, Agricultural	Real Estate Construction	Commercial Mortgage	Real Estate Residential	Real Estate Home Equity		
2021							
Beginning Balance	\$ 2,204	\$ 2,479	\$ 7,029	\$ 5,440	\$ 3,111	\$ 3,553	\$ 23,816
Provision for Credit Losses	(227)	813	(1,679)	(1,956)	(1,125)	1,332	(2,842)
Charge-Offs	(239)	-	(405)	(108)	(103)	(3,972)	(4,827)
Recoveries	453	10	865	753	413	2,965	5,459
Net (Charge-Offs) Recoveries	214	10	460	645	310	(1,007)	632
Ending Balance	<u>\$ 2,191</u>	<u>\$ 3,302</u>	<u>\$ 5,810</u>	<u>\$ 4,129</u>	<u>\$ 2,296</u>	<u>\$ 3,878</u>	<u>\$ 21,606</u>
2020							
Beginning Balance	\$ 1,675	\$ 370	\$ 3,416	\$ 3,128	\$ 2,224	\$ 3,092	\$ 13,905
Impact of Adopting ASC 326	488	302	1,458	1,243	374	(596)	3,269
Provision for Credit Losses	578	1,757	1,865	940	486	3,409	9,035
Charge-Offs	(789)	-	(28)	(150)	(151)	(5,042)	(6,160)
Recoveries	252	50	318	279	178	2,690	3,767
Net (Charge-Offs) Recoveries	(537)	50	290	129	27	(2,352)	(2,393)
Ending Balance	<u>\$ 2,204</u>	<u>\$ 2,479</u>	<u>\$ 7,029</u>	<u>\$ 5,440</u>	<u>\$ 3,111</u>	<u>\$ 3,553</u>	<u>\$ 23,816</u>
2019							
Beginning Balance	\$ 1,434	\$ 280	\$ 4,181	\$ 3,400	\$ 2,301	\$ 2,614	\$ 14,210
Provision for Credit Losses	664	371	(1,129)	(301)	178	2,244	2,027
Charge-Offs	(768)	(281)	(214)	(400)	(430)	(2,878)	(4,971)
Recoveries	345	-	578	429	175	1,112	2,639
Net (Charge-Offs) Recoveries	(423)	(281)	364	29	(255)	(1,766)	(2,332)
Ending Balance	<u>\$ 1,675</u>	<u>\$ 370</u>	<u>\$ 3,416</u>	<u>\$ 3,128</u>	<u>\$ 2,224</u>	<u>\$ 3,092</u>	<u>\$ 13,905</u>

The \$2.8 million decrease in the allowance for credit losses in 2021 reflected improvements in forecasted economic conditions, favorable loan migration and net loan recoveries totaling \$0.6 million, partially offset by incremental reserves needed for loan growth (excluding SBA PPP). The \$9.9 million increase in the allowance for credit losses in 2020 was attributable to the build of reserves attributable to a deterioration in economic conditions, primarily a higher rate of unemployment due to the COVID-19 pandemic and its potential effect on rates of default. Three unemployment rate forecast scenarios continue to be utilized to estimate probability of default and are weighted based on management's estimate of probability. The mitigating impact of the unprecedented fiscal stimulus, including direct payments to individuals, increased unemployment benefits, as well as various government sponsored loan programs, was also considered. See Note 1 – Significant accounting policies for more on the calculation of the provision for credit losses. See Note 21 – Commitments and Contingencies for information on the provision for credit losses related to off-balance sheet commitments.

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 amortized cost basis in accruing past due loans by class of loans at December 31,

<i>(Dollars in Thousands)</i>	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Nonaccrual Loans	Total Loans
2021							
Commercial, Financial and Agricultural	\$ 100	\$ 23	\$ -	\$ 123	\$ 222,873	\$ 90	\$ 223,086
Real Estate – Construction	-	-	-	-	174,394	-	174,394
Real Estate – Commercial Mortgage	151	-	-	151	662,795	604	663,550
Real Estate – Residential	365	151	-	516	357,408	2,097	360,021
Real Estate – Home Equity	210	-	-	210	186,292	1,319	187,821
Consumer	1,964	636	-	2,600	319,781	212	322,593
Total	\$ 2,790	\$ 810	\$ -	\$ 3,600	\$ 1,923,543	\$ 4,322	\$ 1,931,465
2020							
Commercial, Financial and Agricultural	\$ 194	\$ 124	\$ -	\$ 318	\$ 393,451	\$ 161	\$ 393,930
Real Estate – Construction	-	717	-	717	134,935	179	135,831
Real Estate – Commercial Mortgage	293	-	-	293	646,688	1,412	648,393
Real Estate – Residential	375	530	-	905	348,508	3,130	352,543
Real Estate – Home Equity	325	138	-	463	204,321	695	205,479
Consumer	1,556	342	-	1,898	268,058	294	270,250
Total	\$ 2,743	\$ 1,851	\$ -	\$ 4,594	\$ 1,995,961	\$ 5,871	\$ 2,006,426

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 Company did not recognize a significant amount of interest income on nonaccrual loans for the years ended December 31, 2021 and 2020.

The following table presents the amortized cost basis of loans in nonaccrual status and loans past due over 90 days and still on accrual by class of loans.

<i>(Dollars in Thousands)</i>	2021			2020		
	Nonaccrual With No ACL	Nonaccrual With ACL	90 + Days Still Accruing	Nonaccrual With No ACL	Nonaccrual With ACL	90 + Days Still Accruing
Commercial, Financial and Agricultural	\$ 67	\$ 23	\$ -	\$ -	\$ 161	\$ -
Real Estate – Construction	-	-	-	-	179	-
Real Estate – Commercial Mortgage	-	604	-	1,075	337	-
Real Estate – Residential	928	1,169	-	1,513	1,617	-
Real Estate – Home Equity	463	856	-	-	695	-
Consumer	-	212	-	-	294	-
Total	\$ 1,458	\$ 2,864	\$ -	\$ 2,588	\$ 3,283	\$ -

Collateral Dependent Loans. The following table presents the amortized cost basis of collateral dependent loans at December 31:

	2021		2020	
	Real Estate Secured	Non Real Estate Secured	Real Estate Secured	Non Real Estate Secured
<i>(Dollars in Thousands)</i>				
Commercial, Financial and Agricultural	\$ -	\$ 67	\$ -	\$ -
Real Estate – Commercial Mortgage	455	-	3,900	-
Real Estate – Residential	1,645	-	3,022	-
Real Estate – Home Equity	649	-	219	-
Consumer	-	-	-	29
Total	<u>\$ 2,749</u>	<u>\$ 67</u>	<u>\$ 7,141</u>	<u>\$ 29</u>

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is dependent on the sale or operation of the underlying collateral.

The Bank's collateral dependent loan portfolio is comprised primarily of real estate secured loans, collateralized by either residential or commercial collateral types. The loans are carried at fair value based on current values determined by either independent appraisals or internal evaluations, adjusted for selling costs or other amounts to be deducted when estimating expected net sales proceeds.

Residential Real Estate Loans In Process of Foreclosure. At December 31, 2021 and 2020, the Company had \$0.9 million and \$1.6 million, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

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

At December 31, 2021, the Company had \$8.0 million in TDRs, of which \$7.6 million were performing in accordance with the modified terms. At December 31, 2020 the Company had \$14.3 million in TDRs, of which \$13.9 million were performing in accordance with modified terms. For TDRs, the Company estimated \$0.3 million and \$0.6 million of credit loss reserves at December 31, 2021 and 2020, respectively.

The modifications made to TDRs involved either an extension of the loan term, a principal moratorium, a reduction in the interest rate, or a combination thereof. For the year ended December 31, 2021, there were three loans modified with a recorded investment of \$0.6 million. For the year ended December 31, 2020, there were three loans modified with a recorded investment of \$0.2 million. For the year ended December 31, 2019, there were seven loans modified with a recorded investment of \$0.5 million. The financial impact of these modifications was not material.

For the years ended December 31, 2021 and 2020, there were no loans classified as TDRs, for which there was a payment default and the loans were modified within the 12 months prior to default.

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 are used 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 loan portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the loan portfolio are monitored and reported to the Board on a quarterly basis and have strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. Detailed below are the types of loans within the Company's loan portfolio and risk characteristics unique to each.

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

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

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

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

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

Consumer Loans – This loan category includes personal installment loans, direct and indirect automobile financing, and overdraft lines of credit. The majority of the consumer loan category 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 and 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 below 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.

Performing/Nonperforming – Loans within certain homogenous loan pools (home equity and consumer) are not individually reviewed, but are monitored for credit quality via the aging status of the loan and by payment activity. The performing or nonperforming status is updated on an on-going basis dependent upon improvement and deterioration in credit quality.

The following table summarizes gross loans held for investment at December 31, 2021 by years of origination and internally assigned credit risk ratings (refer to Credit Risk Management section for detail on risk rating system).

<i>(Dollars in Thousands)</i>	Term Loans by Origination Year						Revolving	Total
	2021	2020	2019	2018	2017	Prior	Loans	
Commercial, Financial, Agricultural:								
Pass	\$ 69,531	\$ 31,335	\$ 30,084	\$ 20,276	\$ 9,578	\$ 11,836	\$ 50,030	\$ 222,670
Special Mention	-	-	3	6	-	25	-	34
Substandard	35	10	67	178	46	46	-	382
Total	<u>\$ 69,566</u>	<u>\$ 31,345</u>	<u>\$ 30,154</u>	<u>\$ 20,460</u>	<u>\$ 9,624</u>	<u>\$ 11,907</u>	<u>\$ 50,030</u>	<u>\$ 223,086</u>
Real Estate - Construction:								
Pass	\$ 95,457	\$ 56,875	\$ 15,770	\$ 453	\$ 130	\$ -	\$ 5,709	\$ 174,394
Total	<u>\$ 95,457</u>	<u>\$ 56,875</u>	<u>\$ 15,770</u>	<u>\$ 453</u>	<u>\$ 130</u>	<u>\$ -</u>	<u>\$ 5,709</u>	<u>\$ 174,394</u>
Real Estate - Commercial Mortgage:								
Pass	\$ 173,502	\$ 134,418	\$ 79,969	\$ 79,575	\$ 55,417	\$ 91,938	\$ 21,508	\$ 636,327
Special Mention	7,004	-	1,760	2,639	426	5,374	1,000	18,203
Substandard	1,483	1,034	4,083	-	1,236	1,111	73	9,020
Total	<u>\$ 181,989</u>	<u>\$ 135,452</u>	<u>\$ 85,812</u>	<u>\$ 82,214</u>	<u>\$ 57,079</u>	<u>\$ 98,423</u>	<u>\$ 22,581</u>	<u>\$ 663,550</u>
Real Estate - Residential:								
Pass	\$ 130,424	\$ 62,509	\$ 38,617	\$ 27,332	\$ 26,829	\$ 60,467	\$ 6,600	\$ 352,778
Special Mention	-	134	20	121	167	412	-	854
Substandard	1,651	-	1,038	806	218	2,676	-	6,389
Total	<u>\$ 132,075</u>	<u>\$ 62,643</u>	<u>\$ 39,675</u>	<u>\$ 28,259</u>	<u>\$ 27,214</u>	<u>\$ 63,555</u>	<u>\$ 6,600</u>	<u>\$ 360,021</u>
Real Estate - Home Equity:								
Performing	\$ 137	\$ 53	\$ 257	\$ 130	\$ 743	\$ 1,510	\$ 183,672	\$ 186,502
Nonperforming	-	-	18	-	-	78	1,223	1,319
Total	<u>\$ 137</u>	<u>\$ 53</u>	<u>\$ 275</u>	<u>\$ 130</u>	<u>\$ 743</u>	<u>\$ 1,588</u>	<u>\$ 184,895</u>	<u>\$ 187,821</u>
Consumer:								
Performing	\$ 173,031	\$ 64,805	\$ 39,045	\$ 26,383	\$ 10,759	\$ 3,138	\$ 5,220	\$ 322,381
Nonperforming	58	44	37	66	1	6	-	212
Total	<u>\$ 173,089</u>	<u>\$ 64,849</u>	<u>\$ 39,082</u>	<u>\$ 26,449</u>	<u>\$ 10,760</u>	<u>\$ 3,144</u>	<u>\$ 5,220</u>	<u>\$ 322,593</u>

