CAPITAL CITY BANK GROUP INC
Form 10-Q
May 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	59-2273542 (I.R.S. Employer Identification No.)
217 North Monroe Street, Tallahassee, Florida (Address of principal executive office)	32301 (Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

At April 30, 2012, 17,191,090 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED MARCH 31, 2012
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INTRODUCTORY NOTE

Caution Concerning Forward-Looking Statements

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q, the following sections of our Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q, and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7 as well as:

§ our need and our ability to incur additional debt or equity financing;
§ the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
§ continued depression of the market value of the Company that could result in an impairment of goodwill;
§ the frequency and magnitude of foreclosure of our loans;
§ the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
§ our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
§ legislative or regulatory changes, including the Dodd-Frank Act;
§ the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
§ restrictions on our operations, including the inability to pay dividends without our regulators’ consent;
§ the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase Deposit Insurance Fund assessments;
§ our ability to declare and pay dividends;
§ changes in the securities and real estate markets;
§ changes in monetary and fiscal policies of the U.S. Government;
§ inflation, interest rate, market and monetary fluctuations;
§ the effects of harsh weather conditions, including hurricanes, and man-made disasters;
§ our ability to comply with the extensive laws and regulations to which we are subject;
§ the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
§ increased competition and its effect on pricing;
§ technological changes;
§ negative publicity and the impact on our reputation;
§ the effects of security breaches and computer viruses that may affect our computer systems;
§ changes in consumer spending and saving habits;
§ growth and profitability of our noninterest income;
§ changes in accounting principles, policies, practices or guidelines;

- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

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

PART I. FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS

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

(Dollars In Thousands, Except Share Data)	Unaudited March 31, 2012	December 31, 2011
ASSETS		
Cash and Due From Banks	$ 50,567	$ 54,953
Federal Funds Sold and Interest Bearing Deposits	418,678	330,361
Total Cash and Cash Equivalents	469,245	385,314
Investment Securities, Available-for-Sale	284,490	307,149
Loans, Net of Unearned Income	1,578,884	1,628,683
Allowance for Loan Losses	(31,217)	(31,035)
Loans, Net	1,547,667	1,597,648
Premises and Equipment, Net	111,408	110,991
Goodwill	84,811	84,811
Other Intangible Assets	565	673
Other Real Estate Owned	58,100	62,600
Other Assets	103,992	92,126
Total Assets	$ 2,660,278	$ 2,641,312
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 605,774	$ 618,317
Interest Bearing Deposits	1,579,930	1,554,202
Total Deposits	2,185,704	2,172,519
Short-Term Borrowings	42,188	43,372
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	42,826	44,606
Other Liabilities	75,876	65,986
Total Liabilities	2,409,481	2,389,370
SHAREOWNERS' EQUITY		
Preferred Stock, $.01 par value, 3,000,000 shares authorized; no shares outstanding	-	-
Common Stock, $.01 par value, 90,000,000 shares authorized; 17,182,090 and 17,160,274 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	172	172
Additional Paid-In Capital	38,101	37,838
Retained Earnings	236,299	237,461
Accumulated Other Comprehensive Loss, Net of Tax	(23,775)	(23,529)
Total Shareowners' Equity	250,797	251,942

Total Liabilities and Shareowners' Equity	$	2,660,278	$	2,641,312

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(Dollars in Thousands, Except Per Share Data)	2012	2011
INTEREST INCOME		
Interest and Fees on Loans	$ 22,005	$ 23,947
Taxable Exempt Securities	794	852
Tax Exempt Securities	106	219
Federal Funds Sold	225	171
Total Interest Income	23,130	25,189
INTEREST EXPENSE		
Deposits	643	1,258
Short-Term Borrowings	8	111
Subordinated Notes Payable	382	340
Other Long-Term Borrowings	436	494
Total Interest Expense	1,469	2,203
NET INTEREST INCOME	21,661	22,986
Provision for Loan Losses	4,793	4,133
Net Interest Income After Provision For Loan Losses	16,868	18,853
NONINTEREST INCOME		
Service Charges on Deposit Accounts	6,309	5,983
Data Processing	675	974
Asset Management Fees	1,015	1,080
Retail Brokerage Fees	758	729
Mortgage Banking Fees	848	617
Bank Card Fees	2,771	2,496
Gain on Sale of Visa Stock	-	3,172
Other	1,210	1,283
Total Noninterest Income	13,586	16,334
NONINTEREST EXPENSE		
Salaries and Associate Benefits	16,843	16,577
Occupancy, Net	2,266	2,396
Furniture and Equipment	2,201	2,226
Intangible Amortization	108	353
Other Real Estate	3,513	3,677
Other	7,666	8,102
Total Noninterest Expense	32,597	33,331
(LOSS) INCOME BEFORE INCOME TAXES	(2,143)	1,856
Income Tax (Benefit) Expense	(981)	546
NET (LOSS) INCOME	$ (1,162)	$ 1,310
BASIC NET (LOSS) INCOME PER SHARE	$ (0.07)	$ 0.08
DILUTED NET (LOSS) INCOME PER SHARE	$ (0.07)	$ 0.08
Average Basic Shares Outstanding	17,181,333	17,121,602

Average Diluted Shares Outstanding	17,181,333	17,130,118
Other Comprehensive (Loss) Income:		
Change in Net Unrealized Gain On Available-For-Sale Securities (net of tax)	(246)	34
Total Comprehensive (Loss) Income	$ (1,408)	$ 1,344

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREOWNERS' EQUITY
(Unaudited)

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

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance, January 1, 2011	17,100,081	$ 171	$ 36,920	$ 237,679	$ (15,751)	$ 259,019
Comprehensive Income:						
Net Income		-	-	1,310	-	1,310
Change in Net Unrealized Gain on Available-for-Sale Securities (net of tax expense of $25)		-	-	-	34	34
Total Comprehensive Income		-	-	-	-	1,344
Cash Dividends ($0.10 per share)		-	-	(1,713)	-	(1,173)
Stock Performance Plan Compensation		-	215	-	-	215
Issuance of Common Stock	27,155	-	413	-	-	413
Balance, March 31, 2011	17,127,236	$ 171	$ 37,548	$ 237,276	$ (15,717)	$ 259,278

