CAPITAL CITY BANK GROUP INC
Form 10-Q
November 08, 2013

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, 2013

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 October 31, 2013, 17,339,821 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, 2013

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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, 2012 (the “2012 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;
§ our need and our ability to incur additional debt or equity financing;
§ the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision and deferred tax valuation allowance;
§ continued depression of the market value of the Company that could result in an impairment of goodwill;
§ the frequency and magnitude of foreclosure of our loans;
§ the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
§ legislative or regulatory changes, including the Dodd-Frank Act;
§ the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
§ restrictions on our operations, including the inability to pay dividends without our regulators’ consent;
§ the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase Deposit Insurance Fund assessments;
§ our ability to declare and pay dividends;
§ changes in the securities and real estate markets;
§ changes in monetary and fiscal policies of the U.S. Government;
§ inflation, interest rate, market and monetary fluctuations;
§ the effects of harsh weather conditions, including hurricanes, and man-made disasters;
§ our ability to comply with the extensive laws and regulations to which we are subject;
§ the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
§ increased competition and its effect on pricing;

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

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

PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL CITY BANK GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands)	Unaudited September 30, 2013	December 31, 2012
ASSETS		
Cash and Due From Banks	$51,136	$66,238
Federal Funds Sold and Interest Bearing Deposits	358,869	443,494
Total Cash and Cash Equivalents	410,005	509,732
Investment Securities Available for Sale	271,838	296,985
Investment Securities Held to Maturity (fair value of $97,415)	97,309	—
Total Investment Securities	369,147	296,985
Loans Held For Sale	13,822	14,189
Loans, Net of Unearned Income	1,417,842	1,507,113
Allowance for Loan Losses	(25,010)	(29,167)
Loans, Net	1,392,832	1,477,946
Premises and Equipment, Net	103,702	107,092
Goodwill	84,811	84,811
Other Intangible Assets	80	242
Other Real Estate Owned	53,018	53,426
Other Assets	87,055	89,561
Total Assets	$2,514,472	$2,633,984
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$626,114	$609,235
Interest Bearing Deposits	1,390,772	1,535,761
Total Deposits	2,016,886	2,144,996
Short-Term Borrowings	51,918	47,435
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	40,244	46,859
Other Liabilities	91,369	84,918
Total Liabilities	2,263,304	2,387,095

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; 17,336,278 and 17,232,380 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	173	172
Additional Paid-In Capital	40,481	38,707
Retained Earnings	240,842	237,569
Accumulated Other Comprehensive Loss, Net of Tax	(30,328)	(29,559)
Total Shareowners' Equity	251,168	246,889
Total Liabilities and Shareowners' Equity	$2,514,472	$2,633,984

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)

(Dollars in Thousands, Except Per Share Data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
INTEREST INCOME				
Interest and Fees on Loans	$19,264	$21,274	$59,127	$64,638
Investment Securities:				
Taxable	571	692	1,739	2,216
Tax Exempt	146	106	392	316
Funds Sold	269	254	818	723
Total Interest Income	20,250	22,326	62,076	67,893
INTEREST EXPENSE				
Deposits	335	480	1,117	1,679
Short-Term Borrowings	46	71	189	127
Subordinated Notes Payable	339	372	1,020	1,126
Other Long-Term Borrowings	330	372	1,010	1,204
Total Interest Expense	1,050	1,295	3,336	4,136
NET INTEREST INCOME	19,200	21,031	58,740	63,757
Provision for Loan Losses	555	2,864	3,075	13,400
Net Interest Income After Provision For Loan Losses	18,645	18,167	55,665	50,357
NONINTEREST INCOME				
Deposit Fees	6,474	6,406	18,856	19,028
Bank Card Fees	2,715	2,616	8,130	8,171
Wealth Management Fees	2,130	1,686	5,946	5,363
Mortgage Banking Fees	869	978	2,880	2,690
Data Processing Fees	662	687	1,985	2,042
Other	1,456	1,202	3,946	3,773
Total Noninterest Income	14,306	13,575	41,743	41,067
NONINTEREST EXPENSE				
Compensation	16,158	15,510	49,544	48,470
Occupancy, Net	4,403	4,590	12,982	13,626
Intangible Amortization	46	108	162	323
Other Real Estate	2,148	2,603	7,440	9,528
Other	7,678	7,390	22,087	23,144
Total Noninterest Expense	30,433	30,201	92,215	95,091
INCOME (LOSS) BEFORE INCOME TAXES	2,518	1,541	5,193	(3,667)
Income Tax Expense (Benefit)	927	420	1,920	(1,900)