Note 4 MORTGAGE BANKING ACTIVITIES

The Company's mortgage banking activities at its subsidiary, CCHL, include mandatory delivery loan sales, forward sales contracts used to manage residential loan pipeline price risk, utilization of warehouse lines to fund secondary market residential loan closings, and residential mortgage servicing. For the year ended December 31, 2020, information provided below reflects CCHL activities for the period March 1, 2020 to December 31, 2020 and CCB legacy residential real estate activities for the period January 1, 2020 to March 1, 2020.

Residential Mortgage Loan Production

The Company originates, markets, and services conventional and government-sponsored residential mortgage loans. Generally, conforming fixed rate residential mortgage loans are held for sale in the secondary market and non-conforming and adjustable-rate residential mortgage loans may be held for investment. The volume of residential mortgage loans originated for sale and secondary market prices are the primary drivers of origination revenue.

Residential mortgage loan commitments are generally outstanding for 30 to 90 days, which represents the typical period from commitment to originate a residential mortgage loan to when the closed loan is sold to an investor. Residential mortgage loan commitments are subject to both credit and price risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Price risk is primarily related to interest rate fluctuations and is partially managed through forward sales of residential mortgage-backed securities (primarily to-be announced securities, or TBAs) or mandatory delivery commitments with investors.

The unpaid principal balance of residential mortgage loans held for sale, notional amounts of derivative contracts related to residential mortgage loan commitments and forward contract sales and their related fair values are set forth below.

	December 31, 2021		December 31, 2020	
	Unpaid Principal Balance/Notional	Fair Value	Unpaid Principal Balance/Notional	Fair Value
<i>(Dollars in Thousands)</i>				
Residential Mortgage Loans Held for Sale	\$ 50,733	\$ 52,532	\$ 109,831	\$ 114,039
Residential Mortgage Loan Commitments ("IRLCs") ⁽¹⁾	51,883	1,258	147,494	4,825
Forward Sales Contracts ⁽²⁾	48,000	(7)	158,500	(907)
		<u>\$ 53,783</u>		<u>\$ 117,957</u>

⁽¹⁾Recorded in other assets at fair value

⁽²⁾Recorded in other liabilities at fair value

Residential mortgage loans held for sale that were 30-69 days outstanding totaled \$0.2 million at December 31, 2021 and loans held for sale that were 90 days or more outstanding or on nonaccrual totaled \$0.6 million at December 31, 2020.

Mortgage banking revenues for the year ended December 31, was as follows:

<i>(Dollars in Thousands)</i>	2021	2020
Net realized gains on sales of mortgage loans	\$ 49,355	\$ 59,709
Net change in unrealized gain on mortgage loans held for sale	(2,410)	2,926
Net change in the fair value of mortgage loan commitments (IRLCs)	(3,567)	2,625
Net change in the fair value of forward sales contracts	900	284
Pair-Offs on net settlement of forward sales contracts	2,956	(9,602)
Mortgage servicing rights additions	1,416	3,448
Net origination fees	3,775	3,954
Total mortgage banking revenues	<u>\$ 52,425</u>	<u>\$ 63,344</u>

Residential Mortgage Servicing

The Company may retain the right to service residential mortgage loans sold. The unpaid principal balance of loans serviced for others is the primary driver of servicing revenue.

The following represents a summary of mortgage servicing rights.

<i>(Dollars in Thousands)</i>	2021	2020
Number of residential mortgage loans serviced for others	2,106	1,796
Outstanding principal balance of residential mortgage loans serviced for others	\$ 532,967	\$ 456,135
Weighted average interest rate	3.59%	3.64%
Remaining contractual term (in months)	317	321

Conforming conventional loans serviced by the Company are sold to FNMA on a non-recourse basis, whereby foreclosure losses are generally the responsibility of FNMA and not the Company. The government loans serviced by the Company are secured through GNMA, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Veterans Administration. At December 31, 2021, the servicing portfolio balance consisted of the following loan types: FNMA (60%), GNMA (9%), and private investor (31%). FNMA and private investor loans are structured as actual/actual payment remittance.

The Company had \$2.0 million and \$4.9 million in delinquent residential mortgage loans currently in GNMA pools serviced by the Company at December 31, 2021 and 2020, respectively. The right to repurchase these loans and the corresponding liability has been recorded in other assets and other liabilities, respectively, in the Consolidated Statements of Financial Condition. For the years ended December 31, 2021, the Company repurchased \$2.8 million of GNMA delinquent or defaulted mortgage loans with the intention to modify their terms and include the loans in new GNMA pools. The Company did not repurchase any of these loans for the year ended December 31, 2020.

Activity in the capitalized mortgage servicing rights for the year ended December 31, was as follows:

<i>(Dollars in Thousands)</i>	2021	2020
Beginning balance	\$ 3,452	\$ 910
Additions due to loans sold with servicing retained	1,416	3,448
Deletions and amortization	(1,344)	(656)
Valuation Allowance (temporary impairment)	250	(250)
Ending balance	<u>\$ 3,774</u>	<u>\$ 3,452</u>

The Company had no permanent impairment losses on its mortgage servicing rights for the years ended December 31, 2021 and 2020.

The key unobservable inputs used in determining the fair value of the Company's mortgage servicing rights at December 31, was as follows:

	2021		2020	
	Minimum	Maximum	Minimum	Maximum
Discount rates	11.00%	15.00%	11.00%	15.00%
Annual prepayment speeds	11.98%	23.79%	13.08%	23.64%
Cost of servicing (per loan)	\$ 60	73	\$ 90	110

Changes in residential mortgage interest rates directly affect the prepayment speeds used in valuing the Company's mortgage servicing rights. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults, and other relevant factors. The weighted average annual prepayment speed was 15.85% at December 31, 2021 and 17.10% at December 31, 2020.

Warehouse Line Borrowings

The Company has the following warehouse lines of credit and master repurchase agreements with various financial institutions at December 31, 2021.

<i>(Dollars in Thousands)</i>	Amounts Outstanding
\$75 million master repurchase agreement without defined expiration. Interest is at the Prime rate minus 1.00% to plus 1.00%, with a floor rate of 3.25%. A cash pledge deposit of \$0.5 million is required by the lender.	\$ 11,607
\$75 million warehouse line of credit agreement expiring in November 2022. Interest is at the SOFR plus 2.25% to 3.25%.	17,371
	<u>\$ 28,978</u>

Warehouse line borrowings are classified as short-term borrowings. At December 31, 2020, warehouse line borrowings totaled \$74.8 million. At December 31, 2021, the Company had mortgage loans held for sale and construction permanent loans pledged as collateral under the above warehouse lines of credit and master repurchase agreements. The above agreements also contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets and maximum debt to net worth ratio, as defined in the agreements. The Company was in compliance with all significant debt covenants at December 31, 2021.

The Company intends to renew the warehouse lines of credit and master repurchase agreements when they mature.

The Company has extended a \$50 million warehouse line of credit to CCHL, a 51% owned subsidiary entity. Balances and transactions under this line of credit are eliminated in the Company's consolidated financial statements and thus not included in the total short term borrowings noted on the consolidated statement of financial condition. The balance of this line of credit at December 31, 2021 was \$14.8 million.

Note 5 DERIVATIVES

The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's subordinated debt.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps with notional amounts totaling \$30 million at December 31, 2021 were designed as a cash flow hedge for subordinated debt. Under the swap arrangement, the Company will pay a fixed interest rate of 2.50% and receive a variable interest rate based on three-month LIBOR plus a weighted average margin of 1.83%.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income ("AOCI") and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate subordinated debt.

The following table reflects the cash flow hedges included in the consolidated statements of financial condition.

<i>(Dollars in Thousands)</i>	Statement of Financial Condition Location	Notional Amount	Fair Value	Weighted Average Maturity (Years)
Interest rate swaps related to subordinated debt:				
December 31, 2021	Other Assets	\$ 30,000	\$ 2,050	8.5
December 31, 2020	Other Assets	\$ 30,000	\$ 574	9.5

The following table presents the net gains (losses) recorded in AOCI and the consolidated statements of income related to the cash flow derivative instruments (interest rate swaps related to subordinated debt).

<i>(Dollars in Thousands)</i>	Category	Amount of Gain (Loss) Recognized in AOCI	Amount of Gain (Loss) Reclassified from AOCI to Income
December 31, 2021	Interest Expense	\$ 1,530	\$ (151)
December 31, 2020	Interest Expense	\$ 428	\$ (64)

The Company estimates there will be approximately \$0.1 million reclassified as an increase to interest expense within the next 12 months.

At December 31, 2021 and 2020, the Company had a collateral liability of \$2.0 million and \$0.5 million, respectively.

Note 6 PREMISES AND EQUIPMENT

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

<i>(Dollars in Thousands)</i>	2021	2020
Land	\$ 23,575	\$ 23,744
Buildings	110,503	114,306
Fixtures and Equipment	57,010	55,916
Total	191,088	193,966
Accumulated Depreciation	(107,676)	(107,175)
Premises and Equipment, Net	<u>\$ 83,412</u>	<u>\$ 86,791</u>

Depreciation expense for the above premises and equipment was approximately \$7.6 million, \$7.0 million, and \$6.3 million in 2021, 2020, and 2019, respectively.