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

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

	Three Months Ended March 31,	
(Dollars in Thousands)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	$ (1,162)	$ 1,310
Adjustments to Reconcile Net (Loss) Income to Cash Provided by Operating Activities:		
Provision for Loan Losses	4,793	4,133
Depreciation	1,669	1,753
Amortization of Premiums, Discounts, and Fees (net)	827	1,023
Amortization of Intangible Assets	108	353
Net Decrease in Loans Held-for-Sale	7,664	4,081
Stock-Based Compensation	56	215
Deferred Income Taxes	277	918
Loss on Sales and Write-Downs of Other Real Estate Owned	2,097	2,672
Net (Increase) Decrease in Other Assets	(11,993)	745
Net Increase in Other Liabilities	9,890	3,440
Net Cash Provided By Operating Activities	14,226	20,643
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Purchases	(18,986)	(24,677)
Sales	805	-
Payments, Maturities, and Calls	39,586	22,090
Net Decrease in Loans	33,479	25,020
Proceeds From Sales of Other Real Estate Owned	6,479	8,979
Purchases of Premises and Equipment	(2,086)	(315)
Net Cash Provided By In Investing Activities	59,277	31,097
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	13,185	43,071
Net Decrease in Short-Term Borrowings	(2,731)	(6,278)
Increase in Other Long-Term Borrowings	560	790
Repayment of Other Long-Term Borrowings	(793)	(841)
Dividends Paid	-	(1,713)
Issuance of Common Stock	207	413
Net Cash Provided by Financing Activities	10,428	35,442
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,931	87,182
Cash and Cash Equivalents at Beginning of Period	385,314	236,193
Cash and Cash Equivalents at End of Period	$ 469,245	$ 323,375
Supplemental Disclosure:		
Loans Transferred to Other Real Estate Owned	$ 4,076	$ 9,078
Transfer of Current Portion of Long-Term Borrowings	$ 1,547	$ -

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

CAPITAL CITY BANK GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

The consolidated statement of financial condition at December 31, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

NOTE 2 - INVESTMENT SECURITIES

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

	March 31, 2012			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 143,726	$ 1,093	$ -	$ 144,819
U.S. Government Agency	22,715	45	35	22,725
States and Political Subdivisions	58,323	164	28	58,459
Mortgage-Backed Securities	46,453	739	62	47,130
Other Securities(1)	11,957	-	600	11,357
Total Investment Securities	$ 283,174	$ 2,041	$ 725	$ 284,490

	December 31, 2011			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value

U.S. Treasury	$	168,001	$	1,463	$	-	$	169,464
U.S. Government Agency		14,758		27		48		14,737
States and Political Subdivisions		58,946		186		38		59,094
Mortgage-Backed Securities		51,775		809		87		52,497
Other Securities(1)		11,957		-		600		11,357
Total Investment Securities	$	305,437	$	2,485	$	773	$	307,149

(1) Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $6.5 million and $4.8 million, respectively, at March 31, 2012 and December 31, 2011.

Securities with an amortized cost of $153.8 million and $102.1 million at March 31, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes.

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

Maturity Distribution. As of March 31, 2012, the Company's investment securities had the following maturity distribution based on contractual maturities:

(Dollars in Thousands)	Amortized Cost	Market Value
Due in one year or less	$ 118,346	$ 118,646
Due after one through five years	151,800	153,329
Due after five through ten years	1,071	1,158
Due over ten years	-	-
No Maturity	11,957	11,357
Total Investment Securities	$ 283,174	$ 284,490

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

	March 31, 2012					
	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Government Agency	9,210	35	-	-	9,210	35
States and Political Subdivisions	12,687	28	-	-	12,687	28
Mortgage-Backed Securities	7,309	55	1,412	7	8,721	62
Other Securities	-	-	600	600	600	600
Total Investment Securities	$ 29,206	$ 118	$ 2,012	$ 607	$ 31,218	$ 725

	December 31, 2011					
	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.U.S. Treasury	$ 9,698	$ 48	$ -	$ -	$ 9,698	$ 48
U.S. Government Agency	-	-	-	-	-	-
States and Political Subdivisions	14,597	38	-	-	14,597	38
Mortgage-Backed Securities	11,612	87	37	-	11,649	87

Other Securities		-		-		600		600		600		600
Total Investment Securities	$	35,907	$	173	$	637	$	600	$	36,544	$	773

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.

At March 31, 2012, the Company had securities of $283.2 million with net pre-tax unrealized gains of $1.3 million on these securities, of which $31.2 million have unrealized losses totaling $0.7 million. Approximately $0.1 million of these securities have been in a loss position for less than 12 months. These securities are primarily in a loss position because they were acquired when the general level of interest rates was lower than that on March 31, 2012. The Company believes that the losses in these securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2012. One preferred bank stock issue for $0.6 million has been in a loss position for greater than 12 months. The Company continues to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	March 31, 2012	December 31, 2011
Commercial, Financial and Agricultural	$ 132,119	$ 130,879
Real Estate-Construction	30,238	18,892
Real Estate-Commercial Mortgage	624,528	639,140
Real Estate-Residential(1)	361,433	385,621
Real Estate-Home Equity	240,800	244,263
Real Estate-Loans Held-for-Sale	13,561	21,225
Consumer	176,205	188,663
Loans, Net of Unearned Income	$ 1,578,884	$ 1,628,683

(1) Includes loans in process with outstanding balances of $6.6 million and $12.5 million for March 31, 2012 and December 31, 2011, respectively.

Net deferred fees included in loans were $1.6 million at March 31, 2012 and December 31, 2011, respectively.

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

The following table presents the aging of the recorded investment in past due loans by class of loans:

(Dollars in Thousands)	30-59 DPD	60-89 DPD	Over 90 DPD	Total Past Due	Total Current	Total Loans
March 31, 2012						
Commercial, Financial and Agricultural	$ 596	$ 32	$ -	$ 628	$ 130,683	$ 132,119
Real Estate - Construction	310	-	-	310	33,302	34,554
Real Estate - Commercial Mortgage	1,640	13	-	1,653	580,594	624,528
Real Estate - Residential	3,238	471	12	3,721	334,957	364,123
Real Estate - Home Equity	879	245	13	1,137	235,565	240,800

Consumer	1,459	310	-	1,769	180,445	182,760
Total Past Due Loans	$ 8,122	$ 1,071	$ 25	$ 9,218	$ 1,495,546	$ 1,578,884

(Dollars in Thousands)	30-59 DPD	60-89 DPD	Over 90 DPD	Total Past Due	Total Current	Total Loans
December 31, 2011						
Commercial, Financial and Agricultural	$ 307	$ 49	$ 46	$ 402	$ 129,722	$ 130,879
Real Estate - Construction	-	-	-	-	26,034	26,367
Real Estate - Commercial Mortgage	3,070	646	-	3,716	592,604	639,140
Real Estate - Residential	7,983	3,031	58	11,072	350,133	386,877
Real Estate - Home Equity	1,139	500	95	1,734	238,246	244,263
Consumer	2,355	345	25	2,725	197,272	201,157
Total Past Due Loans	$ 14,854	$ 4,571	$ 224	$ 19,649	$ 1,534,011	$ 1,628,683

