

COLONY BANKCORP INC
Form 10-Q
May 04, 2015

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 MARCH 31, 2015 COMMISSION FILE NUMBER 0-12436

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

<u>GEORGIA</u> (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	<u>58-1492391</u> (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
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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 NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES).

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER OR A SMALLER REPORTING COMPANY. SEE DEFINITIONS OF "ACCELERATED FILER", "LARGE ACCELERATED FILER" AND "SMALLER REPORTING COMPANY" IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER ACCELERATED FILER

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT).

YES NO

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

<u>CLASS</u>	<u>OUTSTANDING AT MAY 4, 2015</u>
COMMON STOCK, \$1 PAR VALUE	8,439,258

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Forward Looking Statement Disclosure

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), notwithstanding 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," "targeted" 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:

- Loss 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 subsidiary 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.
- 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.

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.

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 – MARCH 31, 2015 (UNAUDITED) AND DECEMBER 31, 2014 (AUDITED).
- B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED).
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED).
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED).

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 THREE MONTH PERIOD ENDED MARCH 31, 2015 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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Part I (Continued)

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2015 AND DECEMBER 31, 2014
(DOLLARS IN THOUSANDS)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$20,407	\$24,473
Federal Funds Sold	-	20,132
	20,407	44,605
Interest-Bearing Deposits	42,312	21,206
Investment Securities		
Available for Sale, at Fair Value	279,139	274,594
Held to Maturity, at Cost (Fair Value of \$31 and \$30, as of March 31, 2015 and December 31, 2014, Respectively)	31	30
	279,170	274,624
Federal Home Loan Bank Stock, at Cost	2,731	2,831
Loans	753,634	746,094
Allowance for Loan Losses	(8,377)	(8,802)
Unearned Interest and Fees	(391)	(362)
	744,866	736,930
Premises and Equipment	24,745	24,960
Other Real Estate (Net of Allowance of \$3,242 and \$3,320 as of March 31, 2015 and December 31, 2014, Respectively)	11,979	10,402
Other Intangible Assets	143	152
Other Assets	30,358	31,188
Total Assets	\$1,156,711	\$1,146,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$128,584	\$128,340
Interest-Bearing	857,272	850,963
	985,856	979,303
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	40,000	40,000
	64,229	64,229
Other Liabilities	4,263	4,339

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Stockholders' Equity		
Preferred Stock, Stated Value \$1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	28,000	28,000
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of March 31, 2015 and December 31, 2014	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	39,542	38,288
Accumulated Other Comprehensive (Loss), Net of Tax Benefits	(2,763)	(4,845)
	102,363	99,027
Total Liabilities and Stockholders' Equity	\$ 1,156,711	\$ 1,146,898

The accompanying notes are an integral part of these statements.

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Part I (Continued)

Item 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Interest Income		
Loans, Including Fees	\$9,709	\$9,689
Federal Funds Sold	15	9
Deposits with Other Banks	17	13
Investment Securities		
U.S. Government Agencies	1,070	1,184
State, County and Municipal	25	28
Dividends on Other Investments	30	30
	10,866	10,953
Interest Expense		
Deposits	1,219	1,321
Borrowed Money	445	438
	1,664	1,759
Net Interest Income	9,202	9,194
Provision for Loan Losses	362	327
Net Interest Income After Provision for Loan Losses	8,840	8,867
Noninterest Income		
Service Charges on Deposits	987	1,067
Other Service Charges, Commissions and Fees	662	581
Mortgage Fee Income	113	67
Securities Gains (Losses)	3	-
Other	447	347
	2,212	2,062
Noninterest Expenses		
Salaries and Employee Benefits	4,468	4,412
Occupancy and Equipment	993	1,020
Other	2,825	3,434
	8,286	8,866
Income Before Income Taxes	2,766	2,063
Income Taxes	883	606
Net Income	1,883	1,457
Preferred Stock Dividends	630	643
Net Income Available to Common Stockholders	\$1,253	\$814
Net Income Per Share of Common Stock		

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Basic	\$0.15	\$0.10
Diluted	\$0.15	\$0.10
Cash Dividends Declared Per Share of Common Stock	\$-	\$-
Weighted Average Basic Shares Outstanding	8,439,258	8,439,258
Weighted Average Diluted Shares Outstanding	8,439,258	8,439,258

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net Income	\$1,883	\$1,457
Other Comprehensive Income:		
Gains on Securities Arising During the Year	3,158	2,394
Tax Effect	(1,074)	(814)
Realized (Losses) on Sale of AFS Securities	(3)	-
Tax Effect	1	-
Change in Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	2,082	1,580
Comprehensive Income	\$3,965	\$3,037

The accompanying notes are an integral part of these statements.

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Part I (Continued)

Item 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$1,883	\$1,457
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	410	410
Provision for Loan Losses	362	327
Securities (Gains) Losses	(3)	-
Amortization and Accretion	390	306
Losses on Sale of Other Real Estate and Repossessions	10	24
Provision for Losses on Other Real Estate	-	642
Increase in Cash Surrender Value of Life Insurance	(117)	(157)
Other Prepaids, Deferrals and Accruals, Net	(220)	895
	2,715	3,904
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(38,257)	(20,727)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	11,326	7,136
Proceeds from Sale of Investment Securities Available for Sale	25,173	-
Interest-Bearing Deposits in Other Banks	(21,106)	(441)
Net Loans to Customers	(12,518)	11,465
Purchase of Premises and Equipment	(195)	(171)
Proceeds from Sale of Other Real Estate and Repossessions	2,641	1,765
Proceeds from Sale of Federal Home Loan Bank Stock	100	333
	(32,836)	(640)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	244	4,723
Interest-Bearing Customer Deposits	6,309	(15,399)
Dividends Paid for Preferred Stock	(630)	-
	5,923	(10,676)
Net Decrease in Cash and Cash Equivalents	(24,198)	(7,412)
Cash and Cash Equivalents at Beginning of Period	44,605	46,187
Cash and Cash Equivalents at End of Period	\$20,407	\$38,775

The accompanying notes are an integral part of these statements.