Note 7 LEASES

Operating leases in which the Company is the lessee are recorded as operating lease right of use ("ROU") assets and operating liabilities, included in other assets and liabilities, respectively, on its consolidated statement of financial condition.

Operating lease ROU assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy expense in the consolidated statement of income.

The Company's operating leases primarily relate to banking offices with remaining lease terms from one to forty-four years. The Company's leases are not complex and do not contain residual value guarantees, variable lease payments, or significant assumptions or judgments made in applying the requirements of Topic 842. Operating leases with an initial term of 12 months or less are not recorded on the consolidated statements of financial condition and the related lease expense is recognized on a straight-line basis over the lease term. At December 31, 2021, ROU assets and liabilities were \$11.5 million and \$12.2 million, respectively. At December 31, 2020, the operating lease ROU assets and liabilities were \$12.0 million and \$12.8 million, respectively. The Company does not have any finance leases or any significant lessor agreements.

The table below summarizes our lease expense and other information at December 31, related to the Company's operating leases:

<i>(Dollars in Thousands)</i>	2021	2020	2019
Operating lease expense	\$ 1,445	\$ 1,018	\$ 325
Short-term lease expense	663	530	120
Total lease expense	<u>\$ 2,108</u>	<u>\$ 1,548</u>	<u>\$ 445</u>
Other information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 1,609	\$ 1,174	\$ 331
Right-of-use assets obtained in exchange for new operating lease liabilities	784	11,101	1,739
Weighted-average remaining lease term — operating leases (in years)	25.3	25.4	6.8
Weighted-average discount rate — operating leases	2.0 %	2.1 %	2.9 %

The table below summarizes the maturity of remaining lease liabilities:

<i>(Dollars in Thousands)</i>	December 31, 2021
2022	\$ 1,499
2023	1,129
2024	1,088
2025	911
2026	835
2027 and thereafter	10,364
Total	<u>\$ 15,826</u>
Less: Interest	(3,658)
Present value of lease liability	<u>\$ 12,168</u>

At December 31, 2021, the Company had four additional operating lease obligations for banking offices (to be constructed) that have not yet commenced. Three of the leases have payments totaling \$9.3 million based on the initial contract term of 15 years and the fourth lease has payments totaling \$1.4 million based on the initial contract term of 10 years. Payments for the banking offices are expected to commence after the construction periods end, which are expected to occur during the fourth quarter of 2022 and first quarter of 2023.

A related party is the lessor in an operating lease with the Company. The Company's minimum payment is \$0.2 million annually through 2024, for an aggregate remaining obligation of \$0.6 million at December 31, 2021.

Note 8

GOODWILL AND OTHER INTANGIBLES

At December 31, 2021 and 2020, the Company had goodwill of \$91.8 million and \$89.1 million, respectively. Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. Testing allows for a qualitative assessment of goodwill impairment indicators. If the assessment indicates that impairment has more than likely occurred, the Company must compare the estimated fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment charge is recorded equal to the excess.

On April 30, 2021, a newly formed subsidiary of CCBG, Capital City Strategic Wealth, LLC ("CCSW") acquired substantially all of the assets of Strategic Wealth Group, LLC and certain related businesses ("SWG"), including advisory, service, and insurance carrier agreements, and the assignment of all related revenues thereof. Under the terms of the purchase agreement, SWG principles became officers of CCSW and will continue the operation of their five offices in South Georgia offering wealth management services and comprehensive risk management and asset protection services for individuals and businesses. CCBG paid \$4.5 million in cash consideration and recorded goodwill of \$2.8 million and a customer relationship intangible asset (10 year life) of \$1.6 million. Amortization expense related to the customer relationship intangible totaled \$0.1 million in 2021. The estimated amortization expense for each of the ten succeeding fiscal years is \$0.2 million per year.

On March 1, 2020, CCB completed its acquisition of a 51% membership interest in Brand Mortgage Group, LLC (“Brand”), which is now operated as Capital City Home Loans (“CCHL”). See Note 1 – Significant Accounting Policies/Business Combination for additional information. CCB made a \$7.1 million cash payment for its 51% membership interest and recorded goodwill totaling \$4.3 million in connection with this acquisition.

During the fourth quarter of 2021, the Company performed its annual goodwill impairment testing and determined that no goodwill impairment existed at December 31, 2021 and no goodwill impairment existed at December 31, 2020. The Company will continue to evaluate goodwill for impairment as defined by ASC Topic 350.

Note 9

OTHER REAL ESTATE OWNED

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
Beginning Balance	\$ 808	\$ 953	\$ 2,229
Additions	1,717	2,297	1,298
Valuation Write-Downs	(31)	(792)	(300)
Sales	(2,809)	(1,650)	(2,274)
Other	332	-	-
Ending Balance	<u>\$ 17</u>	<u>\$ 808</u>	<u>\$ 953</u>

Net expenses applicable to other real estate owned for the three years ended December 31, was as follows:

<i>(Dollars in Thousands)</i>	2021	2020	2019
Gains from the Sale of Properties	\$ (1,711)	\$ (1,218)	\$ (244)
Losses from the Sale of Properties	18	33	159
Rental Income from Properties	-	-	(4)
Property Carrying Costs	174	497	335
Valuation Adjustments	31	792	300
Total	<u>\$ (1,488)</u>	<u>\$ 104</u>	<u>\$ 546</u>

Note 10

DEPOSITS

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

<i>(Dollars in Thousands)</i>	2021	2020
NOW Accounts	\$ 1,070,154	\$ 1,046,408
Money Market Accounts	274,611	266,649
Savings Deposits	599,811	474,100
Time Deposits	99,374	101,594
Total Interest Bearing Deposits	<u>\$ 2,043,950</u>	<u>\$ 1,888,751</u>

At December 31, 2021 and 2020, \$1.1 million and \$0.7 million, respectively, in overdrawn deposit accounts were reclassified as loans.

The amount of time deposits that meet or exceed the FDIC insurance limit of \$250,000 totaled \$10.0 million and \$8.5 million at December 31, 2021 and 2020, respectively.

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

<i>(Dollars in Thousands)</i>	2021
2022	\$ 81,504
2023	9,453
2024	4,885
2025	1,877
2026 and thereafter	1,655
Total	<u>\$ 99,374</u>

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
NOW Accounts	\$ 294	\$ 930	\$ 5,502
Money Market Accounts	134	223	946
Savings Deposits	263	207	182
Time Deposits < \$250,000	145	179	201
Time Deposits > \$250,000	3	9	9
Total	<u>\$ 839</u>	<u>\$ 1,548</u>	<u>\$ 6,840</u>

Note 11

SHORT-TERM BORROWINGS

Short-term borrowings included the following:

<i>(Dollars in Thousands)</i>	Federal Funds Purchased	Securities Sold Under Repurchase Agreements⁽¹⁾	Other Short-Term Borrowings⁽²⁾
2021			
Balance at December 31	\$ -	\$ 4,955	\$ 29,602
Maximum indebtedness at any month end	-	6,755	58,309
Daily average indebtedness outstanding	2	5,762	47,748
Average rate paid for the year	2.39 %	0.04 %	2.84 %
Average rate paid on period-end borrowings	- %	0.04 %	2.36 %
2020			
Balance at December 31	\$ -	\$ 4,851	\$ 74,803
Maximum indebtedness at any month end	-	5,922	94,071
Daily average indebtedness outstanding	2	5,384	63,733
Average rate paid for the year	2.56 %	0.10 %	4.36 %
Average rate paid on period-end borrowings	- %	0.04 %	3.00 %
2019			
Balance at December 31	\$ -	\$ 6,065	\$ 339
Maximum indebtedness at any month end	-	9,141	3,746
Daily average indebtedness outstanding	47	6,180	3,047
Average rate paid for the year	2.85 %	0.91 %	1.73 %
Average rate paid on period-end borrowings	- %	0.46 %	4.11 %

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

⁽²⁾Comprised of FHLB advances totaling \$0.6 million and warehouse lines of credit totaling \$29.0 million at December 31, 2021.

Note 12
LONG-TERM BORROWINGS

Federal Home Loan Bank Advances. FHLB long-term advances totaled \$0.9 million at December 31, 2021 and \$2.2 million at December 31, 2020. The advances mature at varying dates from 2022 through 2025 and had a weighted-average rate of 3.37% and 3.47% at December 31, 2021 and 2020, respectively. The FHLB advances are collateralized by a floating lien on certain 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans. Interest on the FHLB advances is paid on a monthly basis.

Note Payable. Long-term note payable was paid in full at December 31, 2021 and totaled \$0.9 million at December 31, 2020.

Scheduled minimum future principal payments on our other long-term borrowings at December 31 were as follows:

<i>(Dollars in Thousands)</i>	2021
2022	\$ 312
2023	257
2024	199
2025	116
Total	<u>\$ 884</u>

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

In November 2004, CCBG Capital Trust I issued \$30.0 million of trust preferred securities which represent interest in the assets of the trust. The interest payments are due quarterly at 3-month LIBOR plus a margin of 1.90%, adjusted quarterly. The trust preferred securities will mature on December 31, 2034, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company at any time after December 31, 2009 and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 31, June 30, September 30, and December 31 of each year. CCBG Capital Trust I also issued \$0.9 million of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$30.9 million junior subordinated deferrable interest note issued by the Company, which has terms similar to the trust preferred securities. On April 12, 2016, the Company retired \$10 million in face value of trust preferred securities that were auctioned as part of a liquidation of a pooled collateralized debt obligation fund. The trust preferred securities were originally issued through CCBG Capital Trust I.

In May 2005, CCBG Capital Trust II issued \$31.0 million of trust preferred securities which represent interest in the assets of the trust. The interest payments are due quarterly at 3-month LIBOR plus a margin of 1.80%, adjusted quarterly. The trust preferred securities will mature on June 15, 2035, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 15, June 15, September 15, and December 15 of each year. CCBG Capital Trust II also issued \$0.9 million of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$32.0 million junior subordinated deferrable interest note issued by the Company, which has terms substantially similar to the trust preferred securities.

The Company has the right to defer payments of interest on the two notes at any time or from time to time for a period of up to twenty consecutive quarterly interest payment periods. Under the terms of each note, in the event that under certain circumstances there is an event of default under the note or the Company has elected to defer interest on the note, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock. At December 31, 2021, the Company has paid all interest payments in full.