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

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

(Dollars in Thousands)	March 31, 2012 Nonaccrual	March 31, 2012 Over 90 Days	December 31, 2011 Nonaccrual	December 31, 2011 Over 90 Days
Commercial, Financial and Agricultural	$ 808	$ -	$ 755	$ 46
Real Estate - Construction	943	-	334	-
Real Estate - Commercial Mortgage	46,886	-	42,820	-
Real Estate - Residential	25,445	12	25,671	58
Real Estate - Home Equity	4,098	13	4,283	95
Consumer	546	-	1,160	25
Total Nonaccrual Loans	$ 78,726	$ 25	$ 75,023	$ 224

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

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

(Dollars in Thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance
March 31, 2012:				
Commercial, Financial and Agricultural	$ 1,809	$ 1,000	$ 809	$ 241
Real Estate - Construction	1,266	82	1,184	123
Real Estate - Commercial Mortgage	69,898	33,982	35,916	5,543
Real Estate - Residential	33,826	5,868	27,958	4,789
Real Estate - Home Equity	3,355	652	2,703	580
Consumer	46	15	31	26
Total	$ 110,200	$ 41,599	$ 68,601	$ 11,302
December 31, 2011:				
Commercial, Financial and Agricultural	$ 1,653	$ 671	$ 982	$ 311
Real Estate - Construction	511	-	511	68
Real Estate - Commercial Mortgage	65,624	19,987	45,637	5,828
Real Estate - Residential	36,324	6,897	29,427	4,702
Real Estate - Home Equity	3,527	645	2,882	239
Consumer	143	90	53	26
Total	$ 107,782	$ 28,290	$ 79,492	$ 11,174

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

	Three Months Ended March 31,			
	2012		2011	
(Dollars in Thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Commercial, Financial and Agricultural	$ 1,731	$ 20	$ 1,540	$ 34
Real Estate - Construction	889	4	2,561	8
Real Estate - Commercial Mortgage	67,761	481	46,064	315
Real Estate - Residential	35,075	235	34,757	288
Real Estate - Home Equity	3,441	25	3,308	26
Consumer	95	4	141	14
Total	$ 108,992	$ 769	$ 88,371	$ 685

Troubled Debt Restructurings ("TDRs"). TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower that it would not otherwise consider. In these instances, as part of a work-out alternative, the Company will defer cash payments required as part of the loan agreement through either a principal moratorium or extension of the loan term. The impact of the TDR modifications and defaults are factored into the allowance for loan losses on a loan-by-loan basis as all TDRs are, by definition, impaired loans. Thus, specific reserves are established based upon the results of either a discounted cash flow analysis or the underlying collateral value, if the loan is deemed to be collateral dependent.

The following table presents loans classified as TDRs:

	March 31, 2012		December 31, 2011	
(Dollars in Thousands)	Accruing	Nonaccruing	Accruing	Nonaccruing
Commercial, Financial and Agricultural	$ 956	$ 200	$ 694	$ -
Real Estate - Construction	323	-	178	-
Real Estate - Commercial Mortgage	21,199	11,382	20,062	12,029
Real Estate - Residential	13,977	1,192	15,553	947
Real Estate - Home Equity	897	-	1,161	-
Consumer	21	-	27	-
Total TDRs	$ 37,373	$ 12,774	$ 37,675	$ 12,976

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

(Dollars in Thousands)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	4	$ 656	$ 660
Real Estate - Construction	-	-	-
Real Estate – Commercial Mortgage	13	4,565	4,695
Real Estate - Residential	8	859	909
Real Estate - Home Equity	-	-	-

Consumer	-	-	-
Total TDRs	25	$ 6,080	$ 6,264

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

(Dollars in Thousands)	Number of Contracts	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	-	$ -
Real Estate - Construction	-	-
Real Estate – Commercial Mortgage	3	1,562
Real Estate - Residential	7	1,038
Real Estate - Home Equity	1	157
Consumer	-	-
Total TDRs	11	$ 2,757

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 reviews and approves these policies and procedures on a regular basis (at least annually).

Reporting systems have been implemented to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Management and the Credit Risk Oversight Committee periodically review our lines of business to monitor asset quality trends and the appropriateness of credit policies. In addition, total borrower exposure limits are established and concentration risk is monitored. As part of this process, the overall composition of the portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the loan portfolio are monitored and reported to the Board on a quarterly basis and have strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. Detailed below are the categories 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/perm loans made to individuals and investors to finance the acquisition, development, construction or rehabilitation of real property. These loans are primarily made based on identified cash flows of the borrower or project and generally secured by the property being financed, including 1-4 family residential properties and commercial properties that are either owner-occupied or investment in nature. These properties may include either vacant or improved property. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy guidelines.

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

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

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

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

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

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

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

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

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

(Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total
March 31, 2012				
Special Mention	$ 9,835	$ 48,931	$ 54	$ 58,820
Substandard	10,300	207,959	1,037	219,296
Doubtful	37	6,221	-	6,258
Total Criticized Loans	$ 20,172	$ 263,111	$ 1,091	$ 284,374

(Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total
December 31, 2011				
Special Mention	$ 4,883	$43,787	$79	$48,749
Substandard	9,804	202,734	1,699	214,237
Doubtful	111	7,763	-	7,874
Total Criticized Loans	$ 14,798	$254,284	$1,778	$270,860

