CAPITAL CITY BANK GROUP INC
Form 10-Q
August 05, 2016

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 June 30, 2016

OR

[ ] **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 [ ]

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 [ ]

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 [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [ ]

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

At July 31, 2016, 16,803,602 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 JUNE 30, 2016

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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, 2015 (the “2015 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 ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
- legislative or regulatory changes, including the Dodd-Frank Act, Basel III, and the ability to repay and qualified mortgage standards;
- the effects of security breaches and computer viruses that may affect our computer systems or fraud related to debit card products;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss provision and deferred tax asset valuation;
- the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to declare and pay dividends, the payment of which is now subject to our compliance with heightened capital requirements;

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

However, other factors besides those listed in *Item 1A Risk Factors* or discussed in this 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.

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

(Dollars in Thousands)	(Unaudited) June 30, 2016	December 31, 2015
ASSETS		
Cash and Due From Banks	$ 51,766	$ 51,288
Federal Funds Sold and Interest Bearing Deposits	220,719	327,617
Total Cash and Cash Equivalents	272,485	378,905
Investment Securities, Available for Sale, at fair value	485,848	451,028
Investment Securities, Held to Maturity, at amortized cost (fair value of $205,595 and $187,407)	204,474	187,892
Total Investment Securities	690,322	638,920
Loans Held For Sale	12,046	11,632
Loans, Net of Unearned Income	1,520,474	1,492,275
Allowance for Loan Losses	(13,677)	(13,953)
Loans, Net	1,506,797	1,478,322
Premises and Equipment, Net	97,313	98,819
Goodwill	84,811	84,811
Other Real Estate Owned	14,622	19,290
Other Assets	89,240	87,161
Total Assets	$ 2,767,636	$ 2,797,860
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 798,219	$ 758,283
Interest Bearing Deposits	1,526,587	1,544,566
Total Deposits	2,324,806	2,302,849
Short-Term Borrowings	9,609	61,058
Subordinated Notes Payable	52,887	62,887
Other Long-Term Borrowings	26,401	28,265
Other Liabilities	79,109	68,449
Total Liabilities	2,492,812	2,523,508
SHAREOWNERS' EQUITY		
Preferred Stock, $.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, $.01 par value; 90,000,000 shares authorized; 16,803,599 and 17,156,919 shares	168	172

issued and outstanding at June 30, 2016 and December 31, 2015 respectively		
Additional Paid-In Capital	32,855	38,256
Retained Earnings	262,380	258,181
Accumulated Other Comprehensive Loss, Net of Tax	(20,579)	(22,257)
Total Shareowners’ Equity	274,824	274,352
Total Liabilities and Shareowners' Equity	$ 2,767,636	$ 2,797,860

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

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

(Dollars in Thousands, Except Per Share Data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
INTEREST INCOME				
Loans, including Fees	$ 18,105	$ 18,231	$ 36,150	$ 36,094
Investment Securities:				
Taxable	1,539	1,313	2,959	2,511
Tax Exempt	212	138	429	234
Federal Funds Sold and Interest Bearing Deposits	318	151	680	340
Total Interest Income	20,174	19,833	40,218	39,179
INTEREST EXPENSE				
Deposits	211	259	432	505
Short-Term Borrowings	38	15	48	36
Subordinated Notes Payable	343	338	730	670
Other Long-Term Borrowings	206	237	422	477
Total Interest Expense	798	849	1,632	1,688
NET INTEREST INCOME	19,376	18,984	38,586	37,491
Provision for Loan Losses	(97)	375	355	668
Net Interest Income After Provision For Loan Losses	19,473	18,609	38,231	36,823
NONINTEREST INCOME				
Deposit Fees	5,321	5,682	10,721	11,223
Bank Card Fees	2,855	2,844	5,708	5,586
Wealth Management Fees	1,690	1,776	3,482	3,822
Mortgage Banking Fees	1,267	1,203	2,297	2,190
Data Processing Fees	335	364	682	737
Other	3,747	2,925	5,002	4,084
Total Noninterest Income	15,215	14,794	27,892	27,642
NONINTEREST EXPENSE				
Compensation	16,051	16,404	32,292	32,928
Occupancy, net	4,584	4,258	9,043	8,654
Other Real Estate Owned, net	1,060	931	2,485	2,428
Other	7,007	6,846	13,812	13,819
Total Noninterest Expense	28,702	28,439	57,632	57,829
INCOME BEFORE INCOME TAXES	5,986	4,964	8,491	6,636
Income Tax Expense	2,056	1,119	2,914	1,805
NET INCOME	**$ 3,930**	**$ 3,845**	**$ 5,577**	**$ 4,831**