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

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

Note 13
INCOME TAXES

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
Current:			
Federal	\$ 12,039	\$ 8,625	\$ 8,481
State	1,044	1,658	247
	<u>13,083</u>	<u>10,283</u>	<u>8,728</u>
Deferred:			
Federal	(3,246)	(143)	(680)
State	(10)	130	1,913
Change in Valuation Allowance	8	(40)	(8)
	<u>(3,248)</u>	<u>(53)</u>	<u>1,225</u>
Total:			
Federal	8,793	8,482	7,801
State	1,034	1,788	2,160
Change in Valuation Allowance	8	(40)	(8)
Total	<u>\$ 9,835</u>	<u>\$ 10,230</u>	<u>\$ 9,953</u>

Income taxes provided were different than the tax expense computed by applying the statutory federal income tax rate of 21% to pre-tax income as a result of the following:

<i>(Dollars in Thousands)</i>	2021	2020	2019
Tax Expense at Federal Statutory Rate	\$ 10,385	\$ 11,106	\$ 8,560
Increases (Decreases) Resulting From:			
Tax-Exempt Interest Income	(271)	(341)	(425)
State Taxes, Net of Federal Benefit	819	1,413	1,342
Other	375	601	294
Change in Valuation Allowance	8	(40)	(8)
Tax-Exempt Cash Surrender Value Life Insurance Benefit	(173)	(173)	(175)
Expense Due to Reduction of Florida Corporate Income Tax Rate	-	-	365
Noncontrolling Interest	(1,308)	(2,336)	-
Actual Tax Expense	<u>\$ 9,835</u>	<u>\$ 10,230</u>	<u>\$ 9,953</u>

Deferred income tax liabilities and assets result from differences between assets and liabilities measured for financial reporting purposes and for income tax return purposes. These assets and liabilities are measured using the enacted tax rates and laws that are currently in effect.

The net deferred tax asset and the temporary differences comprising that balance at December 31, 2021 and 2020 are as follows:

<i>(Dollars in Thousands)</i>	2021	2020
Deferred Tax Assets Attributable to:		
Allowance for Credit Losses	\$ 5,308	\$ 6,037
Accrued Pension/SERP	4,468	16,052
State Net Operating Loss and Tax Credit Carry-Forwards	1,984	2,335
Other Real Estate Owned	1,029	1,066
Accrued SERP Liability	2,442	2,104
Lease Liability	2,597	2,581
Net Unrealized Losses on Investment Securities	1,532	-
Other	2,325	2,637
Total Deferred Tax Assets	<u>\$ 21,685</u>	<u>\$ 32,812</u>
Deferred Tax Liabilities Attributable to:		
Depreciation on Premises and Equipment	\$ 3,208	\$ 4,408
Deferred Loan Fees and Costs	2,016	2,824
Intangible Assets	3,276	3,290
Accrued Pension Liability	2,138	4,723
Right of Use Asset	2,453	2,411
Investments	469	469
Other	857	1,165
Total Deferred Tax Liabilities	<u>14,417</u>	<u>19,290</u>
Valuation Allowance	1,648	1,640
Net Deferred Tax Asset	<u>\$ 5,620</u>	<u>\$ 11,882</u>

In the opinion of management, it is more likely than not that all of the deferred tax assets, with the exception of certain state net operating loss carry-forwards and certain state tax credit carry-forwards expected to expire prior to utilization, will be realized. Accordingly, a valuation allowance of \$1.6 million is recorded at December 31, 2021. At December 31, 2021, the Company had state loss and tax credit carry-forwards of approximately \$2.0 million, which expire at various dates from 2022 through 2041.

The Company had \$0.1 million in unrecognized tax benefits at December 31, 2021 for tax positions relating to current-year operations. The Company had no unrecognized tax benefits at December 31, 2020 and December 31, 2019.

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income taxes accounts. There were no penalties and interest related to income taxes recorded in the consolidated statements of income for the years ended December 31, 2021, 2020, and 2019. There were no amounts accrued in the consolidated statements of financial condition for penalties and interest as of December 31, 2021 and 2020.

The Company files a consolidated U.S. federal income tax return and a separate U.S. federal income tax return for CCHL. Each subsidiary files various returns in states where its banking offices are located. The Company is no longer subject to U.S. federal or state tax examinations for years before 2018.

Note 14

STOCK-BASED COMPENSATION

At December 31, 2021, the Company had three stock-based compensation plans, consisting of the 2021 Associate Incentive Plan ("AIP"), the 2021 Associate Stock Purchase Plan ("ASPP"), and the 2021 Director Stock Purchase Plan ("DSPP"). These plans, which were approved by the shareowners in April 2021, replaced substantially similar plans approved by the shareowners in 2011. Total compensation expense associated with these plans for 2019 through 2021 was \$2.2 million, \$1.6 million, and \$1.6 million, respectively.

AIP. The AIP allows key associates and directors to earn various forms of equity-based incentive compensation. Under the 2021 AIP there were 700,000 shares reserved for issuance. On an annual basis, the Company, pursuant to the terms and conditions of the AIP, will create an annual incentive plan (“Plan”), under which all participants are eligible to earn performance shares. Awards for associates under the 2021 Plan were tied to internally established performance goals. At base level targets, the grant-date fair value of the shares eligible to be awarded in 2021 was approximately \$1.0 million. Approximately 60% of the award is in the form of stock and 40% in the form of a cash bonus. For 2021, a total of 25,356 shares were eligible for issuance, but additional shares could be earned if performance exceeded established goals. A total of 29,926 shares were earned for 2021 that were issued in January 2022. For 2021, Directors earned 10,377 shares under the plan. The Company recognized expense of \$1.2 million, \$1.0 million and \$0.9 million for the years ended December 31, 2021, 2020 and 2019, respectively related to the AIP.

Executive Long-Term Incentive Plan (“LTIP”). The Company has established a Performance Share Unit Plan under the provisions of the AIP that allows William G. Smith, Jr., the Chairman, President, and Chief Executive Officer of CCBG, Inc., Thomas A. Barron, the President of CCB, and J. Kimbrough Davis, Chief Financial Officer of the Company to earn shares based on the compound annual growth rate in diluted earnings per share over a three-year period. The Company recognized expense of \$0.2 million, \$0.4 million and \$1.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. Shares issued under the plan were 27,915, 32,482, and 15,272 for the years ended December 31, 2021, 2020 and 2019, respectively. A total of 6,849 shares were earned in 2021 that were issued in January 2022.

After deducting the shares earned, but not issued, in 2021 under the AIP and LTIP, 603,251 shares remain eligible for issuance under the 2021 AIP.

DSPP. The Company’s DSPP allows the directors to purchase the Company’s common stock at a price equal to 90% of the closing price on the date of purchase. Stock purchases under the DSPP are limited to the amount of the directors' annual retainer and meeting fees. Under the 2021 DSPP, there were 300,000 shares reserved for issuance. The Company recognized \$0.1 million in expense under the DSPP for the years ended December 31, 2021, 2020 and 2019. The Company issued shares under the DSPP totaling 19,362, 16,119 and 15,332 for the years ended December 31, 2021, 2020 and 2019, respectively. At December 31, 2021, there are 280,638 shares eligible for issuance under the 2021 DSPP.

ASPP. Under the Company’s ASPP, substantially all associates may purchase the Company’s common stock through payroll deductions at a price equal to 90% of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ASPP are limited to 10% of an associate's eligible compensation, up to a maximum of \$25,000 (fair market value on each enrollment date) in any plan year. Under the 2021 ASPP, there were 400,000 shares of common stock reserved for issuance. The Company recognized \$0.1 million, \$0.2 million and \$0.1 million in expense under the ASPP for the years ended December 31, 2021, 2020 and 2019, respectively. The Company issued shares under the ASPP totaling 22,126, 33,910 and 27,304 for the years ended December 31, 2021, 2020 and 2019, respectively. At December 31, 2021, 377,874 shares remained eligible for issuance under the ASPP.

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of each of the purchase rights granted under the ASPP was \$3.96 for 2021. For 2020 and 2019, the weighted average fair value purchase right granted was \$5.83 and \$3.61, respectively. In calculating compensation, the fair value of each stock purchase right was estimated on the date of grant using the following weighted average assumptions:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Dividend yield	2.5 %	2.4 %	2.0 %
Expected volatility	21.8 %	45.6 %	17.4 %
Risk-free interest rate	0.1 %	0.9 %	2.3 %
Expected life (in years)	0.5	0.5	0.5

Note 15

EMPLOYEE BENEFIT PLANS

Pension Plan

The Company sponsors a noncontributory pension plan covering substantially all of its associates. Benefits under this plan generally are based on the associate's total years of service and average of the five highest years of compensation during the ten years immediately preceding their departure. The Company’s general funding policy is to contribute amounts sufficient to meet minimum funding requirements as set by law and to ensure deductibility for federal income tax purposes. On December 30, 2019, the plan was amended to remove plan eligibility for new associates hired after December 31, 2019.

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
Change in Projected Benefit Obligation:			
Benefit Obligation at Beginning of Year	\$ 212,566	\$ 180,830	\$ 149,347
Service Cost	6,971	5,828	6,114
Interest Cost	4,885	5,612	6,178
Actuarial (Gain) Loss	(14,934)	32,172	25,715
Benefits Paid	(2,087)	(11,677)	(6,255)
Expenses Paid	(259)	(260)	(269)
Settlements	(34,634)	-	-
Special/Contractual Termination Benefits	-	61	-
Projected Benefit Obligation at End of Year	<u>\$ 172,508</u>	<u>\$ 212,566</u>	<u>\$ 180,830</u>
Change in Plan Assets:			
Fair Value of Plan Assets at Beginning of Year	\$ 171,775	\$ 161,646	\$ 134,535
Actual Return on Plan Assets	30,479	17,066	28,635
Employer Contributions	-	5,000	5,000
Benefits Paid	(2,087)	(11,677)	(6,255)
Expenses Paid	(259)	(260)	(269)
Settlements	(34,634)	-	-
Fair Value of Plan Assets at End of Year	<u>\$ 165,274</u>	<u>\$ 171,775</u>	<u>\$ 161,646</u>
Funded Status of Plan and Accrued Liability Recognized at End of Year:			
Other Liabilities	\$ 7,234	\$ 40,791	\$ 19,184
Accumulated Benefit Obligation at End of Year	<u>\$ 149,569</u>	<u>\$ 177,362</u>	<u>\$ 156,327</u>
Components of Net Periodic Benefit Costs:			
Service Cost	\$ 6,971	\$ 5,828	\$ 6,114
Interest Cost	4,885	5,612	6,178
Expected Return on Plan Assets	(11,147)	(10,993)	(9,527)
Amortization of Prior Service Costs	15	15	15
Special/Contractual Termination Benefits	-	61	-
Net Loss Amortization	6,764	3,933	3,862
Net Loss Settlements	3,072	-	-
Net Periodic Benefit Cost	<u>\$ 10,560</u>	<u>\$ 4,456</u>	<u>\$ 6,642</u>
Weighted-Average Assumptions Used to Determine Benefit Obligation:			
Discount Rate	3.11%	2.88%	3.53%
Rate of Compensation Increase ⁽¹⁾	4.40%	4.00%	4.00%
Measurement Date	12/31/21	12/31/20	12/31/19
Weighted-Average Assumptions Used to Determine Benefit Cost:			
Discount Rate	2.88%	3.53%	4.43%
Expected Return on Plan Assets	6.75%	7.00%	7.25%
Rate of Compensation Increase ⁽¹⁾	4.00%	4.00%	4.00%
Amortization Amounts from Accumulated Other Comprehensive Income:			
Net Actuarial Loss (Gain)	\$ (34,265)	\$ 26,098	\$ 6,606
Prior Service Cost	(15)	(15)	(15)
Net Loss	(9,836)	(3,933)	(3,862)
Deferred Tax (Benefit) Expense	11,183	(5,615)	(694)
Other Comprehensive Loss (Gain), net of tax	<u>\$ (32,933)</u>	<u>\$ 16,535</u>	<u>\$ 2,035</u>
Amounts Recognized in Accumulated Other Comprehensive Income:			
Net Actuarial Losses	\$ 15,300	\$ 59,400	\$ 37,235
Prior Service Cost	20	35	50
Deferred Tax Benefit	(3,884)	(15,066)	(9,451)
Accumulated Other Comprehensive Loss, net of tax	<u>\$ 11,436</u>	<u>\$ 44,369</u>	<u>\$ 27,834</u>