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

The following table details the activity in the allowance for loan losses by portfolio class for the three months ended March 31, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
March 31, 2012								
Beginning Balance	$ 1,534	$ 1,133	$ 10,660	$ 12,518	$ 2,392	$ 1,887	$ 911	$ 31,035
Provision for Loan Losses	158	628	1,166	1,511	1,207	41	82	4,793
Charge-Offs	(268)	-	(1,532)	(1,967)	(892)	(732)	-	(5,391)
Recoveries	69	-	138	163	18	392	-	780
Net Charge-Offs	(199)	-	(1,394)	(1,804)	(874)	(340)		(4,611)
Ending Balance	$ 1,493	$ 1,761	$ 10,432	$ 12,225	$ 2,725	$ 1,588	$ 993	$ 31,217
Period-end amount allocated to:								
Loans Individually Evaluated for Impairment	$ 241	$ 123	$ 5,543	$ 4,789	$ 580	$ 26	$ -	$ 11,302
Loans Collectively Evaluated for Impairment	1,252	1,638	4,889	7,436	2,145	1,562	993	19,915
Ending Balance	$ 1,493	$ 1,761	$ 10,432	$ 12,225	$ 2,725	$ 1,588	$ 993	$ 31,217
March 31, 2011								
Beginning Balance	$ 1,544	$ 2,060	$ 8,645	$ 17,046	$ 2,522	$ 2,612	$ 1,007	$ 35,436
Provision for Loan Losses	553	(566)	1,810	1,887	1,065	(554)	(62)	4,133
Charge-Offs	(721)	-	(430)	(3,456)	(989)	(620)	-	(6,216)
Recoveries	63	9	12	60	36	340	-	520
Net Charge-Offs	(658)	9	(418)	(3,396)	(953)	(280)	-	(5,696)
Ending Balance	$ 1,439	$ 1,503	$ 10,037	$ 15,537	$ 2,634	$ 1,778	$ 945	$ 33,873
Period-end amount allocated to:								
Loans Individually Evaluated for Impairment	$ 174	$ 481	$ 5,508	$ 7,165	$ 1,212	$ 58	$ -	$ 14,598

Loans Collectively Evaluated for Impairment	1,265	1,022	4,529	8,372	1,422	1,720	945	19,275
Ending Balance	$ 1,439	$ 1,503	$ 10,037	$ 15,537	$ 2,634	$ 1,778	$ 945	$ 33,873

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

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
March 31, 2012								
Individually Evaluated for Impairment	$ 1,809	$1,266	$69,898	$33,826	$3,355	$46	$-	$110,200
Collectively Evaluated for Impairment	130,310	33,288	554,630	330,298	237,445	182,713	-	1,468,684
Total	$ 132,119	$ 34,554	$ 624,528	$ 364,124	$240,800	$ 182,759	$ -	$ 1,578,884
March 31, 2011								
Individually Evaluated for Impairment	$ 1,397	$2,589	$49,758	$31,734	$3,338	$138	$-	$88,954
Collectively Evaluated for Impairment	152,563	33,025	618,825	377,568	245,407	198,452	-	1,625,840
Total	$ 153,960	$ 35,614	$ 668,583	$ 409,302	$248,745	$ 198,590	$ -	$ 1,714,794

NOTE 4 - INTANGIBLE ASSETS

The Company had net intangible assets of $85.4 million and $85.5 million at March 31, 2012 and December 31, 2011, respectively. Intangible assets were as follows:

	March 31, 2012		December 31, 2011	
(Dollars in Thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core Deposit Intangibles	$ 47,176	$ 46,978	$ 47,176	$ 46,918
Goodwill	84,811	-	84,811	-
Customer Relationship Intangible	1,867	1,500	1,867	1,452
Total Intangible Assets	$ 133,854	$ 48,478	$ 133,854	$ 48,370

Net Core Deposit Intangibles: As of March 31, 2012 and December 31, 2011, the Company had net core deposit intangibles of $0.2 million and $0.3 million, respectively. Amortization expense for the first three months of 2012 and 2011 was approximately $0.1 million and $0.3 million, respectively. Estimated annual amortization expense for

2012 is $0.2 million. All of our core deposit intangibles will be fully amortized in January 2013.

Goodwill: As of March 31, 2012 and December 31, 2011, the Company had goodwill of $84.8 million.

Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. A goodwill impairment test consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.

As of March 31, 2012, the book value of the Company's equity exceeded its market capitalization, and as such the Company performed goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, the Company concluded that goodwill was not impaired as of March 31, 2012. The Company will continue to evaluate goodwill for impairment as defined by ASC Topic 350.

Other: As of March 31, 2012 and December 31, 2011, the Company had a customer relationship intangible asset, net of accumulated amortization, of $0.4 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships. Amortization expense for the first three months of 2012 and 2011 was approximately $48,000. Estimated annual amortization expense is approximately $0.2 million based on use of a 10-year useful life.

NOTE 5 - DEPOSITS

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

(Dollars in Thousands)	March 31, 2012	December 31, 2011
NOW Accounts	$ 845,149	$ 828,990
Money Market Accounts	283,224	276,910
Savings Deposits	172,262	158,462
Other Time Deposits	279,295	289,840
Total Interest Bearing Deposits	$ 1,579,930	$ 1,554,202

NOTE 6 - EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended March 31,	
(Dollars in Thousands)	2012	2011
Service Cost	$ 1,750	$ 1,550
Interest Cost	1,375	1,325
Expected Return on Plan Assets	(1,700)	(1,650)
Prior Service Cost Amortization	100	125
Net Loss Amortization	850	550
Net Periodic Benefit Cost	$ 2,375	$ 1,900
Discount Rate	5.00%	5.55%
Long-Term Rate of Return on Assets	8.00%	8.00%

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

	Three Months Ended March 31,	
(Dollars in Thousands)	2012	2011
Service Cost	$ -	$ -
Interest Cost	46	40
Prior Service Cost Amortization	48	45
Net Gain Amortization	(98)	(98)
Net Periodic Benefit Cost	$ (4)	$ (13)
Discount Rate	5.00%	5.55%

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NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

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

	March 31, 2012			December 31, 2011		
(Dollars in Thousands)	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit(1)	$ 48,425	$ 249,751	$ 298,176	$ 38,432	$ 257,081	$ 295,513
Standby Letters of Credit	13,385	-	13,385	10,920	-	10,920
Total	$ 61,810	$ 249,751	$ 311,561	$ 49,352	$ 257,081	$ 306,433

(1) Commitments include unfunded loans, revolving lines of credit, and other unused commitments.

Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.
Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities. In general, management does not anticipate any material losses as a result of participating in these types of transactions. However, any potential losses arising from such transactions are reserved for in the same manner as management reserves for its other credit facilities.

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

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

Indemnification Obligation. The Company is a member of the Visa U.S.A. network. Visa U.S.A believes that its member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation"). In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of

2011, the Company sold its remaining Class B shares resulting in a $3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares.

NOTE 8 – FAIR VALUE MEASUREMENTS

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

§ Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

§ Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated, by market data by correlation or other means.

§ Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Securities Available for Sale. U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. 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.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase securities that have a complicated structure. The Company’s entire portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is fairly generic and is easily obtained. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

Fair Value Swap. The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses and related carrying cost obligations required under the contract.

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

(Dollars in Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
March 31, 2012				
ASSETS:				
Securities available for sale:				
U.S. Treasury	$ 144,819	$ -	$ -	$ 144,819
U.S. Government Agency	-	22,725	-	22,725
States and Political Subdivisions	-	58,459	-	58,459
Mortgage-Backed Securities	-	47,130	-	47,130
Other Securities	-	11,357	-	11,357
LIABILITIES:				
Fair Value Swap	-	-	25	25
December 31, 2011				
ASSETS:				
Securities available for sale:				
U.S. Treasury	$ 169,464	$ -	$ -	$ 169,464
U.S. Government Agency	14,737	-	-	14,737
States and Political Subdivisions	-	59,094	-	59,094
Mortgage-Backed Securities	-	52,497	-	52,497
Other Securities	-	11,357	-	11,357
LIABILITIES:				
Fair Value Swap	-	-	572	572

Assets Measured at Fair Value on a Non-Recurring Basis

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

Impaired Loans. Loans deemed to be impaired are valued based upon the lower of cost or the fair value of the underlying collateral or discounted cash flow analysis. The fair value of collateral is determined by an independent valuation or professional appraisal in conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. The inputs used in performing discounted cash flow analyses are not observable and therefore is considered a Level 3 input. Impaired loans had a carrying value of $110.2 million with a valuation allowance of $11.3 million at March 31, 2012 and $107.8 million and $11.2 million, respectively, at December 31, 2011.

Loans Held for Sale. Loans held for sale were $13.6 million and $21.2 million as of March 31, 2012 and December 31, 2011, respectively. These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products, which is considered a Level 2 fair value measurement.

Other Real Estate Owned. During the first three months of 2012, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for possible loan losses based on the fair value of the foreclosed asset. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. The fair value of foreclosed assets is estimated using Level 3 inputs due to the volatility of the real estate market, and judgment and estimation involved in the real estate valuation process. Foreclosed assets measured at fair value upon initial recognition totaled $4.1 million during the three months ended March 31, 2012. The Company disposed of $7.9 million in foreclosed assets and recognized subsequent write-downs totaling $0.7 million for properties that were re-valued during the three months ended March 31, 2012. The carrying value of foreclosed assets was $58.1 million at March 31, 2012.

Assets and Liabilities Disclosed at Fair Value

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

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

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

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

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

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

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

	March 31, 2012			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 50,567	$ 50,567	$ -	$ -
Short-Term Investments	418,678	418,678	-	-
Investment Securities	284,490	144,819	139,671	-
Loans, Net of Allowance for Loan Losses	1,547,667	-		1,386,286
LIABILITIES:				
Deposits	$ 2,185,704	$ -	$ 2,186,289	$ -
Short-Term Borrowings	42,188	-	40,929	-
Subordinated Notes Payable	62,887	-	62,898	-
Long-Term Borrowings	42,826	-	46,032	-

	December 31, 2011			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 54,953	$ 54,953	$	$
Short-Term Investments	330,361	330,361		
Investment Securities	307,149	184,201	122,948	-
Loans, Net of Allowance for Loan Losses	1,597,648	-	-	1,485,813
LIABILITIES:				
Deposits	$ 2,172,519	$ -	$ 2,173,331	$
Short-Term Borrowings	43,372	-	42,021	
Subordinated Notes Payable	62,887		62,858	
Long-Term Borrowings	44,606		47,770	

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

NOTE 9 – ACCOUNTING STANDARDS UPDATES

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-03 became effective for the Company on January 1, 2012, however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below. In connection with the application of ASU 2011-05, the Company's financial statements now include one continuous statement of comprehensive income.

ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles – Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.

ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2012		2011				2010	
(Dollars in Thousands, Except Per Share Data)	First	Fourth	Third	Second	First(1)	Fourth	Third	Second
Summary of Operations:								
Interest Income	$ 23,130	$ 23,912	$ 24,891	$ 25,467	$ 25,189	$ 26,831	$ 27,576	$ 2
Interest Expense	1,469	1,515	1,791	2,208	2,203	2,473	2,792	
Net Interest Income	21,661	22,397	23,100	23,439	22,986	24,358	24,784	2
Provision for Loan Losses	4,793	7,600	3,718	3,545	4,133	3,783	5,668	
Net Interest Income After Provision for Loan Losses	16,868	14,797	19,382	19,894	18,853	20,575	19,449	2
Noninterest Income	13,586	13,873	14,193	14,448	16,334	14,735	13,449	1
Noninterest Expense	32,597	31,103	30,647	31,167	33,331	33,540	32,363	3
(Loss) Income Before Income Taxes	(2,143)	(2,433)	2,928	3,175	1,856	1,770	202	
Income Tax (Benefit) Expense	(981)	(1,898)	951	1,030	546	(148)	(199)	
Net (Loss) Income	$ (1,162)	$ (535)	$ 1,977	$ 2,145	$ 1,310	$ 1,918	$ 401	$
Net Interest Income (FTE)	$ 21,833	$ 22,560	$ 23,326	$ 23,704	$ 23,257	$ 24,654	$ 25,116	$ 2
Per Common Share:								
Net (Loss) Income Basic	$ (0.07)	$ (0.03)	$ 0.12	$ 0.12	$ 0.08	$ 0.12	$ 0.02	$
Net (Loss) Income Diluted	(0.07)	(0.03)	0.12	0.12	0.08	0.12	0.02	
Dividends Declared	0.00	0.00	0.10	0.10	0.10	0.10	0.10	
Diluted Book Value	14.60	14.68	15.20	15.20	15.13	15.15	15.25	
Market Price:								
High	9.91	11.11	11.18	13.12	13.80	14.19	14.24	
Low	7.32	9.43	9.81	9.94	11.87	11.56	10.76	