NET INCOME (LOSS)	$1,591	$1,121	$3,273	$(1,767)
BASIC NET INCOME (LOSS) PER SHARE	$0.09	$0.07	$0.19	$(0.10)
DILUTED NET INCOME (LOSS) PER SHARE	$0.09	$0.07	$0.19	$(0.10)
Average Basic Shares Outstanding	17,336	17,215	17,319	17,196
Average Diluted Shares Outstanding	17,396	17,228	17,381	17,196

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)

(Dollars in Thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
NET INCOME (LOSS)	$1,591	$1,121	$3,273	$(1,767)
Other comprehensive income (loss), before tax:				
Change in net unrealized gain (loss)	459	(24)	(1,149)	(754)
Unrealized losses on securities transferred from available for sale to held to maturity	(516)	—	(516)	—
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	(7)	—	(7)	—
Reclassification adjustment for impairment loss realized in net income	210	—	410	—
Other comprehensive income (loss), before tax	146	(24)	(1,262)	(754)
Deferred tax benefit related to other comprehensive income	(129)	(10)	(493)	(286)
Other comprehensive income (loss), net of tax	17	(14)	(769)	(468)
TOTAL COMPREHENSIVE INCOME (LOSS)	$1,608	$1,107	$2,504	$(2,235)

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 Loss, Net of Tax		—	—	—	(769)	(769)
Stock Performance Plan Compensation		—	914	—	—	914
Issuance of Common Stock	103,898	1	860	—	—	861
Balance, September 30, 2013	17,336,278	$ 173	$ 40,481	$ 240,842	$ (30,328)	$ 251,168
Balance, January 1, 2012	17,160,274	$ 172	$ 37,838	$ 237,461	$ (23,529)	$ 251,942
Net Loss		—	—	(1,767)	—	(1,767)
Other Comprehensive Loss, Net of Tax		—	—	—	(468)	(468)
Stock Performance Plan Compensation		—	131	—	—	131
Issuance of Common Stock	62,883	—	524	—	—	524
Balance, September 30, 2012	17,223,157	$ 172	$ 38,493	$ 235,694	$ (23,997)	$ 250,362

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)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$3,273	$(1,767)
Adjustments to Reconcile Net Income (Loss) to Cash Provided by Operating Activities:		
Provision for Loan Losses	3,075	13,400
Depreciation	4,830	5,087
Amortization of Premiums, Discounts, and Fees (net)	3,422	2,441
Amortization of Intangible Assets	162	323
Impairment Loss on Security	410	—
Net Decrease in Loans Held-for-Sale	367	4,698
Stock-Based Compensation	914	131
Deferred Income Taxes	1,802	(920)
Loss on Disposal of Fixed Assets	18	—
Loss on Sales and Write-Downs of Other Real Estate Owned	4,042	5,504
Net Decrease in Other Assets	1,197	5,516
Net Increase in Other Liabilities	6,451	13,441
Net Cash Provided By Operating Activities	29,963	47,854
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(39,115)	—
Payments, Maturities, and Calls	4,141	—
Securities Available for Sale:		
Purchases	(142,336)	(105,774)
Sales	—	805
Payments, Maturities, and Calls	99,708	120,614
Net Decrease in Loans	61,354	62,582
Proceeds From Sales of Other Real Estate Owned	17,397	17,963
Purchases of Premises and Equipment	(1,458)	(3,099)
Net Cash (Used In) Provided By Investing Activities	(309)	93,091
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Deposits	(128,110)	(151,925)
Net Increase (Decrease) in Short-Term Borrowings	55	(8,168)
Proceeds from Other Long-Term Borrowings	1,303	3,070
Repayment of Other Long-Term Borrowings	(3,490)	(2,366)
Issuance of Common Stock	861	524
Net Cash Used In Financing Activities	(129,381)	(158,865)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(99,727)	(17,920)
Cash and Cash Equivalents at Beginning of Period	509,732	385,314
Cash and Cash Equivalents at End of Period	$410,005	$367,394
Supplemental Cash Flow Disclosures:		
Interest Paid	$2,364	$3,035
Income Taxes Paid (Net of Refunds Received)	$(2,201)	$(3,881)
Noncash Investing and Financing Activities:		
Transfer of Securities Available for Sale to Held to Maturity	$62,488	$—
Loans Transferred to Other Real Estate Owned	$21,031	$14,039
Transfer of Current Portion of Long-Term Borrowings	$4,428	$7,184

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, ("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 its wholly-owned subsidiary, 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. Operating results for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The consolidated statement of financial condition at December 31, 2012 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, 2012.