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Part I (Continued)

Item 2 (Continued)

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 consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank, 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.

The consolidated financial statements in this report are unaudited, except for the December 31, 2014 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results which may be expected for the entire year.

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 central, south and coastal 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 2015. 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 March 31, 2015, approximately 87 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. 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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Part I (Continued)

Item 2 (Continued)

(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 ratings are 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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Part I (Continued)

Item 2 (Continued)

(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.

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.

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether or not to obtain an external third-party appraisal usually depends on the type of property being evaluated. External appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff.

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Part I (Continued)

Item 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are “as is” or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals are not obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management’s knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the initial appraisal was performed.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of collateral underlying impaired loans and because of the relationship between fair value and general economic conditions, we consider the fair value of impaired loans to be highly sensitive to changes in market conditions.

Premises and Equipment

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

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, interest-bearing checking accounts, savings accounts, loans and certificates of deposit are reported net.

Advertising Costs

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

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Part I (Continued)

Item 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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.

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 the cost of disposal. 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 noninterest expense.

Bank-Owned Life Insurance

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of \$14,648 and \$14,531 as of March 31, 2015 and December 31, 2014, respectively.

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 (loss).

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.

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Part I (Continued)

Item 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Adoption of New Accounting Standards

In May 2014, the FASB issued an update ASU No. 2014-09, Revenue from Contracts with Customers creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update are effective for interim and annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

(2) Investment Securities

Investment securities as of March 31, 2015 and December 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	\$ 280,163	\$ 406	\$ (4,598)	\$ 275,971
State, County & Municipal	3,163	33	(28)	3,168
	\$ 283,326	\$ 439	\$ (4,626)	\$ 279,139
Securities Held to Maturity:				
State, County and Municipal	\$ 31	\$ -	\$ -	\$ 31
December 31, 2014				
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	\$ 278,419	\$ 156	\$ (7,511)	\$ 271,064
State, County & Municipal	3,516	27	(13)	3,530
	\$ 281,935	\$ 183	\$ (7,524)	\$ 274,594
Securities Held to Maturity:				
State, County and Municipal	\$ 30	\$ -	\$ -	\$ 30

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Part I (Continued)

Item 2 (Continued)

(2) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of March 31, 2015, 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. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities		Held to Maturity	
	Available for Sale		Amortized Cost	Fair Value
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due In One Year or Less	\$215	\$215	\$31	\$ 31
Due After One Year Through Five Years	719	729	-	-
Due After Five Years Through Ten Years	1,050	1,038	-	-
Due After Ten Years	1,179	1,186	-	-
	\$3,163	\$3,168	\$31	\$ 31
Mortgage-Backed Securities	280,163	275,971	-	-
	\$283,326	\$279,139	\$31	\$ 31

Proceeds from the sale of investments available for sale during the first three months of 2015 totaled \$25,173 compared to \$0 for the first three months of 2014. The sale of investments available for sale during the first three months of 2015 resulted in gross realized gains of \$199 and losses of \$196.

Investment securities having a carry value approximating \$126,792 and \$135,532 as of March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at March 31, 2015 and December 31, 2014 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
March 31, 2015						
U.S. Government Agencies						
Mortgage-Backed	\$37,934	\$ (141)	\$159,595	\$ (4,457)	\$197,529	\$ (4,598)
State, County and Municipal	691	(7)	820	(21)	1,511	(28)
	\$38,625	\$ (148)	\$160,415	\$ (4,478)	\$199,040	\$ (4,626)
December 31, 2014						
	\$66,609	\$ (397)	\$183,646	\$ (7,114)	\$250,255	\$ (7,511)

U.S. Government Agencies

Mortgage-Backed

State, County and Municipal

-	-	1,379	(13)	1,379	(13)
\$66,609	\$ (397) \$185,025	\$ (7,127) \$251,634	\$ (7,524)	

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Part I (Continued)

Item 2 (Continued)

(2) Investments (Continued)

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 March 31, 2015, the debt securities with unrealized losses have depreciated 2.27 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. 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. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. 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.

(3) Loans

The following table presents the composition of loans segregated by class of loans, as of March 31, 2015 and December 31, 2014.

	March 31, 2015	December 31, 2014
Commercial and Agricultural		
Commercial	\$51,774	\$50,960
Agricultural	19,188	16,689
Real Estate		
Commercial Constuction	48,611	51,259
Residential Construction	10,030	11,221
Commercial	341,845	332,231
Residential	202,878	203,753
Farmland	51,572	49,951
Consumer and Other		
Consumer	21,705	22,820
Other	6,031	7,210
Total Loans	\$753,634	\$746,094

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:

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

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.