BASIC NET INCOME PER SHARE	**$ 0.22**	**$ 0.22**	**$ 0.32**	**$ 0.28**
DILUTED NET INCOME PER SHARE	**$ 0.22**	**$ 0.22**	**$ 0.32**	**$ 0.28**
Average Common Basic Shares Outstanding	17,144	17,296	17,173	17,402
Average Common Diluted Shares Outstanding	17,196	17,358	17,215	17,456

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2016**	**2015**	**2016**	**2015**
NET INCOME	$ 3,930	$ 3,845	$ 5,577	$ 4,831
Other comprehensive income (loss), before tax:				
Investment Securities:				
Change in net unrealized gain/loss on securities available for sale	908	(117)	2,692	1,029
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	20	19	39	36
Total Investment Securities	928	(98)	2,731	1,065
Other comprehensive income (loss), before tax	928	(98)	2,731	1,065
Deferred tax expense (benefit) related to other comprehensive income	358	(37)	1,053	411
Other comprehensive income (loss), net of tax	570	(61)	1,678	654
TOTAL COMPREHENSIVE INCOME	$ 4,500	$ 3,784	$ 7,255	$ 5,485

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, 2015	17,447,223	$ 174	$ 42,569	$ 251,306	$ (21,509)	$ 272,540
Net Income	-	-	-	4,831	-	4,831
Other Comprehensive Income, Net of Tax	-	-	-	-	654	654
Cash Dividends ($0.0600 per share)	-	-	-	(1,041)	-	(1,041)
Repurchase of Common Stock	(392,981)	(3)	(5,795)	-	-	(5,798)
Stock Based Compensation	-	-	522	-	-	522
Impact of Transactions Under Compensation Plans, net	99,991	1	329	-	-	330
Balance, June 30, 2015	17,154,233	$ 172	$ 37,625	$ 255,096	$ (20,855)	$ 272,038
Balance, January 1, 2016	17,156,919	$ 172	$ 38,256	$ 258,181	$ (22,257)	$ 274,352
Net Income	-	-	-	5,577	-	5,577
Other Comprehensive Income, Net of Tax	-	-	-	-	1,678	1,678
Cash Dividends ($0.0800 per share)	-	-	-	(1,378)	-	(1,378)
Repurchase of Common Stock	(435,461)	(4)	(6,308)	-	-	(6,312)
Stock Based Compensation	-	-	495	-	-	495
Impact of Transactions Under Compensation Plans, net	82,141	-	412	-	-	412
Balance, June 30, 2016	16,803,599	$ 168	$ 32,855	$ 262,380	$ (20,579)	$ 274,824

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)

(Dollars in Thousands	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 5,577	$ 4,831
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	355	668
Depreciation	3,435	3,259
Amortization of Premiums, Discounts, and Fees, net	3,037	2,269
Impairment Loss on Security	-	90
Gain on Retirement of Trust Preferred Securities	(2,487)	-
Net Increase in Loans Held-for-Sale	(414)	(303)
Stock Compensation	495	522
Deferred Income Taxes	3,586	2,591
Loss on Sales and Write-Downs of Other Real Estate Owned	1,980	1,309
Loss on Disposal of Premises and Equipment	92	20
Net (Increase) Decrease in Other Assets	(6,679)	1,043
Net Increase in Other Liabilities	10,787	6,768
Net Cash Provided By Operating Activities	19,764	23,067
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(28,588)	(62,634)
Payments, Maturities, and Calls	11,513	23,782
Securities Available for Sale:		
Purchases	(90,322)	(136,542)
Payments, Maturities, and Calls	55,619	43,417
Net Increase in Loans	(31,218)	(48,409)
Proceeds From Sales of Other Real Estate Owned	5,107	6,760
Purchases of Premises and Equipment	(2,021)	(1,641)
Net Cash Used In Investing Activities	(79,910)	(175,267)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	21,957	17,850
Net (Decrease) Increase in Short-Term Borrowings	(51,886)	4,273
Redemption of Subordinated Notes	(7,500)	-
Repayment of Other Long-Term Borrowings	(1,427)	(1,364)
Dividends Paid	(1,378)	(1,041)
Payments to Repurchase Common Stock	(6,312)	(5,798)
Issuance of Common Stock Under Compensation Plans	272	280
Net Cash (Used In) Provided By Financing Activities	(46,274)	14,200
NET DECREASE IN CASH AND CASH EQUIVALENTS	(106,420)	(138,000)
Cash and Cash Equivalents at Beginning of Period	378,905	385,056

Cash and Cash Equivalents at End of Period	$	272,485	$	247,056
Supplemental Cash Flow Disclosures:				
Interest Paid	$	1,630	$	1,694
Income Taxes (Refunded) Paid	$	(375)	$	171
Noncash Investing and Financing Activities:				
Loans Transferred to Other Real Estate Owned	$	2,419	$	2,830
Transfer of Current Portion of Long-Term Borrowings	$	437	$	-

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.

The consolidated statement of financial condition at December 31, 2015 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, 2015.

NOTE 2 – INVESTMENT SECURITIES

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

	June 30, 2016				**December 31, 2015**			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
Available for Sale								

U.S. Government Treasury	$272,847	$ 1,672	$ 1	$274,518	$250,458	$ 101	$ 213	$250,346
U.S. Government Agency	112,386	618	86	112,918	101,730	357	263	101,824
States and Political Subdivisions	87,391	498	2	87,887	88,358	103	99	88,362
Mortgage-Backed Securities	1,385	139	-	1,524	1,742	159	-	1,901
Equity Securities[1]	9,001	-	-	9,001	8,595	-	-	8,595
Total	$483,010	$ 2,927	$ 89	$485,848	$450,883	$ 720	$ 575	$451,028
Held to Maturity								
U.S. Government Treasury	$144,453	$ 890	$ -	$145,343	$134,554	$ 45	$ 160	$134,439
U.S. Government Agency	8,010	8	-	8,018	10,043	7	5	10,045
States and Political Subdivisions	11,384	110	-	11,494	15,693	38	7	15,724
Mortgage-Backed Securities	40,627	207	94	40,740	27,602	4	407	27,199
Total	$204,474	$ 1,215	$ 94	$205,595	$187,892	$ 94	$ 579	$187,407
Total Investment Securities	$687,484	$ 4,142	$ 183	$691,443	$638,775	$ 814	$ 1,154	$638,435

(1) *Includes Federal Home Loan Bank, Federal Reserve Bank, and FNBB, Inc. stock recorded at cost of $3.7 million, $4.8 million, and $0.5 million, respectively, at June 30, 2016 and $3.6 million, $4.8 million, and $0.2 million, respectively, at December 31, 2015.*

Securities with an amortized cost of $245.3 million and $370.1 million at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes.

