

Creating
Quality



Quality CONTENT

Quality is...
a degree of excellence,
superiority in kind.

Quality is...
Colony Bankcorp, Inc.

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Letter to the Shareholders



To our shareholders, customers, and friends,

Colony Banks have been serving customers throughout the South Georgia area for over 100 years. From Columbus to Savannah, Eastman to Albany, and Valdosta to Warner Robins, our company has grown because of our commitment to provide shareholders with consistent returns, to exceed the expectations of our customers, and to improve the quality of life in every community served by the company.

During 2006, the Colony employee family focused on creating quality in every area of our company. From the lobbies of our 27 full service locations, to operations and technical support, we are committed to create the best possible quality service experience for every Colony customer! Our continued expansion into larger MSA markets will help fuel our future growth in earnings and assets. To that end, the company opened its first full service office in Columbus and secured its second office site location in Savannah.

Creating Consistent Shareholder Value

We are pleased to report the highlights of another year of consistent quality performance. Colony reported record earnings with net income of \$10.2 million, or \$1.41 per diluted share. Our record earnings were the result of continued loan and non-interest income growth throughout every market of the company. During 2006, both mortgage fee income and premiums from SBA loan sales helped fuel 13% net income increase over 2005. We continue to invest in the company to meet growing regulatory and compliance oversight in our industry. Colony will use these measures to enable us to consistently improve our customer service and risk management practices while enhancing long term shareholder value.

Ensuring Quality Service

At Colony, the customer is our highest priority. Our long-term success depends on our ability to meet and exceed the expectations of our customers. Our commitment to service goes beyond how well we treat our customers. It's also about providing quality products and helping our customers realize the benefit to simplify their personal and business financial needs. We will continue to invest in service and technology to ensure our customers have the right products to meet their changing financial needs.

Our Commitment to Support Our People

Colony has a long reputation of creating an environment that allows good bankers to provide great service in every town we are located. We make that commitment and provide our employees with the training, tools, resources, and motivation to allow them to be successful. On paper, we are a \$1.2 billion bank. In reality, we are a team of 380+ individuals committed to fulfilling the banking needs of our customers and communities.

Quality INVESTMENT

Our people are committed to provide exceptional service. They do this in big ways such as financing a customer's business dreams or home purchase, and in small ways, like greeting a customer by name and making them feel welcome and valued. Our success to date is the result of the dedicated efforts of our people, and we are committed to making our people our most valuable resource which will ensure our future success as well.

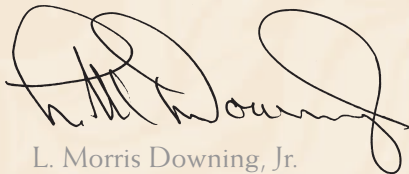
Our Commitment to our Communities

Colony is proud of the partnership all of our banks have with their communities. Our local bank leaders believe in being active community leaders. Our contributions to community service include our employee's time as well as company funds to help develop programs and charities that enhance the quality of life in each community we serve. At Colony, our commitment to quality customer service also extends to quality community service.

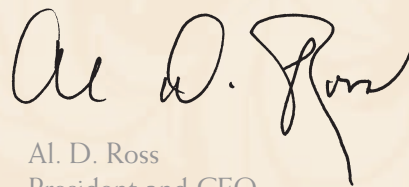
Our Words of Appreciation

We would like to express our personal gratitude to our Board of Directors for its leadership and support; to our customers for their loyalty; to our employees for their dedication; to our communities for being good neighbors and friends; and to you, our valued shareholder, for the confidence you place in us.

Sincerely,



L. Morris Downing, Jr.
Chairman of the Board



Al. D. Ross
President and CEO

Board of Directors



L. Morris Downing, Jr.

Chairman of the Board
Owner, Lowell Packing Company
Fitzgerald, Georgia



James D. Minix

Vice Chairman of the Board
Fitzgerald, Georgia



Terry Coleman

Former Speaker of the House
Georgia General Assembly
Eastman, Georgia



Edward J. Harrell

Attorney, Managing Partner
Martin, Snow, LLP
Macon, Georgia



Terry L. Hester

EVP, CFO
Colony Bankcorp, Inc.
Fitzgerald, Georgia



Mark Massee

President, Massee Builders, Inc.
Fitzgerald, Georgia



Charles D. Myler

Retired FDIC
Albany, Georgia



W. B. Roberts, Jr.

Farmer, Cattleman
Ashburn, Georgia



Al D. Ross

President and CEO
Colony Bankcorp, Inc.
Fitzgerald, Georgia



R. Sidney Ross

Owner, Ross of Georgia
Ocilla, Georgia



B. Gene Waldron

Owner, Tri County Gin
Douglas, Georgia

Quality LEADERSHIP



Emeritus Directors

Emeritus Directors

Sitting: Ben B. Mills, Joe K. Shiver

Standing: Marion H. Massee III, Harold Kimball, Milton N. Hopkins, Jr., Ralph D. Roberts, M.D.

Financial Highlights - Colony Bankcorp, Inc. and Subsidiaries

For the Year

2006

2005

Net Income	\$ 10,151,995	\$ 8,977,216
Return on Average Assets	0.87%	0.87%
Return on Average Stockholders' Equity	14.10%	13.78%

Per Share:

Net Income (based on Average Weighted Shares of 0,000,000 and 7,168,406, respectively)	\$ 1.41	\$ 1.25
Book Value (based on Outstanding Shares of 0,000,000 and 7,181,320, respectively)	\$ 10.66	\$ 9.49

At Year End:

Assets	\$ 1,213,503,858	\$ 1,108,338,336
Securities	149,307,099	124,325,550
Loans	941,771,872	858,815,167
Deposits	1,042,445,899	944,364,654
Stockholders' Equity	76,611,161	68,127,992

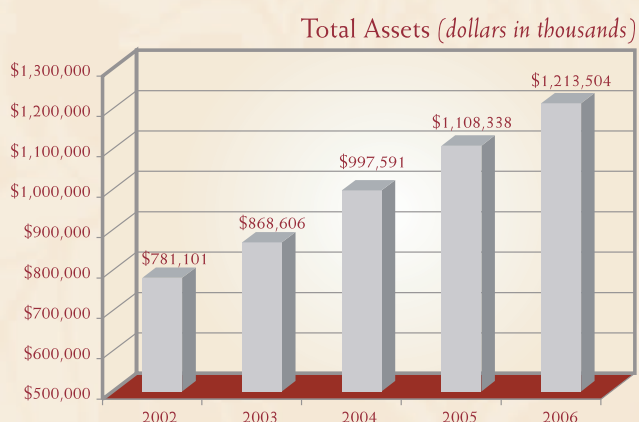
Average Balance for the Year:

Assets	\$ 1,160,718,000	\$ 1,034,777,000
Securities	135,538,000	113,704,000
Loans	912,926,000	819,900,000
Deposits	990,968,000	878,109,000
Stockholders' Equity	71,993,000	65,146,000

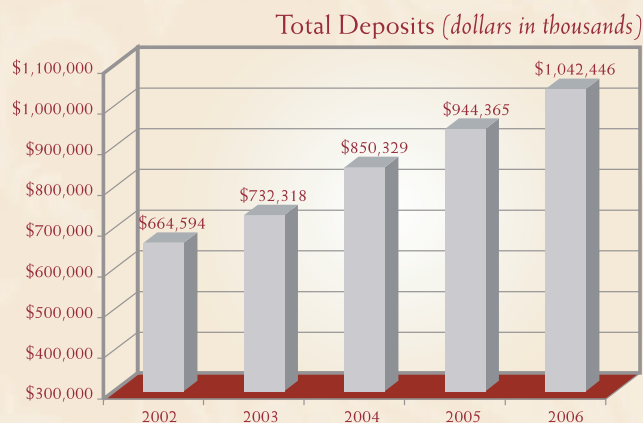
Quality PERFORMANCE

Colony Bankcorp, Inc. continued its consistent financial performance in 2006 as reflected in the graphs on the following pages. Our success is due to continued focus on organic loan and deposit growth in every market we serve.

For the year ending December 31, 2006, Colony exceeded \$1.2 billion in Total Assets, nearly double our Total Asset level from just five years ago. Colony's Total Assets increased 9.49% in 2006. This increase compares to the compounded annual growth rate of 11.65% since 2002.

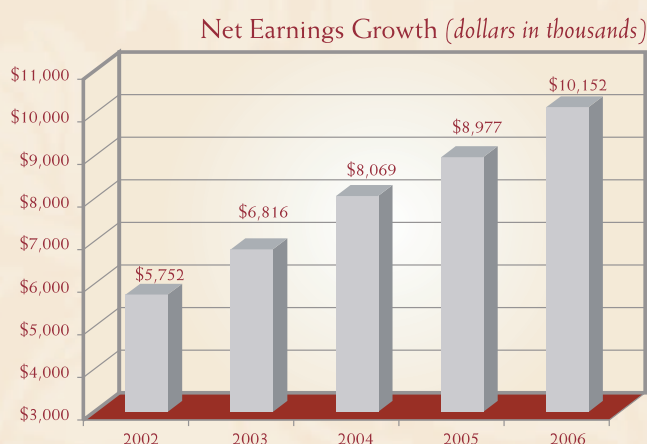


Colony continues to develop and implement new products in order to increase core deposits in every market served by the company. As of year end 2006, total deposits grew to \$1.042 billion, an increase of 10.4% over 2005. Management continues to maintain a sharp focus on the funding costs and sources in order to maximize earnings and meet loan funding needs.



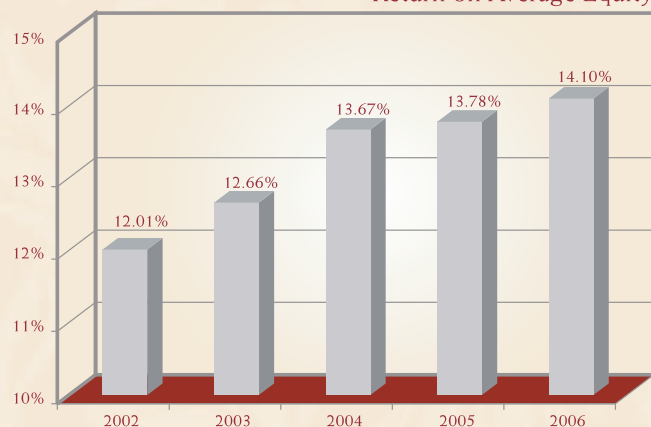
Core deposit growth is a key factor of Colony's overall earnings plan. By strengthening customer relationships and closely monitoring funding costs and needs, we will seek to maximize our net interest margin. To support our plan, Colony also utilizes non-traditional funding sources such as Federal Home Loan Bank borrowings and brokered deposits when pricing is beneficial to the company.

In addition to actively monitoring liability costs, Colony management has successfully maintained an efficiency ratio below most of its peers.



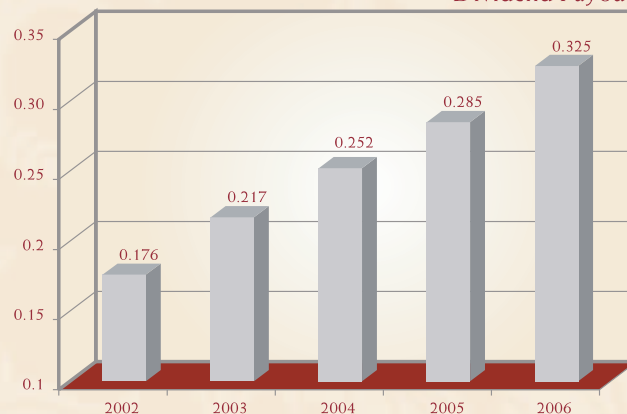
Financial Highlights - Colony Bankcorp, Inc. and Subsidiaries

Return on Average Equity



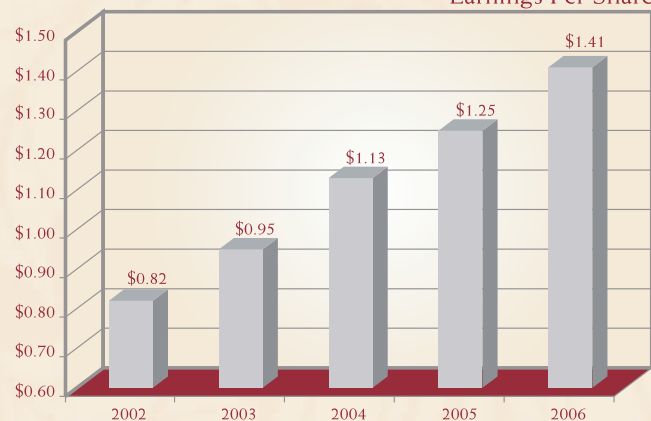
Organic loan growth, coupled with the management of funding costs and non-interest expenses, enabled Colony to post record earnings during 2006. Colony shareholders have continued to benefit from the company's growth in earnings and assets. At the end of 2006, Earnings per Share increased to \$1.41.

Dividend Payout



Colony Banks are investing in the communities we call home. Our growth in market share confirms the success of our plan to enhance the lives of the families and business owners that make us their bank of choice. Organic loan growth has been the company's top priority. Total Loans increased 9.7% to \$942.2 million during 2006.

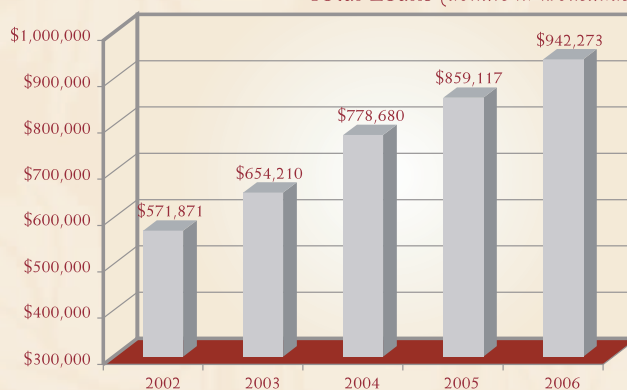
Earnings Per Share



We balance dividend payout with the need to retain capital in order to support the company's growth. This management of capital continues to support expansion of the Colony franchise into higher growth markets throughout the state.

Enhancing shareholder value is the primary mission of any corporation, and Colony Bankcorp, Inc. is no exception. This graph illustrates our consistent increase in dividends over the past several years and reflects a 2006 cash dividend of \$0.325 per share, up 14% from one year ago.

Total Loans (dollars in thousands)



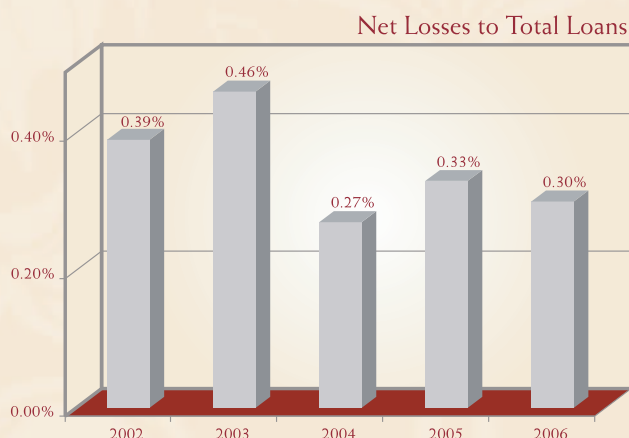
Colony has maintained an aggressive lending model in order to grow top line revenue. During this period, the company has made substantial provisions for potential loan impairments. Our Reserve for Loan Losses increased to \$11.9 million, or 1.27% of Total Loans outstanding at the end of 2006. Colony will remain committed to quality growth as well as adequate funding for the Reserve for Loan Losses.