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 March 31, 2015 and December 31, 2014. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

March 31, 2015

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	\$47,730	\$2,329	\$ 1,715	\$51,774
Agricultural	19,005	27	156	19,188
Real Estate				
Commercial Construction	42,481	1,665	4,465	48,611
Residential Construction	10,030	-	-	10,030
Commercial	322,579	9,198	10,068	341,845
Residential	182,105	10,838	9,935	202,878
Farmland	49,247	767	1,558	51,572

Consumer and Other

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Consumer	21,049	203	453	21,705
Other	5,835	2	194	6,031
Total Loans	\$700,061	\$25,029	\$ 28,544	\$753,634

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

December 31, 2014

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	\$46,230	\$2,905	\$ 1,825	\$50,960
Agricultural	16,504	27	158	16,689
Real Estate				
Commercial Construction	45,063	1,741	4,455	51,259
Residential Construction	11,221	-	-	11,221
Commercial	309,828	11,220	11,183	332,231
Residential	180,550	10,582	12,621	203,753
Farmland	47,548	415	1,988	49,951
Consumer and Other				
Consumer	22,115	249	456	22,820
Other	7,013	-	197	7,210
Total Loans	\$686,072	\$27,139	\$ 32,883	\$746,094

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 \$250,000 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.

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.

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of March 31, 2015 and December 31, 2014:

March 31, 2015

	Accruing Loans 90 Days		Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days Past Due	or More Past Due				
Commercial and Agricultural						
Commercial	\$484	\$ -	\$ 484	\$ 558	\$50,732	\$51,774
Agricultural	77	-	77	156	18,955	19,188
Real Estate						
Commercial Construction	383	-	383	3,223	45,005	48,611
Residential Construction	105	-	105	-	9,925	10,030
Commercial	1,754	-	1,754	5,018	335,073	341,845
Residential	4,025	-	4,025	4,021	194,832	202,878
Farmland	446	-	446	1,417	49,709	51,572
Consumer and Other						
Consumer	343	8	351	192	21,162	21,705
Other	35	-	35	194	5,802	6,031
Total Loans	\$7,652	\$ 8	\$ 7,660	\$ 14,779	\$731,195	\$753,634

December 31, 2014

	Accruing Loans 90 Days		Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days Past Due	or More Past Due				
Commercial and Agricultural						
Commercial	\$872	\$ -	\$ 872	\$ 405	\$49,683	\$50,960
Agricultural	-	-	-	45	16,644	16,689
Real Estate						
Commercial Construction	142	-	142	3,251	47,866	51,259
Residential Construction	-	-	-	-	11,221	11,221
Commercial	2,309	-	2,309	5,325	324,597	332,231
Residential	5,783	-	5,783	7,462	190,508	203,753

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Farmland	282	-	282	1,449	48,220	49,951
Consumer and Other						
Consumer	313	7	320	202	22,298	22,820
Other	-	-	-	195	7,015	7,210
Total Loans	\$9,701	\$ 7	\$ 9,708	\$ 18,334	\$718,052	\$746,094

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of March 31, 2015:

March 31, 2015	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 492	\$ 464	\$ -	\$ 464	\$ (7)	\$ 5
Agricultural	174	156	-	156	(10)	10
Commercial Construction	9,537	3,428	-	3,428	6	7
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	17,531	17,037	-	17,037	157	163
Residential Real Estate	6,141	5,195	-	5,195	42	47
Farmland	1,419	1,417	-	1,417	3	3
Consumer	200	192	-	192	1	4
Other	205	194	-	194	2	2
	35,699	28,083	-	28,083	194	241
With An Allowance Recorded						
Commercial	94	94	94	94	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	206	134	49	134	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	5,463	5,463	209	5,463	45	45
Residential Real Estate	1,209	1,103	330	1,103	13	6
Farmland	394	394	53	394	5	5
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	7,366	7,188	735	7,188	63	56
Total						
Commercial	586	558	94	558	(7)	5
Agricultural	174	156	-	156	(10)	10
Commercial Construction	9,743	3,562	49	3,562	6	7
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	22,994	22,500	209	22,500	202	208
Residential Real Estate	7,350	6,298	330	6,298	55	53
Farmland	1,813	1,811	53	1,811	8	8
Consumer	200	192	-	192	1	4
Other	205	194	-	194	2	2
	\$ 43,065	\$ 35,271	\$ 735	\$ 35,271	\$ 257	\$ 297

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of December 31, 2014:

December 31, 2014	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 310	\$ 308	\$ -	\$ 679	\$ 9	\$ 18
Agricultural	50	45	-	51	(6)	3
Commercial Construction	9,573	3,464	-	3,376	13	13
Commercial Real Estate	17,130	16,228	-	18,350	462	474
Residential Real Estate	9,137	7,600	-	5,691	312	306
Farmland	1,451	1,449	-	949	(8)	18
Consumer	202	202	-	212	14	16
Other	207	195	-	197	6	11
	38,060	29,491	-	29,505	802	859
With An Allowance Recorded						
Commercial	97	97	97	420	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	207	136	54	1,529	-	-
Commercial Real Estate	6,135	6,135	457	6,415	61	51
Residential Real Estate	2,073	2,065	414	1,829	84	87
Farmland	396	396	29	529	13	12
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	8,908	8,829	1,051	10,722	158	150
Total						
Commercial	407	405	97	1,099	9	18
Agricultural	50	45	-	51	(6)	3
Commercial Construction	9,780	3,600	54	4,905	13	13
Commercial Real Estate	23,265	22,363	457	24,765	523	525
Residential Real Estate	11,210	9,665	414	7,520	396	393
Farmland	1,847	1,845	29	1,478	5	30
Consumer	202	202	-	212	14	16
Other	207	195	-	197	6	11
	\$ 46,968	\$ 38,320	\$ 1,051	\$ 40,227	\$ 960	\$ 1,009

