CAPITAL CITY BANK GROUP INC
Form 10-Q
November 06, 2014

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 September 30, 2014

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

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

217 North Monroe Street, Tallahassee, Florida	**32301**
(Address of principal executive office)	(Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (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 October 31, 2014, 17,432,887 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 SEPTEMBER 30, 2014

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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 identify forward-looking statements.

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 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:

§ legislative or regulatory changes, including the Dodd-Frank Act and Basel III;
§ our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
§ the effects of security breaches and computer viruses that may affect our computer systems;
§ the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss provision, deferred tax asset valuation allowance, and pension plan;
§ the frequency and magnitude of foreclosure of our loans;
§ the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
§ the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
§ our need and our ability to incur additional debt or equity financing;
§ our ability to declare and pay dividends and repurchase shares of the Company's common stock under our repurchase plan;
§ 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;
§ our ability to comply with the laws for each jurisdiction where we operate;
§ the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
§ increased competition and its effect on pricing;
§ technological changes;

§ negative publicity and the impact on our reputation;
§ changes in consumer spending and saving habits;
§ growth and profitability of our noninterest income;
§ changes in accounting principles, policies, practices or guidelines;
§ the limited trading activity of our common stock;
§ the concentration of ownership of our common stock;
§ anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
§ other risks described from time to time in our filings with the Securities and Exchange Commission; and
§ our ability to manage the risks involved in the foregoing.

However, other factors besides those listed in *Item 1A Risk Factors* or discussed in this Form 10-Q also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands)	(Unaudited) September 30, 2014	December 31, 2013
ASSETS		
Cash and Due From Banks	$ 50,049	$ 55,209
Federal Funds Sold and Interest Bearing Deposits	253,974	474,719
Total Cash and Cash Equivalents	304,023	529,928
Investment Securities, Available for Sale, at fair value	322,297	251,420
Investment Securities, Held to Maturity, at amortized cost (fair value of $172,717 and $146,961)	173,188	148,211
Total Investment Securities	495,485	399,631
Loans Held For Sale	8,700	11,065
Loans, Net of Unearned Income	1,414,375	1,388,604
Allowance for Loan Losses	(19,093)	(23,095)
Loans, Net	1,395,282	1,365,509
Premises and Equipment, Net	102,546	103,385
Goodwill	84,811	84,811
Other Intangible Assets	—	32
Other Real Estate Owned	41,726	48,071
Other Assets	67,044	69,471
Total Assets	$ 2,499,617	$ 2,611,903
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 667,616	$ 641,463
Interest Bearing Deposits	1,365,962	1,494,785
Total Deposits	2,033,578	2,136,248
Short-Term Borrowings	42,586	51,321
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	32,305	38,043
Other Liabilities	45,008	47,004
Total Liabilities	2,216,364	2,335,503

SHAREOWNERS' EQUITY		
Preferred Stock, $.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, $.01 par value; 90,000,000 shares authorized; 17,432,884 and 17,360,960 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	174	174
Additional Paid-In Capital	41,637	41,152
Retained Earnings	249,907	243,614
Accumulated Other Comprehensive Loss, Net of Tax	(8,465)	(8,540)
Total Shareowners' Equity	283,253	276,400
Total Liabilities and Shareowners' Equity	$ 2,499,617	$ 2,611,903