Quality PERFORMANCE

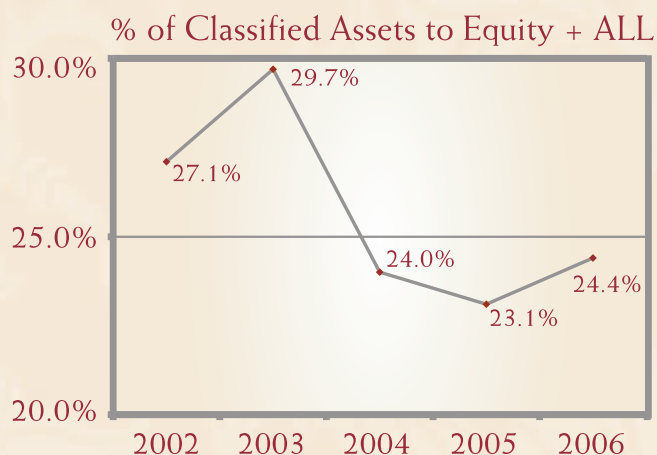


During 2006, Net Losses to Total Loans was .30%, which is slightly below the five-year Net Loss to Total Loans average of 0.35%. Colony's aggressive lending posture has produced higher earnings for the company. Credit losses are an acceptable reality of our industry. We will continue to enhance credit administration oversight and practices to manage the changing credit risk of the loan portfolio.

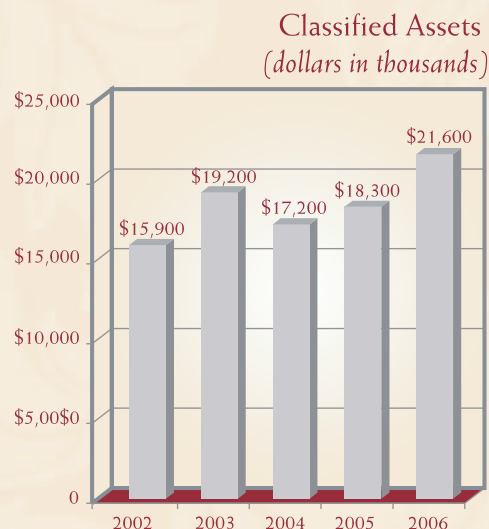
The company's credit quality has remained stable over the past five years.



During 2006, classified loans as a % of Total Capital increased to 24.4%, up slightly from 23.1% in 2005.



Classified assets increased 18% to \$21.6 million during 2006. Management continues to monitor economic conditions that could potentially impact credit quality and has demonstrated an ability to manage classified assets in years past. Credit quality will remain a top priority in the future.



During 2006, the majority of loan growth was generated within the MSA markets. These markets will continue to be the primary source of organic loan originations and core deposits. In addition to loan growth, these markets also offer the increased opportunity for non-interest income and related services. Colony will continue to maximize our earnings potential in MSA markets with additional branch expansions.

Columbus is home to a variety of cultural, sporting and leisure attractions. Glenn Summerlin, City President of Columbus, is pictured on one of Columbus's most recognized locations, the Chattahoochee River Walk. This beautiful park spans 15 miles along the banks of the Chattahoochee River and is a draw for all types of outdoor activities.



Wills Sims, President & CEO

Ashburn Officers

Barbara A. Perry, City President & Secretary
Clay Pirkle, Senior Vice President
Jayne Dalrymple, Vice President,
Branch Manager, Privacy Officer and
Information Security Officer
Shirley Whiddon, Loan Administration
Officer
Diane Wideman, Banking Officer
Kay Wilkerson, Deposit Compliance &
BSA Officer
Marcia Skinner, Loan Compliance Officer
Jacob E. Cleghorn, Banking Officer &
Security Officer
Michelle Gravitt, Banking Officer

Cordele Officers

Tom Carter, City President
Terry Ann Brake, Vice President
Robin O'Neal, Assistant Vice President

Ledo Road Officers

Ty Bettis, City President
Chris Carter, Senior Vice President
Joey Magaddino, Assistant Vice President

Leesburg Officers

Helen Kennedy, Vice President &
Branch Manager

Lisa Cannon, Banking Officer

Chehaw Officers

Robert Crew, Assistant Vice President
Jill Kleckley, Banking Officer

Thomaston Officers

Robert Presley, Vice President

Columbus Officers

Glenn Summerlin, City President
William R. Green, Vice President
Wayne Griffin, Vice President
George Luttrell, Vice President &
Branch Manager

Directors

W.B. Roberts, Jr., Chairman
Russell Adams
Robert Cochran
Tommy Jowers
Joel A. McNair
Charles Myler
Edward Mitchell
Will Sims
Al D. Ross
Jerry Parker
Charles B. Perry
Ray Wilson

Advisory Boards

Colony Bank Lee

Tommy Jowers
Will Sims
James Sizemore
Charles Myler

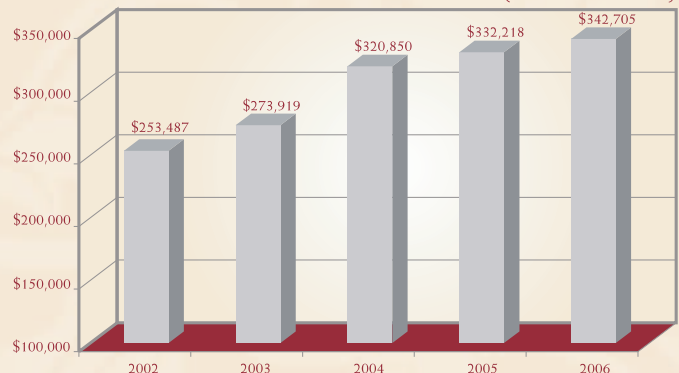
Colony Bank Crisp

Russell Adams
J. Thomas Carter
Louis Perlis
Will Sims
Don T. Tucker

Colony Bank Thomaston

Reshann Adams
Dr. Samuel Brewton, Jr.
Robert Cochran
Wayne Driver
David Dunaway
Jere Greer
George Hightower, Jr.
Calvin Hopkins
Norman Morris
Wallace Rhodes

Total Year End Assets (dollars in thousands)





Larry Stevenson

Larry E. Stevenson, President & CEO

Officers

James E. Kirkley, Jr., *Senior Vice President*
 Debra Sheffield, *Vice President*
 Patricia Wilcher, *Vice President*
 Kim Thompson, *Assistant Vice President*
 Glenda Heath, *Assistant Vice President*
 Wilton D. Harrington, *Banking Officer*
 Dinone Rye, *Banking Officer*
 Jason Braden, *Banking Officer*

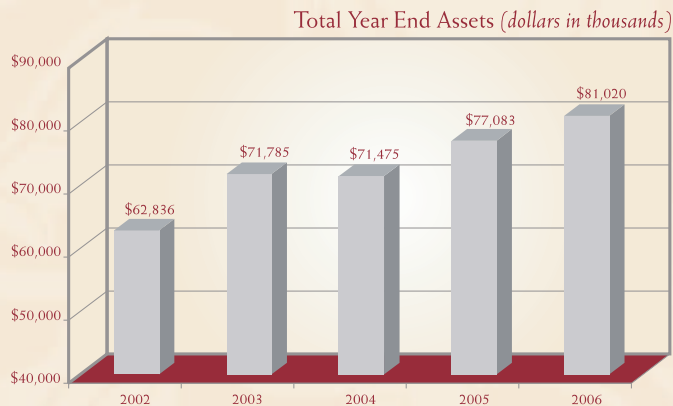
Directors

Guy Weatherly, Jr., *Chairman*
 Terry L. Coleman
 M. Frederick Dwozan, Jr.
 Gerald Hooks
 William T. Howell, Jr.
 William Lowery
 Larry Sanders
 Larry E. Stevenson

Advisory Board - Colony Bank Treutlen

Blake Dennard
 John J. Ellington
 Gerald Hooks
 Laurianne Pullen
 Andy Thompson
 Patricia Wilcher

Larry Stevenson is shown on the lawn of the historical Eastman-Bishop-Bullock House. This landmark is the oldest house in Eastman, constructed in 1872, by the founder of the town, William Pitt Eastman.





**Mark H. Turner,
President & CEO
Fitzgerald Officers**

W. Mike Smith, Senior Vice
President, Secretary

Edward McIntyre,
Vice President

Donna Padgett, Vice
President, Compliance
Officer, BSA Officer

Cheryl Seagroves, Vice
President, Mortgage &
Consumer Loan Officer

Tammie Sheppard,
Vice President, Loan
Compliance Officer

Mary Spicer, Banking Officer,
Security Officer

Marce Harper, Information
Security Officer

Andy Johnson, Consumer
Loan Officer

**Warner Robins
Officers**

Kirk W. Scott, City President
Jackie White, Banking Officer

Centerville Officers

H. Earl Spivey, Senior Vice
President

Deborah Matthews, Vice
President/ Mortgage Lender

Directors

Honorable Robert W.
Chasteen, Chairman

Ted Cowan, Vice Chairman

Van Waters, Secretary

Scott Downing

Wilkie F. Glenn

William J. Hammond

Michel J. Long

Eugene L. Mason

Mark H. Massee

Al D. Ross

Larry E. Stevenson

Mark H. Turner

Emeritus Directors

Harold E. Kimball

Marion H. Massee, III

Ben B. Mills, Jr.

**Advisory Board -
Colony Bank
Warner Robins**

Ivan Allen

Joann Cooper

David Davidson, III

D. Warren Faircloth

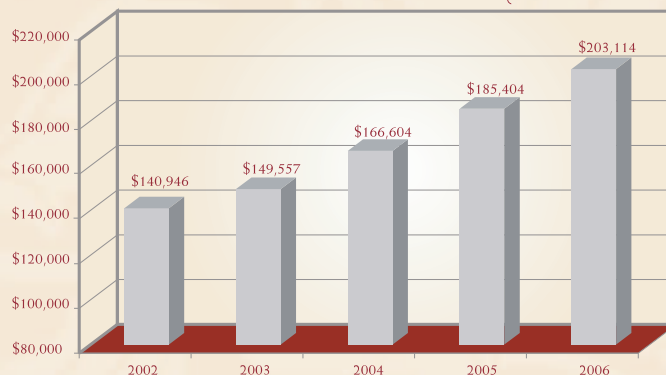
Dr. Hugh R. Hill

Michael J. Long

Kirk W. Scott

*The Grand Conference Center,
formerly a theater in downtown
Fitzgerald, is now a lively
community center which hosts
local and regional seminars and
receptions. Mark Turner is
pictured in this city's quaint
downtown historical district.*

Total Year End Assets (dollars in thousands)





G. Edward Smith III

**Melvin E. Plair,
President & CEO**

Quitman Officers

Peggy Forgione, *Executive Vice President*
Kenneth P. Elsberry, *Vice President*
Brenda C. Renfro, *Vice President*
Lee Carmichael, *Assistant Vice President*

Directors

Claude R. Butler, *Chairman*
Robert L. Cunningham, III,
Vice Chairman
Terry L. Hester
Walter B. Holwell
Daniel M. Mitchell, Jr.
Melvin E. Plair
Joseph L. Johnson, Sr.
Al D. Ross
John W. Romine

Valdosta Officers

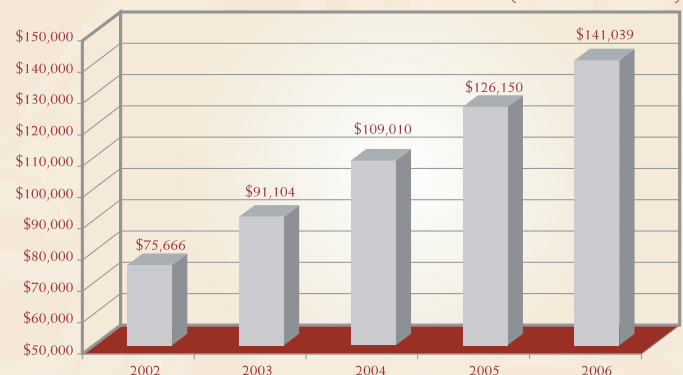
G. Edward Smith, III,
City President
Louie C. Flythe, Jr.,
Vice President

**Advisory Board
Colony Bank
Valdosta**

H. Michael Davis
Joseph L. Johnson, Sr.
Melvin E. Plair
G. Edward Smith, III

Eddie Smith, Valdosta City President, is pictured on the Valdosta State University campus. VSU is nationally recognized for its beauty, unique atmosphere and broad range of student activities. Colony is excited about the continued growth opportunities in the Lowndes County market.

Total Year End Assets (dollars in thousands)





Mike Miller, President & CEO

Broxton Officers

Shelia Butler, *Assistant Vice President*
Sherry Paulk, *Banking Officer*

Douglas Officers, Palms Office

Alicia Rucker, *Vice President*

Douglas Officers, Ward Street Office

Lee Bagwell, *Executive Vice President*
Charlene Hall, *Senior Vice President*
Linda Moseley, *Assistant Vice President*
Lea Phillips, *Mortgage Banking Officer*
Melissa Barnes, *Banking Officer*
Rob Hughes, *Banking Officer*
Scott Miller, *Business Development & Banking Officer*

Savannah Officers

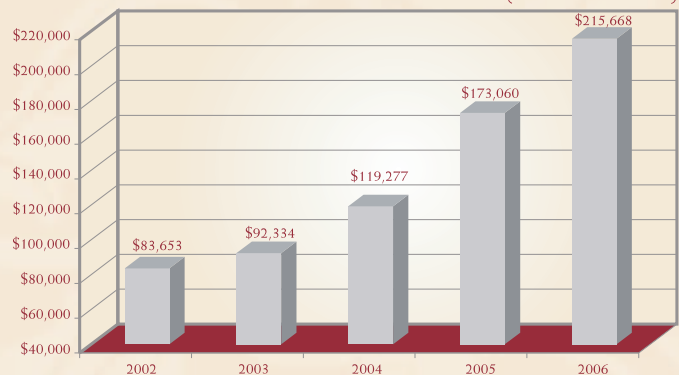
Jamie A. Chisolm, *City President*
Thomas R. Lightfoot, *Senior Vice President*
Kevin Pashke, *Senior Vice President, Chief Credit Officer*
Matty Bennett Hartley, *Vice President*
Jill Ginsberg, *Assistant Vice President*
Barbara Young, *Assistant Vice President*

Directors

B. Gene Waldron, *Chairman*
Roy Lindsey
Mike Miller
Alvin L. Ricketson, Jr.
Charles W. Ricketson, Sr.
Al D. Ross
Jon Worrell

Mike Miller enjoys this view of the Savannah River with Jamie Chisolm, Savannah City President. Savannah is recognized as one of the strongest economic areas in Georgia because of its diverse economy and growing population. Savannah continues to be a primary source of future growth for the company.