⁽¹⁾ The Company utilized an age-graded approach that varies the rate based on the age of the participants.

During 2021, lump sum payments made under the Company’s defined benefit pension plan triggered settlement accounting. In accordance with the applicable accounting guidance for defined benefit plans, the Company recorded a settlement loss of \$3.1 million.

The service cost component of net periodic benefit cost is reflected in compensation expense in the accompanying statements of income. The other components of net periodic cost are included in “other” within the noninterest expense category in the statements of income. See Note 1 – Significant Accounting Policies for additional information.

The Company expects to recognize \$1.7 million of the net actuarial loss reflected in accumulated other comprehensive income at December 31, 2021 as a component of net periodic benefit cost during 2022.

Plan Assets. The Company’s pension plan asset allocation at December 31, 2021 and 2020, and the target asset allocation for 2021 are as follows:

	Target Allocation	Percentage of Plan Assets at December 31⁽¹⁾	
	2022	2021	2020
Equity Securities	68 %	73 %	71 %
Debt Securities	27 %	23 %	21 %
Cash and Cash Equivalents	5 %	4 %	8 %
Total	100 %	100 %	100 %

(1) Represents asset allocation at December 31 which may differ from the average target allocation for the year due to the year-end cash contribution to the plan.

The Company’s pension plan assets are overseen by the CCBG Retirement Committee. Capital City Trust Company acts as the investment manager for the plan. The investment strategy is to maximize return on investments while minimizing risk. The Company believes the best way to accomplish this goal is to take a conservative approach to its investment strategy by investing in mutual funds that include various high-grade equity securities and investment-grade debt issuances with varying investment strategies. The target asset allocation will periodically be adjusted based on market conditions and will operate within the following investment policy statement allocation ranges: equity securities ranging from 55% and 81%, debt securities ranging from 17% and 37%, and cash and cash equivalents ranging from 0% and 10%. The overall expected long-term rate of return on assets is a weighted-average expectation for the return on plan assets. The Company considers historical performance data and economic/financial data to arrive at expected long-term rates of return for each asset category.

The major categories of assets in the Company’s pension plan at December 31 are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 22 – Fair Value Measurements).

<i>(Dollars in Thousands)</i>	2021	2020
Level 1:		
U.S. Treasury Securities	\$ 200	\$ 405
Mutual Funds	156,726	155,192
Cash and Cash Equivalents	6,881	12,789
Level 2:		
U.S. Government Agency	527	1,555
Corporate Notes/Bonds	940	1,834
Total Fair Value of Plan Assets	\$ 165,274	\$ 171,775

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

<i>(Dollars in Thousands)</i>	2021
2022	\$ 13,463
2023	12,567
2024	12,774
2025	12,703
2026	12,070
2027 through 2031	51,009
Total	<u>\$ 114,586</u>

Contributions. The following table details the amounts contributed to the pension plan in 2021 and 2020, and the expected amount to be contributed in 2022.

<i>(Dollars in Thousands)</i>	2020	2021	Expected Contribution 2022⁽¹⁾
Actual Contributions	\$ 5,000	\$ -	\$0 - \$5,000

⁽¹⁾ For 2022, the Company will have the option to make a cash contribution to the plan or utilize pre-funding balances.

Supplemental Executive Retirement Plan

The Company has a Supplemental Executive Retirement Plan (“SERP”) and a Supplemental Executive Retirement Plan II (“SERP II”) covering selected executive officers. Benefits under this plan generally are based on the same service and compensation as used for the pension plan, except the benefits are calculated without regard to the limits set by the Internal Revenue Code on compensation and benefits. The net benefit payable from the SERP is the difference between this gross benefit and the benefit payable by the pension plan. The SERP II was adopted by the Company’s Board on May 21, 2020 and covers certain executive officers that were not covered by the SERP.

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
Change in Projected Benefit Obligation:			
Benefit Obligation at Beginning of Year	\$ 13,402	\$ 10,244	\$ 8,860
Service Cost	35	31	-
Interest Cost	243	321	349
Actuarial (Gain) Loss	(146)	1,826	1,035
Plan Amendments	-	980	-
Projected Benefit Obligation at End of Year	<u>\$ 13,534</u>	<u>\$ 13,402</u>	<u>\$ 10,244</u>
Funded Status of Plan and Accrued Liability Recognized at End of Year:			
Other Liabilities	\$ 13,534	\$ 13,402	\$ 10,244
Accumulated Benefit Obligation at End of Year	<u>\$ 12,803</u>	<u>\$ 12,339</u>	<u>\$ 8,778</u>
Components of Net Periodic Benefit Costs:			
Service Cost	\$ 35	\$ 31	\$ -
Interest Cost	243	321	349
Amortization of Prior Service Cost	277	327	-
Net Loss Amortization	970	503	761
Net Periodic Benefit Cost	<u>\$ 1,525</u>	<u>\$ 1,182</u>	<u>\$ 1,110</u>
Weighted-Average Assumptions Used to Determine Benefit Obligation:			
Discount Rate	2.80%	2.38%	3.16%
Rate of Compensation Increase ⁽¹⁾	4.40%	4.00%	4.00%
Measurement Date	12/31/21	12/31/20	12/31/19
Weighted-Average Assumptions Used to Determine Benefit Cost:			
Discount Rate	2.38%	3.16%	4.23%
Rate of Compensation Increase ⁽¹⁾	4.00%	3.50%	3.50%
Amortization Amounts from Accumulated Other Comprehensive Income:			
Net Actuarial (Gain) Loss	\$ (146)	\$ 1,826	\$ 1,035
Prior Service (Benefit) Cost	(219)	895	-
Net Loss	(970)	(458)	(761)
Deferred Tax Expense (Benefit)	154	(573)	(70)
Other Comprehensive (Gain) Loss, net of tax	<u>\$ (1,181)</u>	<u>\$ 1,690</u>	<u>\$ 204</u>
Amounts Recognized in Accumulated Other Comprehensive Income:			
Net Actuarial Loss	\$ 1,875	\$ 2,991	\$ 1,622
Prior Service Cost	429	895	-
Deferred Tax Benefit	(584)	(985)	(411)
Accumulated Other Comprehensive Loss, net of tax	<u>\$ 1,720</u>	<u>\$ 2,901</u>	<u>\$ 1,211</u>

⁽¹⁾ The Company utilized an age-graded approach that varies the rate based on the age of the participants.

The Company expects to recognize approximately \$1.0 million of the net actuarial loss reflected in accumulated other comprehensive income at December 31, 2021 as a component of net periodic benefit cost during 2022.

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

<i>(Dollars in Thousands)</i>	2021
2022	\$ 7,521
2023	4,994
2024	952
2025	36
2026	28
2027 through 2031	316
Total	<u>\$ 13,847</u>

401(k) Plan

The Company has a 401(k) Plan which enables CCB and CCBG associates to defer a portion of their salary on a pre-tax basis. The plan covers substantially all associates of the Company who meet minimum age requirements. The plan is designed to enable participants to contribute any amount, up to the maximum annual limit allowed by the IRS, of their compensation withheld in any plan year placed in the 401(k) Plan trust account. Matching contributions of 50% from the Company are made up to 6% of the participant's compensation for eligible associates. Further, in addition to the 50% match, all associates hired after December 31, 2019 will receive annually a contribution by the Company equal to 3% of their compensation. For 2021, the Company made annual matching contributions of \$1.0 million. For 2020 and 2019, the Company made annual matching contributions of \$0.8 million and \$0.7 million, respectively. The participant may choose to invest their contributions into thirty-three investment options available to 401(k) participants, including the Company's common stock. A total of 50,000 shares of CCBG common stock have been reserved for issuance. Shares issued to participants have historically been purchased in the open market.

CCHL, a 51% owned subsidiary of the Company has a 401(k) Plan available to all CCHL associates who are employed. The plan allows participants to contribute any amount, up to the maximum annual limit allowed by the IRS, of their compensation withheld in any plan year placed in the 401(k) Plan trust account. A discretionary matching contribution is determined annually by CCHL. For 2021 and 2020, matching contributions were made by CCHL up to 3% of eligible participant's compensation totaling \$0.7 million and \$0.5 million, respectively.

Other Plans

The Company has a Dividend Reinvestment and Optional Stock Purchase Plan. A total of 250,000 shares have been reserved for issuance. In recent years, shares for the Dividend Reinvestment and Optional Stock Purchase Plan have been acquired in the open market and, thus, the Company did not issue any shares under this plan in 2021, 2020 and 2019.

Note 16

EARNINGS PER SHARE

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

<i>(Dollars and Per Share Data in Thousands)</i>	2021	2020	2019
Numerator:			
Net Income Attributable to Common Shareowners	<u>\$ 33,396</u>	<u>\$ 31,576</u>	<u>\$ 30,807</u>
Denominator:			
Denominator for Basic Earnings Per Share Weighted-Average Shares	16,863	16,785	16,770
Effects of Dilutive Securities Stock Compensation Plans	<u>30</u>	<u>37</u>	<u>57</u>
Denominator for Diluted Earnings Per Share Adjusted Weighted-Average Shares and Assumed Conversions	<u>16,893</u>	<u>16,822</u>	<u>16,827</u>
Basic Earnings Per Share	<u>\$ 1.98</u>	<u>\$ 1.88</u>	<u>\$ 1.84</u>
Diluted Earnings Per Share	<u>\$ 1.98</u>	<u>\$ 1.88</u>	<u>\$ 1.83</u>

Note 17
REGULATORY MATTERS

Regulatory Capital Requirements. The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. A detailed description of these regulatory capital requirements is provided in the section captioned "Regulatory Considerations – Capital Regulations" section on page 15.