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

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CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands, Except Per Share Data)	2014	2013	2014	2013
INTEREST INCOME				
Loans, including Fees	$ 18,528	$ 19,264	$ 54,778	$ 59,127
Investment Securities:				
Taxable	921	571	2,440	1,739
Tax Exempt	113	146	380	392
Funds Sold	204	269	752	818
Total Interest Income	19,766	20,250	58,350	62,076
INTEREST EXPENSE				
Deposits	255	335	856	1,117
Short-Term Borrowings	17	46	54	189
Subordinated Notes Payable	333	339	995	1,020
Other Long-Term Borrowings	263	330	823	1,010
Total Interest Expense	868	1,050	2,728	3,336
NET INTEREST INCOME	18,898	19,200	55,622	58,740
Provision for Loan Losses	424	555	1,282	3,075
Net Interest Income After Provision For Loan Losses	18,474	18,645	54,340	55,665
NONINTEREST INCOME				
Deposit Fees	6,211	6,474	18,293	18,856
Bank Card Fees	2,707	2,715	8,234	8,130
Wealth Management Fees	2,050	2,130	5,820	5,946
Mortgage Banking Fees	911	869	2,274	2,880
Data Processing Fees	336	662	1,265	1,985
Other	1,136	1,176	3,597	3,487
Total Noninterest Income	13,351	14,026	39,483	41,284
NONINTEREST EXPENSE				
Compensation	15,378	16,158	46,365	49,544
Occupancy, Net	4,575	4,403	13,378	12,982
Intangible Amortization	—	46	32	162
Other Real Estate	1,783	1,868	5,458	6,981
Other	6,871	7,678	20,816	22,087
Total Noninterest Expense	28,607	30,153	86,049	91,756
INCOME BEFORE INCOME TAXES	3,218	2,518	7,774	5,193
Income Tax Expense	1,103	927	435	1,920

NET INCOME	$ 2,115	$ 1,591	$ 7,339	$ 3,273
BASIC NET INCOME PER SHARE	$ 0.12	$ 0.09	$ 0.42	$ 0.19
DILUTED NET INCOME PER SHARE	$ 0.12	$ 0.09	$ 0.42	$ 0.19
Average Basic Shares Outstanding	17,440	17,336	17,422	17,319
Average Diluted Shares Outstanding	17,519	17,396	17,482	17,381

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

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CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2014	2013	2014	2013
NET INCOME	$ 2,115	$ 1,591	$ 7,339	$ 3,273
Other comprehensive income, before tax:				
Change in net unrealized gain (loss) on securities available for sale	(173)	459	78	(1,149)
Unrealized losses on securities transferred from available for sale to held to maturity	—	(523)	—	(523)
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	17	7	53	7
Reclassification adjustment for impairment loss realized in net income	—	210	—	410
Other comprehensive income (loss), before tax	(156)	153	131	(1,255)
Deferred tax (benefit) expense related to other comprehensive income	(54)	136	56	(486)
Other comprehensive income (loss), net of tax	(102)	17	75	(769)
TOTAL COMPREHENSIVE INCOME	$ 2,013	$ 1,608	$ 7,414	$ 2,504

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

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

(Unaudited)

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance, January 1, 2013	17,232,380	$ 172	$ 38,707	$ 237,569	$ (29,559)	$ 246,889
Net Income		—	—	3,273	—	3,273
Other Comprehensive Income, Net of Tax		—	—	—	(769)	(769)
Stock Based Compensation		—	914	—	—	914
Impact of Transactions Under Compensation Plans, net	103,898	1	860	—	—	861
Balance, September 30, 2013	17,336,278	$ 173	$ 40,481	$ 240,842	$ (30,328)	$ 251,168
Balance, January 1, 2014	17,360,960	$ 174	$ 41,152	$ 243,614	$ (8,540)	$ 276,400
Net Income		—	—	7,339	—	7,339
Other Comprehensive Income, Net of Tax		—	—	—	75	75
Cash Dividends ($0.0600 per share)		—	—	(1,046)	—	(1,046)
Repurchase of Common Stock	(19,600)	—	(269)	—	—	(269)
Stock Based Compensation		—	635	—	—	635
Impact of Transactions Under Compensation Plans, net	91,524	—	119	—	—	119
Balance, September 30, 2014	17,432,884	$ 174	$ 41,637	$ 249,907	$ (8,465)	$ 283,253

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)

