COLONY BANKCORP INC
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 2011 COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA	58-1492391
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000
REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 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 "ACCELERATED FILER", "LARGE ACCELERATED FILER" AND "SMALLER REPORTING COMPANY" IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER o	ACCELERATED FILER o
NON-ACCELERATED FILER o (DO NOT CHECK IF A SMALLER REPORTING COMPANY)	SMALLER REPORTING COMPANY x

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

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS	OUTSTANDING AT NOVEMBER 10, 2011
COMMON STOCK, $1 PAR VALUE	8,439,258

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Forward Looking Statement Disclosure

Statements in this Quarterly Report regarding future events or performance are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA) and are made pursuant to the safe harbors of the PSLRA. Actual results of Colony Bankcorp, Inc. (the Company) could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words “could,” “may,” “will,” “should,” “plan,” “believe,” “anticipates,” “estimates,” “predicts,” “expects,” “projections,” “potential,” “continue,” or wo import, constitute “forward-looking statements”, as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Quarterly Report as well as the following specific items:

- General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;
- Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company’s most valued customers, defection of key employees or groups of employees, or other losses;
- Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company’s investment securities;
- Changing business or regulatory conditions, or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;
- Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenue, increase our costs or lead to disruptions in our business.
- Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management’s analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (SEC).

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PART 1. FINANCIAL INFORMATION
ITEM 1

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY BANK, COLONY BANK

A. CONSOLIDATED BALANCE SHEETS – SEPTEMBER 30, 2011 AND DECEMBER 31, 2010.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010.

THE CONSOLIDATED FINANCIAL STATEMENTS FURNISHED HAVE NOT BEEN AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, BUT REFLECT, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING SOLELY OF NORMAL RECURRING ADJUSTMENTS) NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS OF OPERATIONS FOR THE PERIODS PRESENTED.

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
(DOLLARS IN THOUSANDS)

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	$ 16,777	$ 16,613
Federal Funds Sold	10,561	32,536
Securities Purchased Under Agreement to Resell	--	5,000
	27,338	54,149
Interest-Bearing Deposits	4,409	50,727
Investment Securities		
Available for Sale, at Fair Value	313,119	303,838
Held to Maturity, at Cost (Fair Value of $48 and $53, as of September 30, 2011 and December 31, 2010, Respectively)	49	48
	313,168	303,886
Federal Home Loan Bank Stock, at Cost	5,573	6,063
Loans	740,999	813,250
Allowance for Loan Losses	(16,910)	(28,280)
Unearned Interest and Fees	(59)	(61)
	724,030	784,909
Premises and Equipment	26,024	27,148
Other Real Estate	20,662	20,208
Other Intangible Assets	268	295
Other Assets	24,511	28,273
Total Assets	$ 1,145,983	$ 1,275,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$ 88,491	$ 102,959
Interest-Bearing	859,865	956,165
	948,356	1,059,124
Borrowed Money		
Securities Sold Under Agreements to Repurchase	--	20,000
Subordinated Debentures	24,229	24,229
Other Borrowed Money	71,000	75,076
	95,229	119,305
Other Liabilities	4,467	4,271
Commitments and Contingencies		
Stockholders' Equity		

Preferred Stock, Par Value $1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,623	27,506
Common Stock, Par Value $1 a Share; Authorized 20,000,000 Shares, Issued 8,442,258 and 8,442,958 Shares as of September 30, 2011 and December 31, 2010, Respectively	8,442	8,443
Paid-In Capital	29,166	29,171
Retained Earnings	29,466	28,479
Restricted Stock - Unearned Compensation	(10)	(41)
Accumulated Other Comprehensive Income (Loss), Net of Tax	3,244	(600)
	97,931	92,958
Total Liabilities and Stockholders' Equity	$ 1,145,983	$ 1,275,658

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	9/30/2011	9/30/2010	9/30/2011	9/30/2010
Interest Income				
Loans, Including Fees	$10,920	$12,899	$33,623	$39,370
Federal Funds Sold	19	28	91	68
Deposits with Other Banks	11	10	37	27
Investment Securities				
U.S. Government Agencies	1,703	1,448	5,397	5,119
State, County and Municipal	44	26	102	74
Corporate Obligations and Asset-Backed Securities	23	23	68	113
Dividends on Other Investments	12	7	36	15
	12,732	14,441	39,354	44,786
Interest Expense				
Deposits	3,124	4,309	10,228	13,179
Federal Funds Purchased	--	182	338	549
Borrowed Money	865	888	2,646	2,722
	3,989	5,379	13,212	16,450
Net Interest Income	8,743	9,062	26,142	28,336
Provision for Loan Losses	2,250	4,200	6,000	10,850
Net Interest Income After Provision for Loan Losses	6,493	4,862	20,142	17,486
Noninterest Income				
Service Charges on Deposits	835	879	2,391	2,722
Other Service Charges, Commissions and Fees	296	291	941	849
Mortgage Fee Income	57	89	161	229
Securities Gains	813	922	1,945	1,800
Other	422	483	1,760	1,623
	2,423	2,664	7,198	7,223
Noninterest Expenses				
Salaries and Employee Benefits	3,639	3,474	10,778	10,538
Occupancy and Equipment	1,040	1,149	3,084	3,355
Other	3,411	4,492	10,385	11,231
	8,090	9,115	24,247	25,124
Income (Loss) Before Income Taxes	826	(1,589)	3,093	(415)
Income Taxes (Benefits)	268	(555)	940	(586)
Net Income (Loss)	558	(1,034)	2,153	171
Preferred Stock Dividends	350	350	1,050	1,050

Net Income (Loss) Available to Common Stockholders	$208	$(1,384)	$1,103	$(879)
Net Income (Loss) Per Share of Common Stock				
Basic	$0.02	$(0.16)	$0.13	$(0.11)
Diluted	$0.02	$(0.16)	$0.13	$(0.11)
Cash Dividends Declared Per Share of Common Stock	$0.00	$0.00	$0.00	$0.00
Weighted Average Basic Shares Outstanding	8,442,278	8,447,855	8,441,070	8,049,267
Weighted Average Diluted Shares Outstanding	8,442,278	8,447,855	8,441,070	8,049,267

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	09/30/11	09/30/10	09/30/11	09/30/10
Net Income (Loss)	$558	$(1,034)	$2,153	$171
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year	2,663	(161)	5,128	3,654
Reclassification Adjustment	(537)	(609)	(1,284)	(1,188)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	2,126	(770)	3,844	2,466
Comprehensive Income (Loss)	$2,684	$(1,804)	$5,997	$2,637

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$2,153	$171
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,389	1,631
Provision for Loan Losses	6,000	10,850
Securities Gains	(1,945)	(1,800)
Amortization and Accretion	2,538	2,982
Loss on Sale of Other Real Estate and Repossessions	996	1,691
Unrealized Loss on Other Real Estate	481	824
(Increase) Decrease in Cash Surrender Value of Life Insurance	(120)	1
Other Prepaids, Deferrals and Accruals, Net	1,995	6,255
Gain on Sale of Property and Equipment	2	2
	13,489	22,607
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(286,202)	(250,973)
Proceeds from Maturities, Calls, and Paydowns of		
Investment Securities:		
Available for Sale	31,268	38,636
Held to Maturity	6	8
Proceeds from Sale of Investment Securities		
Available for Sale	251,044	211,597
(Increase) Decrease in Interest-Bearing Deposits in Other Banks	46,318	(14,806)
Decrease in Net Loans to Customers	45,342	54,488
Purchase of Premises and Equipment	(267)	(384)
Proceeds from Sale of Other Real Estate and Repossessions	7,593	8,794
Federal Home Loan Bank Stock	490	45
Proceeds from Sale of Premises and Equipment	2	--
	95,594	47,405
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(14,468)	(8,103)
Interest-Bearing Customer Deposits	(96,300)	(44,265)
Securities Sold Under Agreements to Repurchase	(20,000)	(15,000)
Dividends Paid On Preferred Stock	(1,050)	(1,050)
Proceeds from Issuance of Common Stock	--	5,078
Principal Payments on Other Borrowed Money	(4,076)	(39,000)
Proceeds from Other Borrowed Money	--	19,000
Proceeds from Secured Borrowings	--	5,469
	(135,894)	(77,871)

Net (Decrease) in Cash and Cash Equivalents	(26,811)	(7,859)
Cash and Cash Equivalents at Beginning of Period	54,149	42,429
Cash and Cash Equivalents at End of Period	$27,338	$34,570

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Presentation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The Company merged all of its operations into one sole subsidiary effective August 1, 2008. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank (which includes its wholly-owned subsidiary, Colony Mortgage Corp.), Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry.

All dollars in notes to consolidated financial statements are rounded to the nearest thousand.

In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim dates and interim periods are included herein.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in middle and south Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Chester, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Pitts, Quitman, Rochelle, Savannah, Soperton, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. Lending and investing activities are funded primarily by deposits gathered through its retail banking office network.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2011. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At September 30, 2011, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

The success of the Company is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of Colony depend primarily on its net interest income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

At times, the Company may have cash and cash equivalents at financial institutions in excess of federal deposit insurance limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

Investment Securities

The Company classifies its investment securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Currently, no securities are classified as trading. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All securities not classified as trading or held to maturity are considered available for sale. Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity. Gains and losses from sales of securities available for sale are computed using the specific identification method. Securities available for sale includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

The Company evaluates each held to maturity and available for sale security in a loss position for other-than-temporary impairment (OTTI). In estimating other-than-temporary impairment losses, management considers such factors as the length of time and the extent to which the market value has been below cost, the financial condition of the issuer and the Company's intent to sell and whether it is more likely than not that the Company will be required to sell the security before anticipated recovery of the amortized cost basis. If the Company intends to sell or if it is more likely than not that the Company will be required to sell the security before recovery, the OTTI write-down is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings and an amount related to all other factors, which is recognized in other comprehensive income (loss).

Federal Home Loan Bank Stock

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in the accounting standards. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

Loans

Loans that the Company has the ability and intent to hold for the foreseeable future or until maturity are recorded at their principal amount outstanding, net of unearned interest and fees. Loan origination fees, net of certain direct origination costs, are deferred and amortized over the estimated terms of the loans using the straight-line method. Interest income on loans is recognized using the effective interest method.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

When management believes there is sufficient doubt as to the collectibility of principal or interest on any loan or generally when loans are 90 days or more past due, the accrual of applicable interest is discontinued and the loan is designated as nonaccrual, unless the loan is well secured and in the process of collection. Interest payments received on nonaccrual loans are either applied against principal or reported as income, according to management's judgment as to the collectibility of principal. Loans are returned to an accrual status when factors indicating doubtful collectibility on a timely basis no longer exist.

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(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring (TDR)

Loans are considered to have been modified in a TDR when due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The historical component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (i) changes in the composition of the loan portfolio, (ii) the extent of loan concentrations within the portfolio, (iii) the effectiveness of the Company's lending policies, procedures and internal controls, (iv) the experience, ability and effectiveness of the Company's lending management and staff, and (v) national and local economics and business conditions.

Loans identified as losses by management, internal loan review and/or regulatory agencies are charged off.

During 2011, the Company continues its methodology regarding the look-back period for charge-off experience to one year. The current methodology resulted in significant loan loss provisions for 2010 and 2009.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Premises and equipment are recorded at acquisition cost net of accumulated depreciation.

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Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Depreciation is charged to operations over the estimated useful lives of the assets. The estimated useful lives and methods of depreciation are as follows

Description	Life in Years	Method
Banking Premises	15-40	Straight-Line and Accelerated
Furniture and Equipment	5-10	Straight-Line and Accelerated

Expenditures for major renewals and betterments are capitalized. Maintenance and repairs are charged to operations as incurred. When property and equipment are retired or sold, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in other income or expense.

Intangible Assets

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, NOW accounts, savings accounts, loans and certificates of deposit are reported net.

Securities Purchased Under Agreement to Resell and Securities Sold Under Agreements to Repurchase

The Company purchases certain securities under agreements to resell. The amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated balance sheets.

The Company sells securities under agreements to repurchase. These repurchase agreements are treated as borrowings. The obligations to repurchase securities sold are reflected as a liability and the securities underlying the agreements are reflected as assets in the consolidated balance sheets.

Advertising Costs

The Company expenses the cost of advertising in the periods in which those costs are incurred.

Income Taxes

The provision for income taxes is based upon income for financial statement purposes, adjusted for nontaxable income and nondeductible expenses. Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes.

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

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Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income.

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at estimated fair value at the date of acquisition less costs to sell. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Routine holding costs and gains or losses upon disposition are included in other losses.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of operations but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Accounting Standards Updates

ASU No. 2010-20, "Receivables (Topic 830) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which any entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company's financial statements that include periods beginning on or after January 1, 2011. ASU 2011-01, "Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU 2011-02, "Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," which is further discussed below.

ASU No. 2011-02, "Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession: and (b) the debtor is experiencing financial difficulties. ASU 2011-02 became effective for the Corporation on July 1, 2011, and applied retrospectively to restructurings

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Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Accounting Standards Updates (Continued)

occurring on or after January 1, 2011. Adoption of ASU 2011-02 did not have a significant impact on the Corporation's financial statements.

ASU No. 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Corporation on January 1, 2012 and is not expected to have a significant impact on the Corporation's financial statements.

ASU No. 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Corporation's financial statements.

ASU No. 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Corporation's financial statements.

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Cash on Hand and Cash Items	$ 7,835	$ 8,898
Noninterest-Bearing Deposits with Other Banks	8,942	7,715
	$ 16,777	$ 16,613

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Reserve balances totaled $1.0 million and $916 thousand at September 30, 2011 and

December 31, 2010.

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(3) Investment Securities

Investment securities as of September 30, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	$ 299,085	$ 5,148	$ (50)	$ 304,183
State, County & Municipal	6,639	81	(32)	6,688
Corporate Obligations	2,000	127	(11)	2,116
Asset-Backed Securities	479	--	(347)	132
	$ 308,203	$ 5,356	$ (440)	$ 313,119
Securities Held to Maturity:				
State, County and Municipal	$ 49	$ --	$ (1)	$ 48

The amortized cost and fair value of investment securities as of September 30, 2011, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due After One Year Through Five Years	$ 831	$ 842	$ 49	$ 48
Due After Five Years Through Ten Years	5,490	5,650	--	--
Due After Ten Years	2,797	2,444	--	--
	9,118	8,936	49	48
Mortgage-Backed Securities	299,085	304,183	--	--
	$ 308,203	$ 313,119	$ 49	$ 48

Investment securities as of December 31, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	$ 299,019	$ 1,763	$ (2,319)	$ 298,463

State, County & Municipal		3,248		35		(27)		3,256
Corporate Obligations		2,000		102		(115)		1,987
Asset-Backed Securities		479		--		(347)		132
	$	304,746	$	1,900	$	(2,808)	$	303,838
Securities Held to Maturity:								
State, County and Municipal	$	48	$	5	$	--	$	53

Proceeds from the sale of investments available for sale during first nine months of 2011 totaled $251,044 compared to $211,597 for the first nine months of 2010. The sale of investments available for sale during 2011 resulted in gross realized gains of $1,947 and gross realized losses of $(2) and the sale of investments available for sale during 2010 resulted in gross realized gain of $1,800 and losses of $0.

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Part I (Continued)
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(3) Investment Securities (Continued)

Nonaccrual securities are securities for which principal and interest are doubtful of collection in accordance with original terms and for which accruals of interest have been discontinued due to payment delinquency. Fair value of securities on nonaccrual status totaled $132 and $132 as of September 30, 2011 and December 31, 2010, respectively.

Investment securities having a carry value approximating $96,497 and $123,789 as of September 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at September 30, 2011 and December 31, 2010 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2011						
U.S. Government Agencies Mortgage-Backed	$27,184	$(48)	$1,950	$(2)	$29,134	$(50)
State, County and Municipal	1,521	(31)	78	(2)	1,599	(33)
Corporate Obligations	--	--	989	(11)	989	(11)
Asset-Backed Securities	--	--	132	(347)	132	(347)
	$28,705	$(79)	$3,149	$(362)	$31,854	$(441)
December 31, 2010						
U.S. Government Agencies Mortgage-Backed	$152,287	$(2,319)	$--	$--	$152,287	$(2,319)
State, County and Municipal	1,777	(27)	--	--	1,777	(27)
Corporate Obligations	--	--	885	(115)	885	(115)
Asset-Backed Securities	--	--	132	(347)	132	(347)
	$154,064	$(2,346)	$1,017	$(462)	$155,081	$(2,808)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, 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 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 fair value.

At September 30, 2011, the debt securities with unrealized losses have depreciated 1.37 percent from the Company's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

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Part I (Continued)
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(4) Loans

The following table presents the composition of loans segregated by class of loans, as of September 30, 2011 and December 31, 2010.

	September 30, 2011	December 31, 2010
Commercial and Industrial		
Commercial	$ 51,652	$ 53,220
Industrial	13,772	10,552
Real Estate		
Commercial Construction	63,104	72,309
Residential Construction	2,628	4,373
Commercial	320,122	362,878
Residential	195,433	207,472
Farmland	47,686	52,778
Consumer and Other		
Consumer	30,938	33,564
Other	15,664	16,104
Total Loans	$ 740,999	$ 813,250

Commercial and industrial loans are extended to a diverse group of businesses within the company's market area. These loans are often underwritten based on the borrower's ability to service the debt from income from the business. Real estate construction loans often require loan funds to be advanced prior to completion of the project. Due to uncertainties inherent in estimating construction costs, changes in interest rates and other economic conditions, these loans often pose a higher risk than other types of loans. Consumer loans are originated at the bank level. These loans are generally smaller loan amounts spread across many individual borrowers to help minimize risk.

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade assigned to commercial and consumer loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the Company's geographic markets.

The Company uses a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the grades is as follows:

- Grades 1 and 2 – Borrowers with these assigned grades range in risk from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the "pass" classification.

- Grades 3 and 4 – Loans assigned these “pass” risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.

- Grade 5 – This grade includes “special mention” loans on management’s watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.

- Grade 6 – This grade includes “substandard” loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.

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Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

- Grades 7 and 8 – These grades correspond to regulatory classification definitions of "doubtful" and "loss," respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company's problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 6.

The following table presents the loan portfolio by credit quality indicator (risk grade) as of September 30, 2011 and December 31, 2010. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

September 30, 2011

	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	$45,872	$947	$ 4,833	$51,652
Industrial	13,285	14	473	13,772
Real Estate				
Commercial Construction	29,186	2,963	30,955	63,104
Residential Construction	2,323	305	--	2,628
Commercial	268,519	12,665	38,938	320,122
Residential	177,106	7,597	10,730	195,433
Farmland	45,651	1,124	911	47,686
Consumer and Other				
Consumer	29,798	364	776	30,938
Other	15,417	110	137	15,664
Total Loans	$627,157	$26,089	$ 87,753	$740,999

December 31, 2010

	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	$48,732	$2,498	$ 1,990	$53,220
Industrial	10,059	169	324	10,552
Real Estate				
Commercial Construction	33,523	10,064	28,722	72,309
Residential Construction	3,974	204	195	4,373
Commercial	294,186	11,847	56,845	362,878
Residential	183,518	9,196	14,758	207,472
Farmland	49,500	1,838	1,440	52,778

Consumer and Other				
Consumer	32,046	727	791	33,564
Other	14,553	1,186	365	16,104
Total Loans	$670,091	$37,729	$ 105,430	$813,250

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of $50,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

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Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due.

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of September 30, 2011 and December 31, 2010:

September 30, 2011

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Industrial						
Commercial	$1,700	$--	$1,700	$1,464	$48,488	$51,652
Industrial	16	--	16	239	13,517	13,772
Real Estate						
Commercial Construction	242	--	242	28,442	34,420	63,104
Residential Construction	--	--	--	--	2,628	2,628
Commercial	6,506	--	6,506	7,387	306,229	320,122
Residential	2,078	--	2,078	3,911	189,444	195,433
Farmland	77	--	77	487	47,122	47,686
Consumer and Other						
Consumer	380	--	380	170	30,388	30,938
Other	681	--	681	48	14,935	15,664
Total Loans	$11,680	$--	$11,680	$42,148	$687,171	$740,999

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

December 31, 2010

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Industrial						
Commercial	$382	$--	$382	$394	$52,444	$53,220
Industrial	101	--	101	175	10,276	10,552
Real Estate						
Commercial Construction	1,514	--	1,514	10,182	60,613	72,309
Residential Construction	195	--	195	--	4,178	4,373
Commercial	11,790	--	11,790	13,568	337,520	362,878
Residential	4,268	16	4,284	3,057	200,131	207,472
Farmland	567	--	567	1,157	51,054	52,778
Consumer and Other						
Consumer	703	3	706	290	32,568	33,564
Other	219	--	219	79	15,806	16,104
Total Loans	$19,739	$19	$19,758	$28,902	$764,590	$813,250

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled $42,148 and $28,902 as of September 30, 2011 and December 31, 2010, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated $0 and $19, respectively. During its review of impaired loans, the company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

During the first quarter, as a result of recently issued guidance regarding troubled debt restructurings, the Company reviewed its policy for designating loans as impaired. As a result of this review, the Company identified additional loans which are now included in the impaired loan disclosures that were not previously reported as impaired. The loans identified were those troubled debt restructurings which were on accrual status. The inclusion of these accruing troubled debt restructurings in the impaired loan disclosures for September 30, 2011 did not have an impact on the allowance for loan losses.

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Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table details impaired loan data as of September 30, 2011:

September 30, 2011	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded					
Commercial	$ 1,643	$ --	$ 735	$ 39	$ 46
Agricultural	238	--	249	(29)	--
Commercial Construction	19,155	--	13,480	116	150
Commercial Real Estate	31,854	--	26,242	599	615
Residential Real Estate	3,737	--	3,590	30	46
Farmland	487	--	381	48	66
Consumer	159	--	174	5	6
Other	48	--	38	2	2
	57,321	--	44,889	810	931
With An Allowance Recorded					
Commercial	59	39	27	3	3
Commercial Construction	9,998	5,836	10,131	12	53
Commercial Real Estate	3,054	824	6,599	66	79
Residential Real Estate	5,345	523	3,798	197	181
Consumer	11	5	4	1	1
Other	--	--	26	--	--
	18,467	7,227	20,585	279	317
Total					
Commercial	1,702	39	762	42	49
Agricultural	238	--	249	(29)	--
Commercial Construction	29,153	5,836	23,611	128	203
Commercial Real Estate	34,908	824	32,841	665	694
Residential Real Estate	9,082	523	7,388	227	227
Farmland	487	--	381	48	66
Consumer	170	5	178	6	7
Other	48	--	64	2	2
	$ 75,788	$ 7,227	$ 65,474	$ 1,089	$ 1,248

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Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table details impaired loan data as of December 31, 2010:

December 31, 2010	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded					
Commercial	$ 259	$ --	$ 309	$ (1)	$ 6
Agricultural	175	--	221	1	1
Commercial Construction	10,182	--	11,761	7	32
Residential Construction	--	--	8	--	--
Commercial Real Estate	4,271	--	9,042	81	85
Residential Real Estate	3,057	--	3,931	41	54
Farmland	1,157	--	646	(7)	11
Consumer	290	--	296	17	19
Other	79	--	129	5	8
	19,470	--	26,343	144	216
With An Allowance Recorded					
Commercial	135	116	34	(1)	3
Commercial Real Estate	9,297	540	2,324	342	476
	9,432	656	2,358	341	479
Total					
Commercial	394	116	343	(2)	9
Agricultural	175	--	221	1	1
Commercial Construction	10,182	--	11,761	7	32
Residential Construction	--	--	8	--	--
Commercial Real Estate	13,568	540	11,366	423	561
Residential Real Estate	3,057	--	3,931	41	54
Farmland	1,157	--	646	(7)	11
Consumer	290	--	296	17	19
Other	79	--	129	5	8
	$ 28,902	$ 656	$ 28,701	$ 485	$ 695

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms have been modified in favor of the borrower or either principal or interest has been forgiven due to deterioration in the borrower's financial condition.

The following table presents additional information on TDRs including the number of loan contracts restructured during the three and nine months ended September 30, 2011 and the pre and post modification recorded investment.

Troubled Debt Restructurings	Three Months Ending September 30, 2011			Nine Months Ending September 30, 2011		
	# of Contracts	Pre-Modification	Post-Modification	# of Contracts	Pre-Modification	Post-Modification
Commercial	2	$ 1,414	$ 1,414	2	$ 1,414	$ 1,414
Commercial Construction	----	----	----	3	3,240	1,542
Commercial RE	2	2,797	2,280	9	20,827	15,906
Residential RE				5	1,457	1,408
Total Loans	4	$ 4,211	$ 3,694	19	$ 26,938	$ 20,270

The following table presents the number of contracts and the recorded investment for those TDRs modified during the previous twelve months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings That Subsequently Defaulted	Three Months Ending September 30, 2011		Nine Months Ending September 30, 2011	
	# of Contracts	Recorded Investment	# of Contracts	Recorded Investment
Commercial Construction	3	$4,475	3	$4,475
Commercial RE	----	----	2	1,151
Total Loans	3	$4,475	5	$5,626

The Company does not have any unfunded commitments to lend to a customer that has a troubled debt restructured loan as of September 30, 2011.

(5) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for September 30, 2011 and September 30, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

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Part I (Continued)
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(5) Allowance for Loan Losses (Continued)

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2011 as follows:

September 30, 2011

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Industrial					
Commercial	$ 4,415	$ (718)	$ 124	$ (1,591)	$ 2,230
Industrial	698	(455)	401	(257)	387
Real Estate					
Commercial Construction	4,126	(4,218)	548	4,217	4,673
Residential Construction	520	--	--	(159)	361
Commercial	8,030	(12,175)	517	6,730	3,102
Residential	5,942	(1,291)	120	(910)	3,861
Farmland	944	(61)	1	(317)	567
Consumer and Other					
Consumer	3,074	(192)	123	(1,371)	1,634
Other	531	(100)	6	(342)	95
	$ 28,280	$ (19,210)	$ 1,840	$ 6,000	$ 16,910

September 30, 2011

	Ending Balance Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Industrial			
Commercial	$686	$ 1,544	$2,230
Industrial	7	380	387
Real Estate			
Commercial Construction	4,579	94	4,673
Residential Construction	--	361	361
Commercial	1,097	2,005	3,102
Residential	2,994	867	3,861
Farmland	11	556	567
Consumer and Other			
Consumer	68	1,566	1,634

Other	--	95	95
Total End of Period Allowance Balance	$9,442	$7,468	$16,910
Total End of Period Loan Balance	$89,614	$651,385	$740,999

The Company determines its individual reserves during its quarterly review of substandard loans. Although not all loans in the substandard category are considered impaired, this quarterly reassessment often results in the identification of individual reserves which are placed against certain loans as part of management's allowance for loan loss calculation.

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(5) Allowance for Loan Losses (Continued)

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2010 as follows:

September 30, 2010

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Industrial					
Commercial	$ 3,931	$ (428)	$ 75	$ 30	$ 3,608
Industrial	779	(252)	1	27	555
Real Estate					
Commercial Construction	7,402	(4,278)	107	3,430	6,661
Residential Construction	448	--	--	(171)	277
Commercial	8,790	(7,163)	140	6,004	7,771
Residential	5,026	(2,280)	435	1,260	4,441
Farmland	942	(233)	--	123	832
Consumer and Other					
Consumer	2,826	(365)	230	(193)	2,498
Other	1,257	(511)	25	340	1,111
	$ 31,401	$ (15,510)	$ 1,013	$ 10,850	$ 27,754

September 30, 2010

	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total
Commercial and Industrial			
Commercial	$ 326	$ 3,282	$ 3,608
Industrial	--	555	555
Real Estate			
Commercial Construction	3,496	3,165	6,661
Residential Construction	--	277	277
Commercial	4,216	3,555	7,771
Residential	1,799	2,642	4,441
Farmland	--	832	832
Consumer and Other			
Consumer	74	2,424	2,498
Other	358	753	1,111

Total End of Period Allowance Balance	$10,269	$17,485	$27,754
Total End of Period Loan Balance	$96,486	$753,497	$849,983

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(6) Premises and Equipment

Premises and equipment are comprised of the following as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Land	$ 7,780	$ 7,788
Building	23,808	23,791
Furniture, Fixtures and Equipment	13,860	13,737
Leasehold Improvements	994	993
	46,442	46,309
Accumulated Depreciation	(20,418)	(19,161)
	$ 26,024	$ 27,148

Depreciation charged to operations totaled $1,389 and $1,631 for September 30, 2011 and September 30, 2010, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $288 and $281 for nine months ended September 30, 2011 and September 30, 2010, respectively.

(7) Intangible Assets

The following is an analysis of core deposit intangible asset activity for the nine months ended September 30, 2011 and September 30, 2010:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Core Deposit, Intangible		
Balance, Beginning	$ 295	$ 331
Amortization Expense	(27)	(27)
Balance, Ending	$ 268	$ 304

The following table reflects the expected amortization for the core deposit intangible at September 30, 2011:

2011	$9
2012	36
2013	36
2014	36
2015 and thereafter	151
	$268

(8) Income Taxes

The Company records income taxes under accounting standards requiring an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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Part I (Continued)
Item 1 (Continued)

(8) Income Taxes (Continued)

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statements of income. Once the statute of limitations has passed, the Company reverses income tax expenses recorded. The Company reversed $59 thousand in the first quarter of 2011.

(9) Fair Value Measurements

Generally accepted accounting principles related to Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and represent the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Assets

Securities – Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

Impaired loans – Fair value accounting principles also apply to loans measured for impairment, including impaired loans measured at an observable market price (if available), or at the fair value of the loan’s collateral (if the loan is collateral dependent). Fair value of the loan’s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate – Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value less cost to sale through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market price or appraised value. When appraised value is not available and management determines the fair value, the fair value of the foreclosed assets is considered Level 3.

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(9) Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis – The following table presents the recorded amount of the Company's assets measured at fair value on a recurring basis as of September 30, 2011 aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair Value Measurements at Reporting Date Using		
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities Available for Sale				
Mortgage-backed	$304,183	$---	$304,183	$ ---
State,County & Municipal	6,688	---	6,688	---
Corporate Obligations	2,116	---	1,127	989
Asset-Backed Securities	132	---	---	132
	$313,119	$---	$311,998	$ 1,121
Nonrecurring				
Impaired Loans	$75,788	$---	$---	$ 75,788
Other Real Estate	$20,662	$---	$20,662	$ ---

Liabilities

The Company did not identify any liabilities that are required to be presented at fair value.

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2011.

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Available for Sale Securities (In Thousands)
Balance, Beginning	$ 1,017
Total Unrealized Gains (Losses) Included In	
Net Income	---
Other Comprehensive Income	104
Purchases, Sales, Issuances and Settlements, Net	---

Transfers In and (Out) of Level 3		---
Balance, Ending	$	1,121

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(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $136 and $250 as of September 30, 2011 and December 31, 2010.

Components of interest-bearing deposits as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Interest-Bearing Demand	$ 222,014	$ 235,855
Savings	41,228	36,630
Time, $100,000 and Over	255,584	298,010
Other Time	341,039	385,670
	$ 859,865	$ 956,165

At September 30, 2011 and December 31, 2010, the Company had brokered deposits of $30,595 and $36,329 respectively. Of the $30,595 brokered deposits at September 30, 2011, $30,595 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled $0 at September 30, 2011. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000 was approximately $183,732 and $216,656 as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011 and December 31, 2010, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2011	December 31, 2010
One Year and Under	$ 418,532	$ 480,446
One to Three Years	165,467	189,879
Three Years and Over	12,624	13,355
	$ 596,623	$ 683,680

(11) Securities Sold Under Agreements to Repurchase

The Company paid off the securities sold under repurchase agreements in the amount of $20,000 at June 30, 2011. Barclay's Master Repurchase Agreement originated on June 26, 2008 with the initial draw of $20,000 on June 30, 2008. The Repurchase Agreement matured on June 30, 2011.

At September 30, 2011, the Company had an available line on a Master Repurchase Agreement with South Street Securities totaling $50,000, of which the entire $50,000 was available. The Repurchase Agreement is overnight borrowing at a floating interest rate. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

(12) Other Borrowed Money

Other borrowed money at September 30, 2011 and December 31, 2010 is summarized as follows:

	September 30, 2011	December 31, 2010
Secured Borrowings	$ --	$ 4,076
Federal Home Loan Bank Advances	71,000	71,000
	$ 71,000	$ 75,076

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2012 to 2019 and interest rates ranging from 3.17 percent to 4.75 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At September 30, 2011, the Company had available line of credit commitments totaling $179,150, of which $108,150 was available. Additional collateral may be required to be pledged in order to utilize the full amount of the remaining credit line.

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(12) Other Borrowed Money (Continued)

Secured Borrowings represent the transfer of the guaranteed portion of SBA loans at a premium in which the Company is obligated by the SBA to refund the premium to the “purchaser” if the loan is repaid within 90 days of the transfer. Under Current Accounting Standards, this premium refund obligation is a form of recourse, which means that the transferred guaranteed portion of the loan does not meet the definition of a “participating interest” for the 90-day period that the premium refund obligation exists. As a result, the transfer must be accounted for as a secured borrowing during this period. Effective February 15, 2011, all loans submitted for secondary market sales eliminate the warranty or the 90-day recourse period and the premium may be recognized at the time of the sale.

The aggregate stated maturities of other borrowed money at September 30, 2011 are as follows:

Year	Amount
2011	$ --
2012	41,000
2013	--
2014 and Thereafter	30,000
	$ 71,000

The Company also has available federal funds lines of credit with various financial institutions totaling $43,000, of which $0 was outstanding at September 30, 2011.

(13) Preferred Stock and Warrants

On January 9, 2009, the Company issued to the United States Department of the Treasury (Treasury), in exchange for aggregate consideration of $28.0 million, (i) 28,000 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (the Preferred Stock), and (ii) a warrant (the Warrant) to purchase up to 500,000 shares (the Warrant Common Stock) of the Company’s common stock.

The Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed by the Company on or after February 15, 2012 at the liquidation preference of $1,000 per share plus any accrued and unpaid dividends. Prior to this date, the Preferred Stock may not be redeemed unless the Company has received aggregate gross proceeds from one or more qualified equity offerings of any Tier 1 perpetual preferred or common stock of the Company equal to $7.0 million. Subject to certain limited exceptions, until January 9, 2012, or such earlier time as all Preferred Stock has been redeemed, the Company will not, without the Treasury’s consent, be able to increase its dividend rate per share of common stock or repurchase its common stock.

The Warrant may be exercised on or before January 9, 2019 at an exercise price of $8.40 per share. The Treasury may not exercise voting power with respect to any shares of Warrant Common Stock until the Warrant has been exercised.

Upon receipt of the aggregate consideration from the Treasury on January 9, 2009, the Company allocated the $28,000 proceeds on a pro rata basis to the Preferred Stock and the Warrant based on relative fair values. As a result, the Company allocated $27,220 of the aggregate proceeds to the Preferred Stock, and $780 thousand was allocated to the Warrant. The discount recorded on the Preferred Stock that resulted from allocating a portion of the proceeds to the Warrant is being accreted directly to retained earnings over a 5-year period applying a level yield.

(14) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue $4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2011, the floating rate securities had a 3.03 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30

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Part I (Continued)
Item 1 (Continued)

(14) Subordinated Debentures (Trust Preferred Securities) (Continued)

years and are redeemable after five years with certain exceptions. At September 30, 2011 the floating-rate securities had a 1.87 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

During the first quarter of 2007, the Company formed a fifth subsidiary whose sole purpose was to issue $9,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2011, the floating-rate securities had a 2.02 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the first subsidiary formed in March 2002 as the Company exercised its option to call.

During the third quarter of 2007, the company formed a sixth subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2011, the floating-rate securities had a 1.65 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the second subsidiary formed in December 2002 as the Company exercised its option to call.

The Trust Preferred Securities are recorded as subordinated debentures on the consolidated balance sheets, but subject to certain limitations, qualify as Tier 1 Capital for regulatory capital purposes. The proceeds from the offering were used to fund the cash portion of the Quitman acquisition, payoff holding company debt, and inject capital into bank subsidiaries.

(15) Restricted Stock – Unearned Compensation

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and since the plan’s inception 14,798 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 105,042, at September 30, 2011. During 2011, there has not been any shares of restricted stock issued and 700 shares have been forfeited. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders’ equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(16) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company’s policy to make contributions to the plan as approved annually by the board of directors. No provisions for contributions have been made for 2011 and 2010.

(17) Commitments and Contingencies

Credit-Related Financial Instruments. The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At September 30, 2011 and December 31, 2010 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2011	December 31, 2010
Loan Commitments	$ 41,692	$ 39,457
Standby Letters of Credit	1,619	1,540

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Part I (Continued)
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(17) Commitments and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby and performance letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Legal Contingencies. In the ordinary course of business, there are various legal proceedings pending against Colony and its subsidiary. The aggregate liabilities, if any, arising from such proceedings would not, in the opinion of management, have a material adverse effect on Colony's consolidated financial position.

IRS Exam. Colony Bankcorp, Inc. and subsidiary are currently under examination by the Internal Revenue Service (IRS) for the year ended December 31, 2009. The IRS is examining areas of nonaccrual interest, other real estate and bad debts, and may propose income adjustments, most of which, in the opinion of management, will reverse in 2010. As a result, management anticipates a net adjustment which would have no material impact on the consolidated financial statements. In addition to 2009, tax returns for calendar years 2008 and 2007 remain subject to examination by the IRS.

The Internal Revenue Service (IRS) completed their examination of Colony Bankcorp, Inc. and subsidiary for the year ended December 31, 2009. During the second quarter 2011, a net adjustment in the amount of $190 was paid to the IRS to settle certain tax assessments. The Company intends to pay the tax assessment resulting from other adjustments through the administrative appeals process. If the Company is not successful in defending its position, additional amounts may be owed to the IRS which would have no material impact on the consolidated financial statements.

(18) Deferred Compensation Plan

Colony Bank, the wholly-owned subsidiary, has deferred compensation plans covering certain former directors and certain officers choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Bank is committed to pay the participant's deferred compensation over a specified number of years, beginning at age 65. In the event of a participant's death before age 65, payments are made to the participant's named beneficiary over a specified number of years, beginning on the first day of the month following the death of the participant.

Liabilities accrued under the plans totaled $1,147 and $1,245 as of September 30, 2011 and December 31, 2010, respectively. Benefit payments under the contracts were $161 and $163 for the nine month period ended September 30, 2011 and September 30, 2010, respectively. Provisions charged to operations totaled $75 and $114 for the nine month period ended September 30, 2011 and September 30, 2010, respectively.

Fee income recognized with deferred compensation plans totaled $110 and $126 for nine month period ended September 30, 2011 and September 30, 2010, respectively.

(19) Fair Value of Financial Instruments

Generally accepted accounting standards in the U.S. require disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of Colony Bankcorp, Inc. and Subsidiary's financial instruments are detailed hereafter. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

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(19) Fair Value of Financial Instruments (Continued)

Cash and Short-Term Investments – For cash, due from banks, bank-owned deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Investment Securities – Fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Federal Home Loan Bank Stock – The fair value of Federal Home Loan Bank stock approximates carrying value.

Loans – The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value.

Deposit Liabilities – The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased – The carrying value of federal funds purchased approximates fair value.

Subordinated Debentures – Fair value approximates carrying value due to the variable interest rates of the subordinated debentures.

Securities Sold Under Agreements to Repurchase and Other Borrowed Money – The fair value of other borrowed money is calculated by discounting contractual cash flows using an estimated interest rate based on current rates available to the Company for debt of similar remaining maturities and collateral terms.

Unrecognized Financial Instruments – Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fees associated with these instruments are not material.

Disclosures of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis, are required in the financial statements.

The carrying amount and estimated fair values of the Company's financial instruments as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount (in thousands)	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
	$ 31,747	$ 31,747	$ 104,876	$ 104,876

Cash and Short-Term Investments				
Investment Securities Available for Sale	313,119	313,119	303,838	303,838
Investment Securities Held to Maturity	49	48	48	53
Federal Home Loan Bank Stock	5,573	5,573	6,063	6,063
Loans, Net	724,030	726,000	784,909	788,455
Liabilities				
Deposits	948,356	952,569	1,059,124	1,064,695
Subordinated Debentures	24,229	24,229	24,229	24,229
Securities Sold Under Agreements to Repurchase	--	--	20,000	20,308
Other Borrowed Money	71,000	74,631	75,076	77,119

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(19) Fair Value of Financial Instruments (Continued)

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

(20) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, in the third quarter of 2009, the Company suspended the payment of dividends to common shareholders. At September 30, 2011, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2011, the company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The following table summarizes regulatory capital information as of September 30, 2011 and December 31, 2010 on a consolidated basis and for each significant subsidiary, as defined.

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(20) Regulatory Capital Matters (Continued)

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
As of September 30, 2011	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital to Risk-Weighted Assets									
Consolidated	$ 117,529	16.64	%	$ 56,495	8.00	%	NA	NA	
Colony Bank	114,946	16.32		56,357	8.00		$ 70,446	10.00	%
Tier 1 Capital to Risk-Weighted Assets									
Consolidated	108,602	15.38		28,248	4.00		NA	NA	
Colony Bank	106,040	15.05		28,178	4.00		42,268	6.00	
Tier 1 Capital to Average Assets									
Consolidated	108,602	9.33		46,536	4.00		NA	NA	
Colony Bank	106,040	9.13		46,441	4.00		58,052	5.00	

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2010									
Total Capital to Risk-Weighted Assets									
Consolidated	$ 116,914	14.85	%	$ 62,981	8.00	%	NA	NA	
Colony Bank	113,119	14.39		62,905	8.00		$ 78,631	10.00	%

Tier 1 Capital to Risk-Weighted Assets						
Consolidated	106,845	13.57	31,491	4.00	NA	NA
Colony Bank	103,062	13.11	31,452	4.00	47,179	6.00
Tier 1 Capital to Average Assets						
Consolidated	106,845	8.59	49,748	4.00	NA	NA
Colony Bank	103,062	8.30	49,697	4.00	62,122	5.00

The Bank is currently subject to a memorandum of understanding (MOU) which requires, among other things, that the Bank maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10% during the life of the MOU. Additionally, the MOU also requires that prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators.

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(21) Financial Information of Colony Bankcorp, Inc. (Parent Only)

The parent company's balance sheets as of September 30, 2011 and December 31, 2010 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
(DOLLARS IN THOUSANDS)

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Cash	$ 1,187	$ 3,173
Premises and Equipment, Net	1,401	1,478
Investment in Subsidiaries, at Equity	119,052	112,389
Other	856	484
Totals Assets	$ 122,496	$ 117,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	175	$ 175
Other	161	162
	336	337
Subordinated Debt	24,229	24,229
Stockholders' Equity		
Preferred Stock, Par Value $1,000 a Share; Authorized 10,000,000Shares, Issued 28,000 Shares as of September 30, 2011	27,623	27,506
Common Stock, Par Value $1 a Share; Authorized 20,000,000Shares, Issued 8,442,258 and 8,442,958 Shares as of September 30, 2011 and December 31, 2010, Respectively	8,442	8,443
Paid-In Capital	29,166	29,171
Retained Earnings	29,466	28,479
Restricted Stock - Unearned Compensation	(10)	(41)
Accumulated Other Comprehensive Loss, Net of Tax	3,244	(600)
	97,931	92,958
Total Liabilities and Stockholders' Equity	$ 122,496	$ 117,524

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(21) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	SEPTEMBER 30, 2011	SEPTEMBER 30, 2010
Income		
Dividends from Subsidiaries	$ 11	$ 12
Management Fees	379	341
Other	75	91
	465	444
Expenses		
Interest	376	389
Salaries and Employee Benefits	563	583
Other	537	572
	1,476	1,544
Income (Loss) Before Taxes and Equity in Undistributed Earnings of Subsidiaries	(1,011)	(1,100)
Income Tax (Benefits)	(345)	(412)
Income (Loss) Before Equity in Undistributed Earnings of Subsidiaries	(666)	(688)
Equity in Undistributed Earnings of Subsidiaries	2,819	859
Net Income	2,153	171
Preferred Stock Dividends	1,050	1,050
Net Income (Loss) Available to Common Shareholders	$ 1,103	$ (879)

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(21) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	SEPTEMBER 30, 2011	SEPTEMBER 30, 2010
Net Income	$ 2,153	$ 171
Other Comprehensive Income, Net of Tax		
Gains on Securities Arising During Year	5,128	3,654
Reclassification Adjustment	(1,284)	(1,188)
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	3,844	2,466
Comprehensive Income	$ 5,997	$ 2,637

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(21) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2011	2010
Cash Flows from Operating Activities		
Net Income	$2,153	$171
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	104	160
Equity in Undistributed Earnings of Subsidiary	(2,819)	(859)
Other	(372)	(189)
	(934)	(717)
Cash Flows from Investing Activities		
Purchases of Premises and Equipment	(2)	(30)
	(2)	(30)
Cash Flows from Financing Activities		
Dividends Paid Preferred Stock	(1,050)	(1,050)
Proceeds from Issuance of Common Stock	--	5,078
	(1,050)	4,028
Net Increase (Decrease) in Cash	(1,986)	3,281
Cash, Beginning	3,173	556
Cash, Ending	$1,187	$3,837

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(22) Earnings Per Share

Basic and diluted earnings per share are computed and presented hereafter. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflect the potential dilution of restricted stock. The following presents earnings per share for the three months and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income (Loss) Available to Common Stockholders	$208	8,442	$0.02	$(1,384)	8,442	$(0.16)
Dilutive Effect of Potential Common Stock						
Restricted Stock		--			--	
Stock Warrants		--			--	
		--			--	
Diluted EPS						
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	$208	8,442	$0.02	$(1,384)	8,442	$(0.16)

	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income (Loss) Available to Common Stockholders	$1,103	8,442	$0.13	$(879)	8,049	$(0.11)
Dilutive Effect of Potential Common Stock						
Restricted Stock		--			--	
Stock Warrants		--			--	

		--			--	
Diluted EPS						
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	$1,103	8,442	$0.13	$(879)	8,049	$(0.11)

For the nine months ended September 30, 2011 and 2010, 502 and 510 shares of common stock equivalents, respectively, were excluded from the calculation of diluted earnings per share because they would have an anti-dilutive effect.

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Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this Quarterly Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), not withstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Colony Bankcorp, Inc. or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targete and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local and regional economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.

- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.

- The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.

- Inflation, interest rate, market and monetary fluctuations.

- Political instability.

- Acts of war or terrorism.

- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.

- Changes in consumer spending, borrowings and savings habits.

- Technological changes.

- Acquisitions and integration of acquired businesses.

- The ability to increase market share and control expenses.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company's organization, compensation and benefit plans.
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

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- Greater than expected costs or difficulties related to the integration of new lines of business.

- The Company's success at managing the risks involved in the foregoing items.

- Restrictions or conditions imposed by our regulators on our operations, including the terms of our Memorandum of Understanding.

Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

The Company

Colony Bankcorp, Inc. (Colony) is a bank holding company headquartered in Fitzgerald, Georgia that provides, through its wholly owned subsidiary (collectively referred to as the Company), a broad array of products and services throughout 18 Georgia markets. The Company offers commercial, consumer and mortgage banking services.

Application of Critical Accounting Policies and Accounting Estimates

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's financial position and/or results of operations. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results of operations, and they require management to make estimates that are difficult, subjective or complete.

Allowance for Loan Losses – The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for loan losses quarterly based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, collateral values, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for loans is based on reviews of individual credit relationships and historical loss experience. The allowance for losses relating to impaired loans is based on the loan's observable market price, the discounted cash flows using the loan's effective interest rate, or the value of collateral for collateral dependent loans.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger nonhomogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans are among other factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of risk associated with the commercial and consumer levels and the estimated impact of the current economic environment.

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2011 and 2010, and results of operations for each of the three and nine months in the periods ended September 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

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Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 34 percent federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

Dollar amounts in tables are stated in thousands, except for per share amounts.

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income available to shareholders totaled $208 thousand, or $0.02 diluted per common share, in three months ended September 30, 2011 compared to net loss available to shareholders of $(1,384) thousand, or $(0.16) diluted per common share, in three months ended September 30, 2010. Net income available to shareholders totaled $1,103 thousand, or $0.13 diluted per common share, in nine months ended September 30, 2011 compared to net loss available to shareholders of $(879) thousand, or $(0.11) diluted per common share, in nine months ended September 30, 2010.

Selected income statement data, returns on average assets and average equity and dividends per share for the comparable periods were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Taxable-equivalent net interest income	$8,796	$9,107	$26,279	$28,470
Taxable-equivalent adjustment	53	45	137	134
Net interest income	8,743	9,062	26,142	28,336
Provision for possible loan losses	2,250	4,200	6,000	10,850
Noninterest income	2,423	2,664	7,198	7,223
Noninterest expense	8,090	9,115	24,247	25,124
Income (loss) before income taxes	826	(1,589)	3,093	(415)
Income taxes	268	(555)	940	(586)
Net income (loss)	$558	$(1,034)	$2,153	$171
Preferred stock dividends	350	350	1,050	1,050
Net income (loss) available to common shareholders	$208	$(1,384)	$1,103	$(879)

Net income (loss) available to common shareholders:

Basic	$0.02	$(0.16)	$0.13	$(0.11)
Diluted	$0.02	$(0.16)	$0.13	$(0.11)
Return on average assets	0.07%	(0.44)%	0.12%	(0.09)%
Return on average common equity	0.87%	(5.72)%	1.56%	(1.25)%

Net income from operations for three months ended September 30, 2011 increased $1.59 million, or 153.97 percent, compared to the same period in 2010. The increase was primarily the result of a decrease of $1.03 million in noninterest expense and a decrease of $1.95 million in provision for possible loan loss. This was offset by a decrease of $241 thousand in noninterest income, a decrease of $319 thousand in net interest income, and an increase of $823 thousand in income taxes.

Net income for nine months ended September 30, 2011 increased $1.98 million, or 1,159.06 percent, compared to the same period a year ago. The increase was primarily the result of a decrease of $4.85 million in provision for possible loan loss and a decrease of $877 thousand in noninterest expense. This was offset by a decrease of $25 thousand in noninterest income, a decrease of $2.19 million in net interest income and an increase of $1.53 million in income taxes.

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Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 78.41 percent of total revenue for nine months ended September 30, 2011 and 79.69 percent for the same period a year ago.

Net interest margin is the taxable-equivalent net interest income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin.

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit has ranged from 3.25 percent to 7.75 percent during 2008 to 2011. At year end 2007, the prime rate was 7.25 percent and with the 400 basis point reduction during 2008 the prime rate ended the year at 3.25 percent and has remained at 3.25 percent for third quarter 2011. The federal funds rate moved similar to prime rate with interest rates ranging from 0.25 percent to 4.25 percent during 2008 to 2011. At year end 2007, the federal funds rate was 4.25 percent and with the 400 basis point reduction during 2008 the federal funds rate ended the year at 0.25 percent and has remained at 0.25 percent for third quarter 2011. We anticipate the Federal Reserve maintaining its "loosened interest rate policy" in 2011, which will result in continued pressure on Colony's net interest.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. The Company's consolidated average balance sheets along with an analysis of taxable-equivalent net interest earnings are presented in the Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

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Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from September 30, 2010 to September 30, 2011 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

	Changes from September 30, 2010 to September 30, 2011		
($ in thousands)	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	$(4,619)	$(1,132)	$(5,751)
Investment Securities			
Taxable	732	(486)	246
Tax-exempt	37	(15)	22
Total Investment Securities	769	(501)	268
Interest-Bearing Deposits in other Banks	---	22	22
Federal Funds Sold	17	6	23
Other Interest - Earning Assets	(2)	11	9
Total Interest Income	(3,835)	(1,594)	(5,429)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	98	(481)	(383)
Time Deposits	(935)	(1,633)	(2,568)
Federal Funds Purchased and Repurchase Agreements	(289)	78	(211)
Subordinated Debentures	---	(12)	(12)
Other Borrowed Money	(460)	396	(64)
Total Interest Expense	(1,586)	(1,652)	(3,238)
Net Interest Income	$(2,249)	$58	$(2,191)

(1)Changes in net interest income for the periods, based on either changes in average balances or changes in average rates forinterest-earning assets and interest-bearing liabilities, are shown on this table. During each year, there are numerous and simultaneous balance and rate changes; therefore, it is not possible to precisely allocate the changes between balances and rates. For the purpose of this table, changes that are not exclusively due to balance changes or rate changes have been attributed to rates.

