



2010 Annual Report

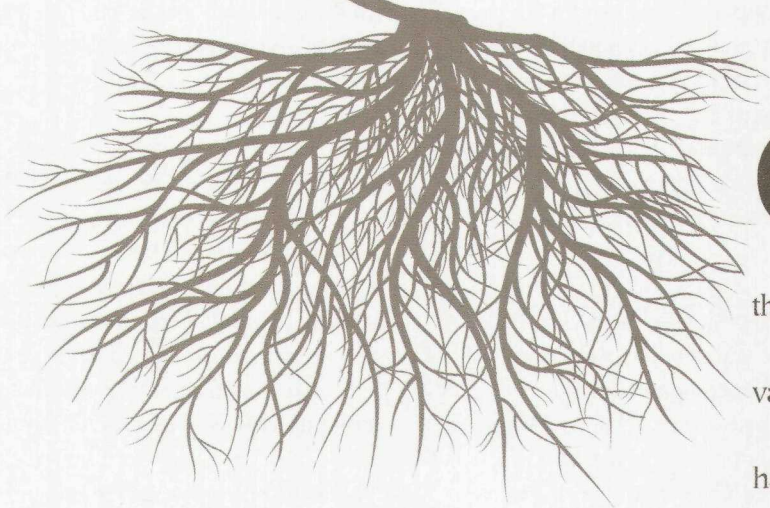
Deep Roots. Strong Commitment.



Table of Contents

Introduction.....	1
Letter to Shareholders.....	2
Financial Summary.....	3
SBA Lending	4
Our Product Focus	5
Exceptional Leadership.....	6
Giving Back.....	7
Board of Directors.....	8

Rooted.



Over the last three years, the perceived focus and value of community banks has been re-defined

by politics, media and third-party interests. While many bankers are busy conforming processes to new standards, bank customers are dealing with the possible departure of free checking. It's an environment that demands the highest level of smart business practices and proactive customer service. At Colony Bank, it's our mission to consistently deliver the commitment and performance to provide Georgia's families and businesses the resources and partnership for growth and success. And although the landscape has changed, we continue to create a path of service and strength.

Letter to the Shareholders.

On behalf of our employees, officers, and directors, I thank each of you for your continued support during 2010. We continue to operate through many challenges created during this Great Recession that began more than three years ago. While we have not moved beyond all the issues we have encountered, I am proud to report that our company made improvements during 2010 and we are optimistic that our past efforts will bring continued improvements as we move forward.

Current economic conditions have prolonged high unemployment and provided little stability for real estate demand and values. These issues, accompanied by new regulatory requirements enacted by Congress, will continue to reshape the financial services industry for years to come. Throughout these challenges, Colony Bankcorp, Inc. continued to preserve its capital strength, resolve recession-based losses, and increase noninterest income.

Earnings improved substantially from our 2009 performance. Provisions for loan losses, loss on real estate owned, and carrying costs associated with non-performing loans were lower in 2010. Even so, we continue to provide significant loan loss provisions to rid our loan portfolio of poor performing, income producing estate dependent properties. Many of our peer banks have similar issues; however, we believe our aggressive tone and commitment to resolve our non-performing loans will be rewarded in future periods. We are committed to reducing our non-performing assets to an acceptable level in a timely and prudent manner, and returning to our accustomed earnings standards.

Capital is the key for our company to take advantage of opportunities that will be provided to us and we continue to focus on improving our overall capital position to meet today's needs and tomorrow's opportunities. At December 31, 2010, the company's tier-one leverage ratio, tier one and total risk-based capital ratios were 8.59%, 13.55% and 14.83%,

respectively. Regulatory benchmarks to be categorized as "well-capitalized" for tier-one leverage ratio, tier one and total risk-based capital ratios are 5.00%, 6.00% and 10.00%, respectively.

One of our areas of emphasis has been to build a support structure to meet the growing compliance requirements that all banks will face as recent legislative action and laws are implemented. The costs to meet these new regulatory requirements will be a burden for all banks, but we have already been making adjustments to meet the new requirements and we will continue to do so during 2011. As Georgia's ninth largest financial company, we are committed to being prepared for future opportunities.

We have also continued to focus on our customers and improve the quality of service we provide them. During 2010, we introduced mobile banking, allowing customers to have access to their accounts and account information on their smart phones. Looking forward, we are focused on increasing shareholder value to our investors, enhancing the customer experience, expanding our service delivery channels, and improving employee efficiency and internal synergy.

The markets we serve are marked with many pine trees. The pine tree was the first basic engine for growth and prosperity in the South. It is unique among trees because it is able to thrive in almost any condition and still supply the fundamental building needs for all of us. Much like the pine tree, Colony is deeply rooted in South Georgia. In Georgia, pine trees grow jobs. At Colony Bank, we grow relationships. We remain committed to continued improvement in 2011 and returning increased value to you in the future.



Al D. Ross
President and CEO



L. Morris Downing, Jr.
Chairman of the Board

Financial Summary

2010 Key Performance Indicators

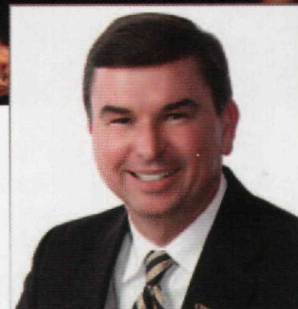
Years Ended December 31, 2010 and 2009

Dollar amounts in thousands except per share data	2010	2009	Percent Change
Total Assets	\$1,275,658	\$1,307,089	(2.40)%
Total Deposits	\$1,059,124	\$1,057,586	0.15%
Loans (Net of Unearned Income)	\$813,250	\$931,391	(12.68)%
Net Income	\$(926)	\$(20,549)	95.49%
Per Share Data:			
Basic Earnings	\$(0.11)	\$(2.85)	96.14%
Common Book Value/Share	\$7.75	\$8.57	(9.57)%

Key Trends

A Historical Comparative

Years Ending	2010	2009	2008	2007	2006
Net Income (in thousands)	\$(926)	\$(20,549)	\$2,029	\$8,547	\$10,152
Return on Average Shareholders' Equity	(0.98)%	(19.45)%	2.40%	10.60%	14.10%
Diluted Earnings Per Share	\$(0.11)	\$(2.85)	\$0.28	\$1.19	\$1.41



Al D. Ross
President and CEO



L. Morris Downing, Jr.
Chairman of the Board

Return on Average Assets
2010 (0.07)%
2009 (1.60)%

Net Interest Margin
2010 3.12%
2009 3.27%

Colony Strengthens its Commitment to SBA Lending, and it's

Good for Business

For ten years Colony Bank has offered SBA loans to provide credit options for new and existing companies in our footprint throughout South Georgia.

During this difficult economic period, making credit available to our small business owners throughout South Georgia has been an important goal for Colony Bank. As a Preferred Lender with SBA, we look beyond many financial conditions of today and help small business owners focus and prepare for future needs and opportunities. Our SBA loan programs help strengthen and stabilize the economies of our communities by enabling small business owners to retain existing employees, as well as help create new jobs needed to support their future business needs.

Although our bank makes a variety of SBA loans, most of the credit is provided via 7(a), 504 and SBA Express loans.

Colony provides 7(a) loans to help start-up and existing small businesses obtain financing, provide growing businesses with long-term, flexible rate financing for major fixed assets with loan proceeds helping small businesses purchase land and buildings, make improvements or purchase machinery and equipment. This type of loan, previously capped at \$2 million per loan, is now available for up to \$5 million per loan.

SBA Express loans provide operating credit lines up to seven years for new and existing businesses. As part of the

Economic Recovery Act, the maximum available line limit has been increased to \$1 million (from \$350,000) until late 2011.

504 loans provide permanent financing for fixed assets for up to 25 years. The 504 program goes up to a maximum loan size of \$10 million per loan, up from \$5 million per loan.

For SBA's 2010 year-end, Colony Bank ranked 5th among all banks in the Georgia District Office.

The flexibility of these programs and the government guarantee feature make them a win-win for our customers and the bank. Our partnership affords us access to companies that may not meet the requisite loan-to-value qualifications for a conventional loan or may require longer terms on capital expenses such as equipment loans. Additionally, the funds can be used to provide working capital, leasehold improvements, inventory funding, equipment purchases, even hiring staff.

The SBA loan process is a specialized loan program which requires a certain amount of knowledge and expertise in order to be a viable loan solution for small business owners. At Colony Bank, our lenders coordinate with the business owner and utilize our central SBA staff to underwrite and package the loan. Our central SBA support staff assembles the information, communicates with the borrower, and obtains approval to get the loan closed as quickly as possible. At Colony Bank, quality SBA service means good communication with the borrower and timely closings to meet the business owner's needs.

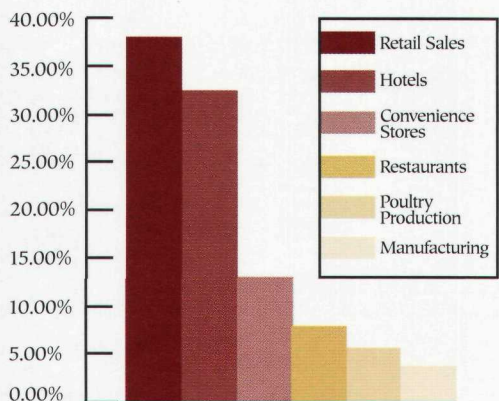
Our lenders conduct loan application appointments at the branch level and deliver the closing papers to the customer's business site. While backroom loan documentation is completed at Corporate Headquarters where a dedicated team can effect time-saving processes.

The bank has \$15 million in the pipeline for 1Q11, including new debt and refinancing, and intends to increase its efforts to build this portfolio.

SBA is an effective tool for helping small businesses that might otherwise go un-noticed in today's economic environment. The partnership between Colony Bank and SBA promises enhanced customer service, faster processing and considerable profitability with superior portfolio management.

Colony Bank 2010 SBA Loans by Industry

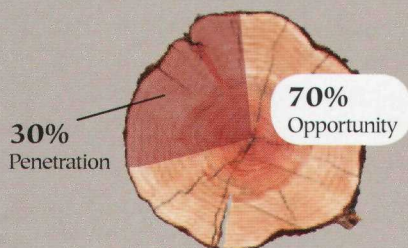
Total Loans: \$18,378,100



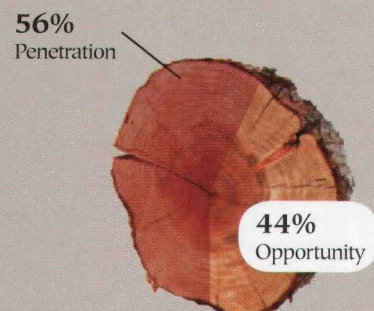
Products with Relevance

The **opportunity to grow** core relationships with our 30,000 customers is substantial in the areas of deposits, loans, and delivery systems.

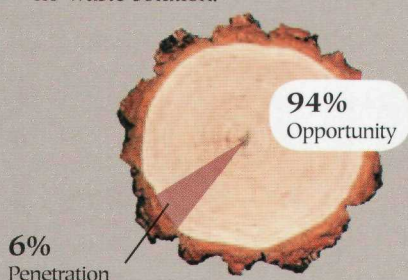
Online banking use as a percent of checking account owners. Increasing online use will build stronger customer relationships and pave the way for the cost savings of eStatements.



Debit card ownership and use as a percent of checking account owners. Debit card use provides enhanced customer convenience while supplying interchange income.



eStatement use as a percent of checking account owners. Increased eStatement usage will significantly conserve bank resources, while offering customers a no-hassle, no-waste solution.



Consumers today demand more from their bank than basic checking accounts. They want expanded access to their money, and opportunities to reflect their values through their choice of products.

This year, Colony Bank developed (e)checking™ to meet the needs of tech-savvy consumers who also prefer eco-friendly partnerships.



This account features: Free ATMs / Mobile Banking / eAlerts / Online Banking / Bill Pay / ID Protection / eStatements / Transfers / 24-hour Telephone Banking / Online Shopping Rewards / Debit Card / and an Eco-Friendly Tote Bag.

Our Product Focus



Serving People Who Serve.

In 2010, Colony Bank reached out to Georgia educators with a special consumer banking offer: they could choose from two checking accounts and receive a premium gift, along with five free features, including a debit card, internet banking and bill pay, eAlerts, mobile banking and eStatements.

Colony Bank will continue to identify and target key consumer groups we can most effectively serve.

Meeting The Challenge ...

Exceptional Times Require Exceptional Leadership



Aftershocks of the housing meltdown. Financial reform. Constrained small business lending. The demonization of banks by national media, and the post-recession consumer mindset predicate a new priority - and a new approach to bank leadership. At Colony Bank, every officer and employee has worked to make our transition into this new environment a success. In doing that, we have all discovered that our diverse backgrounds and experiences are strengths that will help meet the changing needs and demographics of both our existing and future customers. To help us reach our potential as a **united team**, we have committed to participate in an important leadership development experience.

Through this process we'll be able to establish goals and develop strategies to achieve future goals at the optimum level, and the team has shown discipline and dedication in their commitment to excellence, ownership and accountability for the future performance of the company.

TV Commercials

Colony Bank recently produced two TV commercials for SBA Loans - just another example of our brand and its impact.



Customers today demand service. A lot of service.

Giving Back



Partners in Education

"It has never been more clear that our communities need us. They count on Colony Bank, and we're going to be here for them." – Al Ross

A lot of change can happen in a year, but Colony Bank's commitment to community giving has remained stronger than ever. We believe that when things become difficult, a perfect opportunity arises, to stand tall and help your neighbors.

It is the strong partnerships with community members and organizations that have allowed us to build a comfortable and trusted family atmosphere - focused on finding solutions and lending a hand. It starts with

our employees, and ends in the places where we live and work.

Each year Colony Bank proudly donates countless resources, both financial and employee volunteer hours. This year those resources were divided among our communities' local schools, Relay for Life, and sponsorship of many other local festivals and fundraisers.



Can Drive



Pennies for Peace

More Than Money~

In 2010 we had the opportunity to leverage our refreshed brand, "More than money." After completing the process and producing the "pieces," it was time to bring the brand to life both internally and for our customers.

That meant more than simply using a phrase or logo, but developing behaviors and a collaborative performance from everyone in the organization, all of them aimed at matching customers' experiences with their expectations.

Because when a brand is successfully lived, customer loyalty increases and the brand resonates with authenticity.

Ongoing, our goal is to ensure that "More than money" remains a living brand. We will continue to question its relevance and develop it as part of our differentiation strategy. Ultimately, it will be our positioning tool for those who want more than the average bank can offer.