Management believes, at December 31, 2021 and 2020, that the Company and the Bank meet all capital adequacy requirements to which they are subject. At December 31, 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following tables. There are not conditions or events since the notification that management believes have changed the Bank's category. The Company and Bank's actual capital amounts and ratios at December 31, 2021 and 2020 are presented in the following table.

<i>(Dollars in Thousands)</i>	Actual		Required For Capital Adequacy Purposes		To Be Well- Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	2021					
Common Equity Tier 1:						
CCBG	\$ 310,947	13.86%	\$ 100,925	4.50%	*	*
CCB	346,959	15.50%	100,725	4.50%	\$ 145,491	6.50%
Tier 1 Capital:						
CCBG	361,947	16.14%	134,566	6.00%	*	*
CCB	346,959	15.50%	134,300	6.00%	179,066	8.00%
Total Capital:						
CCBG	384,743	17.15%	179,422	8.00%	*	*
CCB	369,754	16.52%	179,066	8.00%	223,833	10.00%
Tier 1 Leverage:						
CCBG	361,947	8.95%	161,749	4.00%	*	*
CCB	346,959	8.59%	161,515	4.00%	201,894	5.00%
2020						
Common Equity Tier 1:						
CCBG	\$ 281,494	13.71%	\$ 92,424	4.50%	*	*
CCB	302,147	14.75%	92,177	4.50%	\$ 133,145	6.50%
Tier 1 Capital:						
CCBG	332,494	16.19%	123,232	6.00%	*	*
CCB	302,147	14.75%	122,903	6.00%	163,870	8.00%
Total Capital:						
CCBG	355,338	17.30%	164,310	8.00%	*	*
CCB	324,991	15.87%	163,870	8.00%	204,838	10.00%
Tier 1 Leverage:						
CCBG	332,494	9.33%	142,560	4.00%	*	*
CCB	302,147	8.49%	142,280	4.00%	177,850	5.00%

* Not applicable to bank holding companies.

Dividend Restrictions. In the ordinary course of business, the Company is dependent upon dividends from its banking subsidiary to provide funds for the payment of dividends to shareowners and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Company's banking subsidiary to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits of the banking subsidiary for that year combined with the retained net profits for proceeding two years. In 2022, the bank subsidiary may declare dividends without regulatory approval of \$43.0 million plus an additional amount equal to net profits of the Company's subsidiary bank for 2022 up to the date of any such dividend declaration.

Note 18**ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

The following table shows the amounts allocated to accumulated other comprehensive income (loss).

(Dollars in Thousands)	Securities Available for Sale	Interest Rate Swap	Retirement Plans	Accumulated Other Comprehensive (Loss) Income
Balance as of January 1, 2021	\$ 2,700	\$ 428	\$ (47,270)	\$ (44,142)
Other comprehensive (loss) income during the period	(7,288)	1,102	34,114	27,928
Balance as of December 31, 2021	<u>\$ (4,588)</u>	<u>\$ 1,530</u>	<u>\$ (13,156)</u>	<u>\$ (16,214)</u>
Balance as of January 1, 2020	\$ 864	\$ -	\$ (29,045)	\$ (28,181)
Other comprehensive income (loss) during the period	1,836	428	(18,225)	(15,961)
Balance as of December 31, 2020	<u>\$ 2,700</u>	<u>\$ 428</u>	<u>\$ (47,270)</u>	<u>\$ (44,142)</u>
Balance as of January 1, 2019	\$ (2,008)	\$ -	\$ (26,807)	\$ (28,815)
Other comprehensive income (loss) during the period	2,872	-	(2,238)	634
Balance as of December 31, 2019	<u>\$ 864</u>	<u>\$ -</u>	<u>\$ (29,045)</u>	<u>\$ (28,181)</u>

Note 19**RELATED PARTY TRANSACTIONS**

At December 31, 2021 and 2020, certain officers and directors were indebted to the Company’s bank subsidiary in the aggregate amount of \$3.8 million and \$4.3 million, respectively. During 2021, \$2.4 million in new loans were made and repayments totaled \$2.9 million. These loans were all current at year-end.

Deposits from certain directors, executive officers, and their related interests totaled \$50.1 million and \$41.9 million at December 31, 2021 and 2020, respectively.

Under a lease agreement expiring in 2024, the Bank leases land from a partnership in which William G. Smith, Jr. has an interest. The lease agreement with Smith Interests General Partnership L.L.P. provides for annual lease payments of approximately \$0.2 million, to be adjusted for inflation in future years.

William G. Smith, III, the son of our Chairman, President and Chief Executive Officer, William G. Smith, Jr., is employed as President, Leon County at Capital City Bank. In 2021, William G. Smith, III’s total compensation (consisting of annual base salary, annual bonus, and stock-based compensation) was determined in accordance with the Company’s standard employment and compensation practices applicable to associates with similar responsibilities and positions.

Note 20**OTHER NONINTEREST EXPENSE**

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

<i>(Dollars in Thousands)</i>	2021	2020	2019
Legal Fees	\$ 1,411	\$ 1,570	\$ 1,722
Professional Fees	5,633	4,863	4,345
Telephone	2,975	2,869	2,645
Advertising	2,683	2,998	2,056
Processing Services	6,569	5,832	5,779
Insurance – Other	2,096	1,607	1,007
Pension – Other	1,913	(216)	1,642
Other	12,242	11,396	9,079
Total	\$ 35,522	\$ 30,919	\$ 28,275

Note 21**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. At December 31, the amounts associated with the Company's off-balance sheet obligations were as follows:

<i>(Dollars in Thousands)</i>	2021			2020		
	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit ⁽¹⁾	\$ 217,531	\$ 505,897	\$ 723,428	\$ 160,372	\$ 596,572	\$ 756,944
Standby Letters of Credit	5,205	-	5,205	6,550	-	6,550
Total	\$ 222,736	\$ 505,897	\$ 728,633	\$ 166,922	\$ 596,572	\$ 763,494

⁽¹⁾ Includes unfunded loans, revolving lines of credit, and other unused commitments at CCB and the CCHL residential loan pipeline.

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.

The allowance for credit losses for off-balance sheet credit commitments that are not unconditionally cancellable by the bank is adjusted as a provision for credit loss expense and is recorded in other liabilities. The following table shows the activity in the allowance.

<i>(Dollars in Thousands)</i>	2021	2020	2019
Beginning Balance	\$ 1,644	\$ 157	\$ 160
Impact of Adoption of ASC 326	-	876	-
Provision for Credit Losses	1,253	611	(3)
Ending Balance	<u>\$ 2,897</u>	<u>\$ 1,644</u>	<u>\$ 157</u>

Other Commitments. In the normal course of business, the Company enters into lease commitments which are classified as operating leases. See Note 7 – Leases for additional information on the maturity of the Company’s operating lease commitments.

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. 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. Fixed charges included in the swap liability are payable quarterly until the litigation reserve is fully liquidated and at which time the aforementioned swap contract will be terminated. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred. Payments during 2021 totaled \$0.8 million. Payments totaled \$0.7 million and \$0.6 million for the years 2020 and 2019, respectively.

Note 22

FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

In general, the Company does not purchase securities that have a complicated structure. The Company's entire portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is easily obtained. At least annually, the Company will validate prices supplied by the independent pricing service by comparing them to prices obtained from an independent third-party source.

Loans Held for Sale. The fair value of residential mortgage loans held for sale based on Level 2 inputs is determined, when possible, using either quoted secondary-market prices or investor commitments. If no such quoted price exists, the fair value is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants. The Company has elected the fair value option accounting for its held for sale loans.

Mortgage Banking Derivative Instruments. The fair values of interest rate lock commitments are derived by valuation models incorporating market pricing for instruments with similar characteristics, commonly referred to as best execution pricing, or investor commitment prices for best effort IRLCs which have unobservable inputs, such as an estimate of the fair value of the servicing rights expected to be recorded upon sale of the loans, net estimated costs to originate the loans, and the pull-through rate, and are therefore classified as Level 3 within the fair value hierarchy. The fair value of forward sale commitments is based on observable market pricing for similar instruments and are therefore classified as Level 2 within the fair value hierarchy.

Interest Rate Swap. The Company's derivative positions are classified as level 2 within the fair value hierarchy and are valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers. The fair value derivatives are determined using discounted cash flow models.

Fair Value Swap. The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents the amount due and payable to the counterparty based upon the revised share conversion rate, if any, during the period. At December 31, 2021, there was \$0.1 million payable. No amounts were payable at December 31, 2020.

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

<i>(Dollars in Thousands)</i>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
2021				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	\$ 187,868	\$ -	\$ -	\$ 187,868
U.S. Government Agency States and Political Subdivisions	-	237,578 46,980	-	237,578 46,980
Mortgage-Backed Securities	-	88,869	-	88,869
Corporate Debt Securities	-	86,222	-	86,222
Other Securities	-	7,094	-	7,094
Held for Sale Loans	-	52,532	-	52,532
Interest Rate Swap Derivative	-	2,050	-	2,050
Mortgage Banking IRLC Derivative	-	-	1,258	1,258
Mortgage Servicing Rights	\$ -	\$ -	\$ 4,718	\$ 4,718
LIABILITIES:				
Mortgage Banking Hedge Derivative	\$ -	\$ 7	\$ -	\$ 7
2020				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	\$ 104,519	\$ -	\$ -	\$ 104,519
U.S. Government Agency State and Political Subdivisions	-	208,531 3,632	-	208,531 3,632
Mortgage-Backed Securities	-	515	-	515
Other Securities	-	7,673	-	7,673
Held for Sale Loans	-	114,039	-	114,039
Interest Rate Swap Derivative	-	574	-	574
Mortgage Banking IRLC Derivative	\$ -	\$ -	\$ 4,825	\$ 4,825
LIABILITIES:				
Mortgage Banking Hedge Derivative	\$ -	\$ 907	\$ -	\$ 907

Mortgage Banking Activities. The Company had Level 3 issuances and transfers of \$31.3 million and \$47.7 million for year ended December 31, 2021 related to mortgage banking activities. The Company had Level 3 issuances and transfers of \$50.7 million and \$56.0 million for the period March 1, 2020 to December 31, 2020. Issuances are valued based on the change in fair value of the underlying mortgage loan from inception of the IRLC to the statement of financial condition date, adjusted for pull-through rates and costs to originate. IRLCs transferred out of Level 3 represent IRLCs that were funded and moved to mortgage loans held for sale, at fair value.