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of March 31, 2014:

March 31, 2014	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 599	\$ 599	\$ -	\$ 599	\$ 5	\$ 13
Agricultural	56	51	-	51	(9)	-
Commercial Construction	7,460	4,354	-	4,354	8	8
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	21,196	20,686	-	20,686	130	132
Residential Real Estate	7,113	5,642	-	5,642	46	46
Farmland	349	348	-	348	(2)	1
Consumer	256	251	-	251	4	5
Other	203	203	-	203	2	2
	37,232	32,134	-	32,134	184	207
With An Allowance Recorded						
Commercial	1,380	1,380	423	1,380	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	5,922	3,470	1,548	3,470	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	6,466	6,109	407	6,109	46	46
Residential Real Estate	962	954	289	954	11	15
Farmland	1,324	1,324	233	1,324	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	16,054	13,237	2,900	13,237	57	61
Total						
Commercial	1,979	1,979	423	1,979	5	13
Agricultural	56	51	-	51	(9)	-
Commercial Construction	13,382	7,824	1,548	7,824	8	8
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	27,662	26,795	407	26,795	176	178
Residential Real Estate	8,075	6,596	289	6,596	57	61
Farmland	1,673	1,672	233	1,672	(2)	1
Consumer	256	251	-	251	4	5
Other	203	203	-	203	2	2
	\$ 53,286	\$ 45,371	\$ 2,900	\$ 45,371	\$ 241	\$ 268

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms of the loan have been modified in favor of the borrower due to deterioration in the borrower's financial condition. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether a loan is classified as a TDR include:

Interest rate reductions – Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.

Amortization or maturity date changes – Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.

Principal reductions – These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon our normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged-off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged-off during modification there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of March 31, 2015. The following tables present the number of loan contracts restructured during the three month period ended March 31, 2015 and 2014. It shows the pre- and post-modification recorded investment as well as 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.

Three Months Ended March 31, 2015

Troubled Debt
Restructurings

	#	Pre-Modification	Post-Modification
	of	Contracts	Contracts

Residential Real Estate	1	\$ 881	\$ 897
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Total Loans	1	\$ 881	\$ 897
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Three Months Ended March 31, 2014

Troubled Debt
Restructurings

of Pre-Modification Post-Modification
Contracts

Commercial Real Estate	2	\$ 1,771	\$ 1,775
Total Loans	2	\$ 1,771	\$ 1,775

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Part I (Continued)

Item 2 (Continued)

(3) Loans (Continued)

The company did not have any TDRs that subsequently defaulted for the three months ended March 31, 2015.

(4) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the three month period ended March 31, 2015 and March 31, 2014. 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.

March 31, 2015

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	\$ 497	\$ (184)	\$ 13	\$ 8	\$ 334
Agricultural	304	-	1	2	307
Real Estate					
Commercial Construction	1,223	(6)	14	138	1,369
Residential Construction	138	-	-	-	138
Commercial	3,665	(125)	88	144	3,772
Residential	2,425	(589)	22	42	1,900
Farmland	104	-	-	2	106
Consumer and Other					
Consumer	67	(36)	13	26	70
Other	379	-	2	-	381
	\$ 8,802	\$ (940)	\$ 153	\$ 362	\$ 8,377

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(4) Allowance for Loan Losses (Continued)

March 31, 2014

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	\$ 1,017	\$ (27)	\$ 14	\$ 7	\$ 1,011
Agricultural	294	-	1	2	297
Real Estate					
Commercial Construction	1,782	-	182	125	2,089
Residential Construction	138	-	-	-	138
Commercial	4,379	(236)	6	131	4,280
Residential	3,278	(293)	6	38	3,029
Farmland	312	-	-	1	313
Consumer and Other					
Consumer	243	(102)	25	23	189
Other	363	-	1	-	364
	\$ 11,806	\$ (658)	\$ 235	\$ 327	\$ 11,710

The loss history period used at March 31, 2015 was based on the loss rate from the eight quarters ended December 31, 2014.

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of \$250,000 or more, regardless of the loans impairment classification.

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is \$7.2 million and \$7.4 million as of March 31, 2015 and 2014, respectively. Specific allowance allocations were made for these loans totaling \$596 thousand and \$620 thousand as of March 31, 2015 and 2014, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the "Collectively Evaluated for Impairment" column of the following tables.

At March 31, 2015, there were impaired loans totaling \$4.4 million below the \$250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Likewise, at March 31, 2014, impaired loans totaling \$3.99 million were below the \$250,000 review threshold and were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables.

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Item 2 (Continued)

(4) Allowance for Loan Losses (Continued)

The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for March 31, 2015 and 2014:

March 31, 2015

	Ending Allowance Balance			Ending Loan Balance		
	Individual Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individual Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	\$94	\$ 240	\$334	\$94	\$ 51,680	\$51,774
Agricultural	-	307	307	8	19,180	19,188
Real Estate						
Commercial Construction	49	1,320	1,369	3,428	45,183	48,611
Residential Construction	-	138	138	-	10,030	10,030
Commercial	209	3,563	3,772	21,953	319,892	341,845
Residential	330	1,570	1,900	3,680	199,198	202,878
Farmland	53	53	106	1,699	49,873	51,572
Consumer and Other						
Consumer	-	70	70	-	21,705	21,705
Other	-	381	381	-	6,031	6,031
Total End of Period Balance	\$735	\$ 7,642	\$8,377	\$30,862	\$ 722,772	\$753,634