Total Year End Assets (dollars in thousands)





Ricky Freeman

Ricky Freeman, President & CEO

Officers

Terry L. Hester, *Secretary/CFO*

Mike Rice, *Vice President*

Nic Worthy, *Assistant Vice President*

Rhonda Henderson, *Banking Officer*

Katherine Holliday, *Banking Officer*

Directors

Bobby Gibbs, Jr., *Chairman*

Ronnie Conner

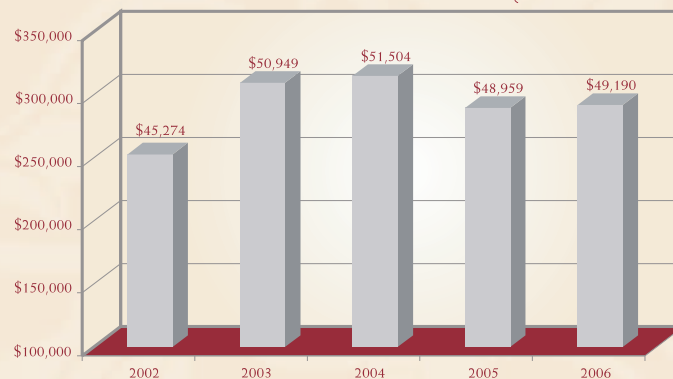
Ricky Freeman

Terry L. Hester

Bob McLeod

Agri-lending is a mainstay of community banking in Georgia. Ricky Freeman, shown here on a rural farm in Rochelle, leads our efforts to tailor unique and comprehensive financial services to area farmers and to ag-related industries.

Total Year End Assets (dollars in thousands)





**Walter P. Patten,
President & CEO**

Sylvester Officers

Dan Alexander, *City President*
Johnny E. Sumner, *Senior Vice President*
Kathy A. Mims, *Vice President*
Nancy Dawson, *BSA Officer*
Marilyn Whiddon, *Loan Operations Officer*

Moultrie Officers

John Gandy, *City President*
Richard Edwards, *Vice President*
Lance C. Young, *Assistant Vice President*

Tifton Officers

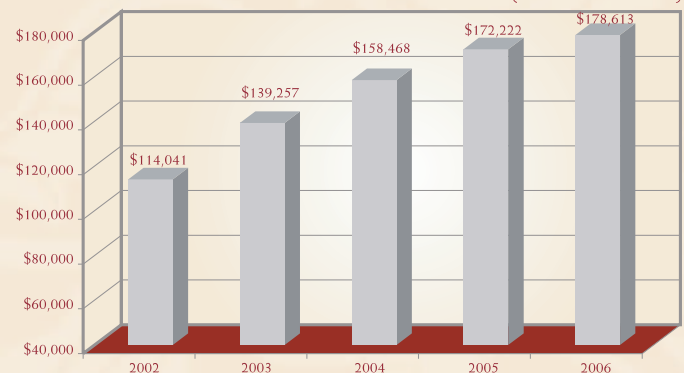
Clint Hurst, *City President*
Jason Rooks, *Assistant Vice President*

Directors

Oren H. Harden, Jr.
Davis W. King
S. Cecil Musgrove
Walter P. Patten
Mike D. Roberts, Sr.
Al D. Ross
Jonathan W. R. Ross
Tommy R. Snipes

John Gandy, Moultrie City President, is shown by the Colquitt County Court House located in the center of the downtown square. Since the designation as a Georgia Main Street City in 1989, downtown Moultrie has experienced tremendous growth and re-development.

Total Year End Assets (dollars in thousands)





Creating QUALITY

Colony Bankcorp, Inc. Officers

Al Ross, *President & CEO*
Terry L. Hester, *Executive Vice President & CFO*
John Shipes, *Controller*

Colony Management Services Officers

W. David Griffin, *President & CEO*
Al D. Ross, *Secretary*
Larry Herndon, *Sr. Vice President, Director of Risk Management*
Hank Brown, *Vice President*
Patricia Dickson, *Corporate BSA, CRA, Privacy & Compliance Officer*
Leonard Brannan, *Director of Internal Audit*
Jim Jowers, *Director of Information Technology*
Faith Bell, *Information Security Officer*
Cheryl Kendrick, *Operations Officer*
Regina Judy, *Operations Officer*
Susan Bryant, *Information Technology Operations Officer*
Greg Judy, *Chief Technology Officer*

Colony Management Services Directors

L. Morris Downing, Jr.
W. David Griffin
Harold E. Kimball
Marion H. Massee, III
Al D. Ross

Georgia First Mortgage Company Officers

Al D. Ross, *President*
Gail Lawrence, *Secretary/Treasurer*

Directors

Al D. Ross, *Chairman, President & CEO Colony Bankcorp, Inc.*
Terry Hester, *Executive Vice President and Chief Financial Officer Colony Bankcorp, Inc.*
Walter P. Patten, *President & CEO Colony Bank Worth*
Melvin E. Plair, *President & CEO Colony Bank Quitman, FSB*
Will Sims, *President & CEO Colony Bank Ashburn*
Larry Stevenson, *President & CEO Colony Bank of Dodge County*

Corporate Information



Market Makers For Colony Bankcorp, Inc. Common Stock

Sterne, Agee & Leach, Inc.
Sam Haskell, Vice President
Birmingham, Alabama
(866) 378-3763

Morgan Keegan & Co.
Leonard Sewell, Senior Vice President
Atlanta, Georgia
(888) 774-5422

Fig Partners, LLC
Eric Lawless, Vice President
Atlanta, Georgia
(866) 344-2657

Colony Bankcorp, Inc. Common Stock
is quoted on the NASDAQ National
Market under the symbol "CBAN."

Colony Bankcorp, Inc. Shareholder Information

Corporate Headquarters:
Colony Bankcorp, Inc.
Post Office Box 989
115 South Grant Street
Fitzgerald, Georgia 31750
(229) 426-6000

Annual Meeting:
Tuesday, April 24, 2007, 2 p.m.
Colony Bankcorp, Inc.
Corporate Offices
115 South Grant Street
Fitzgerald, Georgia 31750

Independent Auditors:
McNair, McLemore, Middlebrooks & Co., LLP
Post Office Box One
Macon, Georgia 31202

Shareholder Services:
Shareholders who want to change the name,
address, or ownership of stock; to report
lost, stolen or destroyed certificates; or to
consolidate accounts should contact:

Computershare
Post Office Box 43078
Providence, Rhode Island 02940-3078
(800) 568-3476

Colony Bankcorp, Inc.
Consolidated Financial Statements
December 31, 2006 and 2005
(with Independent Accountant's Report thereon)

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Independent Accountants' Report

March 15, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Colony Bankcorp, Inc.

We have audited the accompanying consolidated balance sheets of **Colony Bankcorp, Inc. and Subsidiaries** as of December 31, 2006 and 2005 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colony Bankcorp, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Colony Bankcorp, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2007 expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

McNair, McLeMORE, Middlebrooks & Co., LLP

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

March 15, 2007

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Colony Bankcorp, Inc.

We have audited management's assessment, included in the accompanying management's report on internal controls, that Colony Bankcorp, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Colony Bankcorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Colony Bankcorp, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, Colony Bankcorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Colony Bankcorp, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated March 15, 2007, expressed an unqualified opinion.

McNair, McLeMore, Middlebrooks & Co., LLP

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

Colony Bankcorp, Inc. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2006 and 2005

ASSETS	2006	2005
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 27,231,017	\$ 21,605,731
Federal Funds Sold	45,149,434	57,456,211
	<u>72,380,451</u>	<u>79,061,942</u>
Interest-Bearing Deposits	3,075,481	1,635,414
Investment Securities		
Available for Sale, at Fair Value	149,236,225	124,246,264
Held to Maturity, at Cost (Fair Value of \$70,874 and \$79,286 as of December 31, 2006 and 2005, Respectively)	70,874	79,286
	<u>149,307,099</u>	<u>124,325,550</u>
Federal Home Loan Bank Stock, at Cost	5,086,800	5,034,200
Loans	942,273,015	859,117,396
Allowance for Loan Losses	(11,989,359)	(10,761,915)
Unearned Interest and Fees	(501,143)	(302,229)
	<u>929,782,513</u>	<u>848,053,252</u>
Premises and Equipment	27,453,132	25,675,832
Other Real Estate	970,320	2,170,145
Goodwill	2,412,338	2,412,338
Other Intangible Assets	438,714	519,915
Other Assets	22,597,010	19,449,748
Total Assets	<u>\$ 1,213,503,858</u>	<u>\$1,108,338,336</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 77,335,680	\$ 78,778,141
Interest-Bearing	965,110,219	865,586,513
	<u>1,042,445,899</u>	<u>944,364,654</u>
Borrowed Money		
Federal Funds Purchased	1,070,000	-
Subordinated Debentures	24,229,000	19,074,000
Other Borrowed Money	61,500,000	70,226,205
	<u>86,799,000</u>	<u>89,300,205</u>
Other Liabilities	7,647,798	6,545,485
Commitments and Contingencies		
Stockholders' Equity		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,189,937 and 7,181,320 Shares as of December 31, 2006 and 2005, Respectively	7,189,937	7,181,320
Paid-In Capital	24,257,392	23,999,775
Retained Earnings	46,416,571	38,601,441
Restricted Stock – Unearned Compensation	(277,918)	(301,883)
Accumulated Other Comprehensive Loss, Net of Tax	(974,821)	(1,352,661)
	<u>76,611,161</u>	<u>68,127,992</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,213,503,858</u>	<u>\$1,108,338,336</u>

The accompanying notes are an integral part of these balance sheets.

Colony Bankcorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2006, 2005 & 2004

Quality PERFORMANCE

	2006	2005	2004
Interest Income			
Loans, Including Fees	\$ 75,086,845	\$ 58,308,810	\$ 47,503,663
Federal Funds Sold	2,034,823	1,266,120	418,957
Deposits with Other Banks	133,321	86,121	74,888
Investment Securities			
U. S. Government Agencies	5,198,384	3,412,711	3,287,948
State, County and Municipal	381,085	240,864	283,857
Corporate Obligations	162,377	138,559	224,366
Other Investments	3,808	3,223	27,617
Dividends on Other Investments	278,974	177,335	108,748
	83,279,617	63,633,743	51,930,044
Interest Expense			
Deposits	36,610,386	22,590,018	15,174,581
Federal Funds Purchased	28,853	16,259	4,927
Borrowed Money	4,752,642	3,873,730	3,203,767
	41,391,881	26,480,007	18,383,275
Net Interest Income	41,887,736	37,153,736	33,546,769
Provision for Loan Losses	3,987,000	3,443,750	3,469,000
Net Interest Income After Provision for Loan Losses	37,900,736	33,709,986	30,077,769
Noninterest Income			
Service Charges on Deposits	4,580,181	4,127,889	4,232,798
Other Service Charges, Commissions and Fees	831,472	708,276	547,513
Mortgage Fee Income	767,803	493,458	984,343
Other	1,170,725	822,337	659,007
	7,350,181	6,151,960	6,423,661
Noninterest Expenses			
Salaries and Employee Benefits	16,870,488	14,127,949	12,594,057
Occupancy and Equipment	4,034,909	3,777,759	3,530,745
Directors' Fees	638,721	616,534	543,992
Legal and Professional Fees	1,070,605	764,896	706,940
Other Real Estate and Repossession Expense	162,384	126,630	206,718
Securities Losses	-	-	30,958
Loss on Sale of Other Real Estate	20,263	185,379	549,636
Other	7,084,189	6,476,263	6,107,596
	29,881,559	26,075,410	24,270,642
Income Before Income Taxes	15,369,358	13,786,536	12,230,788
Income Taxes	5,217,363	4,809,320	4,161,494
Net Income	\$ 10,151,995	\$ 8,977,216	\$ 8,069,294
Net Income Per Share of Common Stock			
Basic	\$ 1.41	\$ 1.25	\$ 1.13
Diluted	\$ 1.41	\$ 1.25	\$ 1.13
Weighted Average Shares Outstanding	7,176,894	7,168,406	7,131,028

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2006, 2005 & 2004

	2006	2005	2004
Net Income	\$ 10,151,995	\$ 8,977,216	\$ 8,069,294
Other Comprehensive Income, Net of Tax			
Gains (Losses) on Securities			
Arising During the Year	377,840	(755,824)	(638,921)
Reclassification Adjustment	-	-	20,432
Unrealized Gains (Losses) on Securities	377,840	(755,824)	(618,489)
Comprehensive Income	\$ 10,529,835	\$ 8,221,392	\$ 7,450,805

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2006, 2005 & 2004

	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Restricted Stock Unearned Compensation	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2003	5,727,968	\$ 5,727,968	\$23,498,550	\$26,857,379	\$ (129,874)	\$ 21,652	\$55,975,675
Issuance of Restricted Stock	12,250	12,250	235,200		(247,450)		-
Forfeiture of Restricted Stock	(1,875)	(1,875)	(20,550)		22,425		-
Amortization of Unearned Compensation					144,066		144,066
Unrealized Loss on Securities Available for Sale, Net of Tax Benefit of \$414,263						(618,489)	(618,489)
Dividends Paid				(1,807,583)			(1,807,583)
Net Income				8,069,294			8,069,294
Balance, December 31, 2004	5,738,343	5,738,343	23,713,200	33,119,090	(210,833)	(596,837)	61,762,963
5 for 4 Stock Split Effected as a Stock Dividend	1,436,579	1,436,579		(1,436,579)			-
Issuance of Restricted Stock	11,200	11,200	369,600		(380,800)		-
Forfeiture of Restricted Stock	(4,802)	(4,802)	(83,025)		87,827		-
Amortization of Unearned Compensation					201,923		201,923
Unrealized Loss on Securities Available for Sale, Net of Tax Benefit of \$389,364						(755,824)	(755,824)
Dividends Paid				(2,058,286)			(2,058,286)
Net Income				8,977,216			8,977,216
Balance, December 31, 2005	7,181,320	7,181,320	23,999,775	38,601,441	(301,883)	(1,352,661)	68,127,992
Issuance of Restricted Stock	12,790	12,790	303,123		(315,913)		-
Forfeiture of Restricted Stock	(4,173)	(4,173)	(106,663)		110,836		-
Tax Benefit of Restricted Stock			61,157				61,157
Amortization of Unearned Compensation					229,042		229,042
Unrealized Gain on Securities Available for Sale, Net of Tax of \$194,645						377,840	377,840
Dividends Paid				(2,336,865)			(2,336,865)
Net Income				10,151,995			10,151,995
Balance, December 31, 2006	7,189,937	\$7,189,937	\$24,257,392	\$46,416,571	\$ (277,918)	\$ (974,821)	\$76,611,161