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.

Collateral Dependent Loans. Impairment for collateral dependent loans is measured using the fair value of the collateral less selling costs. The fair value of collateral is determined by an independent valuation or professional appraisal in conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. Collateral dependent 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. Collateral dependent loans had a carrying value of \$2.8 million with a valuation allowance of \$0.2 million at December 31, 2021. Collateral dependent loans had a carrying value of \$7.1 million with a valuation allowance of \$0.1 million at December 31, 2020.

Other Real Estate Owned. During 2021 and 2020, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for credit losses based on the fair value of the foreclosed asset less estimated cost to sell. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. On an ongoing basis, we obtain updated appraisals on foreclosed assets and record valuation adjustments as necessary. The fair value of foreclosed assets is estimated using Level 3 inputs due to the judgment and estimation involved in the real estate valuation process.

Mortgage Servicing Rights. Residential mortgage loan servicing rights are evaluated for impairment at each reporting period based upon the fair value of the rights as compared to the carrying amount. Fair value is determined by a third party valuation model using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). The fair value is estimated using Level 3 inputs, including a discount rate, weighted average prepayment speed, and the cost of loan servicing. Further detail on the key inputs utilized are provided in Note 4 – Mortgage Banking Activities.

Assets and Liabilities Disclosed at Fair Value

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

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

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

Loans. The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows and estimated discount rates. Pursuant to the adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, the values reported reflect the incorporation of a liquidity discount to meet the objective of “exit price” valuation.

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

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

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

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

<i>(Dollars in Thousands)</i>	2021			
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$ 65,313	\$ 65,313	\$ -	\$ -
Short-Term Investments	970,041	970,041	-	-
Investment Securities, Available for Sale	654,611	187,868	466,743	-
Investment Securities, Held to Maturity	339,601	113,877	225,822	-
Equity Securities ⁽¹⁾	861	-	861	-
Loans Held for Sale	52,532	-	52,532	-
Other Equity Securities ⁽²⁾	2,848	-	2,848	-
Interest Rate Swap Derivative	2,050	-	2,050	-
Mortgage Servicing Rights	3,774	-	-	4,718
Mortgage Banking IRLC Derivative	1,258	-	-	1,258
Loans, Net of Allowance for Credit Losses	\$ 1,909,859	\$ -	\$ -	\$ 1,903,640
LIABILITIES:				
Deposits	\$ 3,712,862	\$ -	\$ 3,713,478	\$ -
Short-Term Borrowings	34,557	-	34,557	-
Subordinated Notes Payable	52,887	-	42,609	-
Long-Term Borrowings	884	-	938	-
Mortgage Banking Hedge Derivative	\$ 7	\$ -	\$ 7	\$ -

⁽¹⁾ Not readily marketable securities.

⁽²⁾ Accounted for under the equity method - not readily marketable securities - reflected in other assets.

<i>(Dollars in Thousands)</i>	2020			
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$ 67,919	\$ 67,919	\$ -	\$ -
Short-Term Investments	860,630	860,630	-	-
Investment Securities, Available for Sale	324,870	104,519	220,351	-
Investment Securities, Held to Maturity	169,939	5,014	170,161	-
Loans Held for Sale	114,039	-	114,039	-
Other Equity Securities ⁽¹⁾	3,589	-	3,589	-
Interest Rate Swap Derivative	574	-	574	-
Mortgage Servicing Rights	3,452	-	-	3,451
Mortgage Banking IRLC Derivative	4,825	-	-	4,825
Loans, Net of Allowance for Credit Losses	\$ 1,982,610	\$ -	\$ -	\$ 1,990,740
LIABILITIES:				
Deposits	\$ 3,217,560	\$ -	\$ 3,217,615	\$ -
Short-Term Borrowings	79,654	-	79,654	-
Subordinated Notes Payable	52,887	-	43,449	-
Long-Term Borrowings	3,057	-	3,174	-
Mortgage Banking Hedge Derivative	\$ 907	\$ -	\$ 907	\$ -

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

Note 23**PARENT COMPANY FINANCIAL INFORMATION**

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

Parent Company Statements of Financial Condition

(Dollars in Thousands, Except Per Share Data)

	2021	2020
ASSETS		
Cash and Due From Subsidiary Bank	\$ 25,768	\$ 39,718
Equity Securities	120	-
Investment in Subsidiary Bank	415,580	342,958
Goodwill and Other Intangibles	4,158	-
Other Assets	7,866	6,530
Total Assets	<u>\$ 453,492</u>	<u>\$ 389,206</u>
LIABILITIES		
Long-Term Borrowings	\$ -	\$ 900
Subordinated Notes Payable	52,887	52,887
Other Liabilities	17,439	14,582
Total Liabilities	<u>\$ 70,326</u>	<u>\$ 68,369</u>
SHAREOWNERS' EQUITY		
Common Stock, \$.01 par value; 90,000,000 shares authorized; 16,892,060 and 16,790,573 shares issued and outstanding at December 31, 2021 and 2020, respectively	169	168
Additional Paid-In Capital	34,423	32,283
Retained Earnings	364,788	332,528
Accumulated Other Comprehensive Loss, Net of Tax	(16,214)	(44,142)
Total Shareowners' Equity	<u>383,166</u>	<u>320,837</u>
Total Liabilities and Shareowners' Equity	<u>\$ 453,492</u>	<u>\$ 389,206</u>

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

Parent Company Statements of Operations

(Dollars in Thousands)

	2021	2020	2019
OPERATING INCOME			
Income Received from Subsidiary Bank:			
Administrative Fees	\$ 5,516	\$ 6,068	\$ 6,517
Dividends	10,000	21,000	19,000
Other Income	174	193	203
Total Operating Income	<u>15,690</u>	<u>27,261</u>	<u>25,720</u>
OPERATING EXPENSE			
Salaries and Associate Benefits	3,558	3,418	3,928
Interest on Subordinated Notes Payable	1,233	1,514	2,381
Professional Fees	1,113	1,079	1,196
Advertising	134	140	157
Legal Fees	589	456	391
Other	2,087	1,673	1,711
Total Operating Expense	<u>8,714</u>	<u>8,280</u>	<u>9,764</u>
Earnings Before Income Taxes and Equity in Undistributed			
Earnings of Subsidiary Bank	6,976	18,981	15,956
Income Tax Benefit	(717)	(406)	(632)
Earnings Before Equity in Undistributed Earnings of Subsidiary Bank	<u>7,693</u>	<u>19,387</u>	<u>16,588</u>
Equity in Undistributed Earnings of Subsidiary Bank	<u>25,703</u>	<u>12,189</u>	<u>14,219</u>
Net Income	<u>\$ 33,396</u>	<u>\$ 31,576</u>	<u>\$ 30,807</u>

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

Parent Company Statements of Cash Flows

(Dollars in Thousands)

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 33,396	\$ 31,576	\$ 30,807
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:			
Equity in Undistributed Earnings of Subsidiary Bank	(25,703)	(12,189)	(14,219)
Stock Compensation	843	892	1,569
Amortization of Intangible Asset	107	-	-
Increase in Other Assets	(21)	(217)	(445)
Increase in Other Liabilities	3,131	1,900	1,557
Net Cash Provided By Operating Activities	<u>\$ 11,753</u>	<u>\$ 21,962</u>	<u>\$ 19,269</u>
CASH FROM INVESTING ACTIVITIES:			
Purchase of Equity Securities	\$ (120)	\$ -	\$ -
Net Cash Paid for Acquisition	(4,482)	-	-
Increase in Investment in Subsidiaries	(10,770)	-	-
Net Cash Used in Investing Activities	<u>\$ (15,372)</u>	<u>\$ -</u>	<u>\$ -</u>
CASH FROM FINANCING ACTIVITIES:			
Repayment of Long-Term Borrowings	(900)	(600)	(600)
Dividends Paid	(10,459)	(9,567)	(8,047)
Issuance of Common Stock Under Compensation Plans	1,028	1,041	1,054
Payments to Repurchase Common Stock	-	(2,042)	(1,805)
Net Cash Used In Financing Activities	<u>\$ (10,331)</u>	<u>\$ (11,168)</u>	<u>\$ (9,398)</u>
Net (Decrease) Increase in Cash	(13,950)	10,794	9,871
Cash at Beginning of Year	39,718	28,924	19,053
Cash at End of Year	<u>\$ 25,768</u>	<u>\$ 39,718</u>	<u>\$ 28,924</u>

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. At December 31, 2021, the end of the period covered by this Annual Report on Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that at December 31, 2021, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures.

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

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

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). As allowed for by the SEC under the current year acquisition scope exception, management's assessment of the effectiveness of the internal control over financial reporting excluded the evaluation of internal controls over financial reporting of Capital City Strategic Wealth, Inc., which was acquired on April 30, 2021. As part of this acquisition, we recorded approximately \$4.5 million in total assets. Based on this evaluation under the framework in Internal Control - Integrated Framework, our management has concluded we maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f), at December 31, 2021.

BKD, LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of and for the year ended December 31, 2021, and opined as to the effectiveness of internal control over financial reporting at December 31, 2021, as stated in its attestation report, which is included herein on page 115.

Change in Internal Control. Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control. There have been no changes in our internal control during our most recently completed fiscal quarter that materially affected, or are likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

Report of Independent Registered Public Accounting Firm

To the Shareowners, Board of Directors and Audit Committee
Capital City Bank Group, Inc.
Tallahassee, Florida

Opinion on the Internal Control over Financial Reporting

We have audited Capital City Bank Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

As permitted, the Company excluded the operations of Capital City Strategic Wealth, Inc., which was acquired on April 30, 2021 and constituted approximately 0.11% of total assets, from the scope of management's report on internal control over financial reporting. As such, Capital City Strategic Wealth has also been excluded from the scope of our audit of internal control over financial reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 1, 2022, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

BKD, LLP

Little Rock, Arkansas
March 1, 2022

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

Incorporated herein by reference to the sections entitled “Proposal No. 1 – Election of Directors”, “Corporate Governance at Capital City,” “Share Ownership” and “Board Committee Membership” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 26, 2022.

Item 11. Executive Compensation

Incorporated herein by reference to the sections entitled “Compensation Discussion and Analysis,” “Executive Compensation” and “Director Compensation” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 26, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowners Matters.

Information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the sections captioned “Share Ownership” and “Equity Compensation Plan Information” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 26, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference to the sections entitled “Transactions With Related Persons” and “Corporate Governance at Capital City” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 26, 2022.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference to the section entitled “Audit Committee Matters” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 26, 2022.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report

1. Financial Statements

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition at the End of Fiscal Years 2021 and 2020
Consolidated Statements of Income for Fiscal Years 2021, 2020, and 2019
Consolidated Statements of Comprehensive Income for Fiscal Years 2021, 2020, and 2019
Consolidated Statements of Changes in Shareowners' Equity for Fiscal Years 2021, 2020, and 2019
Consolidated Statements of Cash Flows for Fiscal Years 2021, 2020, and 2019
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Other schedules and exhibits are omitted because the required information either is not applicable or is shown in the financial statements or the notes thereto.

3. Exhibits Required to be Filed by Item 601 of Regulation S-K

Reg. S-K
Exhibit
Table

<u>Item No.</u>	<u>Description of Exhibit</u>
3.1	Amended and Restated Articles of Incorporation - incorporated herein by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed 5/3/21) (No. 0-13358).
3.2	Amended and Restated Bylaws - incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K (filed 5/3/21) (No. 0-13358).
4.1	See Exhibits 3.1 and 3.2 for provisions of Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, which define the rights of the Registrant's shareowners.
4.2	Capital City Bank Group, Inc. 2021 Director Stock Purchase Plan - incorporated herein by reference to Exhibit 4.3 of the Registrant's Form S-8 (filed 5/14/21) (No. 333-256134).
4.3	Capital City Bank Group, Inc. 2021 Associate Stock Purchase Plan - incorporated herein by reference to Exhibit 4.4 of the Registrant's Form S-8 (filed 5/14/21) (No. 333-256134).
4.4	Capital City Bank Group, Inc. 2021 Associate Incentive Plan - incorporated herein by reference to Exhibit 4.5 of the Registrant's Form S-8 (filed 5/14/21) (No. 333-256134).
4.5	In accordance with Regulation S-K, Item 601(b)(4)(iii)(A) certain instruments defining the rights of holders of long-term debt of Capital City Bank Group, Inc. not exceeding 10% of the total assets of Capital City Bank Group, Inc. and its consolidated subsidiaries have been omitted; the Registrant agrees to furnish a copy of any such instruments to the Commission upon request.
10.1	Capital City Bank Group, Inc. 1996 Dividend Reinvestment and Optional Stock Purchase Plan - incorporated herein by reference to Exhibit 10 of the Registrant's Form S-3 (filed 01/30/97) (No. 333-20683).
10.2	Capital City Bank Group, Inc. Supplemental Executive Retirement Plan - incorporated herein by reference to Exhibit 10(d) of the Registrant's Form 10-K (filed 3/27/03) (No. 0-13358).
10.3	Capital City Bank Group, Inc. 401(k) Profit Sharing Plan - incorporated herein by reference to Exhibit 4.3 of Registrant's Form S-8 (filed 09/30/97) (No. 333-36693).
10.6	Form of Participant Agreement for Long-Term Incentive Plan. - incorporated by reference herein to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K (filed 3/6/15)(No. 0-13358).
10.7	Participant Agreement, dated February 25, 2015, by and between Thomas A. Barron and the Registrant - incorporated by reference herein to Exhibit 10.1 of the Registrant's Form 8-K (filed 2/25/15)(No. 0-13358).

10.8	Participant Agreement, dated February 21, 2017, by and between J. Kimbrough Davis and the Registrant – incorporated by reference herein to Exhibit 10.1 of the Registrant’s Form 8-K (filed 2/27/17)(No. 0-13358).
11	Statement re Computation of Per Share Earnings.*
14	Capital City Bank Group, Inc. Code of Ethics for the Chief Financial Officer and Senior Financial Officers - incorporated herein by reference to Exhibit 14 of the Registrant’s Form 8-K (filed 3/11/05) (No. 0-13358).
21	Capital City Bank Group, Inc. Subsidiaries, as of December 31, 2021.**
23.1	Consent of Independent Registered Public Accounting Firm.**
23.2	Consent of Independent Registered Public Accounting Firm.**
31.1	Certification of CEO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Certification of CFO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

* Information required to be presented in Exhibit 11 is provided in Note 14 to the consolidated financial statements under Part II, Item 8 of this Form 10-K in accordance with the provisions of U.S. generally accepted accounting principles.

** Filed electronically herewith.

Item 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 1, 2022, on its behalf by the undersigned, thereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.

/s/ William G. Smith, Jr.

William G. Smith, Jr.

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 1, 2022 by the following persons in the capacities indicated.

/s/ William G. Smith, Jr.

William G. Smith, Jr.

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

/s/ J. Kimbrough Davis

J. Kimbrough Davis

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 1, 2022, on its behalf by the undersigned, thereunto duly authorized.

Directors:

/s/ Robert Antoine
Robert Antoine

/s/ Thomas A. Barron
Thomas A. Barron

/s/ Allan G. Bense
Allan G. Bense

/s/ William Butler
William Butler

/s/ Stanley W. Connally, Jr.
Stanley W. Connally, Jr

/s/ Cader B. Cox, III
Cader B. Cox, III

/s/ Marshall M. Criser III
Marshall M. Criser III

/s/ J. Everitt Drew
J. Everitt Drew

/s/ Kimberly Crowell
Kimberly Crowell

/s/ Bonnie Davenport
Bonnie Davenport

/s/ Eric Grant
Eric Grant

/s/ Laura Johnson
Laura Johnson

/s/ John G. Sample, Jr.
John G. Sample, Jr

/s/ William G. Smith, Jr.
William G. Smith, Jr.

/s/ Ashbel C. Williams
Ashbel C. Williams

Exhibit 21. Capital City Bank Group, Inc. Subsidiaries, at December 31, 2021.

Direct Subsidiaries:

Capital City Bank

Capital City Strategic Wealth (Florida)

CCBG Capital Trust I (Delaware)

CCBG Capital Trust II (Delaware)

Indirect Subsidiaries:

Capital City Banc Investments, Inc. (Florida)

Capital City Trust Company, Inc. (Florida)

Capital City Home Loans, LLC (Georgia)

FNB Financial Services, LLC (Florida)

Southeastern Oaks, LLC (Florida)

Capital City Wealth Advisors, Inc. (Florida)

Southern Live Oak Investments, Inc. (Delaware)

Red Hills REIT, Inc. (Florida)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-3D (Registration No. 333-20683) and the Registration Statements on Form S-8 (Registration Nos. 333-36693, 333-174372 and 333-256134) of Capital City Bank Group, Inc. (the Company) of our report dated March 1, 2022, on our audit of the consolidated financial statements of the Company as of December 31, 2021, and for the year ended December 31, 2021, which report is included in this annual report on Form 10-K. We also consent to the incorporation by reference of our report dated March 1, 2022, on our audit of the internal control over financial reporting of the Company as of December 31, 2021, which report is included in this annual report on Form 10-K.

BKD, LLP

Little Rock, Arkansas
March 1, 2022

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3D No. 333-20683) of Capital City Bank Group, Inc.
- (2) Registration Statement (Form S-8 No. 333-36693) of Capital City Bank Group, Inc.
- (3) Registration Statement (Form S-8 No. 333-174372) of Capital City Bank Group, Inc.
- (4) Registration Statement (Form S-8 No. 333-256134) of Capital City Bank Group, Inc.

of our report dated March 1, 2021, with respect to the consolidated financial statements of Capital City Bank Group, Inc. included in this Annual Report (Form 10-K) of Capital City Bank Group, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Tallahassee, Florida
March 1, 2022

Certification of CEO Pursuant to Securities Exchange Act
Rule 13a-14(a) / 15d-14(a) as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, William G. Smith, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Capital City Bank Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ William G. Smith, Jr.
William G. Smith, Jr.
Chairman, President and
Chief Executive Officer

Date: March 1, 2022

Certification of CFO Pursuant to Securities Exchange Act
Rule 13a-14(a) / 15d-14(a) as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, J. Kimbrough Davis, certify that:

1. I have reviewed this annual report on Form 10-K of Capital City Bank Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ J. Kimbrough Davis
J. Kimbrough Davis
Executive Vice President and
Chief Financial Officer

Date: March 1, 2022

Certification of CEO Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that, to the undersigned's knowledge, (1) this Annual Report of Capital City Bank Group, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company and its results of operations as of and for the periods covered therein.

/s/ William G. Smith, Jr. _____
William G. Smith, Jr.
Chairman, President and
Chief Executive Officer

Date: March 1, 2022

Certification of CFO Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that, to the undersigned's knowledge, (1) this Annual Report of Capital City Bank Group, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company and its results of operations as of and for the periods covered therein.

/s/ J. Kimbrough Davis
J. Kimbrough Davis
Executive Vice President and
Chief Financial Officer

Date: March 1, 2022



STAR SUMMIT

Our annual Star Summit celebration recognizes our best and brightest sales and service leaders and confers distinguished honors on four associates whose achievements surpassed all others. Our 2022 Star Summit Signature Awards represent the pinnacle of sales and service performance in 2021.

RAINMAKER

Jill Tarbox | Business Banker | Port Richey

The Rainmaker is named annually to honor an associate who consistently produces extraordinary results. Jill has continuously achieved her goals each year since joining Capital City Bank in 2018, despite being the sole lender in her market for nearly two and a half years. High-energy and driven, she measures her success by her ability to help her clients succeed, and as such, sets herself apart as a dedicated, accomplished banker and trustworthy adviser.

MOUNTAIN MOVER

Kat Bailey | IT Project Manager | Tallahassee

The Mountain Mover is awarded annually to an associate who consistently goes above and beyond to help clients, both internal and external. Never saying, "It's not my job," Kat moves mountains for her clients and performs every task with a smile on her face. This combination of traits allows her to win the respect and friendship of her fellow bankers while driving essential progress and necessary results.

RIPPLE EFFECT

Danny Etheridge | Capital City Investments Financial Advisor | Chiefland

The Ripple Effect is awarded annually to an associate who is always on the lookout for opportunities to deepen client relationships. As assuredly as Danny has established standing as a skilled and experienced financial advisor, he has earned repute for his character as well. He is trusted and respected for serving his clients honestly and providing the kind of sound, ethical and tailored advice they can rely on to help achieve their financial goals.

FIRE STARTER

Spencer Hinds | Credit Analyst | Tallahassee

The Fire Starter is given annually to a relatively new associate who has risen to success quickly with tangible results. Though Spencer began with the Company as a Credit Analyst only two months before 2020 pandemic lock-down orders took effect, he adapted quickly to become an integral member of the team. Spencer is both knowledgeable and committed to serving his internal and external clients. The Bank relied on his sharpened skills, keen sense of urgency and tireless work ethic to help power its efforts to support its clients through the pandemic, most notably via its Paycheck Protection Program offering.



investors.ccbg.com