March 31, 2014

	Ending Allowance Balance			Ending Loan Balance		
	Individual Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individual Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	\$423	\$ 588	\$1,011	\$1,469	\$ 42,510	\$43,979
Agricultural	-	297	297	-	12,654	12,654
Real Estate						
Commercial Construction	1,548	541	2,089	7,683	46,925	54,608
Residential Construction	-	138	138	-	9,779	9,779
Commercial	407	3,873	4,280	26,192	311,643	337,835
Residential	289	2,740	3,029	4,412	197,747	202,159
Farmland	233	80	313	1,614	46,272	47,886

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Consumer and Other						
Consumer	-	189	189	-	23,693	23,693
Other	-	364	364	9	5,592	5,601
Total End of Period Balance	\$2,900	\$ 8,810	\$11,710	\$41,379	\$ 696,815	\$738,194

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(5) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at March 31, 2015 and December 31, 2014 was \$11,979 and \$10,402, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO for the three months ended March 31, 2015 and the year ended December 31, 2014.

	Three Months Ended March 31, 2015	Twelve Months Ended December 31, 2014
Balance, Beginning	\$ 10,402	\$ 15,502
Additions	4,219	3,853
Sales of OREO	(2,631)	(7,102)
Losses on Sale	(11)	(844)
Provision for Losses	-	(1,007)
Balance, Ending	\$ 11,979	\$ 10,402

At March 31, 2015, the Company held \$2.33 million of residential real estate property as foreclosed property. Also at March 31, 2015, \$447 thousand of consumer mortgage loans collateralized by residential real estate property were in the process of foreclosure according to local requirements of the applicable jurisdictions.

(6) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$366 and \$511 as of March 31, 2015 and December 31, 2014.

Components of interest-bearing deposits as of March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015	December 31, 2014
Interest-Bearing Demand	\$367,875	\$363,501
Savings	64,141	59,215
Time, \$100,000 and Over	213,946	210,503
Other Time	211,310	217,744
	\$857,272	\$850,963

At March 31, 2015 and December 31, 2014, the Company had brokered deposits of \$26,236 and \$26,298, respectively. All of these brokered deposits represent Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate

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amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$143,218 and \$140,832 as of March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015 and December 31, 2014, the scheduled maturities of certificates of deposits are as follows:

<u>Maturity</u>	March 31, 2015	December 31, 2014
One Year and Under	\$301,221	\$302,585
One to Three Years	92,919	98,219
Three Years and Over	31,116	27,443
	\$425,256	\$428,247

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Part I (Continued)

Item 2 (Continued)

(7) Other Borrowed Money

Other borrowed money at March 31, 2015 and December 31, 2014 is summarized as follows:

	March 31, 2015	December 31, 2014
Federal Home Loan Bank Advances	\$40,000	\$ 40,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2017 to 2020 and interest rates ranging from 1.47 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At March 31, 2015 the book value of those loans pledged was approximately \$103,108. At March 31, 2015 the Company had remaining credit availability from the FHLB of approximately \$131,740. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The aggregate stated maturities of other borrowed money at March 31, 2015 are as follows:

<u>Year</u>	Amount
2017	\$9,000
2018	20,500
2019	8,000
2020	2,500
	\$40,000

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,500, none of which were outstanding at March 31, 2015.

The Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At March 31, 2015, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

In addition, at March 31, 2015, the Company had an available repurchase agreement line of credit with a third party totaling \$50,000. Use of this credit facility is subject to the underwriting and risk management policies of the third party in effect at the time of the request. Such policies may take into consideration current market conditions, the current financial condition of the Company and the ability of the Company to provide adequate securities as collateral for the transaction, among other factors.

(8) Preferred Stock and Warrants

At March 31, 2015, the Company had 28,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) issued and outstanding with private investors. The Company also had a warrant (the Warrant) to purchase up to 500,000 shares of the Company's common stock outstanding with private investors. Both the Preferred Stock and the Warrant originated in 2009 through transactions with the United States Department of the Treasury and

were subsequently sold to the public through an auction process during 2013.

The Preferred Stock qualifies as Tier 1 capital and is nonvoting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed by the Company at the liquidation preference of \$1,000 per share, plus any accrued and unpaid dividends. The Warrant may be exercised on or before January 9, 2019 at an exercise price of \$8.40 per share. No voting rights may be exercised with respect to the shares of the Warrant until the Warrant has been exercised.

The Preferred Stock requires a cumulative cash dividend be paid quarterly at a rate of 9 percent per annum. Prior to January 9, 2014 the annual dividend rate for the Preferred Stock was 5 percent. On February 13, 2012, the Company announced the suspension of dividends on Preferred Stock. Unpaid dividends on the Preferred Stock must be declared and set aside for the benefit of the holders of the Preferred Stock before any dividend may be declared on common stock. On November 17, 2014, the Company reinstated dividend payments on the Preferred Stock and paid the dividends in arrears to current status.

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(9) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3 Month Libor Rate	Added Points	Total Rate	Maturity	5 Year Call Option
Colony Bankcorp Statutory Trust III	6/17/2004	\$4,640	0.27065	2.68	2.95065	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	0.27540	1.50	1.77540	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	0.27305	1.65	1.92305	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	0.25460	1.40	1.65460	9/14/2037	9/14/2012

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 offerings were used to fund certain acquisitions, pay off holding company debt and inject capital into the bank subsidiary.