NOTE 2 - INVESTMENT SECURITIES

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

	September 30, 2013				December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
Available for Sale								
U.S. Treasury	$79,336	$ 144	$ 40	$79,440	$96,745	$ 504	$ —	$97,249
U.S. Government Agency	72,263	142	218	72,187	51,468	221	25	51,664
States and Political Subdivisions	107,149	182	38	107,293	79,818	124	63	79,879
Mortgage-Backed Securities	2,700	204	—	2,904	56,217	805	40	56,982
Other Securities[1]	10,204	—	190	10,014	11,811	—	600	11,211
Total	271,652	$ 672	$ 486	$271,838	$296,059	$ 1,654	$ 728	$296,985
Held to Maturity								
U.S. Treasury	$14,949	$ 43	$ —	$14,992	$—	$ —	$ —	$—
U.S. Government Agency	8,155	4	—	8,159	—	—	—	—
States and Political Subdivisions	14,001	17	23	13,995	—	—	—	—
Mortgage-Backed Securities	60,204	118	53	60,269	—	—	—	—
Other Securities	—	—	—	—	—	—	—	—
Total	$97,309	$ 182	$ 76	$97,415	$—	$ —	$ —	$—

(1) *Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $5.2 million and $4.8 million, respectively, at September 30, 2013 and $6.4 million and $4.8 million, respectively, at December 31, 2012.*

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. The Company determines the appropriate classification of securities at the time of purchase. Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost.

Securities with an amortized cost of $211.1 million and $152.3 million at September 30, 2013 and December 31, 2012, 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.

During the third quarter of 2013, the Company transferred certain securities from available for sale to held to maturity. Transfers of securities into the held to maturity categories from available for sale are made at fair value on the date of the transfer. The securities had an aggregate fair value of $63.0 million with an aggregate net unrealized loss of $523,000 on the date of the transfer. The net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive income in the accompanying balance sheet as of September 30, 2013 totaled $516,000. This amount will be amortized out of accumulated other comprehensive income over the remaining life of the underlying securities as an adjustment of the yield on those securities. In addition, the Company purchased $39.1 million in securities during the third quarter of 2013 that were classified as held to maturity.

Maturity Distribution. As of September 30, 2013, 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 since they are not due at a certain 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	$96,446	$96,655	$8,272	$8,272
Due after one through five years	104,986	105,042	28,833	28,874
No Maturity	10,204	10,014	—	—
U.S. Government Agency	57,316	57,223	—	—
Mortgage-Backed Securities	2,700	2,904	60,204	60,269
Total	$271,652	$271,838	$97,309	$97,415

Other Than Temporarily Impaired Securities. The following tables summarize 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	Greater Than 12 Months	Total

	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
September 30, 2013						
Available for Sale						
U.S. Government Agency	$61,578	$ 239	$4,869	$ 19	$66,447	$ 258
States and Political Subdivisions	9,022	37	2,461	1	11,483	38
Other Securities	—	—	190	190	190	190
Total	$70,600	$ 276	$7,520	$ 210	$78,120	$ 486
Held to Maturity						
States and Political Subdivisions	1,328	23	—	—	1,328	23
Mortgage-Backed Securities	32,568	53	—	—	32,568	53
Total	$33,896	$ 76	$—	$ —	$33,896	$ 76
December 31, 2012						
Available for Sale						
U.S. Government Agency	$8,464	$ 23	$790	$ 2	$9,254	$ 25
States and Political Subdivisions	30,302	55	5,028	8	35,330	63
Mortgage-Backed Securities	3,921	15	1,624	25	5,545	40
Other Securities	—	—	600	600	600	600
Total	$42,687	$ 93	$8,042	$ 635	$50,729	$ 728

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

At September 30, 2013, the Company had securities of $369.1 million of which $271.8 million were classified as available for sale and $97.3 million were classified as held to maturity. The available for sale portfolio maintained a net pre-tax unrealized loss of $0.5 million at September 30, 2013 on securities totaling $78.1 million. Approximately $70.6 million of these securities, with an unrealized loss of $0.3 million, have been in a loss position for less than 12 months. Approximately $7.5 million of these securities, with an unrealized loss of approximately $0.2 million have been in a loss position for greater than 12 months. 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, 2013. 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, 2013. The Company holds one bank preferred stock issue for $0.2 million that has also been in a loss position for greater than 12 months. The Company realized $0.2 million in impairment during the third quarter of 2013 for this security and has realized $0.4 million impairment during 2013. The Company will continue to closely monitor the fair value of this security and will realize further impairment as needed.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	September 30, 2013	December 31, 2012
Commercial, Financial and Agricultural	$123,253	$139,850
Real Estate - Construction	31,454	37,512
Real Estate - Commercial Mortgage	570,736	613,625
Real Estate - Residential(1)	311,031	321,986
Real Estate - Home Equity	230,212	236,263
Consumer	151,156	157,877
Loans, Net of Unearned Income	$1,417,842	$1,507,113

(1) Includes loans in process with outstanding balances of $5.8 million and $11.9 million at September 30, 2013 and December 31, 2012, respectively.

Net deferred fees included in loans were $1.5 million and $1.6 million at September 30, 2013 and December 31, 2012, respectively.

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, 2013		December 31, 2012	
(Dollars in Thousands)	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural	$489	—	$1,069	—
Real Estate - Construction	640	—	4,071	—
Real Estate - Commercial Mortgage	25,714	—	41,045	—
Real Estate - Residential	9,530	—	13,429	—
Real Estate - Home Equity	4,741	—	4,034	—
Consumer	568	—	574	—
Total Nonaccrual Loans	$41,682	—	$64,222	—

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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, 2013						
Commercial, Financial and Agricultural	$324	$58	$ —	$382	$122,383	$123,253
Real Estate - Construction	—	108	—	108	30,707	31,454
Real Estate - Commercial Mortgage	2,070	563	—	2,633	542,390	570,736
Real Estate - Residential	1,734	1,665	—	3,399	298,102	311,031
Real Estate - Home Equity	587	119	—	706	224,764	230,212
Consumer	1,021	178	—	1,199	149,386	151,156
Total Past Due Loans	$5,736	$2,691	$ —	$8,427	$1,367,732	$1,417,842

(Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
December, 31, 2012						
Commercial, Financial and Agricultural	$302	$314	$ —	$616	$138,165	$139,850
Real Estate - Construction	375	—	—	375	33,066	37,512
Real Estate - Commercial Mortgage	1,090	583	—	1,673	570,907	613,625
Real Estate - Residential	2,788	1,199	—	3,987	304,570	321,986
Real Estate - Home Equity	711	487	—	1,198	231,031	236,263
Consumer	1,693	392	—	2,085	155,218	157,877
Total Past Due Loans	$6,959	$2,975	$ —	$9,934	$1,432,957	$1,507,113

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

The following table details the activity in the allowance for loan losses by portfolio class. 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, 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
Three Months Ended September 30, 2012								
Beginning Balance	$ 1,320	$ 2,703	$ 8,550	$ 12,085	$ 2,830	$ 1,441	$ 1,000	$ 29,929
Provision for Loan Losses	572	329	1,788	(792)	1,130	(130)	(33)	2,864
Charge-Offs	(331)	(127)	(512)	(981)	(834)	(355)	—	(3,140)
Recoveries	53	9	34	76	15	382	—	569
Net Charge-Offs	(278)	(118)	(478)	(905)	(819)	27	—	(2,571)
Ending Balance	$ 1,614	$ 2,914	$ 9,860	$ 10,388	$ 3,141	$ 1,338	$ 967	$ 30,222
Nine Months Ended September 30, 2012								
Beginning Balance	$ 1,534	$ 1,133	$ 10,660	$ 12,518	$ 2,392	$ 1,887	$ 911	$ 31,035
Provision for Loan Losses	534	2,147	4,548	3,505	2,752	(142)	56	13,400

Charge-Offs	(657)	(402)	(5,562)	(6,843)	(2,152)	(1,635)	—	(17,251)
Recoveries	203	36	214	1,208	149	1,228	—	3,038
Net Charge-Offs	(454)	(366)	(5,348)	(5,635)	(2,003)	(407)	—	(14,213)
Ending Balance	$ 1,614	$ 2,914	$ 9,860	$ 10,388	$ 3,141	$ 1,338	$ 967	$ 30,222

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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, 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
December 31, 2012								
Period-end amount Allocated to:								
Loans Individually Evaluated for Impairment								