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2006, 2005 & 2004

Quality PERFORMANCE

	2006	2005	2004
Cash Flows from Operating Activities			
Net Income	\$ 10,151,995	\$ 8,977,216	\$ 8,069,294
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation	1,933,290	1,903,242	1,754,053
Amortization and Accretion	720,446	1,307,710	1,122,970
Provision for Loan Losses	3,987,000	3,443,750	3,469,000
Deferred Income Taxes	112,518	(546,891)	(464,530)
Securities Losses	-	-	30,958
(Gain) Loss on Sale of Equipment	7,507	(1,886)	13,110
(Gain) Loss on Sale of Other Real Estate and Repossessions	(14,239)	34,339	535,973
Unrealized Loss on Other Real Estate	32,773	150,000	1,000
Increase in Cash Surrender Value of Life Insurance	(185,850)	(203,367)	(225,825)
Change In			
Loans Held for Sale	-	1,190,937	486,371
Interest Receivable	(2,913,483)	(1,566,643)	(953,389)
Prepaid Expenses	87,542	(122,165)	256,062
Interest Payable	1,040,748	932,717	89,222
Accrued Expenses and Accounts Payable	344,075	470,293	222,531
Other	(301,677)	(94,880)	1,169,713
	15,002,645	15,874,372	15,576,513
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	(1,440,066)	1,593,274	8,386,014
Purchase of Investment Securities			
Available for Sale	(48,498,815)	(49,527,780)	(39,055,855)
Proceeds from Sale of Investment Securities			
Available for Sale	-	-	10,476,743
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	23,868,423	35,864,083	24,634,839
Held to Maturity	18,035	11,417	17,580
Proceeds from Sale of Premises and Equipment	4,691	11,750	-
Net Loans to Customers, Net of Loans Received in Business Acquisition	(88,764,174)	(85,879,622)	(111,762,526)
Purchase of Premises and Equipment, Net of Property and Equipment			
Received in Business Acquisition	(3,722,786)	(5,765,092)	(4,331,847)
Other Real Estate and Repossessions	4,136,207	1,633,964	2,985,888
Cash Received in Business Acquisition, Net	-	-	14,356,597
Federal Home Loan Bank Stock	(52,600)	(555,100)	(1,479,100)
Investment in Statutory Trusts	(155,000)	-	(140,000)
Other Investments	(400,000)	-	-
	(115,006,085)	(102,613,106)	(95,911,667)
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	99,529,936	83,461,129	78,773,399
Noninterest-Bearing Customer Deposits	(1,442,462)	10,609,094	3,628,447
Proceeds from Other Borrowed Money	41,500,000	19,500,000	7,500,000
Principal Payments on Other Borrowed Money	(50,226,206)	(10,723,429)	(7,234,122)
Dividends Paid	(2,264,319)	(1,993,100)	(1,749,447)
Proceeds from Issuance of Subordinated Debentures	5,155,000	-	4,640,000
Federal Funds Purchased	1,070,000	-	-
	93,321,949	100,853,694	85,558,277
Net Increase (Decrease) in Cash and Cash Equivalents	(6,681,491)	14,114,960	5,223,123
Cash and Cash Equivalents, Beginning	79,061,942	64,946,982	59,723,859
Cash and Cash Equivalents, Ending	\$ 72,380,451	\$ 79,061,942	\$ 64,946,982

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Colony Bankcorp, Inc. (the Company) is a multi-bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiaries, Colony Bank of Fitzgerald, Fitzgerald, Georgia; Colony Bank Ashburn (which includes its wholly-owned subsidiary, Georgia First Mortgage Company), Ashburn, Georgia; Colony Bank Worth, Sylvester, Georgia; Colony Bank of Dodge County, Eastman, Georgia; Colony Bank Wilcox, Rochelle, Georgia; Colony Bank Southeast, Broxton, Georgia; Colony Bank Quitman, FSB, Quitman, Georgia (the Banks); and Colony Management Services, Inc., 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.

Nature of Operations

The Banks provide a full range of retail and commercial banking services for consumers and small to medium size businesses located primarily in south and central Georgia. Lending and investing activities are funded primarily by deposits gathered through its retail branch 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, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of goodwill and other intangible assets.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2006. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Lending is concentrated in commercial and real estate loans to local borrowers. The Company has a high concentration of real estate loans; however, these loans are well collateralized and, in management's opinion, do not pose an adverse credit risk. In addition, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector.

The success of Colony is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. No assurance can be given that the current economic conditions will continue. 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 insured limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

Investment Securities

Investment securities are recorded under Statement of Financial Accounting Standards (SFAS) No. 115, whereby the Banks classify their 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. 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 other 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, a component of stockholders' equity. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (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

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities (Continued)

value. Gains and losses from sales of securities available for sale are computed using the specific identification method. This caption 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.

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 SFAS No. 115; accordingly, the provisions of SFAS No. 115 are not applicable to this investment. 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.

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, general and unallocated 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 general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 loans 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.

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (Continued)

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.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. Impairment testing of goodwill is performed annually or more frequently if events or circumstances indicate possible impairment. No impairment was identified as a result of the testing performed during 2006 or 2005.

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on an independent 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. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Transfers of Financial Assets

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

Statement of Cash Flows

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

Income Taxes

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

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at the lower of cost or estimated market value at the date of acquisition. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Subsequent declines in value, routine holding costs and gains or losses upon disposition are included in other losses.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of

(1) Summary of Significant Accounting Policies (Continued)
Comprehensive Income (Continued)

the period other than transactions with owners and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, requires the presentation in the financial statements of net income and all items of other comprehensive income as total comprehensive income.

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*. This statement provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with the requirements of SFAS 133. Entities can make an irrevocable election to measure such hybrid financial instruments at fair value in its entirety, with subsequent changes in fair value recognized in earnings. This election can be made on an instrument-by-instrument basis. The effective date of this standard is for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management does not expect this standard to have an effect on the Company's financial position, results of operations or disclosures.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. This statement, which is an amendment to SFAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, SFAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. SFAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization or fair value methods for subsequent measurement. The provisions of SFAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. Management does not expect this standard to have a material effect on the Company's financial position, results of operations or disclosures.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This pronouncement, which will be effective for the Company in 2007, clarifies accounting for income tax positions that are either: (1) complex and, therefore, subject to varied interpretation or (2) controversial. Management is currently evaluating this pronouncement; however, management does not expect this pronouncement to have a significant effect on the Company's financial position, results of operations or disclosures.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Before the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of this standard to have a material effect on the financial position, results of operations or disclosures.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 123(R) (FASB 158)*. This statement requires companies to recognize a net liability or asset to report the funded status of their defined benefit pension and other post retirement plans on the balance sheet. SFAS 158 requires additional new disclosures to be made in companies' financial statements. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company does not expect this standard to have an effect on the financial position, results of operations or disclosures.

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements (Continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. This statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position, results of operations and disclosures.

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of December 31:

	2006	2005
Cash on Hand and Cash Items	\$ 8,307,648	\$ 8,970,595
Noninterest-Bearing Deposits with Other Banks	18,923,369	12,635,136
	<u>\$ 27,231,017</u>	<u>\$ 21,605,731</u>

As of December 31, 2006, the Banks had required deposits of approximately \$3,375,000 with the Federal Reserve.

(3) Investment Securities

Investment securities as of December 31, 2006 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage Backed	\$ 80,053,405	\$ 106,426	\$ (1,124,365)	\$ 79,035,466
Other	54,870,102	65,487	(569,214)	54,366,375
State, County and Municipal	11,839,893	36,337	(135,965)	11,740,265
Corporate Obligations	3,786,691	-	(41,556)	3,745,135
Marketable Equity Securities	163,135	192,442	(6,593)	348,984
	<u>\$ 150,713,226</u>	<u>\$ 400,692</u>	<u>\$ (1,877,693)</u>	<u>\$ 149,236,225</u>
Securities Held to Maturity				
State, County and Municipal	\$ 70,874	\$ -	\$ -	\$ 70,874

(3) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of December 31, 2006, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 14,586,126	\$ 14,486,182		
Due After One Year Through Five Years	48,019,408	47,482,412		
Due After Five Years Through Ten Years	7,119,777	7,133,181	\$ 70,874	\$ 70,874
Due After Ten Years	771,375	750,000		
	70,496,686	69,851,775	70,874	70,874
Marketable Equity Securities	163,135	348,984		
Mortgage Backed Securities	80,053,405	79,035,466		
	<u>\$ 150,713,226</u>	<u>\$ 149,236,225</u>	<u>\$ 70,874</u>	<u>\$ 70,874</u>

Investment securities as of December 31, 2005 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage Backed	\$ 74,811,272	\$ 21,787	\$ (1,546,513)	\$ 73,286,546
Other	39,073,380	22,852	(650,722)	38,445,510
State, County and Municipal	9,186,466	51,761	(47,410)	9,190,817
Corporate Obligations	3,061,499	-	(38,378)	3,023,121
Marketable Equity Securities	163,135	150,725	(13,590)	300,270
	<u>\$ 126,295,752</u>	<u>\$ 247,125</u>	<u>\$ (2,296,613)</u>	<u>\$ 124,246,264</u>
Securities Held to Maturity				
State, County and Municipal	<u>\$ 79,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,286</u>

There were no proceeds from the sale of investments available for sale during 2006 and 2005. In 2004, proceeds from sales of investments available for sale totaled \$10,476,743 resulting in gross realized gains of \$194,329 and gross realized losses of \$225,287.

Investment securities having a carrying value approximating \$86,141,000 and \$63,487,000 as of December 31, 2006 and 2005, respectively, were pledged to secure public deposits and for other purposes.

Colony Bankcorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(3) Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2006 and 2005, 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
December 31, 2006						
U.S. Government Agencies						
Mortgage Backed	\$11,989,365	\$ (54,716)	\$52,139,791	\$(1,069,649)	\$64,129,156	\$(1,124,365)
Other	5,461,550	(24,616)	31,033,305	(544,598)	36,494,855	(569,214)
State, County and Municipal	2,708,622	(69,220)	5,396,659	(66,745)	8,105,281	(135,965)
Corporate Obligations	1,750,000	(24,379)	995,135	(17,177)	2,745,135	(41,556)
Marketable Equity Securities	-	-	53,454	(6,593)	53,454	(6,593)
	<u>\$21,909,537</u>	<u>\$ (172,931)</u>	<u>\$89,618,344</u>	<u>\$(1,704,762)</u>	<u>\$111,527,881</u>	<u>\$(1,877,693)</u>
December 31, 2005						
U.S. Government Agencies						
Mortgage Backed	\$28,900,181	\$ (409,623)	\$37,481,884	\$(1,136,890)	\$66,382,065	\$(1,546,513)
Other	20,677,300	(337,198)	11,304,910	(313,524)	31,982,210	(650,722)
State, County and Municipal	4,041,213	(33,530)	406,120	(13,880)	4,447,333	(47,410)
Corporate Obligations	1,002,405	(20,460)	1,015,700	(17,918)	2,018,105	(38,378)
Marketable Equity Securities	46,457	(13,590)	-	-	46,457	(13,590)
	<u>\$54,667,556</u>	<u>\$ (814,401)</u>	<u>\$50,208,614</u>	<u>\$(1,482,212)</u>	<u>\$104,876,170</u>	<u>\$(2,296,613)</u>

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 December 31, 2006, the debt securities with unrealized losses have depreciated 1.66 percent from the Company's amortized cost basis. These securities are guaranteed by either U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

At December 31, 2006, one marketable equity security had an unrealized loss with depreciation of 11.0 percent from the Company's cost basis. This unrealized loss has existed for over twelve months; however, no credit issues have been identified that cause management to believe the decline in market value is other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame.

(4) Loans

The composition of loans as of December 31 are:

	2006	2005
Commercial, Financial and Agricultural	\$ 61,887,534	\$ 48,849,320
Real Estate-Construction	193,951,793	152,943,631
Real Estate-Farmland	40,936,126	37,151,806
Real Estate-Other	549,600,833	529,598,781
Installment Loans to Individuals	76,929,633	73,473,423
All Other Loans	18,967,096	17,100,435
	<u>\$ 942,273,015</u>	<u>\$ 859,117,396</u>

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled \$8,068,685 and \$8,579,086 as of December 31, 2006 and 2005, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$9,346 and \$14,000, respectively. Foregone interest on nonaccrual loans approximated \$533,000 in 2006, \$426,000 in 2005 and \$403,000 in 2004.

The following table details impaired loan data as of December 31 for the years ended as indicated:

	2006	2005
Total Investment in Impaired Loans	\$ 5,736,240	\$ 5,555,257
Less Allowance for Impaired Loan Losses	(1,664,792)	(1,844,346)
Net Investment, December 31	<u>\$ 4,071,448</u>	<u>\$ 3,710,911</u>
Average Investment during the Year	<u>\$ 6,801,922</u>	<u>\$ 7,242,063</u>
Income Recognized during the Year	<u>\$ 423,652</u>	<u>\$ 190,724</u>
Income Collected during the Year	<u>\$ 374,571</u>	<u>\$ 211,371</u>

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for the years ended December 31:

	2006	2005	2004
Balance, Beginning	\$ 10,761,915	\$ 10,012,179	\$ 8,515,840
Provision Charged to Operating Expenses	3,987,000	3,443,750	3,469,000
Loans Charged Off	(3,373,273)	3,046,192	(2,135,478)
Loan Recoveries	613,717	352,178	162,817
Balance, Ending	<u>\$ 11,989,359</u>	<u>\$ 10,761,915</u>	<u>\$ 10,012,179</u>

Colony Bankcorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(6) Premises and Equipment

Premises and equipment are comprised of the following as of December 31:

	2006	2005
Land	\$ 7,413,927	\$ 6,094,209
Building	20,885,790	18,687,218
Furniture, Fixtures and Equipment	12,059,702	11,547,121
Leasehold Improvements	994,282	965,382
Construction in Progress	114,429	1,075,983
	41,468,130	38,369,913
Accumulated Depreciation	(14,014,998)	(12,694,081)
	<u>\$ 27,453,132</u>	<u>\$ 25,675,832</u>

Depreciation charged to operations totaled \$1,933,290 in 2006, \$1,903,242 in 2005 and \$1,754,053 in 2004.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$329,000 for 2006, \$334,000 for 2005 and \$315,000 for 2004.

Future minimum rental payments as of December 31, 2006 are as follows:

Year Ending December 31	Amount
2007	\$ 122,296
2008	113,376
2009	93,376
2010	89,376
2011 and Thereafter	226,506
	<u>\$ \$644,930</u>

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible activity for the years ended December 31:

	2006	2005
Goodwill		
Balance, Beginning	\$ 2,412,338	\$ 2,412,338
Goodwill Acquired	-	-
Balance, Ending	<u>\$ 2,412,338</u>	<u>\$ 2,412,338</u>

	Core Deposit Intangible	Accumulated Amortization	Net Core Deposit Intangible
Core Deposit Intangible			
Balance, December 31, 2005	\$ 1,056,693	\$ (536,778)	\$ 519,915
Amortization Expense	-	(81,201)	(81,201)
Balance, December 31, 2006	<u>\$ 1,056,693</u>	<u>\$ (617,979)</u>	<u>\$ 438,714</u>

(7) Goodwill and Intangible Assets (Continued)

Amortization expense related to the core deposit intangible was \$81,201, \$114,645 and \$144,985 for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table reflects the expected amortization schedule for the core deposit intangible at December 31, 2006:

2007	\$	36,461
2008		35,749
2009		35,749
2010		35,749
2011 and Thereafter		295,006
	<u>\$</u>	<u>438,714</u>

(8) Income Taxes

The components of income tax expense for the years ended December 31 are as follows:

	2006	2005	2004
Current Federal Expense	\$ 4,994,008	\$ 5,041,180	\$ 4,344,013
Deferred Federal (Benefit) Expense	112,518	(546,891)	(464,530)
Federal Income Tax Expense	5,106,526	4,494,289	3,879,483
Current State Income Tax Expense	110,837	315,031	282,011
	<u>\$ 5,217,363</u>	<u>\$ 4,809,320</u>	<u>\$ 4,161,494</u>

The federal income tax expense of \$5,106,526 in 2006, \$4,494,289 in 2005 and \$3,879,483 in 2004 is less than the income taxes computed by applying the federal statutory rates to income before income taxes. The reasons for the differences are as follows:

	2006	2005	2004
Statutory Federal Income Taxes	\$ 5,290,356	\$ 4,725,288	\$ 4,158,468
Tax-Exempt Interest	(188,408)	(163,184)	(166,382)
Interest Expense Disallowance	28,211	17,136	16,483
Premiums on Officers' Life Insurance	(50,419)	(56,374)	(41,060)
Meal and Entertainment Disallowance	16,644	10,756	9,287
State Income Taxes	(46,441)	(94,719)	(91,006)
Other	56,583	55,386	(6,307)
Actual Federal Income Taxes	<u>\$ 5,106,526</u>	<u>\$ 4,494,289</u>	<u>\$ 3,879,483</u>

Colony Bankcorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(8) Income Taxes (Continued)

Deferred taxes in the accompanying consolidated balance sheets as of December 31 include the following:

	2006	2005
Deferred Tax Assets		
Allowance for Loan Losses	\$ 4,076,487	\$ 3,659,158
Deferred Compensation	376,297	378,347
Other Real Estate	45,143	51,000
Other	498,571	354,908
	<u>4,996,498</u>	<u>4,443,413</u>
Deferred Tax Liabilities		
Premises and Equipment	(1,020,752)	(468,386)
Other	(325,224)	(211,987)
	<u>(1,345,976)</u>	<u>(680,373)</u>
Deferred Tax Assets on Unrealized Securities Losses	<u>502,180</u>	<u>696,825</u>
Net Deferred Tax Assets	<u>\$ 4,152,702</u>	<u>\$ 4,459,865</u>

(9) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$838,935 and \$593,997 as of December 31, 2006 and 2005, respectively.

Components of interest-bearing deposits as of December 31 are as follows:

	2006	2005
Interest-Bearing Demand	\$ 185,768,785	\$ 187,735,342
Savings	33,305,542	35,245,132
Time, \$100,000 and Over	366,041,185	283,583,136
Other Time	379,994,707	359,022,903
	<u>\$ 965,110,219</u>	<u>\$ 865,586,513</u>

At December 31, 2006 and 2005, the Company had brokered deposits of \$72,682,000 and \$45,729,000, respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000, was approximately \$328,788,000 and \$234,307,000 as of December 31, 2006 and 2005, respectively.

As of December 31, 2006, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2007	\$ 663,217,378
2008	44,385,132
2009	10,138,807
2010	19,004,563
2011 and Thereafter	<u>9,290,012</u>
	<u>\$ 746,035,892</u>

(10) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	2006	2005
Federal Home Loan Bank Advances	\$ 61,500,000	\$ 67,500,000
The Banker's Bank Note Payable	-	2,500,000
The Banker's Bank Note Payable	-	226,205
	<u>\$ 61,500,000</u>	<u>\$ 70,226,205</u>

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2007 to 2019 and interest rates ranging from 2.74 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans, commercial loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At December 31, 2006, the Company had available line of credit commitments totaling \$99,472,631, of which \$37,972,631 was available.

The Banker's Bank note payable originated on May 27, 2005 for \$1,500,000. On December 20, 2005, the original \$1,500,000 was renewed into a new note with an additional \$1,000,000 advanced at an interest rate of The Wall Street Prime minus 0.75 percent. Interest payments are due quarterly with the entire unpaid balance due May 27, 2006. The loan is collateralized by a negative pledge of Colony Bank Wilcox stock. The loan was paid off in April 2006.

The Banker's Bank note payable was renewed on January 7, 2003 for \$1,112,735 at a rate of The Wall Street Prime minus .50 percent. Payments are due monthly with the entire unpaid balance due January 7, 2007. The debt is secured by all furniture, fixtures, machinery, equipment and software of Colony Management Services, Inc. Colony Bankcorp, Inc. guarantees the debt. The loan was paid off in August 2006.

The aggregate stated maturities of other borrowed money at December 31, 2006 are as follows:

Year	Amount
2007	\$ 16,000,000
2008	9,500,000
2009	-
2010	1,000,000
2011 and Thereafter	35,000,000
	<u>\$ 61,500,000</u>

The Company also has available federal funds lines of credit with various financial institutions totaling \$39,300,000, of which there was \$1,070,000 outstanding amount at December 31, 2006.

(11) Subordinated Debentures (Trust Preferred Securities)

During the first quarter of 2002, the Company formed a subsidiary whose sole purpose was to issue \$9,000,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2006, the floating-rate securities had an 8.97 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.60 percent.

During the fourth quarter of 2002, the Company formed a second subsidiary whose sole purpose was to issue \$5,000,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2006, the floating-rate securities had an 8.62 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.25 percent.

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2006, the floating rate securities had an 8.04 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue \$5,000,000 in Trust Preferred Securities in a private placement by SunTrust Bank Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2006, the following rate securities had a 6.86 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

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

The total aggregate principal amount of trust preferred certificates outstanding at December 31, 2006 was \$23,500,000. The total aggregate principal amount of subordinated debentures outstanding at December 31, 2006 was \$24,229,000.

(12) Restricted Stock - Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. During 2000-2006, 72,928 split-adjusted shares were issued under this plan and since the plan's inception, 11,102 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are 2,875 at December 31, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. During 2006, 6,855 split-adjusted shares were issued under this plan and since the plan's inception, 1,298 shares have been forfeited; thus remaining shares which may be subject to restricted stock awards are 137,943 at December 31, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(13) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was \$662,730 for 2006, \$558,138 for 2005 and \$479,108 for 2004.

(14) 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.

(14) Commitments and Contingencies (Continued)

At December 31, 2006 and 2005, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2006	2005
Commitments to Extend Credit	\$ 105,165,000	\$ 112,056,000
Standby Letters of Credit	3,279,000	2,572,000
Performance Letters of Credit	-	472,000

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 subsidiaries. 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.

(15) Deferred Compensation Plan

Two of the Bank subsidiaries have deferred compensation plans covering directors choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Banks are committed to pay the directors deferred compensation over a specified number of years, beginning at age 65. In the event of a director's death before age 65, payments are made to the director's named beneficiary over a specified number of years, beginning on the first day of the month following the death of the director.

Liabilities accrued under the plans totaled \$1,107,653 and \$1,113,685 as of December 31, 2006 and 2005, respectively. Benefit payments under the contracts were \$171,029 in 2006 and \$167,126 in 2005. Provisions charged to operations totaled \$164,997 in 2006, \$359,787 in 2005 and \$219,064 in 2004.

Fee income recognized with deferred compensation plans totaled \$148,290 in 2006, \$328,942 in 2005 and \$120,766 in 2004.

(16) Interest Income and Expense

Interest income of \$311,828, \$257,639 and \$329,211 from state, county and municipal bonds was exempt from regular income taxes in 2006, 2005 and 2004, respectively.

Interest on deposits includes interest expense on time certificates of \$100,000 or more totaling \$16,189,086 \$8,180,847 and \$4,633,304 for the years ended December 31, 2006, 2005 and 2004, respectively.

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(17) Supplemental Cash Flow Information

Cash payments for the following were made during the years ended December 31:

	2006	2005	2004
Interest Expense	\$ 40,351,134	\$ 25,547,290	\$ 18,294,053
Income Taxes	\$ 5,371,395	\$ 5,353,702	\$ 4,777,702

Noncash financing and investing activities for the years ended December 31 are as follows:

	2006	2005	2004
Acquisitions of Real Estate Through Loan Foreclosures	\$ 2,815,716	\$ 2,793,978	\$ 1,835,125
Acquisitions, Net of Cash Acquired			
Cash Paid (Received), Net	\$ -	\$ -	\$ (14,356,597)
Liabilities Assumed	-	-	35,859,268
Fair Value of Net Assets Acquired	\$ -	\$ -	\$ 21,502,671
Unrealized (Gain) Loss on Investment Securities	\$ (572,485)	\$ 1,145,190	\$ 1,032,750

(18) Related Party Transactions

The aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company was \$18,142,109 as of December 31, 2006 and \$15,103,982 as of December 31, 2005. All such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectibility. A summary of activity of related party loans is shown below:

	2006	2005
Balance, Beginning	\$ 15,103,982	\$ 15,047,046
New Loans	18,540,907	14,239,044
Repayments	(15,528,723)	(14,182,108)
Transactions Due to Changes in Directors	25,943	-
Balance, Ending	\$ 18,142,109	\$ 15,103,982

Deposits from related parties held by the Company at December 31, 2006 and 2005 totaled approximately \$13,091,000 and \$13,978,000, respectively.

(19) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires 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 Subsidiaries' 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.

(19) Fair Value of Financial Instruments (Continued)

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

Investment Securities - Fair values for investment securities are based on quoted market prices.

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

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

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

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

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

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.

Standby Letters of Credit and Commitments to Extend Credit - Because standby letters of credit and commitments to extend credit are made using variable rates, the contract value is a reasonable estimate of fair value.

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

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in Thousands)				
Assets				
Cash and Short-Term Investments	\$ 75,456	\$ 75,456	\$ 80,697	\$ 80,697
Investment Securities Available for Sale	149,236	149,236	124,246	124,246
Investment Securities Held to Maturity	71	71	79	79
Federal Home Loan Bank Stock	5,087	5,087	5,034	5,034
Loans	942,273	930,716	859,117	849,888
Liabilities				
Deposits	1,042,446	1,040,991	944,365	942,606
Federal Funds Purchased	1,070	1,070	-	-
Subordinated Debentures	24,229	24,229	19,074	19,074
Other Borrowed Money	61,500	58,345	70,226	66,310
Unrecognized Financial Instruments				
Standby Letters of Credit	-	3,279	-	2,572
Performance Letters of Credit	-	-	-	472
Commitments to Extend Credit	-	105,165	-	112,056

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 hold-

Colony Bankcorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(19) Fair Value of Financial Instruments (Continued)

ings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

(20) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary banks is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Banks may pay cash dividends to the parent company in excess of regulatory limitations.

The Company is subject to various regulatory capital requirements administered by the 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 classification 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 I capital to risk-weighted assets, and of Tier I capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2006, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The following table summarizes regulatory capital information as of December 31, 2006 and 2005 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006 (In Thousands)						
Total Capital						
to Risk-Weighted Assets						
Consolidated	\$ 110,304	11.50%	\$ 76,710	8.00%	\$ 95,887	10.00%
Fitzgerald	18,697	11.33	13,206	8.00	16,508	10.00
Ashburn	28,908	10.77	21,464	8.00	26,830	10.00
Worth	14,618	11.02	10,610	8.00	13,262	10.00
Southeast	20,091	10.76	14,934	8.00	18,667	10.00
Quitman	12,183	11.65	8,367	8.00	10,458	10.00

(20) Regulatory Capital Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006 (In Thousands)						
Tier I Capital						
to Risk-Weighted Assets						
Consolidated	98,235	10.24%	38,355	4.00%	57,532	6.00%
Fitzgerald	16,567	10.04	6,603	4.00	9,905	6.00
Ashburn	25,551	9.52	10,732	4.00	16,098	6.00
Worth	12,958	9.77	5,305	4.00	7,957	6.00
Southeast	17,981	9.63	7,467	4.00	11,200	6.00
Quitman	10,985	10.50	4,183	4.00	6,275	6.00
Tier I Capital						
to Average Assets						
Consolidated	98,235	8.17	48,087	4.00	60,109	5.00
Fitzgerald	16,567	8.07	8,207	4.00	10,259	5.00
Ashburn	25,551	7.68	13,306	4.00	16,632	5.00
Worth	12,958	7.44	6,969	4.00	8,711	5.00
Southeast	17,981	8.52	8,445	4.00	10,556	5.00
Quitman	10,985	7.78	5,647	4.00	7,059	5.00
As of December 31, 2005						
Total Capital						
to Risk-Weighted Assets						
Consolidated	95,873	11.02	69,600	8.00	87,000	10.00
Fitzgerald	16,801	11.34	11,849	8.00	14,811	10.00
Ashburn	28,183	11.07	20,363	8.00	25,454	10.00
Worth	13,718	10.48	10,475	8.00	13,094	10.00
Southeast	15,025	10.30	11,665	8.00	14,581	10.00
Quitman	11,237	12.15	7,397	8.00	9,246	10.00
Tier I Capital						
to Risk-Weighted Assets						
Consolidated	85,049	9.78	34,800	4.00	52,200	6.00
Fitzgerald	14,988	10.12	5,924	4.00	8,887	6.00
Ashburn	24,999	9.82	10,181	4.00	15,272	6.00
Worth	12,079	9.22	5,238	4.00	7,856	6.00
Southeast	13,687	9.39	5,833	4.00	8,749	6.00
Quitman	10,164	10.99	3,698	4.00	5,548	6.00
Tier I Capital						
to Average Assets						
Consolidated	85,049	7.77	43,768	4.00	54,710	5.00
Fitzgerald	14,988	8.03	7,463	4.00	9,329	5.00
Ashburn	24,999	7.60	13,162	4.00	16,452	5.00
Worth	12,079	7.25	6,668	4.00	8,335	5.00
Southeast	13,687	8.36	6,551	4.00	8,188	5.00
Quitman	10,164	8.06	5,044	4.00	6,305	5.00

Colony Bankcorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

The parent company's balance sheets as of December 31, 2006 and 2005 and the related statements of income and comprehensive income and cash flows for each of the years in the three-year period then ended are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
DECEMBER 31

ASSETS

	2006	2005
Cash	\$ 2,223,581	\$ 229,532
Premises and Equipment, Net	1,273,215	1,284,350
Investment in Subsidiaries, at Equity	97,270,695	88,376,235
Other	998,759	788,257
Total Assets	\$ 101,766,250	\$ 90,678,374

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Dividends Payable	\$ 641,314	\$ 538,599
Other	284,775	437,783
	926,089	976,382

Other Borrowed Money	-	2,500,000
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Subordinated Debt	24,229,000	19,074,000
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Stockholders' Equity

Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,189,937 and 7,181,320		
Shares as of December 31, 2006 and 2005, Respectively	7,189,937	7,181,320
Paid-In Capital	24,257,392	23,999,775
Retained Earnings	46,416,571	38,601,441
Restricted Stock – Unearned Compensation	(277,918)	(301,883)
Accumulated Other Comprehensive Loss, Net of Tax	(974,821)	(1,352,661)
	76,611,161	68,127,992

Total Liabilities and Stockholders' Equity	\$ 101,766,250	\$ 90,678,374
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(21) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2006	2005	2004
Income			
Dividends from Subsidiaries	\$ 6,800,000	\$ 4,350,000	\$ 2,350,000
Other	168,763	109,119	89,888
	6,968,763	4,459,119	2,439,888
Expenses			
Interest	1,926,647	1,323,247	856,993
Amortization	30,317	30,317	29,379
Salaries and Employee Benefits	1,013,523	1,053,636	807,142
Other	735,821	716,954	638,068
	3,706,308	3,124,154	2,331,582
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	3,262,455	1,334,965	108,306
Income Tax Benefits	1,027,921	1,000,501	728,733
Income Before Equity in Undistributed Earnings of Subsidiaries	4,290,376	2,335,466	837,039
Equity in Undistributed Earnings of Subsidiaries	5,861,619	6,641,750	7,232,255
Net Income	10,151,995	8,977,216	8,069,294
Other Comprehensive Income, Net of Tax			
Gains (Losses) on Securities Arising During the Year	377,840	(755,824)	(638,921)
Reclassification Adjustment	-	-	20,432
Unrealized Gains (Losses) on Securities	377,840	(755,824)	(618,489)
Comprehensive Income	\$ 10,529,835	\$ 8,221,392	\$ 7,450,805

Colony Bankcorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2006	2005	2004
Cash Flows from Operating Activities			
Net Income	\$ 10,151,995	\$ 8,977,216	\$ 8,069,294
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation and Amortization	309,388	294,155	255,546
Equity in Undistributed Earnings of Subsidiaries	(5,861,619)	(6,641,750)	(7,232,255)
Other	(267,646)	123,856	122,362
	4,332,118	2,753,477	1,214,947
Cash Flows from Investing Activities			
Capital Infusion in Subsidiary	(2,500,000)	(2,950,000)	(2,800,000)
Purchases of Premises and Equipment	(73,749)	(244,268)	(16,930)
Investment in Statutory Trusts	(155,000)	-	(140,000)
	(2,728,749)	(3,194,268)	(2,956,930)
Cash Flows from Financing Activities			
Dividends Paid	(2,264,320)	(1,993,100)	(1,749,447)
Principal Payments on Notes and Debentures	(2,500,000)	(1,500,000)	(1,000,000)
Proceeds from Notes and Debentures	5,155,000	4,000,000	4,640,000
	390,680	506,900	1,890,553
Increase in Cash	1,994,049	66,109	148,570
Cash, Beginning	229,532	163,423	14,853
Cash, Ending	\$ 2,223,581	\$ 229,532	\$ 163,423

(22) Earnings Per Share

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the years ended December 31, 2006, 2005 and 2004 under the requirements of Statement 128:

	Income Numerator	Common Shares Denominator	EPS
December 31, 2006			
Basic EPS			
Income Available to Common Stockholders	\$ 10,151,995	7,176,894	\$ 1.41
Dilutive Effect of Potential Common Stock			
Restricted Stock		843	
Diluted EPS			
Income Available to Common Stockholders			
After Assumed Conversions of Dilutive Securities	\$ 10,151,995	7,177,737	\$ 1.41
December 31, 2005			
Basic EPS			
Income Available to Common Stockholders	\$ 8,977,216	7,168,406	\$1.25
Dilutive Effect of Potential Common Stock			
Restricted Stock		2,694	
Diluted EPS			
Income Available to Common Stockholders			
After Assumed Conversions of Dilutive Securities	\$ 8,977,216	7,171,100	\$ 1.25
December 31, 2004			
Basic EPS			
Income Available to Common Stockholders	\$ 8,069,294	7,131,028	\$ 1.13
Dilutive Effect of Potential Common Stock			
Restricted Stock		26,605	
Diluted EPS			
Income Available to Common Stockholders			
After Assumed Conversions of Dilutive Securities	\$ 8,069,294	7,157,633	\$ 1.13

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 Annual 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 subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company's organization, compensation and benefit plans.
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.
- 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 and Factors that Could Affect Future Results (Continued)

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

The Company

Colony Bankcorp, Inc. (Colony) is a bank holding company headquartered in Fitzgerald, Georgia that provides, through its wholly-owned subsidiaries (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, and they require management to make estimates that are difficult, subjective or complete.

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

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

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

Goodwill and Other Intangibles – The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required by SFAS No. 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis require management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2006 and 2005, and results of operations for each of the years in the three year period ended December 31, 2006. 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. All of the acquisitions during the reported periods were accounted for as purchase transactions, and as such, their related results of operations are included from the date of acquisition.

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 totaled \$10.15 million, or \$1.41 diluted per common share in 2006 compared to \$8.98 million, or \$1.25 diluted per common share in 2005 and \$8.07 million, or \$1.13 diluted per common share in 2004.

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

	2006	2005	2004
Taxable-Equivalent Net Interest Income	\$ 42,158	\$ 37,381	\$ 33,809
Taxable-Equivalent Adjustment	270	227	262
Net Interest Income	41,888	37,154	33,547
Provision for Possible Loan Losses	3,987	3,444	3,469
Noninterest Income	7,350	6,152	6,424
Noninterest Expense	29,882	26,076	24,271
Income Before Income Taxes	15,369	13,786	12,231
Income Taxes	5,217	4,809	4,162
Net Income	\$ 10,152	\$ 8,977	\$ 8,069
Basic per Common Share:			
Net Income	\$ 1.41	\$ 1.25	\$ 1.13
Diluted per Common Share:			
Net Income	\$ 1.41	\$ 1.25	\$ 1.13
Return on Average Assets:			
Net Income	0.87%	0.87%	0.86%
Return on Average Equity:			
Net Income	14.10%	13.78%	13.67%

Results of Operations (Continued)

Income from operations for 2006 increased \$1.18 million, or 13.09 percent, compared to 2005. The increase was primarily the result of a \$4.74 million increase in net interest income and an increase of \$1.20 million in noninterest income. The impact of these items was partly offset by a \$3.81 million increase in noninterest expense, an increase of \$0.54 million in provision for loan losses and an increase of \$0.41 in income tax expense. Income from operations for 2005 increased \$0.91 million, or 11.25 percent, compared to 2004. The increase was primarily the result of a \$3.61 million increase in net interest income and a \$0.03 million decrease in provision for loan losses. The impact of these items was partly offset by a \$1.81 million increase in noninterest expense, a decrease of \$0.27 million in noninterest income and a \$0.65 million increase in income tax expense.

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 46.22 percent of total revenue during 2006 and 53.24 percent during 2005.

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, began 2001 at 9.50 percent and decreased 475 basis points during 2001 to end the year at 4.75 percent. During 2002, the prime rate decreased 50 basis points to end the year at 4.25 percent. During 2003, the prime rate decreased 25 basis points to end the year at 4.00 percent. During 2004, the prime rate increased 125 basis points to end the year at 5.25 percent. During 2005, the prime rate increased 200 basis points to end the year at 7.25 percent. During 2006, the prime rate increased 100 basis points to end the year at 8.25 percent. The federal funds rate moved similar to prime rate with interest rates of 1.75 percent, 1.25 percent, 1.00 percent, 2.25 percent, 4.25 percent, and 5.25 percent respectively, as of year-end 2001, 2002, 2003, 2004, 2005 and 2006. It is anticipated that the Federal Reserve will maintain a neutral stance the first half of 2007 and begin reducing rates during the last half of 2007.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Rate/Volume Analysis

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

	Changes From 2005 to 2006 (a)			Changes From 2004 to 2005 (a)		
	Volume	Rate	Total	Volume	Rate	Total
(In Thousands)						
Interest Income						
Loans, Net-Taxable	\$ 6,633	\$ 10,156	\$ 16,789	\$ 5,511	\$ 5,281	\$ 10,792
Investment Securities						
Taxable	680	1,208	1,888	179	(163)	16
Tax-Exempt	75	19	94	(107)	42	(65)
Total Investment Securities	755	1,227	1,982	72	(121)	(49)
Interest-Bearing Deposits in						
Other Banks	(1)	48	47	(44)	55	11
Federal Funds Sold	86	683	769	96	751	847
Other Interest-Earning Assets	11	91	102	55	13	68
Total Interest Income	7,484	12,205	19,689	5,690	5,979	11,669
Interest-Expense						
Interest-Bearing Demand and						
Savings Deposits	108	1,257	1,365	59	529	588
Time Deposits	3,258	9,397	12,655	3,293	3,535	6,828
Total Interest Expense						
On Deposits	3,366	10,654	14,020	3,352	4,064	7,416
Other Interest-Bearing Liabilities						
Federal Funds Purchased	4	9	13	2	9	11
Subordinated Debentures	242	368	610	80	351	431
Other Debt	(32)	301	269	194	45	239
Total Interest Expense	3,580	11,332	14,912	3,628	4,469	8,097
Net Interest Income	\$ 3,904	\$ 873	\$ 4,777	\$ 2,062	\$ 1,510	\$ 3,572

- (a) 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 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. Interest rate 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 to the net portfolio of equity value and net interest income from potential changes to interest rates and considers the impact of alternative strategies or changes in balance sheet structure.

Rate/Volume Analysis (Continued)

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 .80 to 1.20.

Our exposure to interest rate risk is reviewed at least semiannually 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. The Company has engaged SunTrust Bank to run a quarterly asset/liability model for interest rate risk analysis. We are generally focusing our investment activities on securities with terms or average lives in the 3-7 year range.

The Company maintains about 41 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 certificates of deposit that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin the past several years, though the unprecedented 475 basis point decrease by U.S. Federal Reserve in 2001, 50 basis point decrease in 2002 and 25 basis point decrease in 2003 resulted in significant net interest margin pressure. During 2004, interest rates increased 125 basis points, during 2005 interest rates increased 200 basis points and during 2006 interest rates increased 100 basis points. The shift to increased rates the past three years has resulted in improved and stable net interest margins. Net interest margin improved slightly to 3.84 percent for 2006 compared to 3.81 percent for 2005 and 2004. We anticipate some contraction in the net interest margin for 2007 given the Federal Reserve's present flat to declining rate forecast for 2007. Should the Federal Reserve's stance be flat to declining rate forecast, the Company would be challenged with net interest rate compression.

Taxable-equivalent net interest income for 2006 increased \$4.78 million, or 12.78 percent, compared to 2005, while taxable-equivalent net interest income for 2005 increased by \$3.57 million, or 10.56 percent, compared to 2004. The fluctuation between the comparable periods resulted from the positive impact of growth in the average volume of earning assets and a positive impact from the increasing average interest rates. The average volume of earning assets during 2006 increased almost \$117.8 million compared to 2005 while over the same period the net interest margin increased to 3.84 from 3.81 percent. Similarly, the average volume of earning assets during 2005 increased \$92.6 million compared to 2004 while over the same period the net interest margin remained flat at 3.81 percent. Growth in average earning assets during 2006 and 2005 was primarily in loans. The stability in the net interest margin in 2006 was primarily the result of increased earning assets and loan/deposit pricing by the Company.

The average volume of loans increased \$93.0 million in 2006 compared to 2005 and increased \$85.1 million in 2005 compared to 2004. The average yield on loans increased 111 basis points in 2006 compared to 2005 and increased 65 basis points in 2005 compared to 2004. Funding for this growth was primarily provided by deposit growth. The average volume of deposits increased \$112.9 million in 2006 compared to 2005 and increased \$82.6 million in 2005 compared to 2004. Interest-bearing deposits made up 95.5 percent of the growth in average deposits in 2006 and 94.2 percent of the growth in average deposits in 2005. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.6 percent in 2006, 92.2 percent in 2005 and 92.0 percent in 2004. This deposit mix, combined with a general increase in interest rates, had the effect of (i) increasing the average cost of total deposits by 112 basis points in 2006 compared to 2005 and increasing the average cost of total deposits by 66 basis points in 2005 compared to 2004, and (ii) mitigating a portion of the impact of increasing yields on earning assets on the Company's net interest income.

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 3.50 percent in 2006 compared to 3.56 percent in 2005 and 3.61 percent in 2004. 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 Interest Rate Sensitivity included elsewhere in this report.

Provision for Loan Losses

The provision for possible loan losses is determined by management as the amount to be added to the allowance for possible 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 \$3.99 million in 2006 compared to \$3.44 million in 2005 and \$3.47 million in 2004. 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:

	2006	2005	2004
Service Charges on Deposit Accounts	\$ 4,580	\$ 4,128	\$ 4,233
Other Charges, Commissions and Fees	831	708	548
Other	1,171	822	659
Mortgage Fee Income	768	494	984
	<u>\$ 7,350</u>	<u>\$ 6,152</u>	<u>\$ 6,424</u>

Total noninterest income for 2006 increased \$1.20 million, or 19.47 percent, compared to 2005 while total noninterest income for 2005 decreased \$272 thousand, or 4.23 percent, compared to 2004. The increase in 2006 noninterest income compared to 2005 was primarily in mortgage fee income, service charges on deposit accounts and other, while the reduction in 2005 noninterest income compared to 2004 was primarily in mortgage fee income and a slight reduction in service charges on deposit accounts. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for 2006 increased \$452 thousand, or 10.95 percent, compared to 2005. The increase was primarily due to an increase in overdraft fees assessed and increased volume of consumer and business accounts. Service charges on deposit accounts for 2005 decreased \$105 thousand, or 2.48 percent, compared to 2004. The decrease was primarily due to an \$82 thousand decrease in overdraft fees, which were mostly related to consumer accounts.

Mortgage Fee Income. Mortgage fee income for 2006 increased \$274 thousand, or 55.47 percent, compared to 2005. The increase was primarily due to a company-wide focus on mortgage loans to be sold into the secondary market. Of significance was the increased activity in the larger MSA markets that the Company has operations. Mortgage fee income for 2005 decreased \$490 thousand, or 49.80 percent, compared to 2004. The decrease was primarily due to decreased mortgage loan activity as the Company downsized its mortgage subsidiary unit. Also, many home loan borrowers had refinanced prior to 2005 due to historical low interest rates.

All Other Noninterest Income. The aggregate of all other noninterest income accounts increased \$472 thousand, or 30.85 percent, compared to 2005. The increase was primarily due to gains from the sale of SBA and FSA governmental loans that increased to \$512 thousand for 2006 compared to \$42 thousand for 2005, or an increase of \$470 thousand. Also ATM fee income, increased to \$652 thousand for 2006 compared to \$526 thousand for 2005, or an increase of \$126 thousand. These increases were offset by fee income recorded on director and executive officer deferred compensation and retirement plans that decreased to \$148 thousand for 2006 compared to \$329 thousand for 2005, or a decrease of \$181 thousand. 2005 fee income on deferred compensation included a one-time entry from the demutualization of insurance companies used to fund the plan.

The aggregate of all other noninterest income accounts increased \$323 thousand, or 26.76 percent, compared to 2004. The increase was primarily due to an increase in ATM fee income of \$526 thousand for 2005 compared to \$387 thousand for 2004, or an increase of \$139 thousand. In addition, fee income recorded on director and executive officer deferred compensation and retirement plans increased to \$329 thousand for 2005 compared to \$121 thousand for 2004, or an increase of \$208 thousand. These increases were offset by gains on the sale of SBA government loans that decreased to \$42 thousand for 2005 compared to \$132 thousand for 2004, or a decrease of \$90 thousand.

Noninterest Expense

The components of noninterest expense were as follows:

	2006	2005	2004
Salaries and Employee Benefits	\$ 16,870	\$ 14,128	\$ 12,594
Occupancy and Equipment	4,035	3,778	3,531
Loss on Securities Transactions	-	-	31
Other	8,977	8,170	8,115
	<u>\$ 29,882</u>	<u>\$ 26,076</u>	<u>\$ 24,271</u>

Total noninterest expense for 2006 increased \$3.81 million, or 14.60 percent compared to 2005 while total noninterest expense for 2005 increased \$1.81 million, or 7.44 percent, compared to 2004. Growth in noninterest expense in 2006 and 2005 was primarily in salaries, employee benefits, occupancy and equipment expense and other noninterest expenses. These items and the changes in the various components of noninterest expense are discussed in more detail below.

Salaries and Employee Benefits. Salaries and benefits expense for 2006 increased \$2.74 million, or 19.41 percent, compared to 2005. The increase is primarily related to increases in head count, merit increase and denovo branching. During 2006, new offices were opened in Centerville and Columbus, Georgia and the new offices opened in Valdosta and Savannah during 2005 were online all of 2006 compared to being online part of 2005. Salaries and benefits expense for 2005 increased \$1.53 million, or 12.18 percent, compared to 2004. The increase is primarily related to increases in head count, merit increase, denovo branching and the acquisition of the Flag-Thomaston office during 2004. During 2005, new offices were opened in Valdosta and Savannah, Georgia.

Occupancy and Equipment. Net occupancy expense for 2006 increased \$257 thousand, or 6.80 percent compared to 2005. The Company experienced increased net occupancy and equipment expense for 2006 resulting from two additional offices opened during 2006. The impact of new offices opened during 2006 resulted in higher building maintenance, insurance and utilities cost and higher depreciation on buildings and equipment. Net occupancy expense for 2005 increased \$247 thousand, or 7.00 percent, compared to 2004. The Company experienced increased net occupancy and equipment expense for 2005 resulting from two additional offices opened during 2005 and the acquisition of the Flag-Thomaston office during 2004. The impact of new offices opened during 2005 resulted in higher building maintenance, insurance and utilities cost, higher depreciation on buildings and equipment and higher lease expense.

All Other Noninterest Expense. All other noninterest expense for 2006 increased \$807 thousand, or 9.88 percent, compared to 2005. The increase is primarily due to additional overhead associated with new offices opened along with significant changes in noninterest expense as follows: loss on sale of other real estate decreased to \$20 thousand for 2006 compared to \$185 thousand for 2005, or a decrease of \$165 thousand; other real estate and repossession expense increased to \$162 thousand for 2006 compared to \$127 thousand for 2005, or an increase of \$35 thousand; legal and professional fees increased to \$1.07 million for 2006 compared to \$765 thousand for 2005, or an increase of \$306 thousand; ATM expense increased to \$377 thousand for 2006 compared to \$322 thousand for 2005, or an increase of \$55 thousand; director fees increased to \$639 thousand for 2006 compared to \$617 thousand for 2005, or an increase of \$22 thousand; stationery and supplies increased to \$559 thousand for 2006 compared to \$514 thousand for 2005, or an increase of \$45 thousand; postage expense increased to \$386 thousand for 2006 compared to \$348 thousand for 2005, or an increase of \$38 thousand; and advertising expense increased to \$653 thousand for 2006 compared to \$457 thousand for 2005, or an increase of \$196 thousand.

All other noninterest expense for 2005 increased \$24 thousand, or 0.29 percent compared to 2004. The increase is primarily due to additional overhead associated with new offices opened that was partly offset by significant changes in noninterest expense as follows: loss on sale of other real estate decreased to \$185 thousand for 2005 compared to \$550 thousand for 2004, or a decrease of \$365 thousand; other real estate foreclosure and repossession expense decreased to \$127 thousand for 2005 compared to \$207 thousand for 2004, or a decrease of \$80 thousand; ATM expense increased to \$322 thousand for 2005 compared to \$261 thousand for 2004, or an increase of \$61 thousand; legal and professional fees increased to \$765 thousand for 2005 compared to \$707 thousand for 2004, or an increase of \$58 thousand; director fees increased to \$617 thousand for 2005 from \$544 thousand for 2004, or an increase of \$73 thousand; and stationery and supplies increased to \$514 thousand for 2005 compared to \$446 thousand for 2004, or an increase of \$68 thousand.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1,161 million in 2006 compared to \$1,035 million in 2005 and \$938 million in 2004.

	2006		2005		2004	
Sources of Funds						
Deposits						
Noninterest-Bearing	\$ 73,334	6.3%	\$ 68,259	6.6%	\$ 63,457	6.8%
Interest-Bearing	917,634	79.1	809,850	78.3	732,048	78.0
Federal Funds Purchased	563	-	449	-	307	-
Subordinated Debentures						
and Other Borrowed Money	88,512	7.6	85,675	8.3	78,976	8.4
Other Noninterest-Bearing Liabilities	8,682	0.8	5,398	0.5	4,458	0.5
Equity Capital	71,993	6.2	65,146	6.3	59,037	6.3
	\$ 1,160,718	100.0%	\$ 1,034,777	100.0%	\$938,283	100.0%
Uses of Funds						
Loans	\$ 901,162	77.6%	\$ 809,401	78.2%	\$ 725,221	77.3%
Investment Securities	135,538	11.7	113,704	11.0	110,877	11.8
Federal Funds Sold	41,307	3.6	38,692	3.7	31,502	3.4
Interest-Bearing Deposits	2,753	0.2	2,792	0.3	6,864	0.7
Other Interest-Earning Assets	5,192	0.4	4,878	0.5	3,242	0.4
Other Noninterest-Earning Assets	74,766	6.5	65,310	6.3	60,577	6.4
	\$ 1,160,718	100.0%	\$ 1,034,777	100.0%	\$ 938,283	100.0%

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 92.60 percent of total average deposits in 2006 compared to 92.23 percent in 2005 and 92.02 percent in 2004.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Loan demand continues to be strong as total loans were \$942.3 million at December 31, 2006, up 9.68 percent, compared to loans of \$859.1 million at December 31, 2005, while total loans at December 31, 2005 were up 10.32 percent compared to loans of \$778.7 million at December 31, 2004. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included below. The majority of funds provided by deposit growth have been invested in loans.

Loans

The following table presents the composition of the Company's loan portfolio as of December 31 for the past five years.

	2006	2005	2004	2003	2002
Commercial, Financial and Agricultural	\$ 61,887	\$ 48,849	\$ 44,284	\$ 44,590	\$ 46,598
Real Estate					
Construction	193,952	152,944	100,774	56,374	21,341
Mortgage, Farmland	40,936	37,152	38,245	33,097	29,503
Mortgage, Other	549,601	529,599	500,869	428,197	392,387
Consumer	76,930	73,473	73,685	73,020	73,462
Other	18,967	17,100	20,823	18,932	8,581
	942,273	859,117	778,680	654,210	571,872
Unearned Interest and Fees	(501)	(302)	(37)	(33)	(56)
Allowance for Loan Losses	(11,989)	(10,762)	(10,012)	(8,516)	(7,364)
Loans	<u>\$ 929,783</u>	<u>\$ 848,053</u>	<u>\$ 768,631</u>	<u>\$ 645,661</u>	<u>\$ 564,452</u>

The following table presents total loans as of December 31, 2006 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity	(\$ in thousands)
One Year or Less	\$ 611,984
After One Year through Three Years	262,677
After Three Years through Five Years	52,507
Over Five Years	15,105
	<u>\$ 942,273</u>

Overview. Loans totaled \$942.3 million at December 31, 2006, up 9.68 percent from December 31, 2005 loans of \$859.1 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and installment loans to individuals. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 58.33 percent and 61.64 percent of total loans, real estate construction made up 20.58 percent and 17.80 percent while installment loans to individuals made up 8.16 percent and 8.55 percent of total loans at December 31, 2006 and December 31, 2005, respectively. Real estate loans-other include both commercial and consumer balances.

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

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

The Company extends loans to builders and developers that are secured by nonowner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term

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Loans (Continued)

lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

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

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as adherence to the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at December 31, 2006 increased 26.69 percent from December 31, 2005 to \$61.9 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Industry Concentrations. As of December 31, 2006 and December 31, 2005, there were no concentrations of loans within any single industry in excess of 10 percent of total loans, as segregated by Standard Industrial Classification code ("SIC code"). The SIC code is a federally designed standard industrial numbering system used by the Company to categorize loans by the borrower's type of business.

Collateral Concentrations. Lending is concentrated in commercial and real estate loans primarily to local borrowers. The Company has a high concentration of real estate loans; however, these loans are well collateralized and, in management's opinion, do not pose an adverse credit risk. In addition, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrower's ability to honor their contracts is dependent upon the viability of the real estate economic sector.

Large Credit Relationships. Colony is currently in eighteen counties in south and central Georgia including metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Central Credit Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at December 31, 2006 and December 31, 2005.

	December 31, 2006			December 31, 2005		
	Number of Relationships	Period End Balances		Number of Relationships	Period End Balances	
		Committed	Outstanding		Committed	Outstanding
Large Credit Relationships						
\$10 Million and Greater	2	\$ 25,692	\$ 18,365	2	\$ 24,854	\$ 19,744
\$5 Million to \$9.9 Million	12	69,485	62,914	8	45,645	39,373

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at December 31, 2006. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

Loans (Continued)

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with Fixed Interest Rates	\$ 227,495	\$ 257,054	\$ 52,507	\$ 15,105	\$ 552,161
Loans with Floating Interest Rates	384,489	5,623	-	-	390,112
	<u>\$ 611,984</u>	<u>\$ 262,677</u>	<u>\$ 52,507</u>	<u>\$ 15,105</u>	<u>\$ 942,273</u>

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

Nonperforming Assets and Potential Problem Loans

Year-end nonperforming assets and accruing past due loans were as follows:

	2006	2005	2004	2003	2002
Loans Accounted for on Nonaccrual	\$ 8,069	\$ 8,579	\$ 7,856	\$ 7,251	\$ 6,899
Loans Past Due 90 Days or More	9	14	953	241	935
Renegotiated Loans	-	-	-	-	37
Other Real Estate Foreclosed	970	2,170	1,127	2,724	1,357
Total Nonperforming Assets	<u>\$ 9,048</u>	<u>\$ 10,763</u>	<u>\$ 9,936</u>	<u>\$ 10,216</u>	<u>\$ 9,228</u>
Nonperforming Assets as a Percentage of					
Total Loans and Foreclosed Assets	0.96%	1.25%	1.27%	1.56%	1.61%
Total Assets	0.75%	0.97%	1.00%	1.18%	1.18%
Accruing Past Due Loans					
30-89 Days Past Due	\$ 10,593	\$ 6,829	\$ 8,302	\$ 6,703	\$ 9,618
90 or More Days Past Due	9	14	953	241	935
Total Accruing Past Due Loans	<u>\$ 10,602</u>	<u>\$ 6,843</u>	<u>\$ 9,255</u>	<u>\$ 6,944</u>	<u>\$ 10,553</u>

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, renegotiated loans and foreclosed real estate. Nonperforming assets at December 31, 2006 decreased 15.93 percent from December 31, 2005.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Loans (Continued)

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

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, and allowance allocations determined in accordance with SFAS No. 5, *Accounting for Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

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

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment.

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

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

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

Allowance for Loan Losses (Continued)

	2006		2005		2004		2003		2002	
	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 3,597	7%	\$ 3,229	6%	\$ 3,004	6%	\$ 2,470	7%	\$ 1,841	8%
Real Estate – Construction	719	21%	646	18%	501	13%	340	9%	295	4%
Real Estate – Farmland	599	4%	538	4%	501	5%	426	5%	442	5%
Real Estate – Other	3,896	58%	3,498	62%	3,304	64%	2,981	65%	2,871	69%
Loans to Individuals	2,398	8%	2,152	8%	2,002	9%	1,703	11%	1,326	13%
All Other Loans	780	2%	699	2%	700	3%	596	3%	589	1%
	<u>\$11,989</u>	<u>100%</u>	<u>\$10,762</u>	<u>100%</u>	<u>\$10,012</u>	<u>100%</u>	<u>\$ 8,516</u>	<u>100%</u>	<u>\$ 7,364</u>	<u>100%</u>

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

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

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

	2006	2005	2004	2003	2002
(\$ in Thousands)					
Allowance for Loan Losses at Beginning of Year	\$ 10,762	\$ 10,012	\$ 8,516	\$ 7,364	\$ 6,159
Charge-Offs					
Commercial, Financial and Agricultural	1,351	767	463	1,790	958
Real Estate	854	678	692	570	451
Consumer	697	1,369	618	507	570
All Other	471	232	363	203	359
	<u>3,373</u>	<u>3,046</u>	<u>2,136</u>	<u>3,070</u>	<u>2,338</u>
Recoveries					
Commercial, Financial and Agricultural	420	176	9	30	59
Real Estate	20	18	36	39	42
Consumer	156	83	90	58	141
All Other	17	75	28	35	29
	<u>613</u>	<u>352</u>	<u>163</u>	<u>162</u>	<u>271</u>
Net Charge-Offs	<u>2,760</u>	<u>2,694</u>	<u>1,973</u>	<u>2,908</u>	<u>2,067</u>
Provision for Loan Losses	<u>3,987</u>	<u>3,444</u>	<u>3,469</u>	<u>4,060</u>	<u>2,820</u>
Business Combination	-	-	-	-	452
Allowance for Loan Losses at End of Year	<u>\$ 11,989</u>	<u>\$ 10,762</u>	<u>\$ 10,012</u>	<u>\$ 8,516</u>	<u>\$ 7,364</u>
Ratio of Net Charge-Offs to Average Loans	<u>0.30%</u>	<u>0.33%</u>	<u>0.27%</u>	<u>0.46%</u>	<u>0.39%</u>

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among

Management's Discussion and Analysis of Financial Condition and Results of Operations

Allowance for Loan Losses (Continued)

other factors. The provision for loan losses increased \$0.54 million from \$3.44 million in 2005 to \$3.99 million in 2006. Provisions were higher in 2006 compared to 2005 primarily due to the increase in loan outstandings year over year and the slight increase in net charge-offs. Nonperforming assets as a percentage of total loans and foreclosed assets improved to 0.96 percent at December 31, 2006 compared to 1.25 percent a year ago. During 2005, the provision for loan losses decreased \$0.03 million from the \$3.44 million recorded in 2004.

Net charge-offs in 2006 increased \$66 thousand compared to 2005 while net charge-offs in 2005 increased \$721 thousand compared to 2004. The general increase in net charge-offs during 2006 and 2005 is reflective of the more stringent credit standards.

Management believes the level of the allowance for loan losses was adequate as of December 31, 2006. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2006, 2005 and 2004.

	2006	2005	2004
(\$ in Thousands)			
U.S. Treasuries and Government Agencies	\$ 54,366	\$ 38,446	\$ 29,054
Obligations of State and Political Subdivisions	11,811	9,270	6,968
Corporate Obligations	3,745	3,023	3,113
Marketable Equity Securities	349	300	-
Investment Securities	70,271	51,039	39,135
Mortgage Backed Securities	79,036	73,287	73,458
Total Investment Securities And Mortgage Backed Securities	\$ 149,307	\$ 124,326	\$ 112,593

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2006. (Mortgage backed securities are based on the average life at the projected speed, while Agencies, State and Political Subdivisions and Corporate Obligations reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government Agencies	\$ 12,180	4.24%	\$ 40,224	4.57%	\$ 1,963	5.67%	\$ -	-
Mortgage Backed Securities	\$ 6,715	3.40%	\$ 59,131	4.43%	\$ 13,190	5.41%	\$ -	-
Obligations of State and Political Subdivisions	\$ 2,306	4.09%	\$ 5,263	4.65%	\$ 4,241	6.14%	\$ -	-
Corporate Obligations	-	-	\$ 1,995	6.29%	\$ 1,000	5.67%	\$ 750	9.07%
Marketable Equity Securities	-	-	-	-	-	-	\$ 349	1.09%
Total Investment Portfolio	\$ 21,201	3.96%	\$ 106,613	4.53%	\$ 20,394	5.60%	\$ 1,099	6.54%

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. The Company has 99.9 percent of its portfolio classified as available for sale.

Investment Portfolio (Continued)

At December 31, 2006, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's stockholders' equity.

The average yield of the securities portfolio was 4.34 percent in 2006 compared to 3.43 percent in 2005 and 3.57 percent in 2004. The increase in the average yield from 2005 to 2006 primarily resulted from the investment of new funds at higher rates due to Federal Reserve's rate hike during 2005 and 2006. The slight decrease in the average yield from 2004 to 2005 primarily resulted from recognized amortization on mortgage backed securities due to paydowns received during 2005. The early repayment of mortgage backed securities primarily resulted from borrower refinancing due to lower market interest rates. The overall growth in the securities portfolio over the comparable periods was primarily funded by deposit growth.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2006, 2005 and 2004.

	2006		2005		2004	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(\$ in Thousands)					
Noninterest-Bearing						
Demand Deposits	\$ 73,334		\$ 68,259		\$ 63,457	
Interest-Bearing						
Demand and Savings	210,461	1.97%	202,618	1.38%	197,316	1.11%
Time Deposits	707,173	4.59%	607,232	3.26%	534,732	2.43%
Total Deposits	<u>\$ 990,968</u>	<u>3.69%</u>	<u>\$ 878,109</u>	<u>2.57%</u>	<u>\$ 795,505</u>	<u>1.91%</u>

The following table presents the maturities of the Company's other time deposits as of December 31, 2006.

	Other Time Deposits \$100,000 or Greater	Other Time Deposits Less Than \$100,000	Total
	(\$ in Thousands)		
Months to Maturity			
3 or Less	\$ 99,720	\$ 85,267	\$ 184,987
Over 3 through 12	229,068	249,163	478,231
Over 12 Months	37,253	45,565	82,818
	<u>\$ 366,041</u>	<u>\$ 379,995</u>	<u>\$ 746,036</u>

Average deposits increased \$112.9 million in 2006 compared to 2005 and \$82.6 million in 2005 compared to 2004. The increase in 2006 included \$5.1 million or 4.5 percent, related to noninterest-bearing deposits while the increase in 2005 included \$4.8 million, or 5.8 percent related to noninterest-bearing deposits. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 7.4 percent in 2006 from 7.8 percent in 2005 and 8.0 percent in 2004. The general increase in market rates, had the effect of (i) increasing the average cost of interest-bearing deposits by 120 basis points in 2006 compared to 2005, and increasing the average cost of interest-bearing deposits by 72 basis points in 2005 compared to 2004; and (ii) mitigating a portion of the impact of increasing yields on earning assets on the Company's net interest income.

Total average interest-bearing deposits increased \$107.8 million, or 13.31 percent in 2006 compared to 2005 and increased \$77.8 million, or 10.63 percent, in 2005 compared to 2004. The growth in average deposits in 2006 compared to 2005 was primarily in other time deposit accounts. With the current interest rate environment, it appears that many customers are more inclined to invest their funds for extended periods and are choosing to maintain such funds in time deposit accounts, though the prevalent investment period continues to be for one year time deposits.

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Deposits (Continued)

The Company supplements deposit sources with brokered deposits. As of December 31, 2006, the Company had \$72.7 million, or 6.97 percent of total deposits, in brokered certificates of deposits attracted by external third parties.

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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of December 31, 2006. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due By Period				Total
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	
Contractual Obligations					
Subordinated Debentures	\$ -	\$ -	\$ -	\$ 24,229	\$ 24,229
Federal Funds Purchased	1,070	-	-	-	1,070
Federal Home Loan Bank Advances	16,000	9,500	7,000	29,000	61,500
Operating Leases	122	207	179	137	645
Deposits with Stated Maturity Dates	663,218	54,524	28,288	6	746,036
	<u>680,410</u>	<u>64,231</u>	<u>35,467</u>	<u>53,372</u>	<u>833,480</u>
Other Commitments					
Loan Commitments	105,165	-	-	-	105,165
Standby Letters of Credit	3,279	-	-	-	3,279
	<u>108,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,444</u>
Total Contractual Obligations and Other Commitments	<u>\$ 788,854</u>	<u>\$ 64,231</u>	<u>\$ 35,467</u>	<u>\$ 53,372</u>	<u>\$ 941,924</u>

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

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses. Loan commitments outstanding at December 31, 2006 are included in the preceding table.

Standby and Performance Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby and performance letters of credit

Off-Balance-Sheet Arrangements, Commitments, Guarantees, and Contractual Obligations (Continued)

arrangements contain security and debt covenants similar to those contained in loan agreements. Standby and performance letters of credit outstanding at December 31, 2006 are included in the preceding table.

Capital and Liquidity

At December 31, 2006, stockholders' equity totaled \$76.6 million compared to \$68.1 million at December 31, 2005. In addition to net income of \$10.15 million, other significant changes in stockholders' equity during 2006 included \$2.34 million of dividends paid and an increase of \$229 thousand resulting from the stock grant plan. The accumulated other comprehensive income component of stockholders' equity totaled \$(975) thousand at December 31, 2006 compared to \$(1,353) thousand at December 31, 2005. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses and gain on marketable equity securities.

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2006 was 10.24 percent and total Tier 1 and 2 risk-based capital was 11.50 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of December 31, 2006 was 8.17 percent, which exceeds the required ratio standard of 4 percent.

For 2006, average capital was \$72 million, representing 6.20 percent of average assets for the year. This compares to 6.30 percent for 2005.

The Company paid a quarterly dividend of \$0.0775, \$0.08, \$0.0825 and \$0.085 per common share during the first, second, third and fourth quarters of 2006, respectively, and quarterly dividends of \$0.068, \$0.07, \$0.072 and \$0.075 per common share during the first, second, third and fourth quarters of 2005, respectively. This equates to a dividend payout ratio of 23.05 percent in 2006 and 22.80 percent in 2005.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2006, the Company held \$149 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2005, the available for sale bond portfolio totaled \$124 million. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 90.3 percent as of December 31, 2006 and 90.9 percent at December 31, 2005. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at December 31, 2006 and December 31, 2005 were 85.2 percent and 84.9 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and

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Capital and Liquidity (Continued)

small businesses with comprehensive banking relationships and limited volatility. At December 31, 2006 and December 31, 2005, the Banks had \$366.0 million and \$283.6 million in certificates of deposit of \$100,000 or more. These larger deposits represented 35.11 percent and 30.03 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

Local market deposit sources proved insufficient to fund the strong loan growth trends at Colony over the past several years. The Company supplemented deposit sources with brokered deposits. As of December 31, 2006, the Company had \$72.7 million, or 6.97 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the banks use external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

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

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

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

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

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

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

Impact of Inflation and Changing Prices

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

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Quantitative and Qualitative Disclosures About Market Risk

AVERAGE BALANCE SHEETS

(\$ in thousands)	2006			2005			2004		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
Assets									
Interest-Earning Assets									
Loans, Net of Unearned Income (1)	\$ 912,926	\$ 75,217	8.24%	\$ 819,900	\$ 58,428	7.13%	\$ 734,846	\$ 47,636	6.48%
Investment Securities									
Taxable	128,109	5,474	4.27%	107,696	3,586	3.33%	102,552	3,570	3.48%
Tax-Exempt (2)	7,429	412	5.55%	6,008	318	5.29%	8,325	383	4.60%
Total Investment Securities	135,538	5,886	4.34%	113,704	3,904	3.43%	110,877	3,953	3.57%
Interest-Bearing Deposits	2,753	133	4.83%	2,792	86	3.08%	6,864	75	1.09%
Federal Funds Sold	41,307	2,035	4.93%	38,692	1,266	3.27%	31,502	419	1.33%
Other Interest-Earning Assets	5,192	279	5.37%	4,878	177	3.63%	3,242	109	3.36%
Total Interest-Earning Assets	1,097,716	83,550	7.61%	979,966	63,861	6.52%	887,331	52,192	5.88%
Noninterest-Earning Assets									
Cash	22,372			20,014			19,047		
Allowance for Loan Losses	(11,764)			(10,499)			(9,625)		
Other Assets	52,394			45,296			41,530		
Total Noninterest-Earning Assets	63,002			54,811			50,952		
Total Assets	\$1,160,718			\$1,034,777			\$ 938,283		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Interest-Bearing Demand and Savings	\$ 210,461	\$ 4,155	1.97%	\$ 202,618	\$ 2,790	1.38%	\$ 197,316	\$ 2,202	1.11%
Other Time	707,173	32,455	4.59%	607,232	19,800	3.26%	534,732	12,972	2.43%
Total Interest-Bearing Deposits	917,634	36,610	3.99%	809,850	22,590	2.79%	732,048	15,174	2.07%
Other Interest-Bearing Liabilities									
Other Borrowed Money	65,794	2,874	4.37%	66,601	2,605	3.91%	61,556	2,366	3.84%
Subordinated Debentures	22,718	1,879	8.27%	19,074	1,269	6.65%	17,420	838	4.81%
Federal Funds Purchased	563	29	5.15%	449	16	3.56%	307	5	1.63%
Total Other Interest-Bearing Liabilities	89,075	4,782	5.37%	86,124	3,890	4.52%	79,283	3,209	4.05%
Total Interest-Bearing Liabilities	1,006,709	41,392	4.11%	895,974	26,480	2.96%	811,331	18,383	2.27%
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	73,334			68,259			63,457		
Other Liabilities	8,682			5,398			4,458		
Stockholders' Equity	71,993			65,146			59,037		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	154,009			138,803			126,952		
Total Liabilities and Stockholders' Equity	\$1,160,718			\$1,034,777			\$ 938,283		
Interest Rate Spread			3.50%			3.56%			3.61%
Net Interest Income	\$ 42,158			\$ 37,381			\$ 33,809		
Net Interest Margin			3.84%			3.81%			3.81%

(1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling \$130, \$119 and \$132 for 2006, 2005 and 2004 respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.

Quantitative and Qualitative Disclosures About Market Risk (Continued)

(2) Taxable-equivalent adjustments totaling \$140, \$108 and \$130 for 2006, 2005, and 2004 respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Colony Bankcorp, Inc. and Subsidiaries
Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2006. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	Total
(\$ in thousands)						
EARNING ASSETS						
Interest-Bearing Deposits	\$ 3,075	\$ -	\$ 3,075	\$ -	\$ -	\$ 3,075
Federal Funds Sold	45,149	-	45,149	-	-	45,149
Investment Securities	12,480	13,138	25,618	107,592	16,097	149,307
Loans, Net of Unearned Income	441,076	170,658	611,734	314,933	15,105	941,772
Other Interest-Bearing Assets	5,087	-	5,087	-	-	5,087
Total Interest-Earning Assets	506,867	183,796	690,663	422,525	31,202	1,144,390
INTEREST-BEARING LIABILITIES						
Interest-Bearing Demand Deposits (1)	185,769	-	185,769	-	-	185,769
Savings (1)	33,306	-	33,306	-	-	33,306
Time Deposits	184,987	478,231	663,218	82,812	6	746,036
Other Borrowings (2)	26,000	1,000	27,000	10,500	24,000	61,500
Subordinated Debentures	24,229	-	24,229	-	-	24,229
Federal Funds Purchased	1,070	-	1,070	-	-	1,070
Total Interest-Bearing Liabilities	455,361	479,231	934,592	93,312	24,006	1,051,910
Interest Rate-Sensitivity Gap	51,506	(295,435)	(243,929)	329,213	7,196	\$ 92,480
Cumulative Interest-Sensitivity Gap	\$ 51,506	\$ (243,929)	\$ (243,929)	\$ 85,284	\$ 92,480	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	4.50%	(25.82)%	(21.32)%	28.77%	0.63%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	4.50%	(21.32)%	(21.32)%	7.45%	8.08%	

(1) Interest-Bearing Demand and Savings Accounts for repricing purposes are considered to reprice within 3 months or less.

(2) Short-term borrowings for repricing purposes are considered to reprice within 3 months or less.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Colony Bankcorp, Inc. and Subsidiaries Interest Rate Sensitivity (Continued)

The foregoing table indicates that we had a one-year negative gap of (\$244) million, or (21.32) percent of total assets at December 31, 2006. In theory, this would indicate that at December 31, 2006, \$244 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to decline, the gap would indicate a resulting increase in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

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

The Company is now utilizing SunTrust Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent percentage change. The most recent analysis as of September 30, 2006 indicates that net interest income would deteriorate 6.31 percent with a 200 basis point decrease and would improve 4.09 percent with a 200 basis point increase. The Company has established equity at risk in a +/- 200 basis point rate shock to be no more than a twenty percent percentage change. The most recent analysis as of September 30, 2006 indicates that net economic value of equity percentage change would decrease 0.74 percent with a 200 basis point increase and would decrease 3.47 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of September 30, 2006 indicates a one-year gap of 0.88 percent. The analysis reflects net interest margin compression in a declining interest rate environment. Given that interest rates are at or near its peak, the Company is focusing on areas to minimize margin compression in the future. These include locking in more loans at a fixed rate versus a variable rate, minimizing dollars in Federal funds, extending out on the yield curve with investments, securing brokered certificates of deposit for one year and under and focusing on reduction of nonperforming assets.

Return on Assets and Stockholder's Equity

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

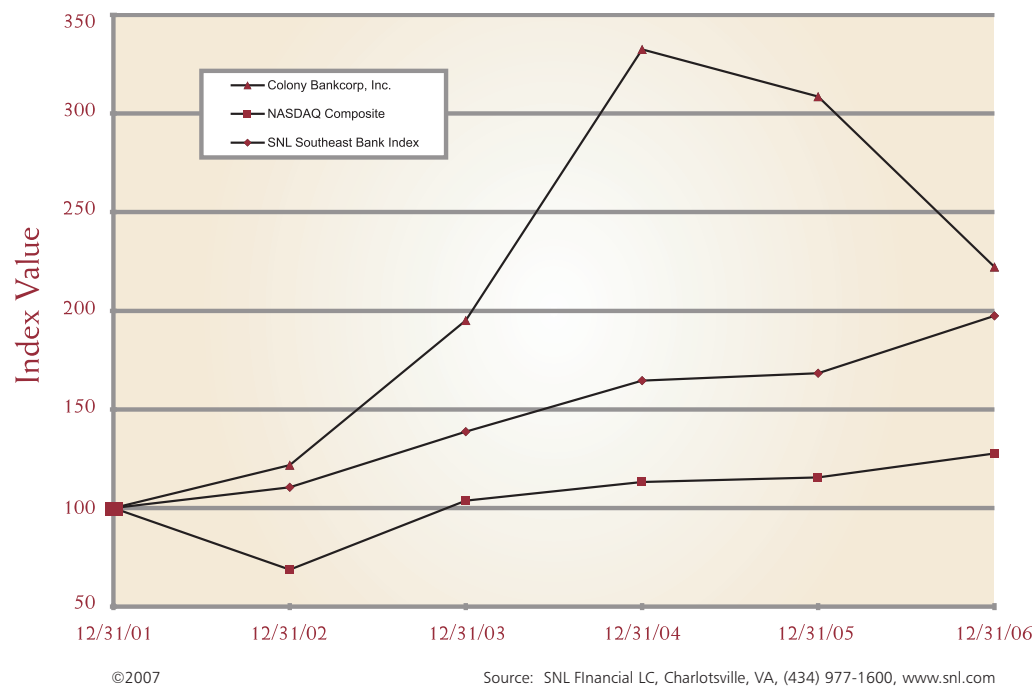
	Year Ended December 31		
	2006	2005	2004
Return on Assets	0.87%	0.87%	0.86%
Return on Equity	14.10%	13.78%	13.67%
Dividend Payout	23.05%	22.80%	22.30%
Equity to Assets	6.31%	6.15%	6.19%
Dividends Declared	\$0.325	\$0.285	\$0.252

Future Outlook

Colony is an emerging company in an industry filled with nonregulated competitors and a rapid pace of consolidation. The year brings with it new opportunities for growth in our existing markets, as well as opportunities to expand into new markets through acquisitions and denovo branching. The Company completed construction of two offices during 2006 – one of which was its second Houston County location in Centerville, Georgia that was opened during first quarter 2006 and the other was its first location in Columbus/Muscogee County that was opened in third quarter 2006. The Company previously occupied leased space for a loan production office in Columbus/Muscogee County. Entry into the MSA markets – Savannah, Columbus, Albany, Warner Robins/Macon and Valdosta – will require multi-branch offices and the Company is presently looking for available real estate to purchase in those markets. The Company was successful in purchasing real estate for a second office in the Savannah market with construction expected to begin during first quarter 2007.

SNL Corporate Performance Graph
Colony Bankcorp, Inc.
Total Return Performance

The following graph shows the comparison of five-year cumulative total return among (1) colony Bankcorp, Inc. common stock, (ii) the NASDAQ-total US Index and (iii) SNL Southeast Banks Index.





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