On February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities. Under the terms of the trust documents, the Company may defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. On November 17, 2014, the Company reinstated interest payments on the Trust Preferred Securities and paid the dividends in arrears to current status.

(10) 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 March 31, 2015 and December 31, 2014 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	March 31, 2015	December 31, 2014
Loan Commitments	\$72,918	\$ 68,742
Letters of Credit	1,663	1,762

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.

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements

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.

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 and is classified as Level 1.

Investment Securities – Fair values for investment securities are based on quoted market prices where available and is classified as Level 1. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and classified as Level 2. If a comparable is not available, the investment securities are classified as Level 3.

Federal Home Loan Bank Stock – The fair value of Federal Home Loan Bank stock approximates carrying value and is classified as Level 1.

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. Most loans are classified as Level 2, but impaired loans with a related allowance are classified as Level 3.

Bank-Owned Life Insurance – The carrying value of bank-owned life insurance policies approximate fair value and is classified as Level 1.

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 and is classified as Level 1. 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 and is classified as Level 2.

Subordinated Debentures – Fair value approximates carrying value due to the variable interest rates of the subordinated debentures. Subordinate Debentures are classified as Level 2.

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. Other borrowed money is classified as Level 2 due to their expected maturities.

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

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, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2015 and December 31, 2014 are as follows:

	Fair Value Measurements at March 31, 2015				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	\$62,719	\$62,719	\$62,719	\$-	\$-
Investment Securities Available for Sale	279,139	279,139	-	278,192	947
Investment Securities Held to Maturity	31	31	-	31	-
Federal Home Loan Bank Stock	2,731	2,731	2,731	-	-
Loans, Net	744,866	746,714	-	740,261	6,453
Bank-Owned Life Insurance	14,648	14,648	14,648	-	-
Liabilities					
Deposits	985,856	987,595	560,599	426,996	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	40,000	42,395	-	42,395	-

	Fair Value Measurements at December 31, 2014				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	\$65,811	\$65,811	\$65,811	\$-	\$-
Investment Securities Available for Sale	274,594	274,594	-	273,646	948
Investment Securities Held to Maturity	30	30	-	30	-
Federal Home Loan Bank Stock	2,831	2,831	2,831	-	-
Loans, Net	736,930	738,948	-	731,170	7,778
Bank-Owned Life Insurance	14,531	14,531	14,531	-	-
Liabilities					
Deposits	979,303	980,874	551,057	429,817	-
Subordinated Debentures	24,229	24,229	24,229	-	-
Other Borrowed Money	40,000	41,962	-	41,962	-

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.

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

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 – Impaired loans are those loans which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate – Other real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Typically, an external, third-party appraisal is performed on the collateral upon transfer into the other real estate owned account to determine the asset's fair value. Subsequent adjustments to the collateral's value may be based upon either updated third-party appraisals or management's knowledge of the collateral and the current real estate market conditions. Appraised amounts used in determining the asset's fair value, whether internally or externally prepared, are discounted 10 percent to account for selling and marketing costs. Adjustments

are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of other real estate owned assets and because of the relationship between fair value and general economic conditions, we consider the fair value of other real estate owned assets to be highly sensitive to changes in market conditions.

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 and nonrecurring basis as of March 31, 2015 and December 31, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall. The table below includes only impaired loans with a specific reserve and only other real estate properties with a valuation allowance at March 31 2015. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

		Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identifiable Assets (Level 1)			Significant Other Inputs for Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015	Total Fair Value					
Recurring Securities Available for Sale						
U.S. Government Agencies						
Mortgage-Backed State, County and Municipal	\$275,971	\$-	\$275,971	\$-	\$-	\$-
	3,168	-	2,221	-	947	947
	\$279,139	\$-	\$278,192	\$-	\$	\$ 947
Nonrecurring Impaired Loans	\$6,453	\$-	\$-	\$-	\$-	\$ 6,453
Other Real Estate	\$5,985	\$-	\$-	\$-	\$-	\$ 5,985
December 31, 2014	Total Fair Value					
Recurring Securities Available for Sale						
U.S. Government Agencies						
Mortgage-Backed State, County and Municipal	\$271,064	\$-	\$271,064	\$-	\$-	\$-
	3,530	-	2,582	-	948	948
	\$274,594	\$-	\$273,646	\$-	\$	\$ 948
Nonrecurring Impaired Loans	\$7,778	\$-	\$-	\$-	\$-	\$ 7,778

Other Real Estate	\$6,128	\$-	\$-	\$ 6,128
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Liabilities

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at March 31, 2015 and December 31, 2014. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

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(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

	March 31, 2015	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired Loans Real Estate				(56.60%) - 20.10%
Commercial Construction	\$ 85	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(18.25%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Residential Real Estate	773	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(15.00%) - 191.70% 88.35%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 25.00% 17.50%
		Income Approach	Capitalization Rate	12.50%
Commercial Real Estate	5,254	Sales Comparison	Management Adjustment for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
		Income Approach	Capitalization Rate	11.00%
Farmland	341	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(8.30%) - 252.50% 122.10%
			Management Adjustment for Age of Appraisals and/or Current Market Conditions	10.00% - 75.00% 42.50%
Other Real Estate Owned	5,985	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(55.00%) - 45.00% (5.00%)

	Management Adjustment for	0.33% -
	Age of Appraisals and/or Current	69.36%
	Market Conditions	29.58%
Income Approach	Discount Rate	9.00%
	Capitalization Rate	10.00%