Our financial performance is impacted by, among other factors, interest rate risk and credit risk. We do not utilize derivatives to mitigate our interest rate or credit risk, relying instead on an extensive loan review process and our allowance for loan losses.

Interest rate risk is the change in value due to changes in interest rates. The Company is exposed only to U.S. dollar interest rate changes and accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of its investment portfolio as held for trading. The Company does not engage in any hedging activity or utilize any derivatives. The Company has no exposure to foreign currency exchange rate risk, commodity price risk and other market risks. This risk is addressed by our Asset & Liability Management Committee ("ALCO") which includes senior management representatives. The ALCO monitors interest rate risk by analyzing the potential impact of alternative strategies or changes in balance sheet structure.

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Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earning assets and interest-bearing liabilities can influence the changes in net interest income. The timing of repriced assets and liabilities is Gap management and our Company has established its policy to maintain a Gap ratio in the one-year time horizon of 0.80 to 1.20.

Our exposure to interest rate risk is reviewed on a quarterly basis by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates, in order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. We are generally focusing our investment activities on securities with terms or average lives in the 2-5 year range.

The Company maintains about 27 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin until 2008. During 2007 interest rates decreased 100 basis points and this decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. While the Federal Reserve rates have remained unchanged since 2008, the net interest margin decreased to 3.05 percent for nine months ended September 30, 2011 compared to 3.15 percent for the same period a year ago. Given the Federal Reserve’s aggressive posture during 2008 that ended the year with a range of 0 – 0.25 percent federal funds target rate and remained the same through third quarter 2011, we anticipate a relatively flat net interest margin in 2011.

Taxable-equivalent net interest income for nine months ended September 30, 2011 decreased $2.19 million, or 7.70 percent compared to the same period a year ago. The fluctuation between the comparable periods resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during nine months ended September 30, 2011 decreased $56.08 million compared to the same period a year ago while over the same period the net interest margin decreased by 10 basis points from 3.15 percent to 3.05 percent. Decline in average earning assets during 2011 was primarily in loans and interest bearing deposits. The decrease in the net interest margin in 2011 is primarily the result of the decrease in average earning assets and maintenance of a higher liquidity level.

The average volume of loans decreased $102.48 million in nine months ended September 30, 2011 compared to the same period a year ago. The average yield on loans decreased 20 basis points in nine months ended September 30, 2011 compared to the same period a year ago. The average volume of investment securities increased $37.53 million in nine months ended September 30, 2011 compared to the same year ago period, while the average yield on investment securities decreased 22 basis points for the same period comparison. The average volume of deposits decreased $21.87 million in nine months ended September 30, 2011 compared to the same period a year ago, with interest-bearing deposits decreasing $36.67 million in nine months ended September 30, 2011. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 90.66 percent in nine months ended September 30, 2011 compared to 92.29 percent in the same period a year ago. This deposit mix, combined with a general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 35 basis points in nine months ended September 30, 2011 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company’s net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 2.88 percent in nine months ended September 30, 2011 compared to 2.97 percent in the same period a year ago. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled $6.00 million in nine months ended September 30, 2011 compared to $10.85 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

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Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Service Charges on Deposit Accounts	$ 835	$ 879	$ 2,391	$ 2,722
Other Charges, Commissions and Fees	296	291	941	849
Other	422	483	1,760	1,623
Mortgage Fee Income	57	89	161	229
Securities Gains	813	922	1,945	1,800
Total	$ 2,423	$ 2,664	$ 7,198	$ 7,223

Total noninterest income for three months ended September 30, 2011 decreased $241 thousand, or 9.05 percent compared to the same period year ago. Total noninterest income for nine months ended September 30, 2011 decreased $25 thousand, or 0.35 percent, compared to the same year ago period. The decrease in noninterest income was primarily in securities gains and other income for three months ended September 30, 2011. The decrease in noninterest income was primarily in mortgage fee income and service charges on deposit accounts for nine months ended September 30, 2011. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for three months ended September 30, 2011 decreased $44 thousand, or 5.01 percent, compared to the same period a year ago. Service charges on deposit accounts for the nine months ended September 30, 2011 decreased $331 thousand, or 12.16 percent compared to the same year ago period.

Mortgage Fee Income. Mortgage fee income for three months ended September 30, 2011 decreased $32 thousand, or 35.96 percent, compared to the same period year ago. Mortgage fee income for nine months ended September 30, 2011 decreased $68 thousand, or 29.69 percent, compared to the same year ago period. The company anticipates fee income to continue to show a decrease over the previous year due to the current mortgage market and slowing economy.

All Other Noninterest Income. Other charges, commissions and fees and other income for three months ended September 30, 2011 was $718 thousand compared to $774 thousand in the same year ago period, or a decrease of 7.24 percent. Other charges, commissions and fees, and other income for nine months ended September 30, 2011 was $2.70 million compared to $2.47 million in the same year ago period, or an increase of 9.26 percent. The increase in 2011 was due to realizing $864 thousand from the sale of SBA loans during 2011 compared to $514 thousand for 2010. Nonrecurring noninterest income of $215 thousand realized in first quarter 2010 from BOLI insurance program was an offset to the other income.

Securities Gains. The Company realized gains from the sale of securities of $813 thousand in three months ended September 30, 2011 compared to $922 thousand in the same year ago period and realized gains from the sale of securities of $1.95 million in nine months ended September 30, 2011 compared to $1.80 million in the same year ago period.

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Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Salaries and Employee Benefits	$ 3,639	$ 3,474	$ 10,778	$ 10,538
Occupancy and Equipment	1,040	1,149	3,084	3,355
Other	3,411	4,492	10,385	11,231
Total	$ 8,090	$ 9,115	$ 24,247	$ 25,124

Total noninterest expense for three months ended September 30, 2011 decreased $1.03 million, or 11.25 percent, compared to the same period a year ago. Total noninterest expense for nine months ended September 30, 2011 decreased $877 thousand, or 3.49 percent, compared to the same period a year ago. These items and the changes in the various components of noninterest expense are discussed in more detail below.

Salaries and Employee Benefits. Salaries and employee benefits expense for three months ended September 30, 2011 increased $165 thousand, or 4.75 percent, compared to the same period a year ago. Salaries and employee benefits expense for the nine months ended September 30, 2011 increased $240 thousand, or 2.28 percent, compared to the same year ago period.

Occupancy and Equipment. Occupancy and equipment expense has remained relatively flat in both periods with a decrease of $109 thousand for three months ended September 30, 2011 compared to the same year ago period and a decrease of $271 thousand for nine months ended September 30, 2011 compared to the same year ago period.

All Other Non-Interest Expense. All other noninterest expense for three months ended September 30, 2011 decreased $1.08 million, or 24.07 percent compared to the same year ago period. All other noninterest expense for nine months ended September 30, 2011 decreased $846 thousand, or 7.53 percent compared to the same year ago period. Significant amounts impacting the comparable periods was primarily credit related expenses. Credit-related expenses including writedown and losses on OREO property and repossession and foreclosure expenses decreased to $2.76 million in 2011 compared to $3.69 million in 2010, or a decrease of 25.12 percent.

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Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled $1.22 billion in nine months ended September 30, 2011 compared to $1.27 billion in nine months ended September 30, 2010.

	Nine Months Ended September 30,							
Sources of Funds:		2011				2010		
Deposits:								
Noninterest-Bearing	$	94,606	7.75	%	$	79,807	6.26	%
Interest-Bearing		917,914	75.22			954,580	74.88	
Federal Funds Purchased and Repo Agreements		13,171	1.08			27,768	2.18	
Long-term Debt and Other Borrowings		96,191	7.88			113,880	8.93	
Other Noninterest-Bearing Liabilities		4,476	0.37			4,674	0.37	
Equity Capital		93,994	7.70			94,067	7.38	
Total	$	1,220,352	100.00	%	$	1,274,776	100.00	%
Uses of Funds:								
Loans	$	751,903	61.61	%	$	845,140	66.30	%
Securities		302,528	24.79			264,999	20.79	
Federal Funds Sold		46,802	3.84			37,196	2.92	
Interest-Bearing Deposits in Other Banks		19,509	1.60			19,791	1.55	
Other Interest-Earning Assets		5,880	0.48			6,333	0.49	
Other Noninterest-Earning Assets		93,730	7.68			101,317	7.95	
Total	$	1,220,352	100.00	%	$	1,274,776	100.00	%

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Average interest-bearing deposits totaled 90.66 percent of total average deposits in nine months ended September 30, 2011 compared to 92.29 percent in the same period a year ago.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Total loans were $741 million at September 30, 2011, down 8.88 percent, compared to loans of $813 million at December 31, 2010. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included elsewhere in this discussion. The majority of funds provided by deposit growth have been invested in investment securities.

Loans

The following table presents the composition of the Company's loan portfolio as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Commercial, Financial and Agricultural	$ 65,424	$ 63,772
Real Estate		
Construction	65,732	76,682
Mortgage, Farmland	47,686	52,778
Mortgage, Other	515,555	570,350
Consumer	30,938	33,564
Other	15,664	16,104
	740,999	813,250
Unearned Interest and Fees	(59)	(61)
Allowance for Loan Losses	(16,910)	(28,280)
Loans	$ 724,030	$ 784,909

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The following table presents total loans as of September 30, 2011 according to maturity distribution and/or repricing opportunity on adjustable rate loans:

Maturity and Repricing Opportunity	($ in Thousands)
One Year or Less	$ 472,228
After One Year through Three Years	232,350
After Three Years through Five Years	26,036
Over Five Years	10,385
	$ 740,999

Overview. Loans totaled $741.0 million at September 30, 2011, down 8.88 percent from December 31, 2010 loans of $813.3 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial, financial and agricultural. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 69.58 percent and 70.13 percent of total loans, real estate construction made up 8.87 percent and 9.43 percent, while commercial, financial, and agricultural based loans made up 8.83 percent and 7.84 percent of total loans at September 30, 2011 and December 31, 2010, respectively.

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the local bank level. The Company utilizes an Executive Loan Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by bank. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

Commercial purpose, commercial real estate, and industrial loans are underwritten similar to other loans throughout the company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. The Company also utilizes information provided by third-party agencies to provide additional insight and guidance about economic conditions and trends affecting the markets it serves.

The Company extends loans to builders and developers that are secured by non-owner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by bank. The Company is committed to serving the borrowing needs of all markets served and, in some cases, adjusts certain evaluation methods to meet the overall credit demographics of each market. Consumer loans represent relatively small loan amounts that are spread across many individual borrowers that helps minimize risk. Additionally, consumer trends and outlook reports are reviewed by management on a regular basis.

The Company utilizes an independent third party to perform loan reviews on an ongoing basis. The Loan Review Company reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at September 30, 2011 increased 2.59 percent from December 31, 2010 to $65.4 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

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Collateral Concentrations. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At September 30, 2011, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in 2011. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Large Credit Relationships. Colony is currently in eighteen counties in middle and south Georgia which include metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of $5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of $5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Executive Loan Committee and Director Loan Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at period end.

	September 30, 2011			December 31, 2010		
		Period End Balances			Period End Balances	
	Number of Relationships	Committed	Outstanding	Number of Relationships	Committed	Outstanding
Large Credit Relationships:						
$10 million and greater	1	$ 11,858	$ 11,858	1	$ 15,025	$ 15,025
$5 million to $9.9 million	5	$ 32,862	$ 32,862	7	$ 46,794	$ 45,588

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at September 30, 2011. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total

Loans with fixed interest rates	$	281,238	$	230,509	$	21,995	$	10,205	$	543,947
Loans with floating interest rates		190,990		1,841		4,041		180		197,052
Total	$	472,228	$	232,350	$	26,036	$	10,385	$	740,999

The Company may renew loans at maturity when requested by a customer whose financial strength appears to support such renewal or when such renewal appears to be in the Company's best interest. In such instances, the Company generally requires payment of accrued interest and may adjust the rate of interest, require a principal reduction or modify other terms of the loan at the time of renewal.

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Non-Performing Assets and Potential Problem Loans

Non-performing assets and accruing past due loans as of September 30, 2011, December 31, 2010 and September 30, 2010 were as follows:

	September 30, 2011	December 31, 2010	September 30, 2010
Loans Accounted for on Nonaccrual	$42,148	$28,902	$26,628
Loans Past Due 90 Days or More	--	19	--
Other Real Estate Foreclosed	20,662	20,208	20,738
Securities Accounted for on Nonaccrual	479	132	132
Total Nonperforming Assets	$63,289	$49,261	$47,498
Nonperforming Assets as a Percentage of:			
Total Loans and Foreclosed Assets	8.31 %	5.91 %	5.46 %
Total Assets	5.52 %	3.86 %	3.86 %
Supplemental Data:			
Trouble Debt Restructured Loans In Compliance with Modified Terms	33,029	26,556	26,523
Trouble Debt Restructured Loans Past Due 30-89 Days	611	1,048	--
Accruing Past Due Loans:			
30-89 Days Past Due	$11,680	$19,740	$10,605
90 or More Days Past Due	--	19	--
Total Accruing Past Due Loans	$11,680	$19,759	$10,605

Non-performing assets include non-accrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Non-performing assets at September 30, 2011 increased 28.48 percent from December 31, 2010.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. For consumer loans, collectibility and loss are generally determined before the loan reaches 90 days past due. Accordingly, losses on consumer loans are recorded at the time they are determined. Consumer loans that are 90 days or more past due are generally either in liquidation/payment status or bankruptcy awaiting confirmation of a plan. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest.

Troubled debt restructured loans are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven.

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications
and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to maintaining the properties.

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 that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

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The company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of classified loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the subsidiary bank level and is reviewed at the parent company level. Once a loan is classified, it is reviewed to determine whether the loan is impaired and, if impaired, a portion of the allowance for possible loan losses is specifically allocated to the loan. Specific valuation allowances are determined after considering the borrower's financial condition, collateral deficiencies, and economic conditions affecting the borrower's industry, among other things.

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment. In addition, the Company has also segmented it's real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past three years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the Company changed the methodology in calculating its loan loss reserve. Previously the look back period for charge-off experience was the average of the charge-offs for the prior five years, however due to the current housing and real estate downturn, management deemed prudent to lower the look back period for charge-off experience to a one year look back. This change resulted in an approximate $12 million dollar addition to the loan loss reserve during fourth quarter 2009. We maintained the same methodology for 2011.

Management evaluates the adequacy of the allowance for each of these components on a quarterly basis. Peer comparisons, industry comparisons, and regulatory guidelines are also used in the determination of the general valuation allowance.

Loans identified as losses by management, internal loan review, and/or bank examiners are charged-off.

An allocation for loan losses has been made according to the respective amounts deemed necessary to provide for the possibility of incurred losses within the various loan categories. The allocation is based primarily on previous charge-off experience adjusted for changes in experience among each category. Additional amounts are allocated by evaluating the loss potential of individual loans that management has considered impaired. The reserve for loan loss allocation is subjective since it is based on judgment and estimates, and therefore is not necessarily indicative of the specific amounts or loan categories in which the charge-offs may ultimately occur. The following table shows a comparison of the allocation of the reserve for loan losses for the periods indicated.

	September 30, 2011			December 31, 2010		
	Reserve	%	*	Reserve	%	*
Commercial, Financial and Agricultural	$ 2,617	9	%	$ 5,113	8	%

Real Estate – Construction		5,034	9	%		4,646	9	%
Real Estate – Farmland		567	6	%		944	7	%
Real Estate – Other		6,963	70	%		13,972	70	%
Loans to Individuals		1,634	4	%		3,074	4	%
All Other Loans		95	2	%		531	2	%
Total	$	16,910	100	%	$	28,280	100	%

* Loan balance in each category expressed as a percentage of total end of period loans.

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Activity in the allowance for loan losses is presented in the following table. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

The following table presents an analysis of the Company's loan loss experience for the periods indicated.

($ in thousands)	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010	
Allowance for Loan Losses at Beginning of Quarter	$ 15,394		$ 28,536	
Charge-Off				
Commercial, Financial and Agricultural	15		146	
Real Estate – Construction & Land Development	196		723	
Real Estate – Residential	540		310	
Real Estate – Nonfarm Residential	1,285		3,774	
Consumer	67		114	
All Other	31		162	
	2,134		5,229	
Recoveries				
Commercial, Financial and Agricultural	405		2	
Real Estate – Construction & Land Development	522		75	
Real Estate – Residential	79		73	
Real Estate – Nonfarm Residential	358		55	
Consumer	36		35	
All Other	--		7	
	1,400		247	
Net Charge-Offs	734		4,982	
Provision for Loan Losses	2,250		4,200	
Allowance for Loan Losses at End of Quarter	$ 16,910		$ 27,754	
Ratio of Net Charge-Offs to Average Loans	0.10	%	0.58	%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses decreased $1.95 million from $4.20 million in three months ended September 30, 2010 to $2.25 million in three months ended September 30, 2011. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at quarter-end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during the third quarter 2011 was the provision of $2.25 million and net charge-offs of $734 thousand. Charge-offs consisted of one nonfarm property totaling $511 thousand. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans. The large charge-offs were attributable to significant declines in collateral value based upon current real estate values. Charge-offs for third quarter 2010 totaled $4.98 million. Charge-offs largely consisted of one construction and land development totaling $251 thousand and four nonfarm properties totaling $3.47 million. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans. All of the large charge-offs were attributable to significant declines in collateral value based upon current real estate values.

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Provisions continue to be higher than normal primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 8.31 percent at September 30, 2011 compared to 5.91 percent at December 31, 2010 and 5.46 percent at September 30, 2010. Total nonperforming assets at September 30, 2011 were $63.3 million, of which $40.2 million were construction, land development and other land loans; $5.7 million were 1-4 family residential properties; $0.8 million were multifamily residential properties; $13.2 million were nonfarm nonresidential properties; $1.0 million were farmland properties; and the remainder of nonperforming assets totaling $2.4 million were commercial and consumer loans. All of the classified loans greater than $50 thousand, including the nonperforming loans, are reviewed throughout the quarter for impairment review. Total nonperforming assets at December 31, 2010 were $49.3 million, of which $22.0 million were construction, land development and other land loans; $5.0 million were 1-4 family residential properties; $0.3 million were multifamily residential properties; $18.9 million were nonfarm nonresidential properties; $2.0 million were farmland properties; and the remainder of nonperforming assets totaling $1.1 million were commercial and consumer loans. Total nonperforming assets at September 30, 2010 were $47.5 million, of which $23.0 million were construction, land development and other land loans; $1.5 million were farmland; $5.8 million were 1-4 family residential properties; $0.5 million were multifamily properties; $15.6 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling $1.1 million were commercial and consumer loans. The allowance for loan losses of $16.91 million at September 30, 2011 was 2.28 percent of total loans which compares to $28.3 million at December 31, 2010, or 3.48 percent of total loans and to $27.8 million at September 30, 2010, or 3.27 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 5.69 percent, 3.56 percent, 3.13 percent, respectively as of September 30, 2011, December 31, 2010 and September 30, 2010, the Company's allowance for loan losses as a percentage of nonperforming loans was 40.12 percent, 97.78 percent, 104.23 percent, respectively as of September 30, 2011, December 31, 2010 and September 30, 2010. We continue to identify new problem loans, though at a slower pace than in previous quarters.

While the allowance for loan losses decreased from $28.3 million, or 3.48 percent of total loans at December 31, 2010 to $16.9 million, or 2.28 percent of total loans at September 30, 2011, the Company also reflected an increase in nonperforming loans from $28.9 million at December 31, 2010 to $42.1 million at September 30, 2011 and a reduction in special mention and substandard loans from $143.2 million at December 31, 2010 to $113.8 million at September 30, 2011. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are $50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive any contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades. In addition, the Company has also segmented its real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the company changed its methodology for the look back period for determination of charge-off experience. Previously, the Company utilized the average of the charge-off experience for the preceding five years, but changed to a one year look back. The current methodology has resulted in significant loan loss provisions, but was considered prudent by management to adhere to guidance by regulatory authorities to lower the look back period in light of current economic conditions. In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on reviews throughout the year and an environmental analysis at year end.

As part of our monitoring and evaluation of collateral values for nonperforming and problem loans in determining adequate allowance for loan losses, regional credit officers along with lending officers submit quarterly problem loan reports for loans greater than $50 thousand in which impairment is identified. This process typically determines collateral shortfall based upon local market real estate value estimates should the collateral be liquidated. Once the loan is deemed uncollectible, it is transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department gets a current appraisal on the property in order to record a fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate. Trends the past several quarters reflect a decrease in collateral values from two to three years ago on improved properties of fifteen to twenty five percent and on land development and land loans of thirty to fifty percent.

Net charge-offs in three months ended September 30, 2011 decreased $4.25 million compared to the same period a year ago. Net charge-offs of 0.10 percent for third quarter 2011 annualizes to 0.40 percent. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of nonperforming credits to appraised values. We anticipate an elevated amount of charge-offs in 2011 as problem credits run through the collection process to resolution.

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The allowance for loan losses is $1.5 million more than the prior quarter end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level, management believes the level of the allowance for loan losses was adequate as of September 30, 2011. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

($ in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Allowance for Loan Losses at Beginning of Year	$ 28,280	$ 31,401
Charge-Off		
Commercial, Financial and Agricultural	1,173	679
Real Estate – Construction & Land Development	4,279	4,511
Real Estate – Residential	1,994	3,293
Real Estate – Nonfarm Residential	11,472	6,151
Consumer	192	365
All Other	100	511
	19,210	15,510
Recoveries		
Commercial, Financial and Agricultural	525	75
Real Estate – Construction & Land Development	548	107
Real Estate – Residential	120	443
Real Estate – Nonfarm Residential	518	134
Consumer	123	230
All Other	6	24
	1,840	1,013
Net Charge-Offs	17,370	14,497
Provision for Loan Losses	6,000	10,850
Allowance for Loan Losses at End of Quarter	$ 16,910	$ 27,754
Ratio of Net Charge-Offs to Average Loans	2.25 %	1.65 %

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses decreased $4.9 million from $10.85 million in nine months ended September 30, 2010 to $6.00 million in nine months ended September 30, 2011. Of significance to changes in the allowance for loan losses during 2011 was net charge-offs of $17.4 million. Charge-offs largely consisted of six construction and land development loans totaling $3.75 million; two commercial and agricultural totaling $808 thousand; one multifamily residential property loan totaling $595 thousand; and eleven nonfarm nonresidential loan totaling $9.50 million. The remainder of the charge-offs were made up of several small loans most of which were real estate dependent loans. All of the large charge-offs were attributable to significant declines in collateral value based upon current real estate values.

Net charge-offs in nine months ended September 30, 2011 increased $2.87 million compared to the same period a year ago. Net charge-offs of 2.25 percent for 2011 annualizes to 3.00 percent. We do not expect actual net charge-offs for 2011 to reach that annualized level. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of non-performing credits to appraised values. We anticipate an elevated amount of charge-offs in 2011 as problem credits run through the collection process to resolution.

Management believes the level of the allowance for loan losses was adequate as of September 30, 2011. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company’s estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

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Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of September 30, 2011 and December 31, 2010.

($ in thousands)	September 30, 2011	December 31, 2010
State, County and Municipal	$ 6,737	$ 3,304
Corporate Obligations	2,116	1,987
Asset-Backed Securities	132	132
Investment Securities	8,985	5,423
Mortgage-Backed Securities	304,183	298,463
Total Investment Securities and Mortgage Backed Securities	$ 313,168	$ 303,886

The following table represents maturities and weighted-average yields of investment securities held by the Company as of September 30, 2011. (Mortgage backed securities are based on the average life at the projected speed, while Agencies, State and Political subdivisions and Corporates reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	$9,862	1.63 %	$179,869	2.00 %	$107,137	2.83 %	$7,315	2.31 %
State, County, and Municipal	1,050	4.08	1,532	3.19	4,155	3.11	---	---
Corporate Obligations	---	---	---	---	1,127	5.67	989	3.56
Asset-Backed Securities	---	---	---	---	---	---	132	0.00
Total Investment Portfolio	$10,912	1.87 %	$181,401	2.01 %	$112,419	2.87 %	$8,436	2.31 %

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. The Company has 99.9 percent of its portfolio classified as available for sale.

At September 30, 2011, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 2.47 percent in nine months ended September 30, 2011 compared to 2.69 percent in the same period a year ago. The decrease in the average yield over the comparable periods primarily resulted from reinvestment of proceeds from the sale of mortgage-backed securities and paydown on securities into lower yielding securities.

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Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the nine month periods ended September 30, 2011 and September 30, 2010.

($ in thousands)	September 30, 2011 Average Amount	September 30, 2011 Average Rate	September 30, 2010 Average Amount	September 30, 2010 Average Rate
Noninterest-Bearing Demand Deposits	$ 94,606		$ 79,807	
Interest-Bearing Demand and Savings Deposits	269,258	0.46 %	250,525	0.70 %
Time Deposits	648,656	1.91 %	704,055	2.25 %
Total Deposits	$ 1,012,520	1.35 %	$ 1,034,387	1.70 %

The following table presents the maturities of the Company's time deposits as of September 30, 2011.

($ in thousands)	Time Deposits $100,000 or Greater	Time Deposits Less Than $100,000	Total
Months to Maturity			
3 or Less	$64,771	$67,241	$132,012
Over 3 through 12 Months	118,960	167,560	286,520
Over 12 Months through 36 Months	67,147	98,320	165,467
Over 36 Months	4,706	7,918	12,624
	$255,584	$341,039	$596,623

Average deposits decreased $21.87 million to $1.01 billion at September 30, 2011 from $1.03 billion at September 30, 2010. The decrease included a decrease of $55.4 million, or 7.9 percent, related to time deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 9.34 percent for nine months ended September 30, 2011 compared to 7.72 percent for nine months ended September 30, 2010. The general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 35 basis points in nine months ended September 30, 2011 compared to the same period a year ago; and (ii) mitigating a portion of the impact of decreasing yields on earning assets.

Total average interest-bearing deposits decreased $36.7 million, or 3.84 percent in nine months ended September 30, 2011 compared to the same period a year ago. The decrease in average deposits at September 30, 2011 compared to September 30, 2010 was primarily in time deposits.

The Company supplements deposit sources with brokered deposits. As of September 30, 2011, the Company had $30.59 million, or 3.23 percent of total deposits, in brokered certificates of deposit attracted by external third parties.

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Off-Balance-Sheet Arrangements, Commitments, Guarantees, and Contractual Obligations

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of September 30, 2011. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual obligations:					
Subordinated debentures	$ ----	$ ----	$ ----	$ 24,229	$ 24,229
Federal Home Loan Bank advances	41,000	----	----	30,000	71,000
Operating leases	129	127	----	----	256
Deposits with stated maturity dates	418,532	165,467	12,330	294	596,623
	459,661	165,594	12,330	54,523	692,108
Other commitments:					
Loan commitments	41,692	----	----	----	41,692
Standby letters of credit	1,619	----	----	----	1,619
	43,311	----	----	----	43,311
Total contractual obligations and Other commitments	$ 502,972	$ 165,594	$ 12,330	$ 54,523	$ 735,419

In the ordinary course of business, the Company enters into off-balance sheet financial instruments which are not reflected in the consolidated financial statements. These instruments include commitments to extend credit, standby letters of credit, performance letters of credit, guarantees and liability for assets held in trust. Such financial instruments are recorded in the financial statements when funds are disbursed or the instruments become payable. The Company uses the same credit policies for these off-balance sheet financial instruments as they do for instruments that are recorded in the consolidated financial statements.

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses. Loan commitments outstanding at September 30, 2011 are included in the table above.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at September 30, 2011 are included in the preceding table.

Capital and Liquidity

At September 30, 2011, stockholders' equity totaled $97.9 million compared to $93.0 million at December 31, 2010. In addition to net income of $2.2 million, other significant changes in stockholders' equity during nine months ended September 30, 2011 included $1.05 million of preferred stock dividends declared and an increase of $26 thousand resulting from the amortization of the stock grant plan. The accumulated other comprehensive income (loss) component of stockholders' equity totaled $3.24 million at September 30, 2011 compared to $(600) thousand at December 31, 2010. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses and gain on marketable equity securities.

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Using the capital requirements presently in effect, the Tier 1 ratio as of September 30, 2011 was 15.38 percent and total Tier 1 and 2 risk-based capital was 16.64 percent. Both of these measures compare favorably with the regulatory minimum to be adequately capitalized of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of September 30, 2011 was 9.33 percent, which exceeds the required ratio standard of 4 percent.

The Company suspended cash dividends beginning in the third quarter of 2009 and has not reinstated dividend payments.

The Company, primarily through the actions of its subsidiary bank, engages in liquidity management to ensure adequate cash flow for deposit withdrawals, credit commitments and repayments of borrowed funds. Needs are met through loan repayments, net interest and fee income and the sale or maturity of existing assets. In addition, liquidity is continuously provided through the acquisition of new deposits, the renewal of maturing deposits and external borrowings.

Management monitors deposit flow and evaluates alternate pricing structures to retain and grow deposits. To the extent needed to fund loan demand, traditional local deposit funding sources are supplemented by the use of FHLB borrowings, brokered deposits and other wholesale deposit sources outside the immediate market area. Internal policies have been updated to monitor the use of various core and non-core funding sources, and to balance ready access with risk and cost. Through various asset/liability management strategies, a balance is maintained among goals of liquidity, safety and earnings potential. Internal policies that are consistent with regulatory liquidity guidelines are monitored and enforced by the banks.

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of September 30, 2011, the Company held $313.1 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2010, the available for sale bond portfolio totaled $303.8 million. Only marketable investment grade bonds are purchased. Although most of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 78.1 percent as of September 30, 2011 and 76.8 percent at December 31, 2010. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at September 30, 2011 and December 31, 2010 were 72.7 percent and 70.5 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small business with comprehensive banking relationships and limited volatility. At September 30, 2011 and December 31, 2010, Colony had $255.6 million and $298.0 million in certificates of deposit of $100,000 or more. These larger deposits represented 27.0 percent and 28.1 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

As of September 30, 2011, the Company had $30.59 million, or 3.23 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, Colony uses external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. As of September 30, 2011, the Company had $48.5 million, or 5.12 percent of total deposits in internet deposits.

To plan for contingent sources of funding not satisfied by both local and out-of-market deposit balances, Colony and its subsidiary has established multiple borrowing sources to augment their funds management. The Company has borrowing capacity through membership of the Federal Home Loan Bank program. The banks have also established overnight borrowing for Federal Funds purchased through various correspondent banks. Management believes the various funding sources discussed above are adequate to meet the Company's liquidity needs in the future without any material adverse impact on operating results.

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Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of balance sheet structure, the ability to liquidate assets, and the availability of alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquid funds through asset/liability management.

Asset liquidity is provided by liquid assets which are readily marketable or pledgeable or which will mature in the near future. Liquid assets include cash, interest-bearing deposits in banks, securities available for sale, maturities and cash flow from securities held to maturity, and federal funds sold and securities purchased under resale agreements.

Liability liquidity is provided by access to funding sources which include core deposits. Should the need arise, the Company also maintains relationships with the Federal Home Loan Bank, Federal Reserve Bank, three correspondent banks and repurchase agreement lines that can provide funds on short notice.

Since Colony is a bank holding company and does not conduct operations, its primary sources of liquidity are dividends up streamed from the subsidiary bank and borrowings from outside sources.

The liquidity position of the Company is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on the Company's liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on the Company.

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed in the next section.

Regulatory and Economic Policies

The Company's business and earnings are affected by general and local economic conditions and by the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things. The Federal Reserve Board regulates the supply of money in order to influence general economic conditions. Among the instruments of monetary policy available to the Federal Reserve Board are (i) conducting open market operations in United States government obligations, (ii) changing the discount rate on financial institution borrowings, (iii) imposing or changing reserve requirements against financial institution deposits, and (iv) restricting certain borrowings and imposing or changing reserve requirements against certain borrowing by financial institutions and their affiliates. These methods are used in varying degrees and combinations to affect directly the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve Board have a material effect on the earnings of the Company.

Governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future; however, the Company cannot accurately predict the nature, timing or extent of any effect such policies may have on its future business and earnings.

Recently Issued Accounting Pronouncements

See Note 1 – Summary of Significant Accounting Policies, under the section headed Changes in Accounting Principles and Effects of New Accounting Pronouncements included in the Notes to Consolidated Financial Statements.

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Return on Assets and Stockholders' Equity

The following table presents selected financial ratios for each of the periods indicated.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Return on Average Assets (1)	0.07 %	(0.44)%	0.12 %	(0.09)%
Return on Average Total Equity (1)	0. 87 %	(5.72)%	1.56 %	(1.25)%
Average Total Equity to Average Assets	8.17 %	7.75 %	7.70 %	7.38 %

(1) Computed using annualized net income available to common shareholders.

Future Outlook

During the past three years, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country. Focus during 2011 will be directed toward addressing and bringing resolution to problem assets.

During 2009, Colony made significant strides to reduce our operating leverage by seeking a more efficient structure and more consistent products and services throughout the company. We successfully completed the consolidation of our seven banking subsidiaries into the single banking company – Colony Bank. The momentum created by this strategic move will allow Colony to improve future profitability while better positioning the company to take advantage of future growth opportunities. In response to the elevated risk of residential real estate and land development loans, management has extensively reviewed our loan portfolio with a particular emphasis on our residential and land development real estate exposure. Senior management with experience in problem loan workouts have been identified and assigned responsibility to oversee the workout and resolution of problem loans. The Company will continue to closely monitor our real estate dependent loans throughout the company and focus on asset quality during this economic downturn.

BUSINESS

Regulatory Action

On October 21, 2010, the Board of Directors of the Company's subsidiary bank, Colony Bank (the "Bank"), received notification from its primary regulators, the Georgia Department of Banking and Finance ("GDB&F") and the FDIC that the Bank's latest examination results require a program of corrective action as outlined in a proposed Memorandum of Understanding ("MOU"). An MOU is characterized by the supervising authorities as an informal action that is neither published nor made publically available by the supervising authorities and is used when circumstances do not warrant formal supervisory action. An MOU is not a “written agreement” for purposes of Section 8 of the Federal Deposit Insurance Act. The Board of Directors entered into the MOU at its regularly scheduled monthly meeting on November 16, 2010 with the effective date of the MOU being November 23, 2010.

The MOU requires the Bank to develop, implement, and maintain various processes to improve the Bank’s risk management of its loan portfolio, reduce adversely classified assets in accordance with certain timeframes, limit the extension of additional credit to borrowers with adversely classified loans subject to certain exceptions, adopt a written plan to properly monitor and reduce the Bank’s commercial real estate concentration, continue to maintain the Bank’s loan loss provision and review its adequacy at least quarterly, and formulate and implement a written plan to improve and maintain earnings to be forwarded for review by the GDB&F and FDIC. The Bank is also required to obtain approval before any cash dividends can be paid.

The Bank has also agreed to have and maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10%. At September 30, 2011, the Bank’s capital ratios were 9.13% and 16.32%, respectively.

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General

Colony Bankcorp, Inc. (the "Company" or "Colony") is a Georgia business corporation which was incorporated on November 8, 1982. The Company was organized for the purpose of operating as a bank holding company under the Federal Bank Holding Company Act of 1956, as amended, and the bank holding company laws of Georgia (Georgia Laws 1976, p. 168, et. seq.). On July 22, 1983, the Company, after obtaining the requisite regulatory approvals, acquired 100 percent of the issued and outstanding common stock of Colony Bank (formerly Colony Bank of Fitzgerald and The Bank of Fitzgerald), Fitzgerald, Georgia, through the merger of the Bank with a subsidiary of the Company which was created for the purpose of organizing the Bank into a one-bank holding company. Since that time, Colony Bank has operated as a wholly-owned subsidiary of the Company. Our business is conducted primarily through our wholly-owned subsidiary, which provides a broad range of banking services to its retail and commercial customers. The company headquarters are located at 115 South Grant Street, Fitzgerald, Georgia 31750, its telephone number is 229-426-6000 and its Internet address is http://www.colonybank.com. We operate twenty-nine domestic banking offices and one mortgage company office and at September 30, 2011, we had approximately $1.1 billion in total assets, $724.0 million in total loans, $948 million in total deposits and $97.9 million in stockholder's equity. Deposits are insured, up to applicable limits, by the Federal Deposit Insurance Corporation.

The Parent Company

Because Colony Bankcorp, Inc. is a bank holding company, its principal operations are conducted through its subsidiary bank, Colony Bank (the "Bank"). It has 100 percent ownership of its subsidiary and maintains systems of financial, operational and administrative controls that permit centralized evaluation of the operations of the subsidiary bank in selected functional areas including operations, accounting, marketing, investment management, purchasing, human resources, computer services, auditing, compliance and credit review. As a bank holding company, we perform certain stockholder and investor relations functions.

Colony Bank – Banking Services

Our principal subsidiary is the Bank. The Bank, headquartered in Fitzgerald, Georgia, offers traditional banking products and services to commercial and consumer customers in our markets. Our product line includes, among other things, loans to small and medium-sized businesses, residential and commercial construction and land development loans, commercial real estate loans, commercial loans, agri-business and production loans, residential mortgage loans, home equity loans, consumer loans and a variety of demand, savings and time deposit products. We also offer internet banking services, electronic bill payment services, safe deposit box rentals, telephone banking, credit and debit card services, remote depository products and access to a network of ATMs to our customers. Colony Bank conducts a general full service commercial, consumer and mortgage banking business through thirty offices located in the middle and south Georgia cities of Fitzgerald, Warner Robins, Centerville, Ashburn, Leesburg, Cordele, Albany, Thomaston, Columbus, Sylvester, Tifton, Moultrie, Douglas, Broxton, Savannah, Eastman, Chester, Soperton, Rochelle, Pitts, Quitman and Valdosta, Georgia.

For additional discussion of our loan portfolio and deposit accounts, see "Management's Discussion of Financial Condition and Results of Operations – Loans and Deposits."

Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed Colony Bankcorp Statutory Trust III for the sole purpose of issuing $4,500,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Market. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the second quarter of 2006, the Company formed Colony Bankcorp Capital Trust I for the sole purpose of issuing $5,000,000 in Trust Preferred Securities through a pool sponsored by SunTrust Bank Capital Markets. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the first quarter of 2007, the Company formed Colony Bankcorp Capital Trust II for the sole purpose of issuing $9,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on March 26, 2002 through Colony Bankcorp Statutory Trust I.

During the third quarter of 2007, the Company formed Colony Bankcorp Capital Trust III for the sole purpose of issuing $5,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on December 19, 2002 through Colony Bankcorp Statutory Trust II.

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Corporate Restructuring and Business Combinations

On April 30, 1984, after acquiring the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding stock of Colony Bank Wilcox (formerly Community Bank of Wilcox and Pitts Banking Company), Pitts, Wilcox County, Georgia. As part of the transaction, Colony issued an additional 17,872 shares of its $10.00 par value common stock, all of which was exchanged with the holders of shares of common stock of Pitts Banking Company for 100 percent of the 250 issued and outstanding shares of common stock of Pitts Banking Company. Since the date of acquisition, Colony Bank Wilcox operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On November 1, 1984, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of Colony Bank Ashburn (formerly Ashburn Bank), Ashburn, Turner County, Georgia, for a combination of cash and interest-bearing promissory notes. Since the date of acquisition, Colony Bank Ashburn operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On September 30, 1985, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of Colony Bank of Dodge County, (formerly The Bank of Dodge County), Chester, Dodge County, Georgia. The stock was acquired in exchange for the issuance of 3,500 shares of common stock of Colony. Since the date of acquisition, Colony Bank of Dodge County operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On July 31, 1991, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of colony Bank Worth, (formerly Worth Federal Savings and Loan Association and Bank of Worth), Sylvester, Worth County, Georgia. The stock was acquired in exchange for cash and the issuance of 7,661 shares of common stock of Colony for an aggregate purchase price of approximately $718,000. Since the date of acquisition, Colony Bank Worth operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On November 8, 1996, Colony organized Colony Management Services, Inc. to provide support services to each subsidiary. Services provided include loan and compliance review, internal audit and data processing. Colony Management Services, Inc. operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On November 30, 1996, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of Colony Bank Southeast (formerly Broxton State Bank), Broxton, Coffee County, Georgia in a business combination accounted for as a pooling of interests. Broxton State Bank became a wholly-owned subsidiary of the Company through the exchange of 157,735 shares of the Company's common stock for all of the outstanding stock of Broxton State Bank. Since the date of acquisition, Colony Bank Southeast operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On March 2, 2000, Colony Bank Ashburn purchased the capital stock of Colony Mortgage Corp (formerly Georgia First Mortgage Company) in a business combination accounted for as a purchase. The purchase price of $346,725 was the fair value of the net assets of Georgia First Mortgage Company at the date of purchase. Colony Mortgage Corp is primarily engaged in residential real estate mortgage lending in the state of Georgia. Colony Mortgage Corp operates as a subsidiary of Colony Bank effective with the August 1, 2008 merger.

On March 29, 2002, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding stock of Colony Bank Quitman, FSB, (formerly Quitman Federal Saving Bank), Quitman, Brooks County, Georgia. Quitman Federal Savings Bank became a wholly-owned subsidiary of the Company through the exchange of 367,093 shares of the Company's common stock and cash for an aggregate acquisition price of $7,446,163. Since the date of acquisition, Colony Bank Quitman, FSB operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On March 19, 2004, Colony Bank Ashburn purchased Flag Bank – Thomaston office in a business combination accounted for as a purchase. Since the date of acquisition, the Thomaston office operated as an office of Colony Bank Ashburn until August 1, 2008 when it became an office of Colony Bank.

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On August 1, 2008, the Company effected a merger of its seven banking subsidiaries and its one nonbank subsidiary into one surviving bank subsidiary, Colony Bank (formerly Colony Bank of Fitzgerald).

On April 2, 1998, the Company was listed on Nasdaq Global Market. The Company's common stock trades on the Nasdaq Stock Market under the symbol "CBAN". The Company presently has approximately 2,149 shareholders as of September 30, 2011. "The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

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Item 3 - Quantitative and Qualitative Disclosures About Market Risk

	September 30, 2011				September 30, 2010			
($ in thousands)	Average Balances	Income/ Expense	Yields/ Rates		Average Balances	Income/ Expense	Yields/ Rates	
Assets								
Interest-Earning Assets								
Loans, Net of Unearned Interest and fees Taxable (1)	$773,615	$33,719	5.81	%	$876,093	$39,470	6.01	%
Investment Securities								
Taxable	299,362	5,486	2.44	%	262,681	5,240	2.66	%
Tax-Exempt (2)	3,166	122	5.14	%	2,318	100	5.75	%
Total Investment Securities	302,528	5,608	2.47	%	264,999	5,340	2.69	%
Interest-Bearing Deposits	19,509	37	0.25	%	19,791	15	0.10	%
Federal Funds Sold	46,802	91	0.26	%	37,196	68	0.24	%
Interest-Bearing Other Assets	5,880	36	0.82	%	6,333	27	0.57	%
Total Interest-Earning Assets	1,148,334	$39,491	4.59	%	1,204,412	$44,920	4.97	%
Non-interest-Earning Assets								
Cash and Cash Equivalents	19,195				19,075			
Allowance for Loan Losses	(21,712)				(30,953)			
Other Assets	74,535				82,242			
Total Noninterest-Earning Assets	72,018				70,364			
Total Assets	$1,220,352				$1,274,776			
Liabilities and Stockholders' Equity								
Interest-Bearing Liabilities								
Interest-Bearing Deposits								
Interest-Bearing Demand and Savings	$269,258	$934	0.46	%	$250,525	$1,317	0.70	%
Other Time	648,656	9,294	1.91	%	704,055	11,862	2.25	%
Total Interest-Bearing Deposits	917,914	10,228	1.49	%	954,580	13,179	1.84	%
Other Interest-Bearing Liabilities								
Other Borrowed Money	71,962	2,269	4.20	%	89,651	2,333	3.47	%
Subordinated Debentures	24,229	377	2.07	%	24,229	389	2.14	%
Federal Funds Purchased and Repurchase Agreements	13,171	338	3.42	%	27,768	549	2.64	%
Total Other Interest-Bearing Liabilities	109,362	2,984	3.64	%	141,648	3,271	3.08	%
Total Interest-Bearing Liabilities	1,027,276	$13,212	1.71	%	1,096,228	$16,450	2.00	%
Noninterest-Bearing Liabilities and								
Stockholders' Equity								
Demand Deposits	94,606				79,807			

Other Liabilities	4,476				4,674		
Stockholders' Equity	93,994				94,067		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	193,076				178,548		
Total Liabilities and Stockholders' Equity	$1,220,352				$1,274,776		
Interest Rate Spread			2.88 %				2.97 %
Net Interest Income		$26,279				$28,470	
Net Interest Margin			3.05 %				3.15 %

(1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling $96 and $100 for nine month periods ended September 30, 2011 and 2010, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling $41 and $34 for nine month periods ended September 30, 2011 and 2010, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

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Part I (Continued)
Item 3 (Continued)

Colony Bankcorp, Inc. and Subsidiary
Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at September 30, 2011. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
($ in Thousands)	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	Total
EARNING ASSETS:						
Interest-Bearing Deposits	$4,409	$---	$4,409	$---	---	$4,409
Federal Funds Sold	10,561	---	10,561	---	---	10,561
Investment Securities	9,491	---	9,491	181,057	122,620	313,168
Loans, Net of Unearned Income	292,216	179,982	472,198	258,357	10,385	740,940
Other Interest-Bearing Assets	5,573	---	5,573	---	---	5,573
Total Interest-Earning Assets	322,250	179,982	502,232	439,414	133,005	1,074,651
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand Deposits (1)	222,014	---	222,014	---	---	222,014
Savings (1)	41,228	---	41,228	---	---	41,228
Time Deposits	132,013	286,519	418,532	177,796	295	596,623
Other Borrowings (2)	---	41,000	41,000	---	30,000	71,000
Subordinated Debentures	24,229	---	24,229	---	---	24,229
Total Interest-Bearing Liabilities	419,484	327,519	747,003	177,796	30,295	955,094
Interest Rate-Sensitivity Gap	(97,234)	(147,537)	(244,771)	261,618	102,710	119,557
Cumulative Interest-Sensitivity Gap	(97,234)	(244,771)	(244,771)	16,847	119,557	
Interest Rate-Sensivitiy Gap as a Percentage of	(9.05)%	(13.73)%	(22.78)%	24.34 %	9.56 %	

Interest-Earning Assets					
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(9.05)%	(22.78)%	(22.78)%	1.56%	11.12%

(1) Interest-bearing Demand and Savings Accounts for repricing purposes are considered to reprice within 3 months or less.
(2) Short-term borrowings for repricing purposes are considered to reprice within 3 months or less.

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Part I (Continued)
Item 3 (Continued)

The foregoing table indicates that we had a one year negative gap of ($245) million, or 22.78 percent of total assets at September 30, 2011. In theory, this would indicate that at September 30, 2011, $245 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to increase, the gap would indicate a resulting decrease in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

Gap analysis has certain limitations. Measuring the volume of repricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products; dynamic changes such as increasing prepay speeds as interest rates decrease, basis risk, or the benefit of non-rate funding sources. The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move slowly and usually incorporate only a fraction of the change in rates. Products categorized as non-rate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. In fact, during the recent period of declines in interest rates, our net interest margin has declined. Therefore, management uses gap analysis, net interest margin analysis and market value of portfolio equity as our primary interest rate risk management tools.

The Company utilizes FTN Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net-interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent decline. The most recent analysis as of September 30, 2011 indicates that net interest income would deteriorate 19.33 percent with a 200 basis point decrease and would improve 9.21 percent with a 200 basis point increase. The increased exposure to declining rates is mitigated by the low likelihood of a further decline of 200 basis points from the current rate levels. The Company has established equity at risk in a +/- 200 basis points rate shock to be no more than a twenty percent decline. The most recent analysis as of September 30, 2011 indicates that net economic value of equity percentage change would decrease 0.44 percent with a 200 basis point increase and would decrease 14.15 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of September 30, 2011 indicates a one year gap of 0.83 percent. The analysis suggests net interest margin compression in a declining interest rate environment. Given that interest rates have basically “bottomed-out” with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2011. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing brokered certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

Recent Development

The board of directors accepted the resignation of Al D. Ross, President and Chief Executive Officer, effective October 18, 2011. Mr. Ross worked with the company nearly fourteen years and served as President and Chief Executive Officer since January 1, 2006. Ross was instrumental in guiding the company through its restructuring and consolidation efforts that began in 2006 and consummated on August 1, 2008 when the seven bank charters were merged into one entity. During the past four years the banking industry has experienced the most challenging economic conditions in nearly eighty years and the board is appreciative of his efforts in successfully guiding the company during these challenging and difficult times. The board and management wish Al the best as he pursues other opportunities.

At its scheduled monthly board meeting on October 18, 2011, the board of directors elected James D. Minix as Interim President and Chief Executive Officer. Mr. Minix brings over forty years experience in the banking industry and has continued to serve on the board since his retirement in January 2006. He began working with Colony in 1990 and previously served as President and Chief Executive Officer of Colony from June 1994 to December 2004 and as Chief Executive Officer from December 2004 to January 2006. Mr. Minix is highly respected in the banking industry and the board is pleased to have him step up and serve in this interim capacity while it explores options in filling the position.

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Part I (Continued)
Item 4

CONTROLS AND PROCEDURES

The Company's Interim Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

During the quarter ended September 30, 2011, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

N/A

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – (REMOVED AND RESERVED)

None

ITEM 5 – OTHER INFORMATION

None

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PART II (Continued)
ITEM 6

ITEM 6 – EXHIBITS

3.1 Articles of Incorporation

-filed as Exhibit 3(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed withthe Commission on April 25, 1990 and incorporated herein by reference.

3.2 Bylaws, as Amended

-filed as Exhibit 3(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed withthe Commission on April 25, 1990 and incorporated herein by reference.

3.3 Article of Amendment to the Company's Articles of Incorporation Authorizing Additional Capital Stock in the Form of Ten Million Shares of Preferred Stock

-filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436) filed with the Commission on January 13, 2009 and incorporated herein by reference.

3.4 Articles of Amendment to the Company's Articles of Incorporation Establishing the Terms of the Series A Preferred Stock

-filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436) filed with the Commission on January 13, 2009 and incorporated herein by reference.

4.1 Instruments Defining the Rights of Security Holders

-incorporated herein by reference to page 1 of the Company's Definitive Proxy Statement for AnnualMeeting of Stockholders to be held on April 27, 2004, filed with the Securities and Exchange Commissionon March 3, 2004 (File No. 000-12436).

4.2 Warrant to Purchase up to 500,000 shares of Common Stock

-filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

4.3 Form of Series A Preferred Stock Certificate

-filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

10.1 Deferred Compensation Plan and Sample Director Agreement

-filed as Exhibit 10(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed withthe Commission on April 25, 1990 and incorporated herein by reference.

10.2 Profit-Sharing Plan Dated January 1, 1979

-filed as Exhibit 10(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed withthe Commission on April 25, 1990 and incorporated herein by reference.

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

-filed as Exhibit 10(c) the Registrant's Annual Report on Form 10-K (File No. 000-12436), filed withthe Commission on March 30, 2001 and incorporated herein by reference.

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ITEM 6
10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

- filed as Exhibit C to the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders held on April 27, 2004, filed with the Securities and Exchange Commission on March 3, 2004 (File No. 000-12436) and incorporated herein by reference.

10.5 Lease Agreement – Mobile Home Tracts, LLC c/o Stafford Properties, Inc. and Colony Bank Worth

- filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10Q (File No. 000-12436), filed with Securities and Exchange Commission on November 5, 2004 and incorporated herein by reference.

10.6 Letter Agreement, Dated January 9, 2009, Including Securities Purchase Agreement – Standard Terms Incorporated by Reference Therein, Between the Company and the United States Department of the Treasury

- filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

10.7 Form of Waiver, Executed by Each of Messrs Al D. Ross, Terry L. Hester, Henry F. Brown, Jr., Walter P. Patten and Larry E. Stevenson

- filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of Sarbanes – Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Colony Bankcorp, Inc.

Date:	November 10, 2011	/s/ James D. Minix James D. Minix, Interim President and Chief Executive Officer
Date:	November 10, 2011	/s/ Terry L. Hester Terry L. Hester, ExecutiveVice President and Chief Financial Officer