They demand choices.
A lot of choices.



And fast answers.
And a smile.



But you know that.



You own a small business. And you turn to Colony Bank, one of Georgia's preferred SBA lenders, for low-cost financing from people you trust.



Colony Bank. At your service for Georgia's small businesses.

Board of Directors



B. Gene Waldron
President and CEO
Waldron Enterprises, Inc.
Douglas, Georgia



Mark H. Massee
President
Massee Builders, Inc.
Fitzgerald, Georgia



James D. Minix
Former President and CEO
Colony Bankcorp, Inc.
Brinson, Georgia



Charles E. Myler
Retired FDIC
Albany, Georgia



Jonathan W. R. Ross
President
Ross Construction Co., Inc.
Tifton, Georgia



W. B. Roberts, Jr.
Farmer and Cattleman
Ashburn, Georgia



L. Morris Downing, Jr.
Chairman
Colony Bankcorp, Inc.
Owner, Lowell Packing Co.
Fitzgerald, Georgia



Terry L. Hester
EVP, CFO
Colony Bankcorp, Inc.
Fitzgerald, Georgia



Edward J. Harrell
Vice Chairman
Colony Bankcorp, Inc.
Attorney, Managing Partner
Martin Snow, LLP
Macon, Georgia



Al D. Ross
President and CEO
Colony Bankcorp, Inc.
Fitzgerald, Georgia



2010 Annual Report | 8

Emeritus Directors

Ben B. Mills
Joe K. Shiver
Marion H. Massee, III
Harold Kimball
Ralph D. Roberts, M.D.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

CERTIFIED PUBLIC ACCOUNTANTS

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March 15, 2011

**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 Subsidiary** as of December 31, 2010 and 2009 and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. 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 Subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assessment of the effectiveness of Colony Bankcorp, Inc.'s internal control over financial reporting as of December 31, 2010 included under Item 9A, *Controls and Procedures*, in Colony Bankcorp, Inc.'s Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

McNair, McLemore, Middlebrooks & Co., LLC
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 16,613,187	\$ 25,995,486
Federal Funds Sold	32,536,482	16,433,256
Securities Purchased Under Agreements to Resell	5,000,000	-
	<u>54,149,669</u>	<u>42,428,742</u>
Interest-Bearing Deposits	<u>50,726,734</u>	<u>6,478,801</u>
Investment Securities		
Available for Sale, at Fair Value	303,837,606	267,246,673
Held to Maturity, at Cost (Fair Value of \$52,941 and \$56,999 as of December 31, 2010 and 2009, Respectively)	48,412	53,906
	<u>303,886,018</u>	<u>267,300,579</u>
Federal Home Loan Bank Stock, at Cost	<u>6,063,500</u>	<u>6,345,400</u>
Loans	813,250,673	931,391,626
Allowance for Loan Losses	(28,280,077)	(31,400,641)
Unearned Interest and Fees	(61,311)	(139,597)
	<u>784,909,285</u>	<u>899,851,388</u>
Premises and Equipment	<u>27,147,725</u>	<u>28,826,350</u>
Other Real Estate (Net of Allowance of \$1,293,174 and \$467,408 in 2010 and 2009, Respectively)	<u>20,207,806</u>	<u>19,705,044</u>
Other Intangible Assets	<u>295,007</u>	<u>330,756</u>
Other Assets	<u>28,272,629</u>	<u>35,822,274</u>
Total Assets	<u><u>\$1,275,658,373</u></u>	<u><u>\$1,307,089,334</u></u>

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

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2010</u>	<u>2009</u>
Deposits		
Noninterest-Bearing	\$ 102,959,423	\$ 84,238,839
Interest-Bearing	<u>956,164,581</u>	<u>973,347,642</u>
	<u>1,059,124,004</u>	<u>1,057,586,481</u>
Borrowed Money		
Securities Sold Under Agreements to Repurchase	20,000,000	40,000,000
Subordinated Debentures	24,229,000	24,229,000
Other Borrowed Money	<u>75,076,010</u>	<u>91,000,000</u>
	<u>119,305,010</u>	<u>155,229,000</u>
Other Liabilities	<u>4,270,776</u>	<u>4,999,229</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, No Par Value; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,505,910	27,356,964
Common Stock, Par Value \$1; Authorized 20,000,000 Shares, Issued 8,442,958 and 7,229,163 Shares as of December 31, 2010 and 2009, Respectively	8,442,958	7,229,163
Paid-In Capital	29,171,087	25,392,913
Retained Earnings	28,479,211	29,553,941
Restricted Stock - Unearned Compensation	(40,794)	(158,548)
Accumulated Other Comprehensive Income, Net of Tax	<u>(599,789)</u>	<u>(99,809)</u>
	<u>92,958,583</u>	<u>89,274,624</u>
Total Liabilities and Stockholders' Equity	<u><u>\$1,275,658,373</u></u>	<u><u>\$1,307,089,334</u></u>

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

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2010	2009	2008
Interest Income			
Loans, Including Fees	\$ 51,728,665	\$ 57,620,911	\$66,732,488
Federal Funds Sold and Securities Purchased Under Agreements to Resell	95,428	24,438	273,476
Deposits with Other Banks	38,085	553	27,452
Investment Securities			
U. S. Government Agencies	6,613,030	7,626,856	7,140,902
State, County and Municipal	103,133	258,545	410,298
Corporate Obligations	137,831	296,273	414,319
Dividends on Other Investments	21,547	19,846	298,264
	<u>58,737,719</u>	<u>65,847,422</u>	<u>75,297,199</u>
Interest Expense			
Deposits	17,212,312	21,642,734	32,801,362
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	721,044	876,484	513,961
Borrowed Money	3,589,847	3,761,924	4,607,347
	<u>21,523,203</u>	<u>26,281,142</u>	<u>37,922,670</u>
Net Interest Income	37,214,516	39,566,280	37,374,529
Provision for Loan Losses	13,350,000	43,445,000	12,937,750
Net Interest Income (Loss) After Provision for Loan Losses	23,864,516	(3,878,720)	24,436,779
Noninterest Income			
Service Charges on Deposits	3,597,416	4,198,019	4,699,616
Other Service Charges, Commissions and Fees	1,139,935	986,392	981,124
Mortgage Fee Income	313,005	447,989	609,044
Securities Gains	2,617,062	2,625,867	1,195,314
Gain on Sale of SBA Loans	1,004,585	140,122	11,633
Other	1,334,846	1,145,798	1,508,459
	<u>10,006,849</u>	<u>9,544,187</u>	<u>9,005,190</u>
Noninterest Expenses			
Salaries and Employee Benefits	14,096,698	14,483,306	16,238,080
Occupancy and Equipment	4,422,152	4,287,006	4,190,845
Directors' Fees	495,950	502,575	578,315
Legal and Professional Fees	1,369,864	1,362,536	1,379,696
Foreclosed Property	4,943,530	2,270,792	382,312
FDIC Assessment	1,866,956	2,662,042	603,093
Goodwill Impairment	-	2,412,338	-
Advertising	743,278	758,458	521,049
Software	630,543	498,657	345,995
Telephone	703,786	764,373	695,641
Other	4,583,606	4,842,139	5,920,889
	<u>33,856,363</u>	<u>34,844,222</u>	<u>30,855,915</u>
Income (Loss) Before Income Taxes	15,002	(29,178,755)	2,586,054
Income Taxes (Benefits)	(459,214)	(9,994,881)	557,230
Net Income (Loss)	474,216	(19,183,874)	2,028,824
Preferred Stock Dividends	1,400,000	1,365,000	-
Net Income (Loss) Available to Common Stockholders	<u>\$ (925,784)</u>	<u>\$ (20,548,874)</u>	<u>\$ 2,028,824</u>
Net Income (Loss) Per Share of Common Stock			
Basic	<u>\$ (0.11)</u>	<u>\$ (2.85)</u>	<u>\$ 0.28</u>
Diluted	<u>\$ (0.11)</u>	<u>\$ (2.85)</u>	<u>\$ 0.28</u>
Cash Dividends Declared Per Share of Common Stock	<u>\$ 0.00</u>	<u>\$ 0.146</u>	<u>\$ 0.39</u>
Weighted Average Shares Outstanding	<u>8,149,217</u>	<u>7,213,430</u>	<u>7,199,121</u>

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Income (Loss)	<u>\$ 474,216</u>	<u>\$(19,183,874)</u>	<u>\$2,028,824</u>
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	1,227,281	1,257,136	893,158
Reclassification Adjustment	<u>(1,727,261)</u>	<u>(1,733,072)</u>	<u>(788,907)</u>
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	<u>(499,980)</u>	<u>(475,936)</u>	<u>104,251</u>
Comprehensive Income (Loss)	<u><u>\$ (25,764)</u></u>	<u><u>\$(19,659,810)</u></u>	<u><u>\$2,133,075</u></u>

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Preferred Stock	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Restricted Stock - Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	\$ -	7,200,913	\$7,200,913	\$24,420,497	\$52,086,834	\$(237,002)	\$ 271,876	\$83,743,118
Issuance of Restricted Stock		15,500	15,500	220,100		(235,600)	-	-
Forfeiture of Restricted Stock		(4,100)	(4,100)	(69,070)		73,170	-	-
Tax Loss on Restricted Stock				(35,844)			(35,844)	(35,844)
Amortization of Unearned Compensation						188,439		188,439
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects								
Dividends on Common Stock					(2,813,633)		104,251	104,251
Net Income (Loss)					2,028,824			(2,813,633)
Balance, December 31, 2008	-	7,212,313	7,212,313	24,535,683	51,302,025	(210,993)	376,127	83,215,155
Issuance of Preferred Stock	27,215,218			784,782				28,000,000
Issuance of Restricted Stock		18,850	18,850	132,421		(151,271)	-	-
Forfeiture of Restricted Stock		(2,000)	(2,000)	(14,050)		16,050	-	-
Tax Loss on Restricted Stock				(45,923)			(45,923)	(45,923)
Amortization of Unearned Compensation						187,666		187,666
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(475,936)	(475,936)
Accretion of Fair Value of Warrant	141,746				(141,746)			-
Dividends on Preferred Shares					(1,365,000)			(1,365,000)
Dividends on Common Stock					(1,057,464)			(1,057,464)
Net Income (Loss)					(19,183,874)			(19,183,874)
Balance, December 31, 2009	27,356,964	7,229,163	7,229,163	25,392,913	29,553,941	(158,548)	(99,809)	89,274,624
Issuance of Common Stock								
Forfeiture of Restricted Stock		1,216,545	1,216,545	3,861,710		30,320		5,078,255
Tax Loss on Restricted Stock		(2,750)	(2,750)	(27,570)			-	-
Amortization of Unearned Compensation				(55,966)		87,434	(55,966)	87,434
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(499,980)	(499,980)
Accretion of Fair Value of Warrant	148,946				(148,946)			-
Dividends on Preferred Shares					(1,400,000)			(1,400,000)
Net Income (Loss)					474,216			474,216
Balance, December 31, 2010	\$27,505,910	8,442,958	\$8,442,958	\$29,171,087	\$28,479,211	\$(40,794)	\$(599,789)	\$92,958,583

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2010	2009	2008
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 474,216	\$ (19,183,874)	\$ 2,028,824
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided from Operating Activities			
Depreciation	2,140,735	2,092,845	2,028,158
Amortization and Accretion	4,043,795	3,807,011	777,051
Goodwill Impairment	-	2,412,338	-
Provision for Loan Losses	13,350,000	43,445,000	12,937,750
Deferred Income Taxes	639,607	(5,869,055)	(250,215)
Securities Gains	(2,617,062)	(2,625,867)	(1,195,314)
(Gain) Loss on Sale of Equipment	28,146	(82,503)	(857)
Loss on Sale of Other Real Estate and Repossessions	1,827,704	163,642	59,623
Unrealized Loss on Other Real Estate	1,293,174	467,408	-
Increase in Cash Surrender Value of Life Insurance	(56,024)	(184,905)	(235,305)
Change In			
Interest Receivable	1,325,068	699,018	2,875,146
Prepaid Expenses	2,006,032	(5,785,826)	18,698
Interest Payable	(452,764)	(1,256,460)	(816,819)
Accrued Expenses and Accounts Payable	(148,591)	315,879	(815,214)
Other	3,500,575	(3,360,614)	(121,645)
	<u>27,354,611</u>	<u>15,054,037</u>	<u>17,289,881</u>
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	(44,247,933)	(6,331,814)	1,319,703
Purchase of Investment Securities			
Available for Sale	(380,490,982)	(488,257,181)	(157,485,718)
Proceeds from Sale of Investment Securities			
Available for Sale	286,387,727	368,575,701	65,298,695
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	55,648,274	58,599,391	52,666,161
Held to Maturity	14,001	12,688	13,573
Proceeds from Sale of Premises and Equipment	-	125,512	29,888
Net Loans to Customers	88,105,734	(18,973,081)	(42,435,526)
Purchase of Premises and Equipment	(490,256)	(1,290,324)	(3,920,230)
Proceeds from Sale of Other Real Estate and Repossessions	9,866,063	12,158,095	3,392,500
Federal Home Loan Bank Stock	281,900	(73,000)	(739,700)
	<u>15,074,528</u>	<u>(75,454,013)</u>	<u>(81,860,654)</u>
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	(17,183,061)	43,853,063	(2,995,624)
Noninterest-Bearing Customer Deposits	18,720,584	6,741,949	(8,614,892)
Proceeds from Other Borrowed Money	23,076,010	19,000,000	122,400,000
Principal Payments on Other Borrowed Money	(39,000,000)	(19,000,000)	(65,000,000)
Dividends Paid on Preferred Stock	(1,400,000)	(1,190,000)	-
Dividends Paid on Common Stock	-	(1,760,665)	(2,794,520)
Issuance of Common Stock	5,078,255	-	-
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	(20,000,000)	(2,274,000)	928,000
Proceeds Allocated to Issuance of Preferred Stock	-	27,215,218	-
Proceeds Allocated to Warrants Issued	-	784,782	-
	<u>(30,708,212)</u>	<u>73,370,347</u>	<u>43,922,964</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>11,720,927</u>	<u>12,970,371</u>	<u>(20,647,809)</u>
Cash and Cash Equivalents, Beginning	<u>42,428,742</u>	<u>29,458,371</u>	<u>50,106,180</u>
Cash and Cash Equivalents, Ending	<u>\$ 54,149,669</u>	<u>\$ 42,428,742</u>	<u>\$ 29,458,371</u>

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

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

Nature of Operations

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

Use of Estimates

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

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and nonpublic nongovernmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements and note disclosures have been reclassified to conform to statement presentations selected for 2010. Such reclassifications had no effect on previously reported stockholders' equity or net income.

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2010, approximately 86 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in 2010. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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

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

Investment Securities

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

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities (Continued)

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

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.

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

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

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

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

Premises and Equipment

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

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.

(1) Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. The Company did not have any goodwill on its books at December 31, 2010.

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, federal funds sold and securities purchased under agreement to resell. Cash flows from demand deposits, NOW accounts, savings accounts, loans and certificates of deposit are reported net.

Securities Purchased and Sold Under Agreements to Resell or Repurchase

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

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

Advertising Costs

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

Income Taxes

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

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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

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

Other Real Estate

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

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In the first quarter of 2010, a new accounting standard was issued for *Fair Value Measurements and Disclosures - Improving Disclosures About Fair Value Measurements*. This standard requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. The new standard further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) the Company should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by this standard became effective for the Company on January 1, 2010 and did not have a significant impact on the Company's consolidated financial statements.

In July 2010, a new standard was issued for *Receivables - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This standard requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. This standard became effective for the Company's consolidated financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the Corporation's financial statements that include periods beginning on or after January 1, 2011. Subsequently, the effective date of the disclosure requirements related to troubled debt restructurings was temporarily deferred to coincide with the effective date of a proposed accounting standards update related to troubled debt restructurings, which is currently expected to be effective for periods ending after June 15, 2011.

(1) Summary of Significant Accounting Policies (Continued)

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

Revised standards on *Business Combinations* apply to all transactions and other events in which one entity obtains control over one or more other businesses. An acquirer, upon initially obtaining control of another entity, must recognize the assets, liabilities and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Acquirers must expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case. Pre-acquisition contingencies are to be recognized at fair value, unless it is a noncontractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of contingency accounting. The revised standards are expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

Revised standards for *Noncontrolling Interest in Consolidated Financial Statements* establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. A noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, consolidated net income (loss) must be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Also required are disclosures, on the face of the consolidated statements of operations, of the amounts of consolidated net income (loss) attributable to the parent and to the noncontrolling interest. Requirements were effective for the Company on January 1, 2009 and did not have a significant impact on the Company's consolidated financial statements.

Revised standards for *Recognition and Presentation of Other-Than-Temporary Impairments* became effective for the Company in the second quarter of 2009. These standards amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the consolidated financial statements. The existing recognition and measurement guidance related to other-than-temporary impairments of equity securities is not amended. The adoption of these amendments did not have a significant impact on the Company's consolidated financial statements.

In April 2009, new standards were issued providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Adoption of these standards on June 15, 2009 did not have a significant impact on the Company's consolidated financial statements.

(1) Summary of Significant Accounting Policies (Continued)

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

New requirements for subsequent events establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The standards define (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its consolidated financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. This guidance became effective for the Company's financial statements for periods ending after June 15, 2009. Implementation resulted in no significant impact on the Company's consolidated financial statements.

In June 2009, standards were issued for *Transfers and Servicing*, which enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The guidance also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. The guidance became effective on January 1, 2010 and did not have a material impact on the Company's consolidated financial statements.

Revised standards for *Earnings per Share* became effective for the Company on January 1, 2009. These standards provide that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

(2) Cash and Balances Due from Banks

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

	<u>2010</u>	<u>2009</u>
Cash on Hand and Cash Items	\$ 8,897,618	\$ 8,773,237
Noninterest-Bearing Deposits with Other Banks	<u>7,715,569</u>	<u>17,222,249</u>
	<u>\$16,613,187</u>	<u>\$25,995,486</u>

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Reserve balances totaled approximately \$916,000 and \$555,000 at December 31, 2010 and 2009.

(3) Investment Securities

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$299,018,595	\$1,763,198	\$(2,319,337)	\$298,462,456
State, County and Municipal	3,248,533	34,391	(26,691)	3,256,233
Corporate Obligations	2,000,000	101,920	(115,430)	1,986,490
Asset-Backed Securities	479,249	-	(346,822)	132,427
	<u>\$304,746,377</u>	<u>\$1,899,509</u>	<u>\$(2,808,280)</u>	<u>\$303,837,606</u>
Securities Held to Maturity				
State, County and Municipal	<u>\$ 48,412</u>	<u>\$ 4,529</u>	<u>\$ -</u>	<u>\$ 52,941</u>

The amortized cost and fair value of investment securities as of December 31, 2010, 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			
	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due After One Year Through Five Years	\$ 500,087	\$ 518,929	\$48,412	\$52,941
Due After Five Years Through Ten Years	2,740,136	2,844,431	-	-
Due After Ten Years	2,487,559	2,011,790	-	-
	5,727,782	5,375,150	48,412	52,941
Mortgage-Backed Securities	299,018,595	298,462,456	-	-
	<u>\$304,746,377</u>	<u>\$303,837,606</u>	<u>\$48,412</u>	<u>\$52,941</u>

Investment securities as of December 31, 2009 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$258,432,952	\$1,535,588	\$(1,059,532)	\$258,909,008
State, County and Municipal	4,027,322	74,749	(34,843)	4,067,228
Corporate Obligations	4,458,376	64,810	(385,176)	4,138,010
Asset-Backed Securities	479,249	-	(346,822)	132,427
	<u>\$267,397,899</u>	<u>\$1,675,147</u>	<u>\$(1,826,373)</u>	<u>\$267,246,673</u>
Securities Held to Maturity				
State, County and Municipal	<u>\$ 53,906</u>	<u>\$ 3,093</u>	<u>\$ -</u>	<u>\$ 56,999</u>

(3) Investment Securities (Continued)

Proceeds from sales of investments available for sale were \$286,387,727 in 2010, \$368,575,701 in 2009 and \$65,298,695 in 2008. Gross realized gains totaled \$2,617,062 in 2010, \$3,204,669 in 2009 and \$1,201,896 in 2008. Gross realized losses totaled \$0 in 2010, \$578,802 in 2009 and \$6,582 in 2008.

Investment securities having a carrying value approximating \$123,789,118 and \$157,868,000 as of December 31, 2010 and 2009, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, 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, 2010						
U.S. Government Agencies						
Mortgage-Backed	\$152,286,738	\$(2,319,337)	\$ -	\$ -	\$152,286,738	\$(2,319,337)
State, County and Municipal	1,776,763	(26,691)	-	-	1,776,763	(26,691)
Corporate Obligations	-	-	884,570	(115,430)	884,570	(115,430)
Asset-Backed Securities	-	-	132,427	(346,822)	132,427	(346,822)
	<u>\$154,063,501</u>	<u>\$(2,346,028)</u>	<u>\$1,016,997</u>	<u>\$(462,252)</u>	<u>\$155,080,498</u>	<u>\$(2,808,280)</u>
December 31, 2009						
U.S. Government Agencies						
Mortgage-Backed	\$114,222,812	\$(1,056,502)	\$ 419,159	\$ (3,030)	\$114,641,971	\$(1,059,532)
State, County and Municipal	-	-	1,424,697	(34,843)	1,424,697	(34,843)
Corporate Obligations	-	-	3,073,200	(385,176)	3,073,200	(385,176)
Asset-Backed Securities	-	-	132,427	(346,822)	132,427	(346,822)
	<u>\$114,222,812</u>	<u>\$(1,056,502)</u>	<u>\$5,049,483</u>	<u>\$(769,871)</u>	<u>\$119,272,295</u>	<u>\$(1,826,373)</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, 2010, the debt securities with unrealized losses have depreciated 1.78 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

(4) Loans

The following table presents the composition of loans, segregated by class of loans, as of December 31:

	<u>2010</u>	<u>2009</u>
Commercial and Industrial		
Commercial	\$ 53,220,341	\$ 64,485,345
Industrial	10,551,791	16,499,065
Real Estate		
Commercial Construction	72,309,231	103,676,394
Residential Construction	4,373,011	9,440,662
Commercial	362,878,565	395,795,782
Residential	207,471,813	231,197,658
Farmland	52,778,389	54,965,260
Consumer and Other		
Consumer	33,563,863	38,382,831
Other	16,103,669	16,948,629
Total Loans	<u><u>\$813,250,673</u></u>	<u><u>\$931,391,626</u></u>

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

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

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

- Grades 1 and 2 - Borrowers with these assigned grades range in risk from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the "pass" classification.
- Grades 3 and 4 - Loans assigned these "pass" risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.

(4) Loans (Continued)

- Grade 5 - This grade includes “special mention” loans on management’s watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.
- Grade 6 - This grade includes “substandard” loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.
- Grades 7 and 8 - These grades correspond to regulatory classification definitions of “doubtful” and “loss,” respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company’s problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 6.

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total Loans</u>
Commercial and Industrial				
Commercial	\$ 48,731,982	\$ 2,498,305	\$ 1,990,054	\$ 53,220,341
Industrial	10,059,081	169,381	323,329	10,551,791
Real Estate				
Commercial Construction	33,522,709	10,064,271	28,722,251	72,309,231
Residential Construction	3,974,130	204,000	194,881	4,373,011
Commercial	294,186,347	11,847,051	56,845,167	362,878,565
Residential	183,518,173	9,195,410	14,758,230	207,471,813
Farmland	49,499,619	1,838,814	1,439,956	52,778,389
Consumer and Other				
Consumer	32,046,108	726,933	790,822	33,563,863
Other	14,553,167	1,185,260	365,242	16,103,669
Total Loans	<u>\$670,091,316</u>	<u>\$37,729,425</u>	<u>\$105,429,932</u>	<u>\$813,250,673</u>

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

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

(4) Loans (Continued)

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

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

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Industrial						
Commercial	\$ 382,728	\$ -	\$ 382,728	\$ 393,823	\$ 52,443,790	\$ 53,220,341
Industrial	100,810	-	100,810	175,062	10,275,919	10,551,791
Real Estate						
Commercial Construction	1,514,127	-	1,514,127	10,181,795	60,613,309	72,309,231
Residential Construction	194,881	-	194,881	-	4,178,130	4,373,011
Commercial	11,790,383	-	11,790,383	13,567,530	337,520,652	362,878,565
Residential	4,268,098	15,876	4,283,974	3,057,049	200,130,790	207,471,813
Farmland	566,868	-	566,868	1,157,528	51,053,993	52,778,389
Consumer and Other						
Consumer	702,795	3,312	706,107	290,115	32,567,641	33,563,863
Other	218,887	-	218,887	79,072	15,805,710	16,103,669
Total Loans	\$19,739,577	\$19,188	\$19,758,765	\$28,901,974	\$764,589,934	\$813,250,673

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately \$1,621,700, \$2,318,100 and \$1,328,600 for the years ended December 31, 2010, 2009 and 2008, respectively.

(4) Loans (Continued)

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 \$28,901,974 and \$33,535,160 as of December 31, 2010 and 2009, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$19,188 and \$31,200, respectively. During its review of impaired loans, the Company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

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

	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded					
Commercial	\$ 258,676	\$ -	\$ 308,508	\$ (987)	\$ 5,465
Agricultural	175,062	-	220,716	689	689
Commercial Construction	10,181,795	-	11,760,840	7,320	31,963
Residential Construction	-	-	8,248	-	-
Commercial Real Estate	4,270,905	-	9,041,753	80,585	85,448
Residential Real Estate	3,057,049	-	3,931,449	41,420	53,813
Farmland	1,157,528	-	645,619	(6,571)	10,969
Consumer	290,115	-	296,301	17,166	19,342
Other	79,072	-	129,249	4,550	7,760
	<u>19,470,202</u>	<u>-</u>	<u>\$26,342,683</u>	<u>144,172</u>	<u>215,449</u>
With An Allowance Recorded					
Commercial	135,146	116,159	33,787	(1,125)	3,316
Commercial Real Estate	9,296,626	539,671	2,324,156	341,937	475,999
	<u>9,431,772</u>	<u>655,830</u>	<u>2,357,943</u>	<u>340,812</u>	<u>479,315</u>
Total					
Commercial	393,822	116,159	342,295	(2,112)	8,781
Agricultural	175,062	-	220,716	689	689
Commercial Construction	10,181,795	-	11,760,840	7,320	31,963
Residential Construction	-	-	8,248	-	-
Commercial Real Estate	13,567,531	539,671	11,365,909	422,522	561,447
Residential Real Estate	3,057,049	-	3,931,449	41,420	53,813
Farmland	1,157,528	-	645,619	(6,571)	10,969
Consumer	290,115	-	296,301	17,166	19,342
Other	79,072	-	129,249	4,551	7,760
	<u>\$28,901,974</u>	<u>\$655,830</u>	<u>\$28,700,626</u>	<u>\$484,985</u>	<u>\$694,764</u>

(4) Loans (Continued)

The following table details impaired loan data for 2009:

Total Investment in Impaired Loans	\$33,535,160
Less Allowance for Impaired Loan Losses	<u>(17,000)</u>
Net Investment, December 31	<u>\$33,518,160</u>
Average Investment During the Year	<u>\$36,394,731</u>
Income Recognized During the Year	<u>\$ 684,940</u>
Income Collected During the Year	<u>\$ 913,255</u>

(5) Allowance for Loan Losses

The following table details activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories.

	<u>Beginning Balance</u>	<u>Charge-Offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
Commercial and Industrial					
Commercial	\$ 3,930,760	\$ (469,214)	\$ 80,181	\$ 873,090	\$ 4,414,817
Industrial	779,337	(255,627)	1,377	173,550	698,637
Real Estate					
Commercial Construction	7,402,484	(4,648,124)	184,868	1,186,815	4,126,043
Residential Construction	447,676	-	-	72,090	519,766
Commercial	8,790,443	(7,459,619)	141,931	6,556,770	8,029,525
Residential	5,025,839	(2,929,668)	439,940	3,405,585	5,941,696
Farmland	942,019	(271,750)	7,639	266,415	944,323
Consumer and Other					
Consumer	2,826,058	(548,834)	245,641	551,355	3,074,220
Other	1,256,025	(1,039,618)	50,313	264,330	531,050
	<u>\$31,400,641</u>	<u>\$(17,622,454)</u>	<u>\$1,151,890</u>	<u>\$13,350,000</u>	<u>\$28,280,077</u>

(5) Allowance for Loan Losses (Continued)

	Ending Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Industrial			
Commercial	\$ 336,011	\$ 4,078,806	\$ 4,414,817
Industrial	-	698,637	698,637
Real Estate			
Commercial Construction	3,501,117	624,926	4,126,043
Residential Construction	-	519,766	519,766
Commercial	7,539,533	489,992	8,029,525
Residential	1,561,952	4,379,744	5,941,696
Farmland	-	944,323	944,323
Consumer and Other			
Consumer	3,033	3,071,187	3,074,220
Other	-	531,050	531,050
Total End of Period Allowance Balance	\$ 12,941,646	\$ 15,338,431	\$ 28,280,077
Total End of Period Loan Balance	\$104,807,855	\$708,442,818	\$813,250,673

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

Transactions in the allowance for loan losses for years 2009 and 2008 are summarized below:

	<u>2009</u>	<u>2008</u>
Balance, Beginning	\$ 17,015,883	\$ 15,512,940
Provision Charged to Operating Expenses	43,445,000	12,937,750
Loans Charged Off	(29,493,324)	(11,966,439)
Loan Recoveries	433,082	531,632
Balance, Ending	<u>\$ 31,400,641</u>	<u>\$ 17,015,883</u>

(6) Premises and Equipment

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

	<u>2010</u>	<u>2009</u>
Land	\$ 7,787,667	\$ 7,805,167
Building	23,790,525	23,642,043
Furniture, Fixtures and Equipment	13,737,177	14,365,687
Leasehold Improvements	993,086	993,086
Construction in Progress	-	6,775
	<u>46,308,455</u>	<u>46,812,758</u>
Accumulated Depreciation	<u>(19,160,730)</u>	<u>(17,986,408)</u>
	<u>\$ 27,147,725</u>	<u>\$ 28,826,350</u>

Depreciation charged to operations totaled \$2,140,735 in 2010, 2,092,845 in 2009 and \$2,028,158 in 2008.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$377,000 for 2010, \$365,000 for 2009 and \$374,000 for 2008.

Future minimum rental payments as of December 31, 2010 are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2011	\$129,138
2012	122,813
2013	88,658
2014	10,139
	<u>\$350,748</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:

	<u>2010</u>	<u>2009</u>
Goodwill		
Balance, Beginning	\$ -	\$ 2,412,338
Goodwill Impairment Expense	<u>-</u>	<u>(2,412,338)</u>
Balance, Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

	<u>Core Deposit Intangible</u>	<u>Accumulated Amortization</u>	<u>Net Core Deposit Intangible</u>
Core Deposit Intangible			
Balance, December 31, 2009	\$1,056,693	\$(725,937)	\$ 330,756
Amortization Expense	<u>-</u>	<u>(35,749)</u>	<u>(35,749)</u>
Balance, December 31, 2010	<u><u>\$1,056,693</u></u>	<u><u>\$(761,686)</u></u>	<u><u>\$ 295,007</u></u>

Amortization expense related to the core deposit intangible was \$35,749, \$35,749 and \$35,748 for the years ended December 31, 2010, 2009 and 2008, respectively.

The following table reflects the expected amortization schedule for the core deposit intangible at December 31, 2010:

2011	\$35,749
2012	35,749
2013	35,749
2014	35,749
2015 and Thereafter	<u>152,011</u>
	<u><u>\$295,007</u></u>

(8) Income Taxes

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current Federal (Benefit) Expense	\$(1,037,717)	\$(4,075,442)	\$ 861,723
Deferred Federal (Benefit) Expense	639,607	(5,869,055)	(250,215)
Federal Income Tax (Benefit) Expense	(398,110)	(9,944,497)	611,508
Current State Income Tax (Benefit) Expense	(61,104)	(50,384)	(54,278)
	<u>\$ (459,214)</u>	<u>\$(9,994,881)</u>	<u>\$ 557,230</u>

The federal income tax (benefit) expense of \$(398,110) in 2010, \$(9,944,497) in 2009 and \$611,508 in 2008 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:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutory Federal Income Taxes	\$ 5,101	\$(9,920,776)	\$ 879,258
Tax-Exempt Interest	(117,586)	(185,775)	(239,097)
Interest Expense Disallowance	8,400	16,729	35,869
Premiums on Officers' Life Insurance	(134,106)	(58,906)	(54,464)
Meal and Entertainment Disallowance	24,972	32,068	13,810
State Income Taxes	-	-	-
Goodwill	-	58,507	-
Other	(184,891)	113,656	(23,868)
Actual Federal Income Taxes	<u>\$(398,110)</u>	<u>\$(9,944,497)</u>	<u>\$ 611,508</u>

(8) Income Taxes (Continued)

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

	<u>2010</u>	<u>2009</u>
Deferred Tax Assets		
Allowance for Loan Losses	\$ 9,615,226	\$10,676,218
Other Real Estate	511,839	158,919
Deferred Compensation	423,233	441,514
Restricted Stock	504,772	475,045
Goodwill	439,100	486,077
Other	<u>470,435</u>	<u>447,472</u>
	<u>11,964,605</u>	<u>12,685,245</u>
Deferred Tax Liabilities		
Premises and Equipment	(1,184,064)	(1,340,773)
Vested Restricted Stock	(412,715)	(337,039)
Other	<u>(4,185)</u>	<u>(4,185)</u>
	<u>(1,600,964)</u>	<u>(1,681,997)</u>
Deferred Tax Assets (Liabilities)		
on Unrealized Securities Gains (Losses)	<u>308,982</u>	<u>51,417</u>
Net Deferred Tax Assets	<u><u>\$10,672,623</u></u>	<u><u>\$11,054,665</u></u>

As discussed in Note 1, certain positions taken in the Company's tax returns may be subject to challenge by the taxing authorities. An analysis of activity related to unrecognized taxes follows as of December 31, 2010.

Balance, Beginning	\$ 221,584
Positions Taken During the Current Year	17,259
Reductions Resulting from Lapse of Statutes of Limitation	<u>(160,722)</u>
Balance, Ending	<u><u>\$ 78,121</u></u>

The net reduction of \$143,463 is included in income tax benefits for the year ended December 31, 2010.

(9) Fair Value Measurements

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

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

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

Assets

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

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

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

(9) Fair Value Measurements (Continued)

Assets (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis - The following table presents the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2010 and 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

2010	Total Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$298,462,456	\$ -	\$298,462,456	\$ -
State, County and Municipal	3,256,233	-	3,256,233	-
Corporate Obligations	1,986,490	-	1,101,920	884,570
Asset-Backed Securities	132,427	-	-	132,427
	<u>\$303,837,606</u>	<u>\$ -</u>	<u>\$302,820,609</u>	<u>\$ 1,016,997</u>
Nonrecurring				
Impaired Loans	<u>\$ 28,246,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$28,246,144</u>
Other Real Estate	<u>\$ 20,207,806</u>	<u>\$ -</u>	<u>\$ 20,207,806</u>	<u>\$ -</u>
2009				
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$258,909,008	\$ -	\$258,909,008	\$ -
State, County and Municipal	4,067,228	-	4,067,228	-
Corporate Obligations	4,138,010	-	3,288,010	850,000
Asset-Backed Securities	132,427	-	-	132,427
	<u>\$267,246,673</u>	<u>\$ -</u>	<u>\$266,264,246</u>	<u>\$ 982,427</u>
Nonrecurring				
Impaired Loans	<u>\$ 33,518,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$33,518,160</u>
Other Real Estate	<u>\$ 19,705,044</u>	<u>\$ -</u>	<u>\$ 19,705,044</u>	<u>\$ -</u>

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

The following table presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended December 31, 2010 and 2009.

(9) Fair Value Measurements (Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Available for Sale Securities	
	2010	2009
Balance, Beginning	\$ 982,427	\$1,426,220
Total Realized/Unrealized Gains (Losses) Included In		
Loss on OTTI Impairment	-	(520,751)
Other Comprehensive Income	34,570	76,958
Purchases, Sales, Issuances and Settlements, Net	-	-
Transfers In and (Out) of Level 3	-	-
Balance, Ending	<u>\$1,016,997</u>	<u>\$ 982,427</u>

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$250,200 and \$231,993 as of December 31, 2010 and 2009, respectively.

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

	2010	2009
Interest-Bearing Demand	\$235,855,037	\$220,168,255
Savings	36,629,698	34,850,882
Time, \$100,000 and Over	298,009,596	364,064,083
Other Time	385,670,250	354,264,422
	<u>\$956,164,581</u>	<u>\$973,347,642</u>

At December 31, 2010 and 2009, the Company had brokered deposits of \$36,328,659 and \$136,453,418, respectively. Of the \$36,328,659 brokered deposits at December 31, 2010, \$31,128,659 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled \$5,200,000 at December 31, 2010. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000, was approximately \$216,656,200 and \$316,896,500 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2011	\$480,445,908
2012	101,801,446
2013	88,077,653
2014	8,314,804
2015 and Thereafter	<u>5,040,035</u>
	<u>\$683,679,846</u>

(11) Securities Sold Under Repurchase Agreements

The Company has securities sold under repurchase agreements in the amount of \$20,000,000 at December 31, 2010. Barclay's Master Repurchase Agreement originated on June 26, 2008 with the initial draw of \$20,000,000 on June 30, 2008. The Repurchase Agreement matures on June 30, 2011. Interest payments are due quarterly at a fixed rate of 3.34 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

South Street Securities Master Repurchase Agreement originated on October 27, 2008 with the initial draw of \$20,000,000 on October 31, 2008. The Repurchase Agreement is overnight borrowing at a floating interest rate due monthly. At December 31, 2010, the Company had an available line totaling \$50,000,000, of which the entire \$50,000,000 was available. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

(12) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Federal Home Loan Bank Advances	\$71,000,000	\$91,000,000
Other Secured Borrowing	4,076,010	-
	<u>\$75,076,010</u>	<u>\$91,000,000</u>

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2011 to 2019 and interest rates ranging from 3.17 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. In addition, the Company has pledged certain available-for-sale investment securities with carrying values at December 31, 2010 of approximately \$47,424,000 as additional collateral, as well as cash balances held on deposit with the FHLB. At December 31, 2010, the Company had available line of credit commitments totaling \$184,320,000, of which \$113,260,000 was available.

Other secured borrowing represents SBA loans sold in the secondary market that must be accounted for as a secured borrowing. These sales agreements contain recourse provisions (generally 90 days) that initially require the Company to account for the transfer of a portion of these financial assets as a secured borrowing, until such time that the recourse provision expires. Once the recourse provision expires, transfers of a portion of these financial assets are re-evaluated to determine if they meet the participating interest definition and subsequently accounted for as a sale.

The aggregate stated maturities of other borrowed money at December 31, 2010 are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 4,076,010
2012	41,000,000
2013	-
2014	-
2015 and Thereafter	<u>30,000,000</u>
	<u>\$75,076,010</u>

(12) Other Borrowed Money (Continued)

The Company also has available federal funds lines of credit with various financial institutions totaling \$47,000,000, of which there were none outstanding at December 31, 2010.

In addition, the Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages needs caused by internal or external disruptions. At December 31, 2010, the Company had approximately \$7.8 million of borrowing capacity available under this arrangement, with no outstanding balances. Certain available-for-sale investment securities totaling approximately \$8.0 million were pledged as collateral under this agreement.

(13) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500,000 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, 2010, the floating rate securities had a 2.98 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue \$5,000,000 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, 2010, the floating rate securities had a 1.80 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

During the first quarter of 2007, the Company formed a fifth subsidiary whose sole purpose was to issue \$9,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2010, the floating rate securities had a 1.95 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to pay off the Trust Preferred Securities with the first subsidiary formed in March 2002 as the Company exercised its option to call.

During the third quarter of 2007, the Company formed a sixth subsidiary whose sole purpose was to issue \$5,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2010, the floating rate securities had a 1.69 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to pay off the Trust Preferred Securities with the second subsidiary formed in December 2002 as the Company exercised its option to call.

The Trust Preferred Securities are recorded as 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 offerings were used to fund the cash portion of the Quitman acquisition, pay off holding Company debt, and inject capital into the bank subsidiary.

The total aggregate principal amount of trust preferred certificates outstanding at December 31, 2010 was \$23,500,000. The total aggregate principal amount of subordinated debentures outstanding at December 31, 2010 was \$24,229,000.

(14) Preferred Stock

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

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

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

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

(15) 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. To date, 77,052 shares have been issued under this plan and 12,351 shares have been forfeited; thus, there are no remaining shares which may be issued at December 31, 2010. 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 second restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and 14,098 shares have been forfeited; thus, remaining shares which may be issued are 104,342 at December 31, 2010. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(16) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was \$0 for 2010, \$(19,411) for 2009 and \$206,179 for 2008.

(17) Commitments and Contingencies

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

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

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2010	2009
Commitments to Extend Credit	\$39,457,000	\$56,100,000
Standby Letters of Credit	1,540,000	1,475,000

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.

(17) Commitments and Contingencies (Continued)

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

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

(18) Deferred Compensation Plan

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

Liabilities accrued under the plans totaled \$1,244,803 and \$1,298,572 as of December 31, 2010 and 2009, respectively. Benefit payments under the contracts were \$206,955 in 2010 and \$187,655 in 2009. Provisions charged to operations totaled \$154,553 in 2010, \$361,171 in 2009 and \$178,542 in 2008.

Fee income recognized with deferred compensation plans totaled \$182,685 in 2010, \$173,253 in 2009 and \$160,187 in 2008.

(19) Interest Income and Expense

Interest income of \$109,240, \$267,553 and \$426,779 from state, county and municipal bonds was exempt from regular income taxes in 2010, 2009 and 2008, respectively.

Interest on deposits includes interest expense on time certificates of \$100,000 or more totaling \$7,050,415, \$9,598,455 and \$14,596,774 for the years ended December 31, 2010, 2009 and 2008, respectively.

(20) Supplemental Cash Flow Information

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest Expense	<u>\$21,975,968</u>	<u>\$27,537,602</u>	<u>\$38,739,489</u>
Income Taxes	<u>\$ 275,000</u>	<u>\$ -</u>	<u>\$ 1,875,000</u>

(20) Supplemental Cash Flow Information (Continued)

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acquisitions of Real Estate Through Loan Foreclosures	<u>\$13,159,402</u>	<u>\$19,258,910</u>	<u>\$14,748,105</u>
Unrealized (Gain) Loss on Investment Securities	<u>\$ 757,545</u>	<u>\$ 721,116</u>	<u>\$ (157,957)</u>

(21) 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 \$9,797,492 as of December 31, 2010 and \$6,473,238 as of December 31, 2009. 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:

	<u>2010</u>	<u>2009</u>
Balance, Beginning	\$ 6,473,238	\$ 7,641,037
New Loans	12,533,229	4,829,291
Repayments	(9,208,975)	(5,997,090)
Transactions Due to Changes in Directors	-	-
Balance, Ending	<u>\$ 9,797,492</u>	<u>\$ 6,473,238</u>

(22) Fair Value of Financial Instruments

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

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

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

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

(22) Fair Value of Financial Instruments (Continued)

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

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

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

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

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

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

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

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in Thousands)			
Assets				
Cash and Short-Term Investments	\$ 104,876	\$ 104,876	\$ 48,908	\$ 48,908
Investment Securities Available for Sale	303,838	303,838	267,247	267,247
Investment Securities Held to Maturity	48	53	54	57
Federal Home Loan Bank Stock	6,064	6,064	6,345	6,345
Loans, Net	784,909	788,455	899,851	908,638
Liabilities				
Deposits	1,059,124	1,064,695	1,057,586	1,059,037
Subordinated Debentures	24,229	24,229	24,229	24,229
Securities Sold Under				
Agreements to Repurchase	20,000	20,308	40,000	40,671
Other Borrowed Money	75,076	77,119	91,000	91,703

(22) Fair Value of Financial Instruments (Continued)

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

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

(23) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, the Company suspended the payment of dividends to its stockholders in the third quarter of 2009. At December 31, 2010, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

The Company is subject to various regulatory capital requirements administered by 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, 2010, 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 Company is also subject to certain other regulatory requirements as discussed in Part 1 Item 1 of its December 31, 2010 Form 10-K filed with the Securities and Exchange Commission on March 15, 2011. Failure to comply with the abovementioned requirements could have an adverse impact on the Company's financial condition.

(23) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of December 31, 2010 and 2009 on a consolidated basis and for its wholly-owned subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2010			(In Thousands)			
Total Capital to Risk-Weighted Assets						
Consolidated	\$116,914	14.85%	\$62,981	8.00%	N/A	N/A
Colony Bank	113,119	14.39	62,905	8.00	\$78,631	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	106,845	13.57	31,491	4.00	N/A	N/A
Colony Bank	103,062	13.11	31,452	4.00	47,179	6.00
Tier I Capital to Average Assets						
Consolidated	106,845	8.59	49,748	4.00	N/A	N/A
Colony Bank	103,062	8.30	49,697	4.00	62,122	5.00
As of December 31, 2009						
Total Capital to Risk-Weighted Assets						
Consolidated	118,848	13.07	72,768	8.00	N/A	N/A
Colony Bank	117,756	12.97	72,622	8.00	\$90,777	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	107,231	11.79	36,384	4.00	N/A	N/A
Colony Bank	106,161	11.69	36,311	4.00	54,466	6.00
Tier I Capital to Average Assets						
Consolidated	107,231	8.30	51,708	4.00	N/A	N/A
Colony Bank	106,161	8.22	51,641	4.00	64,551	5.00

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

The parent company's balance sheets as of December 31, 2010 and 2009 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

	<u>2010</u>	<u>2009</u>
Cash	\$ 3,173,061	\$ 556,209
Premises and Equipment, Net	1,478,045	1,553,652
Investment in Subsidiary, at Equity	112,389,013	111,450,651
Other	<u>484,008</u>	<u>257,252</u>
Total Assets	<u>\$117,524,127</u>	<u>\$113,817,764</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Dividends Payable	\$ 175,000	\$ 175,000
Other	<u>161,544</u>	<u>139,140</u>
	<u>336,544</u>	<u>314,140</u>
Subordinated Debt	<u>24,229,000</u>	<u>24,229,000</u>

Stockholders' Equity

Preferred Stock, No Par Value; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,505,910	27,356,964
Common Stock, Par Value \$1; Authorized 20,000,000 Shares, Issued 8,442,958 and 7,229,163 Shares as of December 31, 2010 and 2009, Respectively	8,442,958	7,229,163
Paid-In Capital	29,171,087	25,392,913
Retained Earnings	28,479,211	29,553,940
Restricted Stock - Unearned Compensation	(40,794)	(158,547)
Accumulated Other Comprehensive Income, Net of Tax	<u>(599,789)</u>	<u>(99,809)</u>
	<u>92,958,583</u>	<u>89,274,624</u>
Total Liabilities and Stockholders' Equity	<u>\$117,524,127</u>	<u>\$113,817,764</u>

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income			
Dividends from Subsidiary	\$ 15,536	\$ 2,170,827	\$5,038,854
Management Fees	455,241	227,620	-
Other	119,776	100,157	92,111
	<u>590,553</u>	<u>2,498,604</u>	<u>5,130,965</u>
Expenses			
Interest	516,170	659,456	1,270,942
Amortization	2,250	2,250	2,250
Salaries and Employee Benefits	761,873	848,076	876,166
Goodwill Impairment	-	172,029	-
Other	807,209	799,924	1,240,339
	<u>2,087,502</u>	<u>2,481,735</u>	<u>3,389,697</u>
Income (Loss) Before Taxes and Equity in Undistributed Earnings of Subsidiary	(1,496,949)	16,869	1,741,268
Income Tax Benefits	<u>532,823</u>	<u>608,062</u>	<u>979,911</u>
Income (Loss) Before Equity in Undistributed Earnings of Subsidiary	(964,126)	624,931	2,721,179
Equity in Undistributed Earnings (Losses) of Subsidiary	<u>1,438,342</u>	<u>(19,808,805)</u>	<u>(692,355)</u>
Net Income (Loss)	474,216	(19,183,874)	2,028,824
Preferred Stock Dividends	<u>1,400,000</u>	<u>1,365,000</u>	<u>-</u>
Net Income (Loss) Available to Common Stockholders	<u>\$ (925,784)</u>	<u>\$(20,548,874)</u>	<u>\$2,028,824</u>

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Income (Loss)	<u>\$ 474,216</u>	<u>\$(19,183,874)</u>	<u>\$2,028,824</u>
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	1,227,281	1,257,136	893,158
Reclassification Adjustment	<u>(1,727,261)</u>	<u>(1,733,072)</u>	<u>(788,907)</u>
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	<u>(499,980)</u>	<u>(475,936)</u>	<u>104,251</u>
Comprehensive Income (Loss)	<u><u>\$ (25,764)</u></u>	<u><u>\$(19,659,810)</u></u>	<u><u>\$2,133,075</u></u>

(24) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)**COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 474,216	\$(19,183,874)	\$ 2,028,824
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	194,918	295,209	275,299
Goodwill Impairment	-	172,029	-
Equity in Undistributed (Earnings) Losses of Subsidiary	(1,438,342)	19,808,805	692,355
Other	(260,318)	31,634	720,701
	<u>(1,029,526)</u>	<u>1,123,803</u>	<u>3,717,179</u>
Cash Flows from Investing Activities			
Capital Infusion in Subsidiary	-	(25,500,000)	(1,500,000)
Purchases of Premises and Equipment	(31,877)	(119,156)	(393,392)
	<u>(31,877)</u>	<u>(25,619,156)</u>	<u>(1,893,392)</u>
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	(1,400,000)	(1,190,000)	-
Dividends Paid on Common Stock	-	(1,760,665)	(2,794,520)
Principal Payments on Notes and Debentures	-	-	-
Proceeds from Issuance of Common Stock	5,078,225	-	-
Proceeds Allocated to Issuance of Preferred Stock	-	27,215,218	-
Proceeds Allocated to Warrants Issued	-	784,782	-
	<u>3,678,255</u>	<u>25,049,335</u>	<u>(2,794,520)</u>
Increase (Decrease) in Cash	2,616,852	553,982	(970,733)
Cash, Beginning	<u>556,209</u>	<u>2,227</u>	<u>972,960</u>
Cash, Ending	<u><u>\$ 3,173,061</u></u>	<u><u>\$ 556,209</u></u>	<u><u>\$ 2,227</u></u>

(25) Earnings Per Share

Basic and diluted earnings per share are computed and presented hereafter. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. The following presents earnings per share for the years ended December 31, 2010, 2009 and 2008:

	<u>Income Numerator</u>	<u>Common Shares Denominator</u>	<u>EPS</u>
December 31, 2010			
Basic EPS			
Income (Loss) Available to Common Stockholders	<u>\$ (925,784)</u>	<u>\$8,149,217</u>	<u>\$(0.11)</u>
Dilutive Effect of Potential Common Stock			
Restricted Stock		-	
Stock Warrants		<u>-</u>	
Diluted EPS			
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	<u>\$ (925,784)</u>	<u>\$8,149,217</u>	<u>\$(0.11)</u>
December 31, 2009			
Basic EPS			
Income (Loss) Available to Common Stockholders	<u>\$(20,548,874)</u>	<u>7,213,430</u>	<u>\$(2.85)</u>
Dilutive Effect of Potential Common Stock			
Restricted Stock		-	
Stock Warrants		<u>-</u>	
Diluted EPS			
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	<u>\$(20,548,874)</u>	<u>7,213,430</u>	<u>\$(2.85)</u>
December 31, 2008			
Basic EPS			
Income Available to Common Stockholders	<u>\$ 2,028,824</u>	<u>7,199,121</u>	<u>\$ 0.28</u>
Dilutive Effect of Potential Common Stock			
Restricted Stock		<u>-</u>	
Diluted EPS			
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	<u>\$ 2,028,824</u>	<u>7,199,121</u>	<u>\$ 0.28</u>

For the years ended December 31, 2010 and 2009, 505,283 and 504,774 shares of common stock equivalents, respectively, were excluded from the calculation of diluted earnings per share because they would have an anti-dilutive effect.

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

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's financial position and/or results of operations. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results of operations, and they require management to make estimates that are difficult and 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. The Company did not have any goodwill on its books at December 31, 2010. 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.

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2010 and 2009, and results of operations for each of the years in the three-year period ended December 31, 2010. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

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 (loss) available to common shareholders totaled \$(0.93) million, or \$(0.11) per diluted common share in 2010 compared to \$(20.55) million, or \$(2.85) diluted per common share in 2009 compared to \$2.03 million, or \$0.28 diluted per common share in 2008.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Taxable-Equivalent Net Interest Income	\$37,393	\$ 39,848	\$ 37,740
Taxable-Equivalent Adjustment	<u>178</u>	<u>282</u>	<u>365</u>
Net Interest Income	37,215	39,566	37,375
Provision for Possible Loan Losses	13,350	43,445	12,938
Noninterest Income	10,006	9,544	9,005
Noninterest Expense	<u>33,856</u>	<u>34,844</u>	<u>30,856</u>
Income (Loss) Before Income Taxes	15	(29,179)	2,586
Income Taxes (Benefits)	<u>(459)</u>	<u>(9,995)</u>	<u>557</u>
Net Income (Loss)	<u>\$ 474</u>	<u>\$ (19,184)</u>	<u>\$ 2,029</u>
Preferred Stock Dividends	<u>1,400</u>	<u>1,365</u>	<u>---</u>
Net Income (Loss) Available to Common Stockholders	<u>\$ (926)</u>	<u>\$ (20,549)</u>	<u>\$ 2,029</u>
Basic per Common Share:			
Net Income (Loss)	\$ (0.11)	\$ (2.85)	\$ 0.28
Diluted per Common Share:			
Net Income (Loss)	\$ (0.11)	\$ (2.85)	\$ 0.28
Return on Average Assets:			
Net Income (Loss)	(0.07)%	(1.60)%	0.17%
Return on Average Equity:			
Net Income (Loss)	(0.98)%	(19.45)%	2.40%

Net income (loss) available to common shareholders for 2010 increased \$19.62 million, or 95.49 percent, compared to 2009. The increase was primarily the result of a \$30.10 million decrease in provision for loan losses, an increase of \$462 thousand in noninterest income and a decrease of \$988 thousand in noninterest expense. The impact of these items was partly offset by a \$2.35 million decrease in net interest income, a \$35 thousand increase in preferred stock dividends, and an increase of \$9.54 million in income tax expense. The increase in income tax expense resulted in an income tax benefit of \$459 thousand.

Net income (loss) available to common shareholders for 2009 decreased \$22.58 million, or 1,112.85 percent, compared to 2008. The decrease was primarily the result of a \$30.51 million increase in provision for loan losses, an increase of \$3.99 million in noninterest expense, and \$1.37 million in preferred stock dividends. The impact of these items was partly offset by a \$2.19 million increase in net interest income, an increase of \$540 thousand in noninterest income and a decrease of \$10.55 million in income tax expense. The decrease in income tax expense resulted in an income tax benefit of \$10 million.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 78.81 percent of total revenue during 2010 and 80.57 percent during 2009.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit has ranged from 3.25 percent to 7.25 percent during 2008 to 2010. At year end 2007, the prime rate was 7.25 percent and with the 400 basis point reduction during 2008 the prime rate ended the year at 3.25 percent and remained at 3.25 percent for all of 2010. The federal funds rate moved similar to prime rate with interest rates ranging from 0.25 percent to 4.25 percent during 2008 to 2010. At year end 2007, the federal funds rate was 4.25 percent and with the 400 basis point reduction during 2008 the federal funds rate ended the year at 0.25 percent and remained at 0.25 percent for all of 2010. We anticipate the Federal Reserve tightening interest rate policy in 2011, which should benefit Colony's net interest margin.

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.

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 2009 to 2010 (a)			Changes From 2008 to 2009 (a)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans, Net-taxable	<u>\$ (5,850)</u>	<u>\$ (67)</u>	<u>\$ (5,917)</u>	<u>\$ 286</u>	<u>\$ (9,410)</u>	<u>\$ (9,124)</u>
Investment Securities						
Taxable	<u>1,088</u>	<u>(2,260)</u>	<u>(1,172)</u>	<u>3,559</u>	<u>(3,207)</u>	<u>352</u>
Tax-exempt	<u>(226)</u>	<u>(8)</u>	<u>(234)</u>	<u>(220)</u>	<u>12</u>	<u>(208)</u>
Total Investment Securities	<u>862</u>	<u>(2,268)</u>	<u>(1,406)</u>	<u>3,339</u>	<u>(3,195)</u>	<u>144</u>
Interest-Bearing Deposits in						
Other banks	<u>27</u>	<u>(6)</u>	<u>21</u>	<u>(10)</u>	<u>(16)</u>	<u>(26)</u>
Federal Funds Sold	<u>76</u>	<u>(5)</u>	<u>71</u>	<u>(29)</u>	<u>(220)</u>	<u>(249)</u>
Other Interest - Earning Assets	<u>---</u>	<u>18</u>	<u>18</u>	<u>12</u>	<u>(290)</u>	<u>(278)</u>
Total Interest Income	<u>(4,885)</u>	<u>(2,328)</u>	<u>(7,213)</u>	<u>3,598</u>	<u>(13,131)</u>	<u>(9,533)</u>
Interest Expense						
Interest-Bearing Demand and						
Savings Deposits	<u>106</u>	<u>(206)</u>	<u>(100)</u>	<u>236</u>	<u>(1,685)</u>	<u>(1,449)</u>
Time Deposits	<u>(218)</u>	<u>(4,113)</u>	<u>(4,331)</u>	<u>686</u>	<u>(10,396)</u>	<u>(9,710)</u>
Total Interest Expense						
On Deposits	<u>(112)</u>	<u>(4,319)</u>	<u>(4,431)</u>	<u>922</u>	<u>(12,081)</u>	<u>(11,159)</u>
Other Interest-Bearing Liabilities						
Federal Funds Purchased and						
Repurchase Agreements	<u>(337)</u>	<u>308</u>	<u>(29)</u>	<u>684</u>	<u>(322)</u>	<u>362</u>
Subordinated Debentures	<u>---</u>	<u>(143)</u>	<u>(143)</u>	<u>---</u>	<u>(612)</u>	<u>(612)</u>
Other Debt	<u>(173)</u>	<u>18</u>	<u>(155)</u>	<u>197</u>	<u>(430)</u>	<u>(233)</u>
Total Interest Expense	<u>(622)</u>	<u>(4,136)</u>	<u>(4,758)</u>	<u>1,803</u>	<u>(13,445)</u>	<u>(11,642)</u>
Net Interest Income (Loss)	<u><u>\$ (4,263)</u></u>	<u><u>\$ 1,808</u></u>	<u><u>\$ (2,455)</u></u>	<u><u>\$ 1,795</u></u>	<u><u>\$ 314</u></u>	<u><u>\$ 2,109</u></u>

- (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.

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earnings 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 quarterly 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 FTN Financial 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 2-5 year range.

The Company maintains about 28.6 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 allowed the Company to be relatively constant with its net interest margin until 2008. During 2007 interest rates decreased 100 basis points and this decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. While the Federal Reserve rates have remained unchanged since 2008, we have seen the net interest margin decrease to 3.12 percent for 2010 compared to 3.27 percent for 2009 and to 3.30 percent for 2008. Given the Federal Reserve's aggressive posture during 2008 that ended the year with a range of 0 - 0.25 percent federal funds target rate and remained the same for all of 2010, we have seen our net interest margin reach a low of 3.02 percent for fourth quarter of 2010 to a high of 3.20 percent for second quarter 2010.

Taxable-equivalent net interest income for 2010 decreased \$2.45 million, or 6.16 percent, compared to 2009, while taxable-equivalent net interest income for 2009 increased by \$2.11 million, or 5.59 percent, compared to 2008. The fluctuation between the comparable periods resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during 2010 decreased \$18.94 million compared to 2009 while over the same period the net interest margin decreased to 3.12 from 3.27 percent. Similarly, the average volume of earning assets during 2009 increased \$73.23 million compared to 2008 while over the same period the net interest margin decreased to 3.27 percent from 3.30 percent. Growth in average earning assets during 2010 and 2009 was primarily in fed funds sold, investment securities and interest bearing deposits. The reduction in the net interest margin in 2010 was primarily the result of the decrease in average earning assets and maintenance of a higher liquidity level.

The average volume of loans decreased \$97.49 million in 2010 compared to 2009 and increased \$4.1 million in 2009 compared to 2008. The average yield on loans decreased 1 basis point in 2010 compared to 2009 and decreased 98 basis points in 2009 compared to 2008. The average volume of other borrowings decreased \$21.5 million in 2010 compared to 2009 while average deposits increased \$17.3 million in 2010 compared to 2009. The average volume of deposits increased \$30.4 million while other borrowings increased \$29.3 million in 2009 compared to 2008. Interest-bearing deposits made up 38.9 percent of the increase in average deposits in 2010 and 106.6 percent of the increase in average deposits in 2009. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.1 percent in 2010, 93.0 percent in 2009 and 92.5 percent in 2008. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 47 basis points in 2010 compared to 2009 and decreasing the average cost of total deposits by 120 basis points in 2009 compared to 2008, and (ii) mitigating a portion of the impact of decreasing 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 2.94 percent in 2010 compared to 3.05 percent in 2009 and 2.97 percent in 2008. 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 Possible 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 possible loan losses totaled \$13.35 million in 2010 compared to \$43.45 million in 2009 and \$12.94 million in 2008. See the section captioned "Allowance for Possible Loan Losses" elsewhere in this discussion for further analysis of the provision for possible loan losses.

Noninterest Income

The components of noninterest income were as follows:

	2010	2009	2008
Service Charges on Deposit Accounts	\$ 3,597	\$4,198	\$4,700
Other Charges, Commissions and Fees	1,140	986	981
Other	1,335	1,146	1,508
Mortgage Fee Income	313	448	609
Securities Gains	2,617	2,626	1,195
SBA Premiums	1,005	140	12
	<u>\$10,007</u>	<u>\$9,544</u>	<u>\$9,005</u>

Total noninterest income for 2010 increased \$463 thousand, or 4.85 percent, compared to 2009 while total noninterest income for 2009 increased \$539 thousand, or 5.99 percent, compared to 2008. The increase in 2010 noninterest income compared to 2009 was primarily in SBA premiums and other charges, commissions and fees, while the increase in 2009 noninterest income compared to 2008 was primarily in securities gains. 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 2010 decreased \$601 thousand, or 14.32 percent, compared to 2009. The decrease was primarily due to a decrease in volume of consumer and business account overdraft fees. Service charges on deposit accounts for 2009 decreased \$502 thousand, or 10.68 percent, compared to 2008. The decrease was primarily due to a decrease in overdraft fees, which were related to consumer and business accounts.

Mortgage Fee Income. Mortgage fee income for 2010 decreased \$135 thousand, or 30.13 percent, compared to 2009. The decrease was primarily due to decreased mortgage loan activity with the housing and real estate downturn. Mortgage fee income for 2009 decreased \$161 thousand, or 26.44 percent, compared to 2008 due to decreased mortgage loan activity.

Security Gains. The Company realized gains from the sale of securities of \$2.62 million for 2010 compared to \$2.63 million in 2009 and \$1.20 million in 2008.

All Other Noninterest Income. Other charges, commissions and fees, other income and SBA premiums for 2010 increased \$1.21 million, or 53.13 percent, compared to 2009. The increase was primarily due to the premiums realized on SBA guaranteed loans of \$1.01 million for 2010 compared to \$140 thousand for 2009 and from a death benefit on BOLI insurance plan in the amount of \$212 thousand for 2010. In 2009 other charges, commissions and fees, other income, and SBA premiums decreased \$229 thousand, or 9.16 percent compared to 2008.

Noninterest Expense

The components of noninterest expense were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries and Employee Benefits	\$14,097	\$14,483	\$16,238
Occupancy and Equipment	4,422	4,287	4,191
Other	<u>15,337</u>	<u>16,074</u>	<u>10,427</u>
	<u>\$33,856</u>	<u>\$34,844</u>	<u>\$30,856</u>

Total noninterest expense for 2010 decreased \$988 thousand, or 2.84 percent compared to 2009 while total noninterest expense for 2009 increased \$3.99 million, or 12.93 percent, compared to 2008. Reduction in noninterest expense in 2010 was primarily in salaries and employee benefits and other noninterest expense while the Company had an increase in occupancy and equipment. Growth in noninterest expense in 2009 was primarily in other noninterest expense and occupancy and equipment while the Company had a decrease in salaries and employee benefits.

Salaries and Employee Benefits. Salaries and employee benefits expense for 2010 decreased \$386 thousand, or 2.66 percent, compared to 2009. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition. Restructuring due to consolidation efforts initiated during 2008 also reduced salaries and benefits. The Company did not payout any profit sharing in 2010 due to Company performance. Salaries and employee benefits expense for 2009 decreased \$1.76 million, or 10.81 percent, compared to 2008. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition and restructuring due to consolidation efforts initiated in 2008. In addition the Company did not payout any bonuses or profit sharing based on Company performance being significantly below targeted goals in 2009.

Occupancy and Equipment. Net occupancy expense for 2010 increased \$135 thousand compared to 2009, or an increase of 3.15 percent. Net occupancy expense for 2009 increased \$96 thousand compared to 2008, or an increase of 2.29 percent. The purchase of new data processing software and equipment resulted in additional depreciation expense of \$48 thousand for 2010 compared to 2009 and \$65 thousand for 2009 compared to 2008.

All Other Noninterest Expense. All other noninterest expense for 2010 decreased \$737 thousand, or 4.59 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees decreased to \$1.87 million for 2010 compared to \$2.66 million for 2009, or a decrease of \$795 thousand and goodwill impairment expense was \$0 for 2010 in comparison to \$2.41 million for 2009. The impact of these items was partly offset by an increase to legal and professional fees of \$7 thousand, or 0.54 percent in 2010 compared to 2009 and an increase to foreclosed property and repossession expense of \$2.67 million, or 117.70 percent in 2010 compared to 2009. All other noninterest expense for 2009 increased \$5.65 million, or 54.16 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees increased to \$2.66 million for 2009 compared to \$603 thousand for 2008, or an increase of \$2.06 million; foreclosed property and repossession expense increased to \$2.27 million for 2009 compared to \$382 thousand for 2008, or an increase of \$1.89 million and goodwill impairment expense was \$2.41 million for 2009 compared to \$0 for 2008.

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 \$1.27 billion in 2010 compared to \$1.29 billion in 2009 and \$1.20 billion in 2008.

	<u>2010</u>		<u>2009</u>		<u>2008</u>	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	\$ 82,160	6.5%	\$ 71,561	5.5%	\$ 73,569	6.1%
Interest-Bearing	952,095	75.0	945,360	73.5	912,932	75.8
Federal Funds Purchased						
and Repurchase Agreements	26,070	2.0	42,452	3.3	18,200	1.5
Subordinated Debentures						
and Other Borrowed Money	110,149	8.7	115,229	9.0	110,141	9.1
Other Noninterest-Bearing						
Liabilities	4,681	0.4	6,161	0.5	5,632	0.5
Equity Capital	94,452	7.4	105,655	8.2	84,372	7.0
Total	<u>\$1,269,607</u>	<u>100.0%</u>	<u>\$1,286,418</u>	<u>100.0%</u>	<u>\$1,204,846</u>	<u>100.0%</u>
Uses of Funds:						
Loans	\$ 834,739	65.8%	\$ 943,164	73.3%	\$ 941,794	78.2%
Investment Securities	267,015	21.0	238,968	18.6	168,532	14.0
Federal Funds Sold	38,809	3.1	9,392	0.7	10,499	0.9
Interest-Bearing Deposits	21,911	1.7	788	0.1	1,235	0.1
Other Interest-Earning Assets	6,297	0.5	6,328	0.5	6,079	0.5
Other Noninterest-Earning Assets	100,836	7.9	87,778	6.8	76,707	6.3
Total	<u>\$1,269,607</u>	<u>100.0%</u>	<u>\$1,286,418</u>	<u>100.0%</u>	<u>\$1,204,846</u>	<u>100.0%</u>

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 92.06 percent of total average deposits in 2010 compared to 92.96 percent in 2009 and 92.54 percent in 2008.

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 was sluggish in 2010 as total loans were \$813.3 million at December 31, 2010, down 12.7 percent, compared to loans of \$931.4 million at December 31, 2009, while total loans at December 31, 2009 were down 3.08 percent compared to loans of \$961.0 million at December 31, 2008. 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.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Commercial, Financial and Agricultural	\$ 63,772	\$ 80,984	\$ 86,379	\$ 52,323	\$ 61,887
Real Estate					
Construction	76,682	113,117	160,374	211,484	193,952
Mortgage, Farmland	52,778	54,965	54,159	42,439	40,936
Mortgage, Other	570,350	626,993	600,653	544,655	549,601
Consumer	33,564	38,383	44,163	72,350	76,930
Other	<u>16,104</u>	<u>16,950</u>	<u>15,308</u>	<u>22,028</u>	<u>18,967</u>
	<u>813,250</u>	<u>931,392</u>	<u>961,036</u>	<u>945,279</u>	<u>942,273</u>
Unearned Interest and Fees	(61)	(140)	(179)	(301)	(501)
Allowance for Loan Losses	<u>(28,280)</u>	<u>(31,401)</u>	<u>(17,016)</u>	<u>(15,513)</u>	<u>(11,989)</u>
Loans	<u>\$784,909</u>	<u>\$899,851</u>	<u>\$943,841</u>	<u>\$929,465</u>	<u>\$929,783</u>

The following table presents total loans as of December 31, 2010 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	\$517,287
After One Year through Three Years	261,981
After Three Years through Five Years	24,163
Over Five Years	<u>9,819</u>
	<u>\$813,250</u>

Overview. Loans totaled \$813.3 million at December 31, 2010, down 12.68 percent from December 31, 2009 loans of \$931.4 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial financial and agricultural loans. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 70.13 percent and 67.32 percent of total loans, real estate construction made up 9.43 percent and 12.15 percent while commercial financial and agricultural loans made up 7.84 percent and 8.70 percent of total loans at December 31, 2010 and December 31, 2009, 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 an Executive Loan Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by market. 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 lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by market. 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 began utilizing an independent third party company for loan review during fourth quarter 2009. This third party engagement will be on-going. The Loan Review Company reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at December 31, 2010 decreased 21.25 percent from December 31, 2009 to \$63.8 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, 2010 and December 31, 2009, 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. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2010, approximately 86 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in 2010. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Large Credit Relationships. The Company is currently in eighteen counties in south and central Georgia and include metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Executive Loan Committee and Director Loan Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at December 31, 2010 and December 31, 2009.

	December 31, 2010			December 31, 2009		
	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding
Large Credit Relationships:						
\$10 million and greater	1	\$15,025	\$15,025	3	\$43,142	\$40,332
\$5 million to \$9.9 million	7	46,794	45,588	6	39,159	38,965

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, 2010. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with Fixed Interest Rates	\$287,475	\$260,753	\$22,531	\$9,603	\$580,362
Loans with Floating Interest Rates	229,812	1,228	1,632	216	232,888
Total	\$517,287	\$261,981	\$24,163	\$9,819	\$813,250

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:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loans Accounted for on Nonaccrual	\$28,902	\$33,535	\$35,124	\$ 14,956	\$ 8,069
Loans Past Due 90 Days or More	19	31	250	60	9
Other Real Estate Foreclosed	20,208	19,705	12,812	1,332	970
Securities Accounted for on Nonaccrual	132	132	---	---	---
Total Nonperforming Assets	<u>\$49,261</u>	<u>\$53,403</u>	<u>\$48,186</u>	<u>\$ 16,348</u>	<u>\$ 9,048</u>
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	5.91%	5.62%	4.95%	1.73%	0.96%
Total Assets	3.86%	4.09%	3.85%	1.35%	0.75%
Supplemental Data:					
Trouble Debt Restructured Loans					
In Compliance with Modified Terms	26,556	9,269	---	---	---
Trouble Debt Restructured Loans					
Past Due 30-89 Days	1,048	459	---	---	---
Accruing Past Due Loans:					
30-89 Days Past Due	19,740	25,547	18,675	15,681	10,593
90 or More Days Past Due	19	31	250	60	9
Total Accruing Past Due Loans	<u>\$19,759</u>	<u>\$25,578</u>	<u>\$18,925</u>	<u>\$15,741</u>	<u>\$10,602</u>

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2010 decreased 7.76 percent from December 31, 2009. The decrease in nonperforming assets was primarily attributable to the decrease in loans accounted for on nonaccrual.

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.

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at 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 Possible Loan Losses

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

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

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment. In addition, the Company has also segmented its' real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the Company changed the methodology in calculating its loan loss reserve. Previously the look back period for charge-off experience was the average of the charge-offs for the prior five years, however due to the current housing and real estate downturn, management deemed prudent to lower the look back period for charge-off experience to a one year look back. This change resulted in an approximate \$12 million dollar addition to the loan loss reserve during fourth quarter 2009. We maintained the same methodology in 2010.

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.

	2010		2009		2008		2007		2006	
	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 5,113	8%	\$ 4,710	9%	\$ 4,254	9%	\$ 3,645	6%	\$ 3,597	7%
Real Estate - Construction	4,646	9	7,850	12	2,808	17	2,560	22	719	21
Real Estate - Farmland	944	7	942	6	681	6	621	4	599	4
Real Estate - Other	13,972	70	13,816	67	5,955	62	5,430	58	3,896	58
Loans to Individuals	3,074	4	2,826	4	2,467	4	2,404	8	2,398	8
All other loans	531	2	1,257	2	851	2	853	2	780	2
Total	<u>\$28,280</u>	<u>100%</u>	<u>\$31,401</u>	<u>100%</u>	<u>\$17,016</u>	<u>100%</u>	<u>\$15,513</u>	<u>100%</u>	<u>\$11,989</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.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Allowance for Loan Losses at Beginning of Year	<u>\$31,401</u>	<u>\$17,016</u>	<u>\$15,513</u>	<u>\$11,989</u>	<u>\$10,762</u>
Charge-Offs					
Commercial, Financial and Agricultural	725	768	1,680	957	1,351
Real Estate	15,309	27,545	9,190	1,862	854
Consumer	549	908	994	793	697
All Other	1,040	272	103	296	471
	<u>17,623</u>	<u>29,493</u>	<u>11,967</u>	<u>3,908</u>	<u>3,373</u>
Recoveries					
Commercial, Financial and Agricultural	82	73	73	109	420
Real Estate	774	156	285	992	20
Consumer	246	191	155	312	156
All Other	50	13	19	88	17
	<u>1,152</u>	<u>433</u>	<u>532</u>	<u>1,501</u>	<u>613</u>
Net Charge-Offs	<u>16,471</u>	<u>29,060</u>	<u>11,435</u>	<u>2,407</u>	<u>2,760</u>
Provision for Loans Losses	<u>13,350</u>	<u>43,445</u>	<u>12,938</u>	<u>5,931</u>	<u>3,987</u>
Allowance for Loan Losses at End of Year	<u>\$28,280</u>	<u>\$31,401</u>	<u>\$17,016</u>	<u>\$15,513</u>	<u>\$11,989</u>
Ratio of Net Charge-Offs to Average Loans	<u>1.90%</u>	<u>3.02%</u>	<u>1.19%</u>	<u>0.25%</u>	<u>0.30%</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 other factors. The provision for loan losses decreased \$30.10 million from \$43.45 million in 2009 to \$13.35 million in 2010. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at year end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during 2010 was the provision of \$13.35 million.

Charge-offs largely consisted of seven construction and land development loans totaling \$3.29 million in 2010 compared to nine construction and land development loans totaling \$8.13 million in 2009, two 1-4 family residence property of \$777 thousand in 2010 compared to three 1-4 family residence property of \$1.61 million in 2009; two multifamily residential property loans totaling \$477 thousand in 2010 compared to three multifamily residential property loan totaling \$3.22 million in 2009; and eight nonfarm residential loans totaling \$5.11 million in 2010 compared to eight nonfarm residential loans totaling \$8.5 million in 2009. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans and commercial loans.

Provisions continue to be higher than normal primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 5.91 percent at December 31, 2010 compared to 5.62 percent at December 31, 2009. Total nonperforming assets at December 31, 2010 were \$49.3 million, of which \$22.0 million were construction, land development and other land loans; \$5.0 million were 1-4 family residential properties; \$0.3 million were multifamily residential properties; \$18.9 million were nonfarm nonresidential properties; \$2.0 million were farmland properties; and the remainder of nonperforming assets totaling \$1.1 million were commercial and consumer loans. All of the classified loans greater than \$50 thousand, including the nonperforming loans, are reviewed throughout the quarter for impairment review. Total nonperforming assets at December 31, 2009 were \$53.4 million, of which \$24.5 million were construction, land development and other land loans; \$1.4 million were farmland; \$6.9 million were 1-4 family residential properties; \$3.1 million were multifamily properties; \$16.2 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling \$1.3 million were commercial and consumer loans. The allowance for loan losses of \$28.3 million at December 31, 2010 was 3.48 percent of total loans which compares to \$31.4 million at December 31, 2009, or 3.37 percent of total loans and to \$17.0 million at December 31, 2008, or 1.77 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 3.56 percent, 3.60 percent, and 3.68 percent, respectively as of December 31, 2010, December 31, 2009 and December 31, 2008, the Company's allowance for loan losses as a percentage of nonperforming loans was 97.78 percent, 93.55 percent, and 48.10 percent, respectively as of December 31, 2010, December 31, 2009 and December 31, 2008. We continue to identify new problem loans, though at a slower pace than the previous year.

While the allowance for loan losses decreased from \$31.40 million, or 3.37 percent of total loans at December 31, 2009 to \$28.28 million, or 3.48 percent of total loans at December 31, 2010, the company also reflected a decrease in nonperforming loans from \$33.57 million at December 31, 2009 to \$28.92 million at December 31, 2010. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are \$50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive a contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades. In addition, the Company has also segmented its' real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the Company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the Company changed its methodology for the look back period for determination of charge-off experience.

Previously, the Company utilized the average of the charge-off experience for the preceding five years, but changed to a one year look back. The current methodology has resulted in significant loan loss provisions for 2010 and 2009, but was considered prudent by management to adhere to guidance by regulatory authorities to lower the look back period in light of current economic condition. In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on reviews throughout the year and an environmental analysis at year end.

As part of our monitoring and evaluation of collateral values for nonperforming and problem loans in determining adequate allowance for loan losses, regional credit officers along with lending officers submit monthly problem loan reports for loans greater than \$50 thousand in which impairment is identified. This process typically determines collateral shortfall based upon local market real estate value estimates should the collateral be liquidated. Once the loan is deemed uncollectible, it is transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department gets a current appraisal on the property in order to record a fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate. Trends the past several quarters reflect a decrease in collateral values from two to three years ago on improved properties of fifteen to twenty five percent and on land development and land loans of thirty to fifty percent. The significant reduction in collateral values on nonperforming assets has resulted in higher loan loss provisions and charge-offs particularly during 2010.

Net charge-offs in 2010 decreased \$12.59 million compared to the same period a year ago. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of nonperforming credits to appraised values. The increase the past three years has primarily been with real estate dependent loans as problem credits went through the collection process to resolution.

The allowance for loan losses is \$3.1 million less than the prior year end, after factoring in net-charge-offs, additional provisions, and the normal determination for an adequate funding level. Management believes the level of the allowance for loan losses was adequate as of December 31, 2010. 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, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Obligations of States and Political Subdivisions	\$ 3,305	\$ 4,121	\$ 9,110
Corporate Obligations	1,986	4,138	6,176
Asset Backed Securities	<u>132</u>	<u>132</u>	<u>668</u>
Investment Securities	5,423	8,391	15,954
Mortgage Backed Securities	<u>298,463</u>	<u>258,909</u>	<u>191,750</u>
Total Investment Securities and Mortgage Backed Securities	<u><u>\$303,886</u></u>	<u><u>\$267,300</u></u>	<u><u>\$207,704</u></u>

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2010. (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.)

	<u>Within 1 Year</u>		<u>After 1 Year But</u>		<u>After 5 Years But</u>		<u>After 10 Years</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
Mortgage Backed Securities	\$16,860	1.54%	\$217,411	2.55%	\$56,683	2.63%	\$7,509	3.64%
Obligations of State and Political Subdivisions	1,043	4.08	1,224	3.10	1,038	3.47	--	--
Corporate Obligations	--	--	--	--	1,101	5.67	885	3.78
Asset-Backed Securities	--	--	--	--	--	--	132	--
Total Investment Portfolio	<u><u>\$17,903</u></u>	<u><u>1.69%</u></u>	<u><u>\$218,635</u></u>	<u><u>2.55%</u></u>	<u><u>\$58,822</u></u>	<u><u>2.70%</u></u>	<u><u>\$8,526</u></u>	<u><u>3.46%</u></u>

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

At December 31, 2010, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 2.59 percent in 2010 compared to 3.48 percent in 2009 and 4.84 percent in 2008. The decrease in the average yield from 2009 to 2010 primarily resulted from the turnover of the securities portfolio resulting in the investment of new funds at lower rates. The decrease in the average yield from 2008 to 2009 primarily resulted from the investment of new funds at lower rates. The Company has increased its securities portfolio the past two years as the sluggish economy has resulted in lower loan demand, thus more funding available for investment in the securities portfolio.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2010, 2009 and 2008.

	2010		2009		2008	
	<u>Average Amount</u>	<u>Average Rate</u>	<u>Average Amount</u>	<u>Average Rate</u>	<u>Average Amount</u>	<u>Average Rate</u>
Noninterest-Bearing						
Demand Deposits	\$ 82,160		\$ 71,561		\$ 73,569	
Interest-Bearing						
Demand and Savings	251,537	0.65%	237,045	0.73%	220,655	1.44%
Time Deposits	<u>700,558</u>	<u>2.22%</u>	<u>708,315</u>	<u>2.81%</u>	<u>692,277</u>	<u>4.28%</u>
Total Deposits	<u>\$1,034,255</u>	<u>1.66%</u>	<u>\$1,016,921</u>	<u>2.13%</u>	<u>\$ 986,501</u>	<u>3.33%</u>

The following table presents the maturities of the Company's other time deposits as of December 31, 2010.

	<u>Other Time Deposits \$100,000 or Greater</u>	<u>Other Time Deposits Less Than \$100,000</u>	<u>Total</u>
Months to Maturity			
3 or Less	\$ 54,003	\$ 73,297	\$127,300
Over 3 through 12	162,653	190,493	353,146
Over 12 Months	<u>81,354</u>	<u>121,880</u>	<u>203,234</u>
	<u>\$298,010</u>	<u>\$385,670</u>	<u>\$683,680</u>

Average deposits increased \$17.33 million in 2010 compared to 2009 and increased \$30.4 million in 2009 compared to 2008. The increase in 2010 included \$10.60 million, or 14.8 percent in noninterest bearing deposits and \$14.49 million, or 6.1 percent in interest-bearing demand and savings while at the same time time deposits decreased \$7.76 million, or 1.1 percent. The increase in 2009 included \$16.4 million or 7.4 percent in interest-bearing demand and savings and \$16.0 million or 2.3 percent in time deposits while at the same time noninterest-bearing deposits decreased \$2.0 million or 2.7 percent. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.9 percent in 2010 and 7.0 percent in 2009 and 7.5 percent in 2008. The general decrease in market rates in 2010 had the effect of (i) decreasing the average cost of interest-bearing deposits by 48 basis points in 2010 compared to 2009 and (ii) mitigating a portion of the impact of decreasing yields on earning assets in the Company's net interest income in 2010. The general decrease in market rates in 2009 had the effect of (i) decreasing the average cost of interest bearing deposits by 130 basis points in 2009 compared to 2008 and (ii) mitigating a portion of the impact of decreasing yields on earning assets on the Company's net interest income in 2009.

Total average interest-bearing deposits increased \$6.74 million, or 0.71 percent in 2010 compared to 2009 and increased \$32.43 million, or 3.55 percent, in 2009 compared to 2008. The increase in average deposits in 2010 compared to 2009 was interest-bearing demand and savings deposit accounts. With the current interest rate environment, it appears that many customers continue to maintain time deposit accounts, with the prevalent investment period continuing to be for one year time deposits.

The Company supplements deposit sources with brokered deposits. As of December 31, 2010, the Company had \$36.33 million, or 3.43 percent of total deposits, in brokered certificates of deposit 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, 2010. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual Obligations:					
Subordinated Debentures	\$ ----	\$ ----	\$ ----	\$ 24,229	\$ 24,229
Securities Sold Under Agreements to Repurchase	20,000	----	----	----	20,000
Other Secured Borrowings	4,076	----	----	----	4,076
Federal Home Loan Bank Advances	----	41,000	----	30,000	71,000
Operating Leases	129	212	10	----	351
Deposits with Stated Maturity Dates	480,446	189,879	13,175	180	683,680
	504,651	231,091	13,185	54,409	803,336
Other Commitments:					
Loan Commitments	39,457	----	----	----	39,457
Standby Letters of Credit	1,540	----	----	----	1,540
Standby Letters of Credit Issued by Federal Home Loan Bank for bank	60	----	----	----	60
	41,057	----	----	----	41,057
Total Contractual Obligations and Other Commitments	\$545,708	\$231,091	\$13,185	\$54,409	\$844,393

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, 2010 are included in the preceding table.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at December 31, 2010 are included in the preceding table.

Capital and Liquidity

At December 31, 2010, shareholders' equity totaled \$93.0 million compared to \$89.3 million at December 31, 2009. In addition to net income of \$474 thousand, other significant changes in shareholders' equity during 2010 included \$5.08 million from proceeds of stock offering, \$1.4 million of dividends declared and an increase of \$87 thousand resulting from the stock grant plan. The accumulated other comprehensive income component of shareholders' equity totaled \$(600) thousand at December 31, 2010 compared to \$(100) thousand at December 31, 2009. 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.

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2010 was 13.57 percent and total Tier 1 and 2 risk-based capital was 14.85 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, 2010 was 8.59 percent, which exceeds the required ratio standard of 4 percent.

For 2010, average capital was \$94.5 million, representing 7.44 percent of average assets for the year. This compares to 8.21 percent for 2009.

The Company did not pay any common stock dividends in 2010. The Company paid a quarterly dividend of \$0.10, \$0.05 per common share during the first and second quarter of 2009, respectively, and suspended dividend payments beginning in the third quarter of 2009. This equates to no meaningful dividend payout ratio in 2010 or 2009.

The Company declared a quarterly dividend of \$350 thousand, \$350 thousand, \$350 thousand and \$350 thousand on preferred stock during the first, second, third and fourth quarters of 2010, respectively. The Company declared a quarterly dividend of \$315 thousand, \$350 thousand, \$350 thousand and \$350 thousand on preferred stock during the first, second, third and fourth quarters of 2009, respectively. The Company had no preferred stock until January 2009 when shares were issued to U.S. Treasury.

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, 2010, the Company held \$303.8 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2009, the available for sale bond portfolio totaled \$267.2 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 76.8 percent as of December 31, 2010 and 88.1 percent at December 31, 2009. 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, 2010 and December 31, 2009 were 70.5 percent and 78.4 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2010 and December 31, 2009, the Banks had \$298.0 million and \$364.1 million, respectively, in certificates of deposit of \$100,000 or more. These larger deposits represented 28.1 percent and 34.4 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.

The Company has supplemented deposit sources with brokered deposits the last several years. As of December 31, 2010, the Company had \$36.33 million, or 3.43 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. As of December 31, 2010, the Company had \$61.11 million, or 5.77 percent of total deposits, in external wholesale or internet network deposits.

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, Federal Reserve Bank, two correspondent banks and repurchase agreement lines that can provide funds on short notice.

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

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

Impact of Inflation and Changing Prices

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

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Quantitative and Qualitative Disclosures About Market Risk

AVERAGE BALANCE SHEETS

	2010			2009			2008		
	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)	\$865,184	\$51,859	5.99%	\$962,677	\$57,776	6.00%	\$958,582	\$66,900	6.98%
Investment Securities									
Taxable	264,494	6,762	2.56	232,590	7,934	3.41	158,287	7,582	4.79
Tax-Exempt (2)	2,521	140	5.55	6,378	374	5.86	10,245	582	5.68
Total Investment Securities	267,015	6,902	2.59	238,968	8,308	3.48	168,532	8,164	4.84
Interest-Bearing Deposits	21,911	22	0.10	788	1	0.13	1,235	27	2.19
Federal Funds Sold	38,809	95	0.25	9,392	24	0.26	10,499	273	2.60
Other Interest-Earning Assets	6,297	38	0.60	6,328	20	0.32	6,079	298	4.90
Total Interest-Earning Assets	1,199,216	58,916	4.92	1,218,153	66,129	5.43	1,144,927	75,662	6.61
Noninterest-Earning Assets									
Cash	19,347			21,011			20,232		
Allowance for Loan Losses	(30,445)			(19,513)			(16,788)		
Other Assets	81,489			66,767			56,475		
Total Noninterest-Earning Assets	70,391			68,265			59,919		
Total Assets	\$1,269,607			\$1,286,418			\$1,204,846		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	\$251,537	\$1,636	0.65%	\$237,045	\$1,736	0.73%	\$220,655	\$3,185	1.44%
Other Time	700,558	15,576	2.22	708,315	19,907	2.81	692,277	29,617	4.28
Total Interest-Bearing Deposits	952,095	17,212	1.81	945,360	21,643	2.29	912,932	32,802	3.59
Other Interest-Bearing Liabilities									
Other Borrowed Money	85,920	3,074	3.58	91,000	3,103	3.41	85,912	3,336	3.88
Subordinated Debentures	24,229	516	2.13	24,229	659	2.72	24,229	1,271	5.25
Federal Funds Purchased and Repurchase Agreements	26,070	721	2.77	42,452	876	2.06	18,200	514	2.82
Total Other Interest-Bearing Liabilities	136,219	4,311	3.17	157,681	4,638	2.94	128,341	5,121	3.99
Total Interest-Bearing Liabilities	1,088,314	21,523	1.98	1,103,041	26,281	2.38	1,041,273	37,923	3.64
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	82,160			71,561			73,569		
Other Liabilities	4,681			6,161			5,632		
Stockholders' Equity	94,452			105,655			84,372		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	181,293			183,377			163,573		
Total Liabilities and Stockholders' Equity	\$1,269,607			\$1,286,418			\$1,204,846		
Interest Rate Spread		2.94%			3.05%			2.97%	
Net Interest Income	\$37,393			\$39,848			37,739		
Net Interest Margin		3.12%			3.27%			3.30%	

- (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, \$155 and \$168 for 2010, 2009 and 2008 respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.
- (2) Taxable-equivalent adjustments totaling \$48, \$127 and \$198 for 2010, 2009, and 2008 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, 2010. 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	4 to 12		1 to 5	Over 5	
	or Less	Months	1 Year	Years	Years	Total
EARNING ASSETS:						
Interest-bearing Deposits	\$ 50,727	\$ ---	\$ 50,727	\$ ---	\$ ---	\$ 50,727
Federal Funds Sold	32,536	---	32,536	---	---	32,536
Investment Securities	1,017	15,171	16,188	209,532	78,166	303,886
Loans, Net of Unearned Income	335,774	181,483	517,257	286,113	9,819	813,189
Other Interest-bearing Assets	6,064	---	6,064	---	---	6,064
Securities Purchased Under Agreements To Resell	<u>5,000</u>	<u>---</u>	<u>5,000</u>	<u>---</u>	<u>---</u>	<u>5,000</u>
Total Interest-earning Assets	<u>431,118</u>	<u>196,654</u>	<u>627,772</u>	<u>495,645</u>	<u>87,985</u>	<u>1,211,402</u>
INTEREST-BEARING LIABILITIES:						
Interest-bearing Demand Deposits (1)	235,855	---	235,855	---	---	235,855
Savings (1)	36,630	---	36,630	---	---	36,630
Time Deposits	127,300	353,146	480,446	203,054	180	683,680
Other Borrowings (2)	4,076	---	4,076	41,000	30,000	75,076
Subordinated Debentures	24,229	---	24,229	---	---	24,229
Securities Sold Under Agreement To Repurchase	<u>---</u>	<u>20,000</u>	<u>20,000</u>	<u>---</u>	<u>---</u>	<u>20,000</u>
Total Interest-bearing Liabilities	<u>428,090</u>	<u>373,146</u>	<u>801,236</u>	<u>244,054</u>	<u>30,180</u>	<u>1,075,470</u>
Interest Rate-Sensitivity Gap	<u>3,028</u>	<u>(176,492)</u>	<u>(173,464)</u>	<u>251,591</u>	<u>57,805</u>	<u>135,932</u>
Cumulative Interest-Sensitivity Gap	<u>\$3,028</u>	<u>\$(173,464)</u>	<u>\$(173,464)</u>	<u>\$78,127</u>	<u>\$135,932</u>	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	<u>0.25%</u>	<u>(14.57)%</u>	<u>(14.32)%</u>	<u>20.77%</u>	<u>4.77%</u>	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	<u>0.25%</u>	<u>(14.32)%</u>	<u>(14.32)%</u>	<u>6.45%</u>	<u>11.22%</u>	

(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.

The foregoing table indicates that we had a one year negative gap of (\$173) million, or (14.32) percent of total assets at December 31, 2010. In theory, this would indicate that at December 31, 2010, \$173 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 non-rate funding sources. The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move slowly and usually incorporate only a fraction of the change in rates. Products categorized as non-rate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. Also, 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 FTN Financial 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 December 31, 2010 indicates that net interest income would deteriorate 22.79 percent with a 200 basis point decrease and would improve 9.82 percent with a 200 basis point increase. Though slightly outside policy, the increased exposure to declining rates is mitigated by the low likelihood of a further decline of 200 basis points from the current rate levels. The Company has established equity at risk in a +/- 200 basis point rate shock to be no more than a twenty percent percentage change. The most recent analysis as of December 31, 2010 indicates that net economic value of equity percentage change would decrease 3.91 percent with a 200 basis point increase and would decrease 12.43 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 December 31, 2010 indicates a one year gap of 0.89 percent. The analysis reflects net interest margin compression in a declining interest rate environment. Given that interest rates have basically "bottomed-out" with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2011. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing certificates of deposit for longer terms 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		
	2010	2009	2008
Return on Average Assets(1)	(0.07)%	(1.60)%	0.17%
Return on Average Equity(1)	(0.98)	(19.45)	2.40
Dividend Payout	NM(2)	NM(2)	139.29
Equity to Assets	7.29	6.83	6.64
Dividends Declared	\$0.00	\$0.146	\$0.39

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

(2) Not meaningful due to net loss recorded.

Future Outlook

During the past three years, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country. Focus during 2010 and again in 2011 will be directed toward addressing and bringing resolution to problem assets.

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

Business

Recent Developments

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

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

The Bank has also agreed to have and maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10%. At December 31, 2010, the Bank's capital ratios were 8.30% and 14.39%, respectively.



*"The great thing in this
world is not so much
where we stand, as in what
direction we are moving."*

- Oliver Wendell Holmes

Market Makers For Colony Bankcorp, Inc.
Common Stock

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

Morgan Keegan & Co.
Trey Kilpatrick, Vice President
Atlanta, Georgia
800-669-3469

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

Colony Bankcorp, Inc. common stock is quoted
on the NASDAQ Global Market under the
symbol "CBAN."

**Colony Bankcorp, Inc.
Shareholder Information**

Corporate Headquarters:
Colony Bankcorp, Inc.
P.O. Box 989
115 South Grant Street
Fitzgerald, Georgia 31750
229-426-6000

Annual Meeting

Tuesday, May 24, 2011 at 2:00 p.m.
Colony Bankcorp, Inc.
115 South Grant Street
Fitzgerald, Georgia 31750

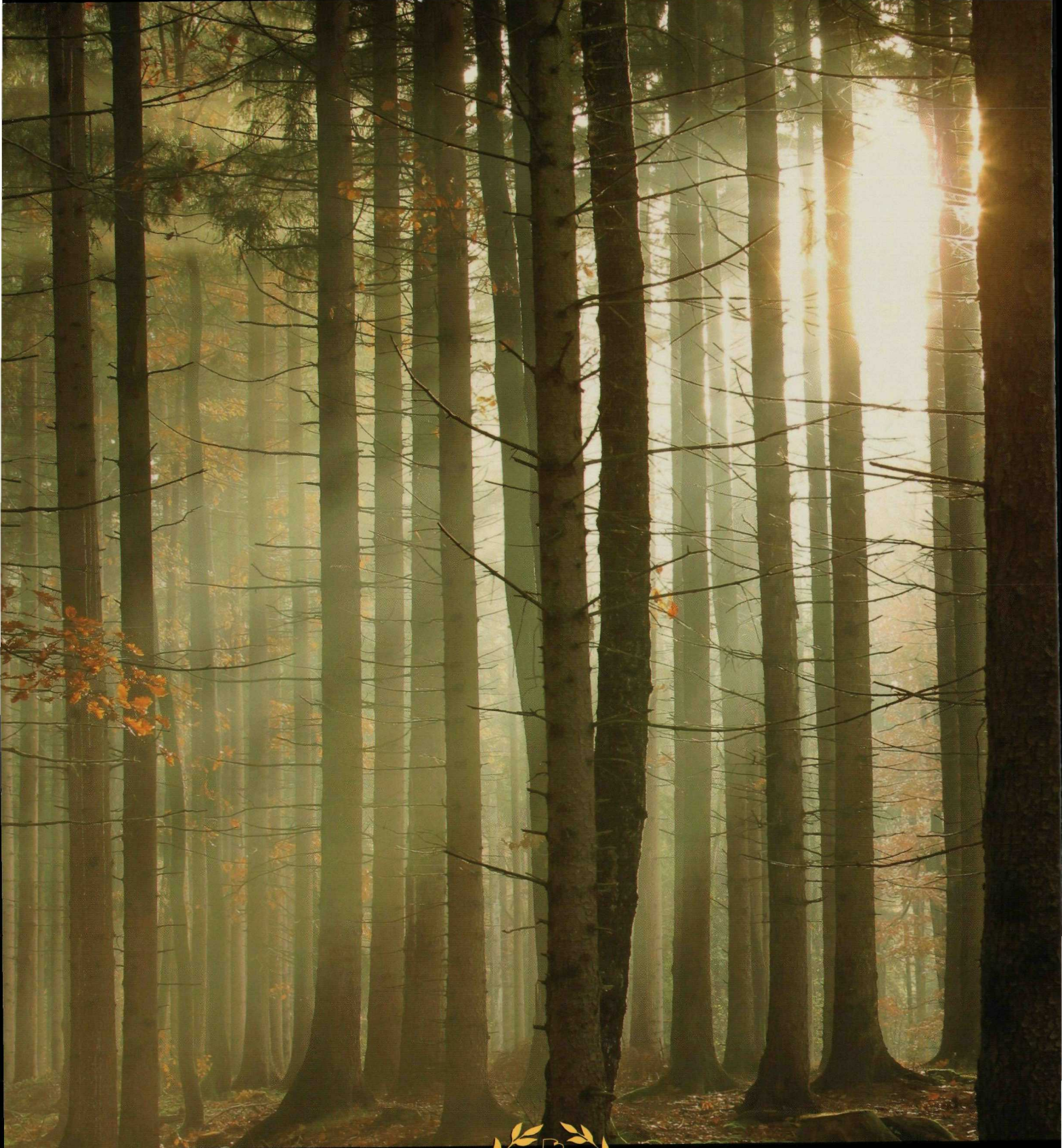
Independent Auditors:

McNair, McLemore, Middlebrooks & Co., LLP
P.O. 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:

American Stock Transfer & Trust Company
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59 Maiden Lane, Plaza Level
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