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

	December 31, 2014	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Real Estate				
Commercial Construction	\$ 82	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00%) - - 38.10% 8.05%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Residential Real Estate	1,651	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(2.30%) - 191.70% 94.70%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
		Income Approach	Capitalization Rate	13.75%
Commercial Real Estate	5,678	Sales Comparison	Adjustment for differences Between the comparable Sales	0.00% - 0.00% 0.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 90.00% 45.00%
		Income Approach	Capitalization Rate	11.00%
Farmland	367	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(8.30%) - 252.50% 122.10%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 50.00% 30.00%
Other Real Estate Owned	6,128	Sales Comparison	Adjustment for Differences	

		(40.00%)
		- 45.00%
	Between the Comparable Sales	2.50%
		0.33% -
	Management Adjustment for	69.36%
	Age of Appraisals and/or Current	31.88%
	Market Conditions	
Income Approach	Discount Rate	9.00%
	Capitalization Rate	10.00%

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Part I (Continued)

Item 2 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

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 three months ended March 31, 2015 and the twelve months ended December 31, 2014.

	Available for Sale Securities	
	March 31, 2015	December 31, 2014
Balance, Beginning	\$948	\$ 941
Transfers out of Level 3	-	-
Loss on OTTI Impairment Included in Noninterest Income	-	-
Unrealized Gains included in Other Comprehensive Income (Loss)	(1)	7
Balance, Ending	\$947	\$ 948

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There were no transfers of securities between levels for the three months ended March 31, 2015 and the twelve months ended December 31, 2014.

The following table presents quantitative information about recurring level 3 fair value measurements as of March 31, 2015.

	Fair Value	Valuation Techniques	Unobservable Inputs	Range Weighted Avg	
State, County and Municipal	\$ 947	Discounted Cash Flow	Discount Rate	N/A	*

* The Company relies on a third-party pricing service to value its municipal securities. The details of the unobservable inputs and other adjustments used by the third-party pricing service were not readily available to the Company.

(12) 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, the Company suspended the payment of dividends to its stockholders in the third quarter of 2009.

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. As of March 31, 2015, the interim final Basel III rules (Basel III) require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of March 31, 2015, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. There is no threshold for well-capitalized status for bank holding companies. In the opinion of management, there have been no events or conditions occur since March 31, 2015, or since the most recent notification of capital adequacy from the regulators, which have changed the institution's category.

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(12) Regulatory Capital Matters (Continued)

The Basel III rules also require the implementation of a new capital conservation buffer comprised of common equity Tier 1 capital. The capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by 0.625% until reaching its final level of 2.5% on January 1, 2019.

The following table summarizes regulatory capital information as of March 31, 2015 and December 31, 2014 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for March 31, 2015 were calculated in accordance with the Basel III rules, whereas the December 31, 2014 regulatory ratios were calculated in accordance with the Basel I rules.

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio		
As of March 31, 2015								
Total Capital to Risk-Weighted Assets								
Consolidated	\$136,946	17.34%	\$63,179	8.00%	N/	A	N/	A
Colony Bank	129,606	16.44	63,083	8.00	\$78,854	10.00%		
Tier I Capital to Risk-Weighted Assets								
Consolidated	128,569	16.28	47,385	6.00	N/	A	N/	A
Colony Bank	121,229	15.37	47,312	6.00	63,083	8.00		
Common Equity Tier I Capital to Risk-Weighted Assets								
Consolidated	77,069	9.76	35,538	4.50	N/	A	N/	A
Colony Bank	121,229	15.37	35,484	4.50	51,255	6.50		
Tier I Capital to Average Assets								
Consolidated	128,569	11.14	46,180	4.00	N/	A	N/	A
Colony Bank	121,229	10.53	46,033	4.00	57,541	5.00		

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(12) Regulatory Capital Matters (Continued)

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio		
As of December 31, 2014								
Total Capital to Risk-Weighted Assets								
Consolidated	\$ 136,022	17.95 %	\$ 60,639	8.00 %	N/	A	N/	A
Colony Bank	127,833	16.89	60,542	8.00	\$ 75,678		10.00 %	
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	127,220	16.78	30,320	4.00	N/	A	N/	A
Colony Bank	119,031	15.73	30,271	4.00	45,407		6.00	
Tier 1 Capital to Average Assets								
Consolidated	127,220	11.18	45,509	4.00	N/	A	N/	A
Colony Bank	119,031	10.50	45,364	4.00	56,705		5.00	

(13) Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income after preferred stock dividends. The following table presents earnings per share for the three month period ended March 31, 2015 and 2014:

	Three Months Ended March 31	
	2015	2014
Numerator		
Net Income Available to Common Stockholders	\$ 1,253	\$ 814
Denominator		
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	8,439	8,439
Dilutive Effect of Potential Common Stock		
Restricted Stock	-	-
Stock Warrants	-	-
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	8,439	8,439

Earnings Per Share - Basic	\$0.15	\$0.10
Earnings Per Share - Diluted	\$0.15	\$0.10

For the three months ended March 31, 2015 and 2014, respectively, the Company has excluded 500 shares of common stock equivalents because the strike price of the common stock equivalents would cause them to have an anti-dilutive effect.

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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), notwithstanding 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," "targeted" 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 subsidiary 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.

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

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

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 following discussion sets forth management's discussion and analysis of our consolidated financial condition as of March 31, 2015, and the consolidated results of operations for the three months ended March 31, 2015. This discussion should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2015. Readers should also carefully review all other disclosures we file from time to time with the SEC.

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 and subjective.

