CAPITAL CITY BANK GROUP INC
Form 10-Q
May 06, 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 March 31, 2016

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

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

(850) 402-7000

(Registrant's telephone number, including area code)

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

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

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

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

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

At April 30, 2016, 17,221,682 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, 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 credit or debit card products;
- § the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss reserve and deferred tax asset valuation allowance;
- § 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;
- § our need and our ability to incur additional debt or equity financing;
- § 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. CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) **March 31,** 2016	December 31, 2015
(Dollars in Thousands)		
ASSETS		
Cash and Due From Banks	$45,914	$51,288
Federal Funds Sold and Interest Bearing Deposits	304,908	327,617
Total Cash and Cash Equivalents	350,822	378,905
Investment Securities, Available for Sale, at fair value	462,444	451,028
Investment Securities, Held to Maturity, at amortized cost (fair value of $187,649 and $187,407)	187,079	187,892
Total Investment Securities	649,523	638,920
Loans Held For Sale	10,475	11,632
Loans, Net of Unearned Income	1,506,835	1,492,275
Allowance for Loan Losses	(13,613)	(13,953)
Loans, Net	1,493,222	1,478,322
Premises and Equipment, Net	98,029	98,819
Goodwill	84,811	84,811
Other Real Estate Owned	17,450	19,290
Other Assets	87,854	87,161
Total Assets	$2,792,186	$2,797,860
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$790,040	$758,283
Interest Bearing Deposits	1,501,368	1,544,566
Total Deposits	2,291,408	2,302,849
Short-Term Borrowings	62,922	61,058
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	27,062	28,265
Other Liabilities	71,074	68,449
Total Liabilities	2,515,353	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; 17,221,654 and 17,156,919 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	172	172
Additional Paid-In Capital	38,671	38,256
Retained Earnings	259,139	258,181
Accumulated Other Comprehensive Loss, Net of Tax	(21,149)	(22,257)
Total Shareowners' Equity	276,833	274,352
Total Liabilities and Shareowners' Equity	$2,792,186	$2,797,860

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 INCOME

(Unaudited)

	Three Months Ended March 31,	
(Dollars in Thousands, Except Per Share Data)	2016	2015
INTEREST INCOME		
Loans, including Fees	$ 18,045	$ 17,863
Investment Securities:		
Taxable	1,420	1,198
Tax Exempt	217	96
Funds Sold	362	189
Total Interest Income	20,044	19,346
INTEREST EXPENSE		
Deposits	221	246
Short-Term Borrowings	10	21
Subordinated Notes Payable	387	332
Other Long-Term Borrowings	216	240
Total Interest Expense	834	839
NET INTEREST INCOME	19,210	18,507
Provision for Loan Losses	452	293
Net Interest Income After Provision for Loan Losses	18,758	18,214
NONINTEREST INCOME		
Deposit Fees	5,400	5,541
Bank Card Fees	2,853	2,742
Wealth Management Fees	1,792	2,046
Mortgage Banking Fees	1,030	987
Data Processing Fees	347	373
Other	1,255	1,159
Total Noninterest Income	12,677	12,848
NONINTEREST EXPENSE		
Compensation	16,241	16,524
Occupancy, Net	4,459	4,396
Other Real Estate Owned, Net	1,425	1,497
Other	6,805	6,973
Total Noninterest Expense	28,930	29,390
INCOME BEFORE INCOME TAXES	2,505	1,672
Income Tax Expense	858	686
NET INCOME	$ 1,647	$ 986

BASIC NET INCOME PER SHARE	$ 0.10	$ 0.06
DILUTED NET INCOME PER SHARE	$ 0.10	$ 0.06
Average Basic Common Shares Outstanding	17,202	17,508
Average Diluted Common Shares Outstanding	17,235	17,555

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 March 31,	
(Dollars in Thousands)	2016	2015
NET INCOME	$ 1,647	$ 986
Other comprehensive income, before tax:		
Investment Securities:		
Change in net unrealized gain/loss on securities available for sale	1,784	1,146
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	19	17
Total Investment Securities	1,803	1,163
Other comprehensive income, before tax	1,803	1,163
Deferred tax expense related to other comprehensive income	(695)	(448)
Other comprehensive income, net of tax	1,108	715
TOTAL COMPREHENSIVE INCOME	$ 2,755	$ 1,701

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		—	—	986	—	986
Other Comprehensive Income, Net of Tax		—	—	—	715	715
Cash Dividends ($0.0300 per share)		—	—	(527)	—	(527)
Stock Compensation Expense		—	261	—	—	261
Impact of Transactions Under Compensation Plans, net	85,408	1	111	—	—	112
Balance, March 31, 2015	17,532,631	$ 175	$ 42,941	$ 251,765	$ (20,794)	$ 274,087
Balance, January 1, 2016	17,156,919	$ 172	$ 38,256	$ 258,181	$ (22,257)	$ 274,352
Net Income		—	—	1,647	—	1,647
Other Comprehensive Income, Net of Tax		—	—	—	1,108	1,108
Cash Dividends ($0.0400 per share)		—	—	(689)	—	(689)
Stock Compensation Expense		—	247	—	—	247
Impact of Transactions Under Compensation Plans, net	68,335	—	218	—	—	218
Repurchase of Common Stock	(3,600)	—	(50)	—	—	(50)
Balance, March 31, 2016	17,221,654	$ 172	$ 38,671	$ 259,139	$ (21,149)	$ 276,833

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 CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
(Dollars in Thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,647	$ 986
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Provision for Loan Losses	452	293
Depreciation	1,705	1,633
Amortization of Premiums, Discounts, and Fees (net)	1,569	1,045
Gain on Securities Transactions	—	(2)
Net Decrease (Increase) in Loans Held-for-Sale	1,157	(2,646)
Stock Compensation	247	261
Deferred Income Taxes	693	(1,349)
Loss on Sales and Write-Downs of Other Real Estate Owned	1,076	989
Loss on Sale or Disposal of Premises and Equipment	2	20
Net (Increase) Decrease in Other Assets	(2,063)	3,021
Net Increase in Other Liabilities	2,765	2,445
Net Cash Provided By Operating Activities	9,250	6,696
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(5,064)	(33,204)
Payments, Maturities, and Calls	5,631	12,993
Securities Available for Sale:		
Purchases	(39,499)	(92,106)
Payments, Maturities, and Calls	28,566	29,045
Net Increase in Loans	(16,574)	(23,436)
Proceeds From Sales of Other Real Estate Owned	1,965	2,598
Purchases of Premises and Equipment, net	(917)	(945)
Net Cash Used In Investing Activities	(25,892)	(105,055)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Deposits	(11,441)	63,220
Net Increase in Short-Term Borrowings	1,427	63
Repayment of Other Long-Term Borrowings	(766)	(679)
Dividends Paid	(689)	(527)
Payments to Repurchase Common Stock	(50)	—
Issuance of Common Stock Under Compensation Plans	78	62
Net Cash (Used In) Provided By Financing Activities	(11,441)	62,139
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,083)	(36,220)
Cash and Cash Equivalents at Beginning of Period	378,905	385,056

Cash and Cash Equivalents at End of Period	$ 350,822	$ 348,836
Supplemental Cash Flow Disclosures:		
Interest Paid	$ 829	$ 844
Income Taxes Paid	$ 50	$ 8
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	$ 1,201	$ 1,742
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 were as follows:

March 31, 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	$257,978	$ 1,083	$ 1	$259,060	$250,458	$ 101	$ 213	$250,346
U.S. Government Agency	103,802	530	125	104,207	101,730	357	263	101,824
States and Political Subdivisions	88,556	321	12	88,865	88,358	103	99	88,362
Mortgage-Backed Securities	1,429	134	—	1,563	1,742	159	—	1,901
Equity Securities(1)	8,749	—	—	8,749	8,595	—	—	8,595
Total	$460,514	$ 2,068	$ 138	$462,444	$450,883	$ 720	$ 575	$451,028
Held to Maturity								
U.S. Government Treasury	$139,501	$ 596	$ —	$140,097	$134,554	$ 45	$ 160	$134,439
U.S. Government Agency	10,026	13	—	10,039	10,043	7	5	10,045
States and Political Subdivisions	12,495	81	1	12,575	15,693	38	7	15,724
Mortgage-Backed Securities	25,057	76	195	24,938	27,602	4	407	27,199
Total	$187,079	$ 766	$ 196	$187,649	$187,892	$ 94	$ 579	$187,407
Total Investment Securities	$647,593	$ 2,834	$ 334	$650,093	$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 $0.2 million, respectively, at March 31, 2016 and $3.6 million, $4.8 million, and $0.2 million, respectively, at December 31, 2015.*

Securities with an amortized cost of $326.6 million and $370.1 million at March 31, 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 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, 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.

(Dollars in Thousands)	Available for Sale Amortized Cost	Market Value	Held to Maturity Amortized Cost	Market Value
Due in one year or less	$91,208	$91,254	$70,534	$70,630
Due after one through five years	289,626	291,096	91,488	92,081
Mortgage-Backed Securities	1,429	1,563	25,057	24,938
U.S. Government Agency	69,502	69,782	—	—
Equity Securities	8,749	8,749	—	—
Total	$460,514	$462,444	$187,079	$187,649

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	Unrealized Losses	Greater Than 12 Months Market Value	Unrealized Losses	Total Market Value	Unrealized Losses
March 31, 2016						
Available for Sale						
U.S. Government Treasury	$7,497	$ 1	$—	$ —	$7,497	$ 1
U.S. Government Agency	15,142	60	12,362	65	27,504	125
States and Political Subdivisions	10,733	11	305	1	11,038	12
Mortgage-Backed Securities	4	—	—	—	4	—
Total	33,376	72	12,667	66	46,043	138
Held to Maturity						
U.S. Government Agencies	1,913	—	—	—	1,913	—
States and Political Subdivisions	1,724	1	—	—	1,724	1
Mortgage-Backed Securities	4,032	19	11,630	176	15,662	195
Total	$7,669	$ 20	$11,630	$ 176	$19,299	$ 196
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	25,156	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 March 31, 2016, there were 115 positions (combined AFS and HTM) with unrealized losses at quarter end totaling $0.3 million. Of the 115 positions, 76 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 76 positions, there were 23 GNMA positions and 28 SBA positions in an unrealized loss position for longer than 12 months. There were 37 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 March 31, 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 March 31, 2016.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	March 31, 2016	December 31, 2015
Commercial, Financial and Agricultural	$ 183,681	$ 179,816
Real Estate – Construction	42,537	46,484
Real Estate – Commercial Mortgage	503,259	499,813
Real Estate – Residential[(1)]	296,070	290,585
Real Estate – Home Equity	234,128	233,901
Consumer	247,160	241,676
Loans, Net of Unearned Income	$ 1,506,835	$ 1,492,275

(1) *Includes loans in process with outstanding balances of $10.9 million and $8.5 million at March 31, 2016 and December 31, 2015, respectively.*

Net deferred fees included in loans were $0.1 million and $0.5 million at March 31, 2016 and 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.

	March 31, 2016		December 31, 2015	
(Dollars in Thousands)	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural	$83	—	$96	—
Real Estate – Construction	—	—	97	—
Real Estate – Commercial Mortgage	3,942	—	4,191	—
Real Estate – Residential	3,490	—	4,739	—
Real Estate – Home Equity	1,323	—	1,017	—
Consumer	211	—	165	—
Total Nonaccrual Loans	$9,049	—	$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
March 31, 2016						
Commercial, Financial and Agricultural	$335	$—	$ —	$335	$183,263	$183,681
Real Estate – Construction	383	—	—	383	42,154	42,537
Real Estate – Commercial Mortgage	464	122	—	586	498,731	503,259
Real Estate – Residential	732	149	—	881	291,699	296,070
Real Estate – Home Equity	475	121	—	596	232,209	234,128
Consumer	622	196	—	818	246,131	247,160
Total Past Due Loans	$3,011	$588	$ —	$3,599	$1,494,187	$1,506,835
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 March 31, 2016							
Beginning Balance	$ 905	$ 101	$ 4,498	$ 4,409	$2,473	$ 1,567	$13,953
Provision for Loan Losses	(24)	—	44	(30)	118	344	452
Charge-Offs	(37)	—	(274)	(478)	(215)	(439)	(1,443)
Recoveries	39	—	81	236	59	236	651
Net Charge-Offs	2	—	(193)	(242)	(156)	(203)	(792)
Ending Balance	$ 883	$ 101	$ 4,349	$ 4,137	$2,435	$ 1,708	$13,613

Three Months Ended March 31, 2015							
Beginning Balance	$ 784	$ 843	$ 5,287	$ 6,520	$2,882	$ 1,223	$17,539
Provision for Loan Losses	354	(269)	88	(68)	(177)	365	293
Charge-Offs	(290)	—	(904)	(305)	(182)	(576)	(2,257)
Recoveries	55	—	30	48	24	358	515
Net Charge-Offs	(235)	—	(874)	(257)	(158)	(218)	(1,742)
Ending Balance	$ 903	$ 574	$ 4,501	$ 6,195	$2,547	$ 1,370	$16,090

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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**	**Total**
March 31, 2016							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 72	$ —	$ 1,936	$ 1,954	$ 389	$ 4	$ 4,355
Loans Collectively Evaluated for Impairment	811	101	2,413	2,183	2,046	1,704	9,258
Ending Balance	$ 883	$ 101	$ 4,349	$ 4,137	$ 2,435	$ 1,708	$ 13,613
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
March 31, 2015							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 334	$ —	$ 2,349	$ 2,294	$ 557	$ 15	$ 5,549
Loans Collectively Evaluated for Impairment	569	574	2,152	3,901	1,990	1,355	10,541
Ending Balance	$ 903	$ 574	$ 4,501	$ 6,195	$ 2,547	$ 1,370	$ 16,090

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**	**Total**
March 31, 2016							
Individually Evaluated for Impairment	$ 812	$ —	$ 20,798	$ 18,221	$ 3,211	$ 206	$ 43,248

Collectively Evaluated for Impairment	182,869	42,537	482,461	277,849	230,917	246,954	1,463,587
Total	$ 183,681	$ 42,537	$ 503,259	$ 296,070	$ 234,128	$ 247,160	$ 1,506,835
December 31, 2015							
Individually Evaluated for Impairment	$ 834	$ 97	$ 20,847	$ 18,569	$ 3,144	$ 261	$ 43,752
Collectively Evaluated for Impairment	178,982	46,387	478,966	272,016	230,757	241,415	1,448,523
Total	$ 179,816	$ 46,484	$ 499,813	$ 290,585	$ 233,901	$ 241,676	$ 1,492,275
March 31, 2015							
Individually Evaluated for Impairment	$ 1,252	$ 401	$ 31,213	$ 19,840	$ 3,123	$ 197	$ 56,026
Collectively Evaluated for Impairment	142,699	41,194	476,468	276,884	225,048	233,135	1,395,428
Total	$ 143,951	$ 41,595	$ 507,681	$ 296,724	$ 228,171	$ 233,332	$ 1,451,454

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, 2016				
Commercial, Financial and Agricultural	$812	$ 273	$ 539	$ 72
Real Estate – Construction	—	—	—	—
Real Estate – Commercial Mortgage	20,798	4,108	16,690	1,936
Real Estate – Residential	18,221	2,816	15,405	1,954
Real Estate – Home Equity	3,211	840	2,371	389
Consumer	206	105	101	4
Total	$43,248	$ 8,142	$ 35,106	$ 4,355
December 31, 2015				
Commercial, Financial and Agricultural	$834	$ 279	$ 555	$ 77
Real Estate – Construction	97	97	—	—
Real Estate – Commercial Mortgage	20,847	3,265	17,582	2,049
Real Estate – Residential	18,569	2,941	15,628	2,118
Real Estate – Home Equity	3,144	1,101	2,043	384
Consumer	261	79	182	18
Total	$43,752	$ 7,762	$ 35,990	$ 4,646

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

	For Three Months Ended March 31,			
	2016		2015	
(Dollars in Thousands)	**Average Recorded Investment**	Total Interest Income	**Average Recorded Investment**	Total Interest Income

Commercial, Financial and Agricultural	$823	$ 13	$1,252	$ 11
Real Estate - Construction	49	—	401	—
Real Estate - Commercial Mortgage	20,822	239	31,213	261
Real Estate - Residential	18,395	209	19,840	197
Real Estate - Home Equity	3,178	27	3,123	21
Consumer	234	2	196	2
Total	$43,501	$ 490	$56,025	$ 492

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
March 31, 2016				
Special Mention	$ 2,567	$28,361	$ 47	$ 30,975
Substandard	1,145	47,956	679	49,780
Doubtful	—	—	—	—
Total Criticized Loans	$ 3,712	$76,317	$ 726	$ 80,755