Close	7.45	9.55	10.38	10.26	12.68	12.60	12.14	
Selected Average Balances:								
Loans, Net	$ 1,596,480	$ 1,646,715	$ 1,667,720	$ 1,704,374	1,740,330	$ 1,782,916	$ 1,807,483	$ 1,84
Earning Assets	2,268,307	2,146,463	2,202,927	2,258,937	2,218,602	2,218,049	2,273,198	2,32
Total Assets	2,636,907	2,509,915	2,563,251	2,618,284	2,243,017	2,576,793	2,626,758	2,67
Deposits	2,161,388	2,032,975	2,061,913	2,107,302	2,105,379	2,115,867	2,172,165	2,23
Shareowners' Equity	254,447	264,276	263,902	262,376	261,603	262,622	263,742	26
Common Equivalent Average Shares:								
Basic	17,181	17,160	17,152	17,121	17,122	17,095	17,087	1
Diluted	17,181	17,161	17,167	17,139	17,130	17,096	17,088	1
Performance Ratios:								
Return on Average Assets	(0.18)%	(0.08)%	0.31%	0.33%	0.20%	0.30%	0.06%	
Return on Average Equity	(1.84)	(0.80)	2.97	3.28	2.03	2.90	0.60	
Net Interest Margin (FTE)	3.87	4.17	4.20	4.21	4.14	4.41	4.38	
Noninterest Income as % of Operating Revenue	38.64	38.34	38.14	38.13	41.54	37.69	35.17	
Efficiency Ratio	91.73	85.08	81.40	81.41	83.30	83.75	82.08	
Asset Quality:								
Allowance for Loan Losses	$ 31,217	$ 31,035	$ 29,658	$ 31,080	33,873	$ 35,436	$ 37,720	$ 3
Allowance for Loan Losses to Loans	1.98%	1.91%	1.79%	1.84%	1.98%	2.01%	2.10%	
Nonperforming Assets ("NPA's")	136,826	137,623	114,592	122,092	129,318	123,637	125,376	12
NPA's to Total Assets	5.14	5.21	4.54	4.70	4.86	4.72	4.86	
NPA's to Loans + OREO	8.36	8.14	6.67	6.98	7.31	6.81	6.77	
Allowance to Non-Performing Loans	39.65	41.37	55.54	50.89	45.80	53.94	50.86	
Net Charge-Offs to Average Loans	1.16	1.50	1.22	1.49	1.33	1.35	1.40	
Capital Ratios:								

Tier 1 Capital Ratio	14.17%	13.96%	14.05%	13.83%	13.46%	13.24%	12.93%
Total Capital Ratio	15.54	15.32	15.41	15.19	14.82	14.59	14.29
Leverage Ratio	9.71	10.26	10.20	9.95	9.74	10.10	9.75
Tangible Capital Ratio	6.42	6.51	7.19	6.96	6.73	6.82	6.98

(1) Includes a $2.6 million (net) pre-tax gain from sale of Visa stock - $3.2 million gain less $0.6 million related swap liability.

Item 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Market Risk and Interest Rate Sensitivity," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Critical 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 2011 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

In this MD&A, we present an operating efficiency ratio which is not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provides important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization, by the sum of tax equivalent net interest income and noninterest income. Management uses this non-GAAP measure as part of its assessment of its performance in managing noninterest expenses. We believe that excluding intangible amortization and merger expenses in our calculations better reflect our periodic expenses and is more reflective of normalized operations.

Although we believe the above-mentioned non-GAAP financial measure enhances investors' understanding of our business and performance this non-GAAP financial measure should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of this non-GAAP financial measure such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in this measure and that our measure may not be directly comparable to other companies that calculate this measure differently. Our management compensates for this limitation by providing a detailed reconciliation between GAAP information and the non-GAAP financial measure as detailed below.

Reconciliation of operating efficiency ratio to efficiency ratio:

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Efficiency ratio	92.03 %	85.37 %	84.19 %
Effect of intangible amortization expense	(0.30)%	(0.29)%	(0.89)%
Operating efficiency ratio	91.73 %	85.08 %	83.30 %

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including this MD&A section, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "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 our 2011 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

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

BUSINESS OVERVIEW

Our Business

We are a bank holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 70 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

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

A detailed discussion regarding the economic conditions in our markets and our long-term strategic objectives is included as part of the MD&A section of our 2011 Form 10-K.

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

§ Net loss of $1.2 million, or $0.07 per diluted share for the first quarter of 2012 compared to a net loss of $0.5 million, or $0.03 per diluted share in the fourth quarter of 2011, and net income of $1.3 million, or $0.08 per diluted share for the first quarter of 2011. Earnings for the first quarter of 2011 include a $1.6 million after-tax gain from the sale of our Visa stock.

§ Total credit costs (loan loss provision plus other real estate owned ("OREO") costs) were $8.3 million, $11.0 million, and $7.8 million for the quarters ended March 31, 2012, December 31, 2011, and March 31, 2011, respectively.

§ Tax equivalent net interest income for the first quarter of 2012 totaled $21.8 million, a $0.7 million, or 3.2%, decrease from the fourth quarter of 2011 and a $0.7 million, or 3.0%, decline from the first quarter of 2011. The decrease compared to both prior periods was due to a reduction in loan income primarily attributable to declining loan balances and unfavorable asset repricing, partially offset by a reduction in interest expense and a lower level of foregone interest on loans.

§ Noninterest income for the first quarter of 2012 totaled $13.6 million, a decrease of $0.3 million, or 2.1%, from the fourth quarter of 2011 and $2.7 million, or 16.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was driven by a $0.2 million reduction in deposit fees and a $0.1 million decrease in trust fees. Compared to the same prior year period, the unfavorable variance was primarily due to a $3.2 million gain from the sale of our Visa stock realized in the first quarter of 2011, partially offset by higher deposit fees, mortgage banking fees, and bank card fees.

§ Noninterest expense for the first quarter of 2012 totaled $32.6 million, an increase of $1.5 million, or 4.8%, over the fourth quarter of 2011 and a decrease of $0.7 million, or 2.2%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 was due to higher compensation expense, primarily pension plan expense of $0.6 million, stock compensation expense of $0.5 million, and unemployment taxes of $0.3 million. The favorable variance in noninterest expense compared to the first quarter of 2011 was attributable to a reduction in intangible amortization expense of $0.2 million, FDIC insurance fees of $0.3 million, advertising costs of $0.2 million, OREO expense of $0.2 million, and miscellaneous expense of $0.3 million, partially offset by higher professional fees of $0.5 million.

Financial Condition

§ Average earning assets totaled $2.268 billion for the first quarter of 2012, an increase of $121.8 million, or 5.7% over the fourth quarter of 2011, and a decline of $10.3 million, or 0.5%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 primarily reflects a higher level of deposits resulting from the seasonal influx of public funds. The slight decline from the same prior year period is attributable to the resolution of problem loans as they were charged off or transferred to the OREO category.

§ Average loans decreased $50.2 million, or 3.1%, from the fourth quarter of 2011 and $133.9 million, or 7.7%, from the first quarter of 2011 due to weak loan demand attributable to the lack of consumer confidence and a sluggish economy. Normal amortization and a higher level of payoffs as well as the resolution of problem loans also affected the balance of loans.

§ Average deposit balances were $2.161 billion for the first quarter of 2012, an increase of $128.4 million, or 6.3%, from the fourth quarter of 2011 and higher by $36.0 million, or 1.7%, from the first quarter of 2011. Higher public funds balances, savings and noninterest bearing deposits drove the increase compared to both prior periods. We continue to experience a favorable shift in the mix of our deposits as higher cost certificates of deposit balances are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts.

§ Nonperforming assets totaled $136.8 million at March 31, 2012, a decrease of $0.8 million from December 31, 2011 and an increase of $7.5 million over March 31, 2011. Nonperforming assets represented 5.14% of total assets at March 31, 2012 compared to 5.21% at December 31, 2011 and 4.86% at March 31, 2011.

§ As of March 31, 2012, we are well-capitalized with a risk based capital ratio of 15.54% and a tangible common equity ratio of 6.42% compared to 15.32% and 6.51%, respectively, at December 31, 2011, and 14.82% and 6.73%, respectively, at March 31, 2011.

RESULTS OF OPERATIONS

For the first quarter of 2012, we realized a net loss of $1.2 million, or $0.07 per diluted share, compared to a net loss of $0.5 million, or $0.03 per diluted share in the fourth quarter of 2011 and net income of $1.3 million, or $0.08 per diluted share for the first quarter of 2011.

Compared to the fourth quarter of 2011, performance reflects lower operating revenues of $1.1 million, an increase in noninterest expense of $1.5 million, and higher income taxes of $0.9 million, partially offset by a lower loan loss provision of $2.8 million. Compared to the first quarter of 2011, the reduction in earnings was due to lower operating revenues of $4.1 million and a higher loan loss provision of $0.7 million, partially offset by lower noninterest expense of $0.7 million and income taxes of $1.6 million. Earnings for the first quarter of 2011 reflect the sale of our Visa stock, which resulted in a net pre-tax gain of $2.6 million.

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

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2012	December 31, 2011	March 31, 2011
Interest Income	$ 23,130	$ 23,912	$ 25,189
Taxable equivalent Adjustments	172	163	271
Total Interest Income (FTE)	23,302	24,075	25,460
Interest Expense	1,469	1,515	2,203
Net Interest Income (FTE)	21,833	22,560	23,257
Provision for Loan Losses	4,793	7,600	4,133
Taxable Equivalent Adjustments	172	163	271
Net Interest Income After Provision for Loan Losses	16,868	14,797	18,853
Noninterest Income	13,586	13,873	16,334
Noninterest Expense	32,597	31,103	33,331
(Loss) Income Before Income Taxes	(2,143)	(2,433)	1,856
Income Tax (Benefit) Expense	(981)	(1,898)	546
Net (Loss) Income	$ (1,162)	$ (535)	$ 1,310
Basic Net (Loss) Income Per Share	$ (0.07)	$ (0.03)	$ 0.08
Diluted Net (Loss) Income Per Share	$ (0.07)	$ (0.03)	$ 0.08
Return on Average Equity	-1.84%	-0.80%	0.20%
Return on Average Assets	-0.18%	-0.08%	2.03%

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets, less interest expense paid on interest bearing liabilities. This information is provided on a “taxable equivalent” basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 36.

Tax equivalent net interest income for the first quarter of 2012 was $21.8 million compared to $22.6 million for the fourth quarter of 2011 and $23.3 million for the first quarter of 2011.

The decrease in tax equivalent net interest income compared to the prior periods was due to a reduction in loan income primarily attributable to declining loan balances and unfavorable asset repricing, partially offset by a reduction in interest expense and a lower level of foregone interest on loans. The lower interest expense is attributable to certificates of deposit and reflects both lower balances and favorable repricing.

Tax equivalent interest income for the first quarter of 2012 was $23.3 million compared to $24.1 million for the fourth quarter of 2011 and $25.5 million for the first quarter of 2011. The decrease in interest income when compared to both periods reflects unfavorable asset repricing and declining loan balances, which has been partially offset by lower foregone interest on nonaccrual loans.

Interest expense was $1.5 million for both the first quarter of 2012 and fourth quarter of 2011, respectively, and $2.2 million for the first quarter of 2011. Although average rates paid declined on a linked quarter basis, interest expense was flat due to the seasonal increase in public funds. Lower interest expense for the later comparison reflects a reduction in deposit rates primarily in certificates of deposit.

The net interest margin for the first quarter of 2012 was 3.87%, a decrease of 30 basis points from the fourth quarter of 2011 and a decline of 27 basis points from the first quarter of 2011. The decrease in the margin for all comparable periods is attributable to the shift in our earning asset mix and unfavorable asset repricing, partially offset by a lower average cost of funds. The shift in the earning asset mix compared to the fourth quarter of 2011 was driven by both a reduction in the loan portfolio and an increase in seasonal deposits (which are invested in overnight funds), while the shift in mix year over year was primarily attributable to the decline in the loan portfolio.

As experienced in 2010 and again throughout 2011, historically low interest rates (essentially setting a floor on deposit repricing), foregone interest, lower loan fees, unfavorable asset repricing without the flexibility to significantly adjust deposit rates, and core deposit growth (which has strengthened our liquidity position, but contributed to an unfavorable shift in our earning asset mix), have all placed pressure on our net interest margin. Our current strategy as well as historic strategy, is to not accept greater interest rate risk by reaching further out the curve for yield, particularly given the fact that short term rates are at historical lows. We continue to maintain short duration portfolios on both sides of the balance sheet and believe we are well positioned to respond to changing market conditions. Over time, this strategy consistently resulted in our net interest margins significantly exceeding those of our peer group comparisons. Given the unfavorable asset repricing and low rate environment, we anticipate continued pressure on the margin during the remainder of 2012.

Provision for Loan Losses

The provision for loan losses for the first quarter of 2012 was $4.8 million compared to $7.6 million in the fourth quarter of 2011 and $4.1 million for the first quarter of 2011. The decrease in the loan loss provision compared to fourth quarter of 2011 primarily reflects a lower level of reserves for impaired loan additions. The higher level of loan loss provision compared to the first quarter of 2011 reflects a higher level of general reserves. Net charge-offs for the first quarter of 2012 totaled $4.6 million, or 1.16% (annualized), of average loans compared to $6.2 million, or 1.50%, for the fourth quarter of 2011 and $5.7 million, or 1.33%, in the first quarter of 2011. At quarter-end, the allowance for loan losses of $31.2 million was 1.98% of outstanding loans (net of overdrafts) and provided coverage of 40% of nonperforming loans compared to 1.91% and 41%, respectively, at December 31, 2011, and 1.98% and 46%, respectively, at March 31, 2011.

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

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2012	December 31, 2011	March 31, 2011
CHARGE-OFFS			
Commercial, Financial and Agricultural	$ 268	$ 634	$ 721
Real Estate – Construction	-	25	-
Real Estate – Commercial Mortgage	1,532	2,443	430
Real Estate – Residential	1,967	2,755	3,456
Real Estate – Home Equity	892	205	989
Consumer	732	879	620
Total Charge-offs	5,391	6,941	6,216
RECOVERIES			
Commercial, Financial and Agricultural	69	242	63
Real Estate – Construction	-	-	9
Real Estate – Commercial Mortgage	138	87	12

Real Estate – Residential	163	34	60
Real Estate – Home Equity	18	13	36
Consumer	392	342	340
Total Recoveries	780	718	520
Net Charge-offs	$ 4,611	$ 6,223	$ 5,696
Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Interest	1.16%	1.50%	1.33%

Noninterest Income

Noninterest income for the first quarter of 2012 totaled $13.6 million, a decrease of $0.3 million, or 2.1%, from the fourth quarter of 2011 and $2.7 million, or 16.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was driven by a $0.2 million reduction in deposit fees and a $0.1 million decrease in trust fees. The unfavorable variance compared to the first quarter of 2011 was solely attributable to a $3.2 million gain from the sale of our Visa stock in the first quarter of 2011. Higher deposit fees of $0.3 million, mortgage banking fees of $0.2 million, and bank card fees of $0.3 million, partially offset by lower data processing fees of $0.3 million, also contributed to the variance.

Noninterest income represented 38.64% of operating revenues in the first quarter of 2012 compared to 38.34% in the fourth quarter of 2011 and 41.54% in the first quarter of 2011. The decrease from the first quarter of 2011 reflects the impact of the gain realized from the sale of Visa stock.

The table below reflects the major components of noninterest income.

	Three Months Ended		
(Dollars in Thousands)	March 31, 2012	December 31, 2011	March 31, 2011
Noninterest Income:			
Service Charges on Deposit Accounts	$ 6,309	$ 6,530	$ 5,983
Data Processing Fees	675	743	974
Asset Management Fees	1,015	1,124	1,080
Retail Brokerage Fees	758	776	729
Mortgage Banking Fees	848	845	617
Interchange Fees(1)	1,526	1,399	1,360
ATM/Debit Card Fees(1)	1,245	1,098	1,136
Gain on Visa Stock	-	-	3,172
Other	1,210	1,358	1,283
Total Noninterest Income	$ 13,586	$ 13,873	$ 16,334

(1) Together referred to as “Bank Card Fees”

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

Service Charges on Deposit Accounts. Deposit service charge fees decreased $221,000, or 3.4%, from the fourth quarter of 2011 and increased $326,000, or 5.4%, from the first quarter of 2011. The decline from the fourth quarter of 2011 reflects a seasonal variance in the use of our overdraft product. Compared to the first quarter of 2011, the increase was attributable to a reduction in overdraft charge-offs.

Data Processing Fees. Fees from data processing services decreased by $68,000, or 9.1%, from the fourth quarter of 2011 and $299,000, or 30.7%, from the first quarter of 2011. The decline from the fourth quarter of 2011 primarily reflects lower processing volume for our state government contract. Compared to the first quarter of 2011, the decrease was due to a reduction in the number of banks that we provide processing services to as two of our user banks were acquired and discontinued service in early 2011.

Retail Brokerage Fees. Fees from the sale of retail investment and insurance products decreased $18,000, or 2.3%, from the fourth quarter of 2011 and increased $29,000, or 4.0%, over from first quarter of 2011. The change for each period reflects lower/higher trading activity by clients, respectively.

Mortgage Banking Fees. Mortgage banking fees increased $3,000, or 0.4%, over the fourth quarter of 2011 and $231,000, or 37.4%, over the first quarter of 2011 attributable to increased home purchase activity in our markets and to a lesser extent increased refinance activity due to the lower rate environment. The mix of refinance and home purchase new loan production for the first quarter of 2012 was 41% and 59%, respectively.

Asset Management Fees. Fees from asset management activities decreased $109,000, or 9.7%, from the fourth quarter of 2011 and $65,000, or 6.0%, from the first quarter of 2011. The decrease for both periods reflects fluctuation in asset values for accounts under discretionary management for which fees are based on the account value at quarter-end. Compared to the fourth quarter of 2011, a lower level of estate fees also contributed to the change. At March 31, 2012, assets under management totaled $688.6 million compared to $660.6 million at December 31, 2011 and $732.3 million at March 31, 2011.

Bank Card Fees. Bank Card Fees (including interchange fees and ATM/debit card fees) increased $274,000, or 11.0%, over the fourth quarter of 2011 and $275,000, or 11.0%, over the first quarter of 2011. The increase for both periods reflects higher card utilization as well as growth in active cards due to an increase in the number of deposit accounts.

Other. Other income decreased by $148,000, or 10.9%, from the fourth quarter of 2011 and $3.2 million, or 72.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was attributable to a lower level of gains from the sale of OREO properties. The reduction from the first quarter of 2011 reflects the $3.2 million gain realized from the sale of our Visa stock.

Noninterest Expense

Noninterest expense for the first quarter of 2012 totaled $32.6 million, an increase of $1.5 million, or 4.8%, over the fourth quarter of 2011 and a decrease of $0.7 million, or 2.2%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 was due to higher compensation expense, primarily pension plan expense of $0.6 million, stock compensation expense of $0.5 million, and unemployment taxes of $0.3 million. The decrease in noninterest expense compared to the first quarter of 2011 was attributable to a reduction in intangible amortization expense of $0.2 million, FDIC insurance fees of $0.3 million, advertising costs of $0.2 million, OREO expense of $0.2 million, and miscellaneous expense of $0.3 million, partially offset by higher professional fees of $0.5 million.

The table below reflects the major components of noninterest expense.

(Dollars in Thousands)	March 31, 2012	Three Months Ended December 31, 2011	March 31, 2011
Noninterest Expense:			
Salaries	$ 12,742	$ 12,363	$ 12,936
Associate Benefits	4,101	2,897	3,641
Total Compensation	16,843	15,260	16,577
Premises	2,266	2,284	2,396
Equipment	2,201	2,097	2,226
Total Occupancy	4,467	4,381	4,622
Legal Fees	1,104	968	1,107
Professional Fees	1,321	1,126	845
Processing Services	963	933	950
Advertising	395	769	558
Travel and Entertainment	184	273	211
Printing and Supplies	289	351	348
Telephone	479	453	441
Postage			