	Nine Months Ended September 30,	
(Dollars in Thousands	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 7,339	$ 3,273
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	1,282	3,075
Depreciation	4,869	4,830
Amortization of Premiums, Discounts, and Fees (net)	3,619	3,422
Amortization of Intangible Assets	32	162
Impairment Loss on Security	—	410
Net Decrease in Loans Held-for-Sale	2,365	367
Stock Based Compensation	635	914
Deferred Income Taxes	1,280	1,802
Loss on Disposal of Fixed Assets	12	18
Loss on Sales and Write-Downs of Other Real Estate Owned	3,423	4,042
Net Decrease in Other Assets	1,144	1,197
Net (Decrease) Increase in Other Liabilities	(2,248)	6,470
Net Cash Provided By Operating Activities	23,752	29,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(56,249)	(39,115)
Payments, Maturities, and Calls	30,078	4,141
Securities Available for Sale:		
Purchases	(159,741)	(142,336)
Payments, Maturities, and Calls	86,149	99,708
Net (Increase) Decrease in Loans	(42,808)	61,354
Proceeds From Sales of Other Real Estate Owned	15,043	17,397
Purchases of Premises and Equipment	(4,042)	(1,458)
Net Cash Used In Investing Activities	(131,570)	(309)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Deposits	(102,670)	(128,110)
Net (Decrease) Increase in Short-Term Borrowings	(10,263)	55
Increase in Other Long-Term Borrowings	—	1,303
Repayment of Other Long-Term Borrowings	(4,210)	(3,490)
Dividends Paid	(1,046)	—
Payments to Repurchase Common Stock	(269)	—
Issuance of Common Stock Under Compensation Plans	371	842
Net Cash Used In Financing Activities	(118,087)	(129,400)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(225,905)	(99,727)
Cash and Cash Equivalents at Beginning of Period	529,928	509,732
Cash and Cash Equivalents at End of Period	$ 304,023	$ 410,005
Supplemental Cash Flow Disclosures:		
Interest Paid	$ 2,678	$ 2,364
Income Taxes Paid (Refunded)	$ 2,660	$ (2,201)
Noncash Investing and Financing Activities:		
Transfer of Securities Available for Sale to Held to Maturity	$ —	$ 62,488
Loans Transferred to Other Real Estate Owned	$ 12,121	$ 21,030
Transfer of Current Portion of Long-Term Borrowings	$ 1,528	$ 4,428

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 wholly-owned subsidiary, Capital City Bank (“CCB” or the “Bank” and together with the Company), 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 CCB. 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.

The consolidated statement of financial condition at December 31, 2013 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, 2013.

NOTE 2 – INVESTMENT SECURITIES

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

	September 30, 2014	December 31, 2013

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
Available for Sale								
U.S. Treasury	$165,055	$ 97	$ 95	$165,057	$71,791	$ 82	$ 40	$71,833
U.S. Government Agency	94,925	259	190	94,994	75,275	127	256	75,146
States and Political Subdivisions	51,052	99	11	51,140	91,605	167	19	91,753
Mortgage-Backed Securities	2,167	194	—	2,361	2,583	212	—	2,795
Equity Securities(1)	8,745	—	—	8,745	9,893	—	—	9,893
Total	321,944	$ 649	$ 296	$322,297	$251,147	$ 588	$ 315	$251,420
Held to Maturity								
U.S. Treasury	$76,235	$ 108	$ 63	$76,280	$43,533	$ 84	$ 38	$43,579
U.S. Government Agency	22,322	28	37	22,313	15,794	38	22	15,810
States and Political Subdivisions	30,244	63	5	30,302	33,216	53	4	33,265
Mortgage-Backed Securities	44,387	14	579	43,822	55,668	12	1,373	54,307
Total	$173,188	$ 213	$ 684	$172,717	$148,211	$ 187	$ 1,437	$146,961

(1) *Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $3.9 million and $4.8 million, respectively, at September 30, 2014 and $5.0 million and $4.8 million, respectively, at December 31, 2013.*

Securities with an amortized cost of $225.5 million and $258.5 million at September 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes.

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

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Maturity Distribution. As of September 30, 2014, the Company's investment securities are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities, certain amortizing U.S. government agency securities, and equity securities are shown separately since they are not due at a single maturity date.

(Dollars in Thousands)	Available for Sale Amortized Cost	Available for Sale Market Value	Held to Maturity Amortized Cost	Held to Maturity Market Value
Due in one year or less	$67,038	$67,110	$17,588	$17,616
Due after one through five years	173,739	173,766	111,213	111,279
Mortgage-Backed Securities	2,167	2,361	44,387	43,822
U.S. Government Agency	70,255	70,315	—	—
Equity Securities	8,745	8,745	—	—
Total	$321,944	$322,297	$173,188	$172,717

Unrealized Losses on Investment 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:

(Dollars in Thousands)	Less Than 12 Months Market Value	Less Than 12 Months Unrealized Losses	Greater Than 12 Months Market Value	Greater Than 12 Months Unrealized Losses	Total Market Value	Total Unrealized Losses
September 30, 2014						
Available for Sale						
U.S. Government Treasury	$95,417	$ 95	$—	$ —	$95,417	$ 95
U.S. Government Agency	21,896	71	21,702	119	43,598	190
States and Political Subdivisions	3,549	6	507	5	4,056	11
Total	$120,862	$ 172	$22,209	$ 124	$143,071	$ 296
Held to Maturity						
U.S. Government Treasury	$47,915	$ 63	$—	$ —	$47,915	$ 63
U.S. Government Agency	13,486	37	—	—	13,486	37
States and Political Subdivisions	3,717	5	—	—	3,717	5
Mortgage-Backed Securities	33,309	508	3,935	71	37,244	579
Total	$98,427	$ 613	$3,935	$ 71	$102,362	$ 684
December 31, 2013						
Available for Sale						
U.S. Government Treasury	$24,924	$ 40	$—	$ —	$24,924	$ 40
U.S. Government Agency	40,944	235	4,842	21	45,786	256
States and Political Subdivisions	4,101	7	511	12	4,612	19
Total	$69,969	$ 282	$5,353	$ 33	$75,322	$ 315
Held to Maturity						
U.S. Government Treasury	$10,054	$ 38	$—	$ —	$10,054	$ 38

U.S. Government Agency	5,676	22	—	—	5,676	22
States and Political Subdivisions	3,316	4	—	—	3,316	4
Mortgage-Backed Securities	44,031	1,373	—	—	44,031	1,373
Total	$63,077	$ 1,437	$—	$ —	$63,077	$ 1,437

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.

Approximately $22.2 million of investment securities comprised of 26 Small Business Administration securities and one municipal bond, with an unrealized loss of approximately $124,000, have been in a loss position for greater than 12 months. Approximately $3.9 million of held to maturity investment securities, comprised of 7 collateralized mortgage obligations, with an unrealized loss of approximately $71,000 have been in a loss position for greater than 12 months. All of these debt securities are in a loss position because they were acquired when the general level of interest rates was lower than that on September 30, 2014. The Company believes that the unrealized losses in these debt securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2014.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	September 30, 2014	December 31, 2013
Commercial, Financial and Agricultural	$ 133,756	$ 126,607
Real Estate – Construction	38,121	31,012
Real Estate – Commercial Mortgage	501,863	533,871
Real Estate – Residential[1]	308,295	309,692
Real Estate – Home Equity	228,968	227,922
Consumer	203,372	159,500
Loans, Net of Unearned Income	$ 1,414,375	$ 1,388,604

(1) *Includes loans in process with outstanding balances of $5.5 million and $6.8 million at September 30, 2014 and December 31, 2013, respectively.*

Net deferred fees included in loans were $1.5 million at September 30, 2014 and December 31, 2013.

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

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

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

	September 30, 2014		December 31, 2013	
(Dollars in Thousands)	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural	$933	$ —	$188	$ —
Real Estate – Construction	860	—	426	—
Real Estate – Commercial Mortgage	11,920	—	25,227	—
Real Estate – Residential	7,416	—	6,440	—
Real Estate – Home Equity	2,018	—	4,084	—
Consumer	335	62	599	—
Total	$23,482	$ 62	$36,964	$ —

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

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

(Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
September 30, 2014						
Commercial, Financial and Agricultural	$296	$59	$ —	$355	$132,468	$133,756
Real Estate – Construction	—	—	—	—	37,261	38,121
Real Estate – Commercial Mortgage	711	26	—	737	489,206	501,863
Real Estate – Residential	1,193	1,094	—	2,287	298,592	308,295
Real Estate – Home Equity	255	119	—	374	226,576	228,968
Consumer	795	178	62	1,035	202,002	203,372
Total	$3,250	$1,476	$ 62	$4,788	$1,386,105	$1,414,375
December 31, 2013						
Commercial, Financial and Agricultural	$258	$100	$ —	$358	$126,062	$126,607
Real Estate – Construction	—	—	—	—	30,587	31,012
Real Estate – Commercial Mortgage	1,548	672	—	2,220	506,424	533,871
Real Estate – Residential	1,647	1,090	—	2,737	300,514	309,692
Real Estate – Home Equity	848	212	—	1,060	222,778	227,922
Consumer	1,127	244	—	1,371	157,529	159,500
Total	$5,428	$2,318	$ —	$7,746	$1,343,894	$1,388,604

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 facts and circumstances of the individual loan confirm the loan is not fully collectible and the loss is reasonably quantifiable.

The following table details the activity in the allowance for loan losses by portfolio class. 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
Three Months Ended September 30, 2014								
Beginning Balance	$ 706	$ 1,267	$ 6,147	$ 8,214	$ 3,066	$ 1,143	$ —	$ 20,543
Provision for Loan Losses	387	(280)	386	(505)	331	105	—	424
Charge-Offs	(86)	—	(1,208)	(212)	(621)	(386)	—	(2,513)
Recoveries	28	2	213	93	37	266	—	639
Net Charge-Offs	(58)	2	(955)	(119)	(584)	(120)	—	(1,874)
Ending Balance	$ 1,035	$ 989	$ 5,538	$ 7,590	$ 2,813	$ 1,128	$ —	$ 19,093
Nine Months Ended September 30, 2014								
Beginning Balance	$ 699	$ 1,580	$ 7,710	$ 9,073	$ 3,051	$ 982	$ —	$ 23,095
Provision for Loan Losses	371	(598)	267	(385)	1,048	579	—	1,282
Charge-Offs	(183)	—	(2,831)	(1,638)	(1,399)	(1,212)	—	(7,263)
Recoveries	148	7	392	540	113	779	—	1,979
Net Charge-Offs	(35)	7	(2,439)	(1,098)	(1,286)	(433)	—	(5,284)
Ending Balance	$ 1,035	$ 989	$ 5,538	$ 7,590	$ 2,813	$ 1,128	$ —	$ 19,093
Three Months Ended September 30, 2013								
Beginning Balance	$ 895	$ 2,243	$ 9,951	$ 9,258	$ 2,879	$ 1,042	$ 1,026	$ 27,294
Provision for Loan Losses	(171)	(237)	(630)	1,044	277	297	(25)	555
Charge-Offs	(138)	(278)	(882)	(1,178)	(362)	(674)	—	(3,512)
Recoveries	87	1	167	167	13	238	—	673
Net Charge-Offs	(51)	(277)	(715)	(1,011)	(349)	(436)	—	(2,839)
Ending Balance	$ 673	$ 1,729	$ 8,606	$ 9,291	$ 2,807	$ 903	$ 1,001	$ 25,010
Nine Months Ended September 30, 2013								
Beginning Balance	$ 1,253	$ 2,856	$ 11,081	$ 8,678	$ 2,945	$ 1,327	$ 1,027	$ 29,167
Provision for Loan Losses	(345)	(130)	151	2,868	404	153	(26)	3,075
Charge-Offs	(411)	(998)	(2,975)	(2,914)	(797)	(1,321)	—	(9,416)
Recoveries	176	1	349	659	255	744	—	2,184
Net Charge-Offs	(235)	(997)	(2,626)	(2,255)	(542)	(577)	—	(7,232)

Ending Balance	$ 673	$ 1,729	$ 8,606	$ 9,291	$ 2,807	$ 903	$ 1,001	$ 25,010

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

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
September 30, 2014								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 576	$ 94	$ 3,359	$ 2,526	$ 471	$ 12	$ —	$ 7,038
Loans Collectively Evaluated for Impairment	459	895	2,179	5,064	2,342	1,116	—	12,055
Ending Balance	$ 1,035	$ 989	$ 5,538	$ 7,590	$ 2,813	$ 1,128	$ —	$ 19,093
December 31, 2013								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 75	$ 66	$ 4,336	$ 2,047	$ 682	$ 23	$ —	$ 7,229
Loans Collectively Evaluated for Impairment	624	1,514	3,374	7,026	2,369	959	—	15,866
Ending Balance	$ 699	$ 1,580	$ 7,710	$ 9,073	$ 3,051	$ 982	$ —	$ 23,095
September 30, 2013								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment	$ 218	$ 124	$ 5,045	$ 2,184	$ 508	$ 31	$ —	$ 8,110
Loans Collectively Evaluated for Impairment	455	1,605	3,561	7,107	2,299	872	1,001	16,900
Ending Balance	$ 673	$ 1,729	$ 8,606	$ 9,291	$ 2,807	$ 903	$ 1,001	$ 25,010

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
September 30, 2014								
Individually Evaluated for Impairment	$ 1,489	$ 835	$ 37,524	$ 22,087	$ 2,796	$ 271	$ —	$ 65,002
Collectively Evaluated for Impairment	132,267	37,286	464,339	286,208	226,172	203,101	—	1,349,373

Total	$133,756	$38,121	$501,863	$308,295	$228,968	$203,372	$—	$ 1,414,375
December 31, 2013								
Individually Evaluated for Impairment	$1,580	$557	$49,973	$20,470	$3,359	$355	$—	$ 76,294
Collectively Evaluated for Impairment	125,027	30,455	483,898	289,222	224,563	159,145	—	1,312,310
Total	$126,607	$31,012	$533,871	$309,692	$227,922	$159,500	$—	$ 1,388,604
September 30, 2013								
Individually Evaluated for Impairment	$3,546	$773	$57,820	$20,894	$3,977	$416	$—	$ 87,426
Collectively Evaluated for Impairment	119,707	30,681	512,916	290,137	226,235	150,740	—	1,330,416
Total	$123,253	$31,454	$570,736	$311,031	$230,212	$151,156	$—	$ 1,417,842

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
September 30, 2014				
Commercial, Financial and Agricultural	$ 1,489	$ 195	$ 1,294	$ 576
Real Estate – Construction	835	—	835	94
Real Estate – Commercial Mortgage	37,524	11,062	26,462	3,359
Real Estate – Residential	22,087	5,265	16,822	2,526
Real Estate – Home Equity	2,796	792	2,004	471
Consumer	271	20	251	12
Total	$ 65,002	$ 17,334	$ 47,668	$ 7,038
December 31, 2013				
Commercial, Financial and Agricultural	$ 1,580	$ 443	$ 1,137	$ 75
Real Estate – Construction	557	—	557	66
Real Estate – Commercial Mortgage	49,973	19,860	30,113	4,336
Real Estate – Residential	20,470	4,330	16,140	2,047
Real Estate – Home Equity	3,359	646	2,713	682
Consumer	355	90	265	23
Total	$ 76,294	$ 25,369	$ 50,925	$ 7,229

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
(Dollars in Thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Commercial, Financial and Agricultural	$ 1,433	15	$ 2,750	34	$ 1,482	50	$ 2,633	110
Real Estate - Construction	828	1	935	2	738	4	1,317	5
Real Estate - Commercial Mortgage	39,020	381	59,657	510	42,671	1,298	60,785	1,575
Real Estate - Residential	22,180	284	20,992	217	21,610	800	21,353	637
Real Estate - Home Equity	2,680	18	4,050	19	2,906	52	4,056	54

Consumer	293	2	472	3	314	7	529	7
Total	$66,434	701	$88,856	785	$69,721	2,211	$90,673	2,388

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

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

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

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

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

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

Real Estate Home Equity – Home equity loans and lines are made to qualified individuals and are 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 Criticized Loans
September 30, 2014				
Special Mention	$ 4,225	$43,372	$ 179	$ 47,776
Substandard	3,994	84,526	910	89,430
Doubtful	420			