The Bank, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”), is required to own capital stock in the FHLB based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock which is included in equity 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 June 30, 2016, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

	Available for Sale		**Held to Maturity**	
(Dollars in Thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$ 107,601	$ 107,815	$ 82,698	$ 82,851
Due after one through five years	283,434	285,559	81,149	82,004
Mortgage-Backed Securities	1,385	1,524	40,627	40,740
U.S. Government Agency	81,589	81,949	-	-
Equity Securities	9,001	9,001	-	-
Total	$ 483,010	$ 485,848	$ 204,474	$ 205,595

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:

	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
June 30, 2016						
Available for Sale						
U.S. Government Treasury	$ 9,955	$ 1	$ -	$ -	$ 9,955	$ 1
U.S. Government Agency	13,815	52	10,505	34	24,320	86
States and Political Subdivisions	3,135	2	302	-	3,437	2
Total	26,905	55	10,807	34	37,712	89
Held to Maturity						
Mortgage-Backed Securities	1,189	1	8,006	93	9,195	94
Total	$ 1,189	$ 1	$ 8,006	$ 93	$ 9,195	$ 94
December 31, 2015						
Available for Sale						
U.S. Government Treasury	$ 150,061	$ 213	$ -	$ -	$ 150,061	$ 213
U.S. Government Agency	43,508	200	9,644	63	53,152	263

States and Political Subdivisions	39,608	86	5,066	13	44,674	99
Total	233,177	499	14,710	76	247,887	575
Held to Maturity						
U.S. Government Treasury	92,339	160	-	-	92,339	160
U.S. Government Agency	5,006	5	-	-	5,006	5
States and Political Subdivisions	3,791	7	-	-	3,791	7
Mortgage-Backed Securities	13,267	185	11,889	222	22,156	407
Total	$ 114,403	$ 357	$ 11,889	$ 222	$126,292	$ 579

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

At June 30, 2016, there were 79 positions (combined Available-for-Sale and Held-to-Maturity) with unrealized losses totaling $0.2 million. Of the 79 positions, 66 were Ginnie Mae mortgage-backed securities (GNMA), U.S. Treasuries, or SBA securities, all of which carry the full faith and credit guarantee of the U.S. Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 66 positions, there were 21 GNMA positions and 26 SBA positions in an unrealized loss position for longer than 12 months. There were 13 municipal bonds in an unrealized loss position that were pre-refunded, or rated "AA-" or better. These debt securities are in a loss position because they were acquired when the general level of interest rates was lower than that on June 30, 2016. The Company believes that the unrealized losses in these debt securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2016.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	**June 30, 2016**	**December 31, 2015**
Commercial, Financial and Agricultural	$ 207,105	$ 179,816
Real Estate – Construction	46,930	46,484
Real Estate – Commercial Mortgage	485,329	499,813
Real Estate – Residential (1)	291,192	290,585
Real Estate – Home Equity	235,394	233,901
Consumer	254,524	241,676
Loans, Net of Unearned Income	$ 1,520,474	$ 1,492,275

(1) *Includes loans in process with outstanding balances of $11.6 million and $8.5 million at June 30, 2016 and December 31, 2015, respectively.*

Net deferred costs included in loans were $0.2 million at June 30, 2016 and net deferred fees included in loans were $0.5 million at December 31, 2015.

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

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

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

	June 30, 2016		December 31, 2015	
(Dollars in Thousands)	**Nonaccrual**	**90 + Days**	**Nonaccrual**	**90 + Days**
Commercial, Financial and Agricultural	$ 163	$ -	$ 96	$ -
Real Estate – Construction	123	-	97	-
Real Estate – Commercial Mortgage	4,308	-	4,191	-
Real Estate – Residential	2,701	-	4,739	-
Real Estate – Home Equity	864	-	1,017	-
Consumer	55	-	165	-
Total Nonaccrual Loans	$ 8,214	$ -	$ 10,305	$ -

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

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

(Dollars in Thousands)	**30-59 DPD**	**60-89 DPD**	**90 + DPD**	**Total Past Due**	**Total Current**	**Total Loans**
June 30, 2016						
Commercial, Financial and Agricultural	$ 99	$ 197	$ -	$ 296	$ 206,646	$ 207,105
Real Estate – Construction	-	-	-	-	46,807	46,930
Real Estate – Commercial Mortgage	679	161	-	840	480,181	485,329
Real Estate – Residential	565	438	-	1,003	287,488	291,192
Real Estate – Home Equity	424	46	-	470	234,060	235,394
Consumer	997	266	-	1,263	253,206	254,524
Total Past Due Loans	$ 2,764	$ 1,108	$ -	$ 3,872	$ 1,508,388	$ 1,520,474
December 31, 2015						
Commercial, Financial and Agricultural	$ 153	$ 18	$ -	$ 171	$ 179,549	$ 179,816
Real Estate – Construction	690	-	-	690	45,697	46,484
Real Estate – Commercial Mortgage	754	1,229	-	1,983	493,639	499,813
Real Estate – Residential	567	347	-	914	284,932	290,585
Real Estate – Home Equity	787	97	-	884	232,000	233,901

Consumer	735	398	-	1,133	240,378	241,676
Total Past Due Loans	$ 3,686	$ 2,089	$ -	$ 5,775	$ 1,476,195	$ 1,492,275

Allowance for Loan Losses. The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of incurred 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. 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	Total
Three Months Ended June 30, 2016							
Beginning Balance	$ 883	$ 101	$ 4,349	$ 4,137	$ 2,435	$ 1,708	$ 13,613
Provision for Loan Losses	420	25	(197)	(676)	21	310	(97)
Charge-Offs	(304)	-	-	(205)	(146)	(438)	(1,093)
Recoveries	49	-	237	579	81	308	1,254
Net Charge-Offs	(255)	-	237	374	(65)	(130)	161
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677
Six Months Ended June 30, 2016							
Beginning Balance	$ 905	$ 101	$ 4,498	$ 4,409	$ 2,473	$ 1,567	$ 13,953
Provision for Loan Losses	396	25	(153)	(706)	139	654	355
Charge-Offs	(341)	-	(274)	(683)	(361)	(877)	(2,536)
Recoveries	88	-	318	815	140	544	1,905
Net Charge-Offs	(253)	-	44	132	(221)	(333)	(631)
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677
Three Months Ended June 30, 2015							
Beginning Balance	$ 903	$ 574	$ 4,501	$ 6,195	$ 2,547	$ 1,370	$ 16,090
Provision for Loan Losses	171	(214)	5	(257)	410	260	375
Charge-Offs	(239)	-	(285)	(484)	(454)	(351)	(1,813)
Recoveries	82	-	54	200	33	215	584
Net Charge-Offs	(157)	-	(231)	(284)	(421)	(136)	(1,229)
Ending Balance	$ 917	$ 360	$ 4,275	$ 5,654	$ 2,536	$ 1,494	$ 15,236
Six Months Ended June 30, 2015							
Beginning Balance	$ 784	$ 843	$ 5,287	$ 6,520	$ 2,882	$ 1,223	$ 17,539
Provision for Loan Losses	525	(483)	93	(325)	233	625	668
Charge-Offs	(529)	-	(1,189)	(789)	(636)	(927)	(4,070)

Recoveries	137	-	84	248	57	573	1,099
Net Charge-Offs	(392)	-	(1,105)	(541)	(579)	(354)	(2,971)
Ending Balance	$ 917	$ 360	$ 4,275	$ 5,654	$ 2,536	$ 1,494	$ 15,236

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**	**Total**
June 30, 2016							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 69	$ -	$ 1,953	$ 1,868	$ 318	$ 9	$ 4,217
Loans Collectively Evaluated for Impairment	979	126	2,436	1,967	2,073	1,879	9,460
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677
December 31, 2015							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 77	$ -	$ 2,049	$ 2,118	$ 384	$ 18	$ 4,646
Loans Collectively Evaluated for Impairment	828	101	2,449	2,291	2,089	1,549	9,307
Ending Balance	$ 905	$ 101	$ 4,498	$ 4,409	$ 2,473	$ 1,567	$ 13,953
June 30, 2015							
Period-end amount Allocated to:							