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 March 31, 2015 and 2014, and results of operations for each of the three months in the periods ended March 31, 2015 and 2014. 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 \$1.25 million, or \$0.15 diluted per common share, in three months ended March 31, 2015 compared to net income available to shareholders of \$814 thousand, or \$0.10 diluted per common share, in three months ended March 31, 2014.

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

	Three Months Ended March 31			
	2015	2014	\$ Variance	% Variance
Taxable-equivalent net interest income	\$9,228	\$9,224	\$ 4	0.04 %
Taxable-equivalent adjustment	26	30	(4)	(13.33)
Net interest income	9,202	9,194	8	0.09
Provision for loan losses	362	327	35	10.70
Noninterest income	2,212	2,062	150	7.27
Noninterest expense	8,286	8,866	(580)	(6.54)
Income before income taxes	\$2,766	\$2,063	\$ 703	34.08
Income Taxes	883	606	277	45.71
Net income	\$1,883	\$1,457	\$ 426	29.24
Preferred stock dividends	630	643	(13)	(2.02)
Net income available to common shareholders	\$1,253	\$814	\$ 439	53.93 %
Net income available to common shareholders:				
Basic	\$0.15	\$0.10	\$ 0.05	50.00 %
Diluted	\$0.15	\$0.10	\$ 0.05	50.00 %
Return on average assets	0.44 %	0.29 %	0.15 %	51.72 %
Return on average common equity	4.98 %	3.55 %	1.43 %	40.28 %

Net income from operations for three months ended March 31, 2015 increased \$426 thousand, or 29.24 percent, compared to the same period in 2014. The increase was primarily the result of an increase of \$8 thousand in net interest income, a decrease of \$580 thousand in noninterest expense and an increase of \$150 thousand in noninterest income. This was offset by an increase of \$277 thousand in income taxes and an increase of \$35 thousand in provision for loan losses.

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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 80.62 percent of total revenue for three months ended March 31, 2015 and 81.68 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 is currently 3.25 percent and has been for the past three years. The federal funds rate moved similar to prime rate with interest rates currently at 0.25 percent and has been for the past three years. We anticipate the Federal Reserves interest rate to remain flat the first part of 2015 with a potential increase the latter part of 2015.

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 March 31, 2014 to March 31, 2015 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.

(\$ in thousands)	Changes from March 31, 2014 to March 31, 2015		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$34	\$(14)	\$20
Investment Securities			
Taxable	(32)	(77)	(109)
Tax-exempt	(14)	2	(12)
Total Investment Securities	(46)	(75)	(121)
Interest-Bearing Deposits in other Banks	6	(2)	4
Federal Funds Sold	6	-	6
Other Interest - Earning Assets	(3)	3	-
Total Interest Income	(3)	(88)	(91)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	29	(17)	12
Time Deposits	(62)	(52)	(114)
Subordinated Debentures	-	(6)	(6)
Other Borrowed Money	-	13	13
Total Interest Expense	(33)	(62)	(95)
Net Interest Income	\$30	\$(26)	\$4

(1) Changes in net interest income for the periods, based on either changes in average balances or changes in average rates for interest-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.

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.

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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 16 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. The net interest margin decreased to 3.43 percent for three months ended March 31, 2015 compared to 3.47 percent for the same period a year ago. We anticipate the net interest margin remaining relatively flat for 2015.

Taxable-equivalent net interest income for three months ended March 31, 2015 increased \$4 thousand, or 0.04 percent compared to the same period a year ago. The average volume of earning assets during three months ended March 31, 2015 increased \$12.44 million compared to the same period a year ago while over the same period the net interest margin decreased by 4 basis points from 3.47 percent to 3.43 percent. Growth in average earning assets during 2015 was primarily in loans, interest bearing deposits and federal funds sold.

The average volume of loans increased \$2.61 million in three months ended March 31, 2015 compared to the same period a year ago. The average yield on loans decreased 1 basis point in three months ended March 31, 2015 compared to the same period a year ago. The average volume of investment securities decreased \$8.67 million in three months ended March 31, 2015 compared to the same year ago period, while the average yield on investment securities decreased 12 basis points for the same period comparison. The average volume of deposits increased \$9.71 million in three months ended March 31, 2015 compared to the same period a year ago, with interest-bearing deposits increasing \$2.92 million in three months ended March 31, 2015. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 87.21 percent in three months ended March 31, 2015 compared to 87.78 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 5 basis points in three months ended March 31, 2015 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 3.33 percent in three months ended March 31, 2015 compared to 3.36 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 \$362 thousand in the three months ended March 31, 2015 compared to \$327 thousand 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		\$	%	Variance	%
	Ended	March 31				
	2015	2014				
Service Charges on Deposit Accounts	\$987	\$1,067	\$ (80)	(7.50)	(%)
Other Charges, Commissions and Fees	662	581	81	13.94		
Mortgage Fee Income	113	67	46	68.66		
Securities Gains (Losses)	3	-	3	-		
Other	447	347	100	28.82		
Total	\$2,212	\$2,062	\$ 150	7.27		%

Changes in these items and the other components of noninterest income are discussed in more detail below.

Mortgage Fee Income. The volume of mortgage loans has shown a slight increase in 2015 compared to the same period in 2014 which contributed to a slight increase in mortgage fee income.

Other Charges, Commissions and Fees. Significant amounts impacting the comparable periods was primarily attributed to ATM and debit card interchange fees which increased \$85 thousand in 2015 compared to 2014.

Noninterest Expense

The components of noninterest expense were as follows: