



2011 ANNUAL REPORT

Close to home. Close to you.



Table of Contents

Introduction.....	1	Emeritus Directors	5
Letter to Shareholders.....	2	Colony Bank Market Areas and Management	6-16
Financial Summary	3	Consolidated Financial Statements	17
Board of Directors.....	4		

The financial industry in America is undergoing a transition. In 1997, there were 9,143 commercial banks serving US households and businesses. In 2011, due to an unprecedented velocity of consolidation, that number is 6,413. In short, as the five largest US banks continue to expand, there are fewer community banks today. In addition, credit unions have enjoyed growth opportunities as all banks have had to deal with the lingering negative images of Wall Street investment bank behavior.



In the midst of this environment Colony Bank has re-dedicated itself to defining and exemplifying the core mission of a community bank: To be close to our customers, geographically and personally through strong, trusted relationships.

This report reflects how our Company has accepted the challenges of change while holding fast to the principles that make us engines for our customers' growth and success.





Letter to the Shareholders.

On behalf of every director, officer, and employee of Colony Bankcorp, Inc., we want to thank you for your support of our company during 2011. The financial services industry continues to experience many challenges and adversities as we adapt to the outcome of financial reform law passed by Congress. Colony has continued to successfully resolve post-recession credit issues and maintain a healthy level of capital to allow for sustained strength and future growth.

We are cautiously optimistic that our nonperforming assets have peaked and our pre-tax, pre-provision core earnings continue to provide solid support for the credit-related expenses needed to address our problem assets, many of which were triggered by asset quality deterioration associated with the housing and real estate downturn and the economy in general. We still have much work ahead in reducing our problem assets to an acceptable level and returning to our accustomed earnings standards, but we feel that much was accomplished toward making incremental progress in 2011.

Colony continues to maintain a favorable capital position to be categorized as “well-capitalized” by regulatory benchmarks. With anemic loan demand continuing to affect net interest margin, the Company remains focused on maximizing its net interest margin through deposit and loan pricing discipline. Restructuring of some substandard and nonperforming loans during 2011 resulted in significant charge offs, but aligns with our strategy to bring resolution with these credits and a return to performing status in the future.

Colony also remains focused on providing quality products and exceptional service in the markets we serve. As a preferred lender with SBA, the Company was successful in generating over \$11 million in SBA guaranteed loans during 2011. We have also focused on our eService products to help make it more convenient for our customers with electronic banking and enhanced Remote Deposit Service.

Colony is proud of the partnership with all our offices and feels that the communities they serve are “Close to home, Close to you”. It demonstrates our business model, and supports the fact that America is fundamentally built upon agriculture, small business and close-knit communities that thrive by leveraging trusted partnerships with bankers who, because we live and work together, have vested interest

in their success. We encourage you to read our Market Highlights on the following pages, which detail examples of the deep relationships and success stories generated by our superior team. The company is a strong and enduring example of how a true community bank provides the support and synergy for the growth and success of the families, individuals and businesses we serve.

We also want to express our deep appreciation and sincere gratitude to Mr. Morris Downing for his commitment to the company for the past seventeen years. Mr. Downing tendered his resignation as Chairman of the Board this year due to personal health issues. His experience in business, management and exemplary leadership has been extremely valuable to our Company’s success.

As we move into 2012, we realize that we have challenges and opportunities for our Company. Our success to date is the result of the dedicated efforts of our staff, which is our most valuable resource and will ensure our future success as well. We look forward to economic recovery that will support improvement for both our customers and shareholders. Colony Bank remains dedicated to defining and exemplifying the core mission of a community bank.

Again, on behalf of our board of directors, officers and staff, we want to say thank you for your trust, support and confidence in our plans to improve future performance.



James D. Minix
President and
Chief Executive Officer



B. Gene Waldron
Chairman of the Board

With Deep Appreciation . . .

L. Morris Downing, Jr.

1994-2012
Director of Colony Bankcorp, Inc.

1994-2012
Chairman, Colony Bankcorp, Inc.



Financial Summary

2011 Key Performance Indicators

Years Ended December 31, 2011 and 2010

Dollar amounts in thousands except per share data	2011	2010	Percent Change
Total Assets	\$1,195,376	\$1,275,658	(6.29)%
Total Deposits	\$999,985	\$1,059,124	(5.58)%
Loans (Net of Unearned Income)	\$716,264	\$813,189	(11.92)%
Net Income	\$1,133	\$(926)	222.46%
Per Share Data:			
Basic Earnings	\$0.13	\$(0.11)	218.18%
Common Book Value/Share	\$8.17	\$7.75	5.42%



James D. Minix
President and
Chief Executive Officer



B. Gene Waldron
Chairman of the Board

Key Trends

A Historical Comparative

Years Ending	2011	2010	2009	2008	2007
Net Income (in thousands)	\$1,133	\$(926)	\$(20,549)	\$2,029	\$8,547
Return on Average Shareholders' Equity	1.20%	(0.98)%	(19.45)%	2.40%	10.60%
Diluted Earnings Per Share	\$0.13	\$(0.11)	\$(2.85)	\$0.28	\$1.19

Return on Average Assets

2011	2010
0.09%	(0.07)%

Net Interest Margin

2011	2010
3.11%	3.12%



Board of Directors



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



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



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



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



Charles E. Myler
Retired FDIC
Albany, Georgia



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



Mark H. Massee
President
Massee Builders, Inc.
Mayor of City of Fitzgerald
Fitzgerald, Georgia



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



Scott L. Downing
President
SDI, Investments
Fitzgerald, Georgia



**Michael Frederick
(Freddie) Dwozan, Jr.**
President/CEO/Owner
Medical Center
Prescription Shop
Eastman, Georgia



Davis W. King, Jr.
Chairman/President
King Enterprise &
Associates, Inc.
Albany, Georgia

Directors Emeritus



L. Morris Downing, Jr.



Harold Kimball



Ben B. Mills



Marion H. Massee, IIII



Ralph D. Roberts, MD



Joe K. Shiver





“*Welcome.*

Colony Bank invites you to get to know a little more deeply who we are, and who we serve. The clients shown represent the wide scope of financial solutions we provide to serve our entire footprint. We're honored to be a part of their growth and success. ”

West Market

Eddie Hoyle, EVP, Regional Executive Officer

Hoyle, a native of Northeast Georgia and a member of the Colony Bank team since 2011, is responsible to lead and direct the City Presidents in the West Division with banking operations, loan and deposit portfolios, and overall financial performance of their respective banks. An integral part of this position is a skill set that includes a high level of communication, focus and follow-up. Hoyle provides support and assistance for each West Market location to realize priorities, reach goals, and successfully execute community activities in each market. To do this, he meets regularly with Colony Bank City Presidents and their Advisory Board of Directors.

West Division:

Cordele
Sylvester
Albany/Leesburg
Columbus
Thomaston
Moultrie
Warner Robins/Centerville
Tifton
Ashburn



“I enjoy the challenges associated with execution of the Colony Business Plan as it relates to increasing profitability and market share in the West Division.”

— EDDIE HOYLE

Market Highlights: Albany/Leesburg

Homestyle Home Financing

Colony Bank is pleased to have provided the financing on the MeadowLark Commons apartment complex. Pictured is the first phase which adds 40 new apartment units to the Albany area. Two additional phases are planned which would add 80 more units, and we look forward to assisting in the financing of these phases as well.

Civic Charitable Citizenship

Colony Bank is a member of the Dougherty County and the Lee County Chambers of Commerce. The bank is represented in Leadership Albany, Leadership Lee, and the Economic Development Committee of the Albany Chamber.

Colony Bank was the 2011 co-sponsor of the Lee County Chamber Eggs & Issues breakfast which recognized the Star Student and the Star Teacher for the Lee County School System.

Colony Bank is also involved with: Alzheimer's Association; Toys for Tots; One Warm Coat; Relay for Life; March of Dimes and Megan's House.



Phil Franklin, City President, Ledo/Leesburg/Chehaw offices.



Market Highlights: Ashburn

Proud to Serve Turner County

Colony Bank Ashburn is proud to partner with the families, farmers and agricultural businesses in the Ashburn community and Turner County.

The management team and the staff are also proud to be active corporate citizens in our market. One example of our community support was our conversion of additional land behind the bank to build Heritage Park for the Turner community, which is used several times a year for events such as the Fire Ant Festival, weddings, parties and church events.

Our team also participates in Relay for Life, the Chamber of Commerce, Turner County Young Farmers, Teen Maze, scholarships and numerous civic events, including the Christmas Parade and Peanut Bank Week.



Ricky Freeman, Colony Bank City President at Ashburn office during a visit to Steve and Stewart Whelchel's farm.

Market Highlights: Columbus



John Roberts, Colony Bank Market President, far left, with **Derek Humphries**, **David Young** and **Dick Norman**, in front of their newest Zaxby's restaurant on Auburn Avenue in Columbus, Georgia. Mr. Humphries, Mr. Young, and Mr. Norman also own three additional Zaxby's Restaurants financed by Colony Bank.

Columbus: Population: 200,000

Muscogee County seat (the only city in Georgia to have consolidated city and county governments)

Muscogee County is also home to Fort Benning, the world's largest infantry training center. It is the home of the United States Army Infantry Schools, the Airborne and Ranger Schools and Armor School.

Major Employers: Fort Benning, Muscogee County School District, TSYS and AFLAC.

Economic Development: In 2012, Columbus will open a \$23 million whitewater rafting course on the Chattahoochee River.



Market Highlights: Cordele

Working Together

The Advisory Board of Directors has been instrumental in growing the Cordele office through referrals and their involvement in the community.

David Rainwater – Attorney at Law

Billy Griffin – Lumber Manufacturing

Charles Clark – Medical Sales

Russell Adams – Pharmacist

Phil Berryman – Chemical Manufacturing

Noel Williams, Jr. – Insurance Executive

Jonathan Lafevers – Intermodal Transportation

Industry Recruitment

Cordele Intermodal Services, Helena Industries, Chexar, Big Tex, Owens Corning, Development of South Georgia Technical College, Darton College.

Recognition

The Georgia Bankers Association recognized our Cordele Office as an Outstanding Bank for service to their Financial Literacy Program.



Left to right: **Bruce Drennan**, Executive Director of the Cordele-Crisp IDC; **Jonathan Lafevers**, Chief Commercial Officer of Cordele Intermodal Services, Inc.; and **Bob Evans**, City President for Colony Bank in Cordele on site at the new Inland Port facility.

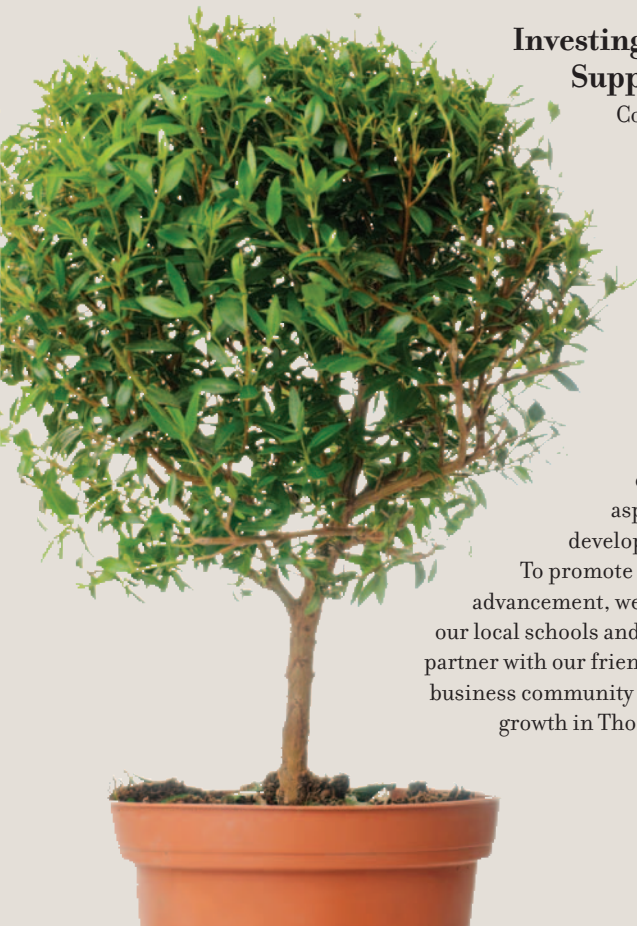
Market Highlights: Thomaston

Investing In The Future By Supporting Education

Colony Bank is one of four banks serving the Thomaston market. Our staff is very involved in promoting small business in Thomaston through active participation in and support of the local Chamber of Commerce.

We have also targeted education as an important aspect of the future development of our community.

To promote and encourage educational advancement, we have invested heavily in our local schools and colleges. We are proud to partner with our friends in the education and business community to help build pride and growth in Thomaston and Upson County.



Colony Bank City President, **Peter (Tony) Chiri**, at the Thomaston location.



Market Highlights: Tifton

Serving Tifton and Tift County

The Tifton Colony Bank team is proud to serve the farmers, families and businesses in Tifton and Tift County.

Our staff is actively involved in the Chamber of Commerce with Bill Marsh serving on the Chamber Board, and Susan Warren and Sheila Davis serving as Chamber Ambassadors. Both ladies were recognized in 2011 for their exemplary participation in Chamber events.

We're also proud to be a business partner with Tift County High School and a committed partner in charitable endeavors, as exemplified by our 100% participation in the 2011 Relay for Life.

Reid Jones, Tiffany Jones and William E. Marsh, Jr., Colony Bank City President. Reid and Tiffany own Southern Growers Insurance and provide crop insurance to many of the farmers in our area. Reid also farms and is involved in Chula Peanut & Grain as well as Tifton Quality Peanuts.



Market Highlights: Moultrie

Growing Relationships For More Than a Decade

On August 1, 2000, Colony Bank opened a beautiful new facility in Moultrie. Since then Colony Bank Moultrie has formed many loyal and long-lasting banking relationships; one of these is Live Oak Veterinary Hospital. Colony partnered with Live Oak Veterinary Hospital to construct a state-of-the-art veterinary hospital. Colony Bank Moultrie stands committed to continuing to build more relationships such as this, as well as supporting many civic activities in the area, including school functions, and the arts program.

Dr. Marty Mathis, owner of Live Oak Veterinary Hospital, and John Gandy, Colony Bank City President.



Market Highlights: Sylvester



Partnering with Georgia Farmers

Heywood, Allen, Laney and DeWayne are all long-time farmers and long-time Colony Bank customers. At 79, Heywood has been farming more than 50 years. Allen and his son DeWayne have a farming operation in the southern part of Worth County. They farm peanuts and cotton and carry on a father/son operation as many do in our area. Laney has been farming for more than 35 years in Dougherty and Worth County with land that has been in his family since the 1840s. His daughters are the 6th generation of this farm family.

Our City President has been in the agri-financing business in south Georgia for more than 38 years.

Walter P. Patten, Colony Bank City President, center, with Colony Bank customers (left to right) Heywood Apperson, Allen Strenth, Laney Wooten and DeWayne Strenth.

Market Highlights: Warner Robins/Centerville

Lifetime Friendships and The Spirit of Service

Kirk, Vernard and Terrence first met in high school, and as adults all are members of Rotary International. The friendship became a partnership when Colony Bank had the opportunity to help the two veterinarians, Dr. Hodges and Dr. Ferguson, re-finance their offices and purchase additional equipment. During the 2011 Christmas season, the bank and staff helped Dr. Hodges with his It Takes a Village Foundation, providing Christmas gifts to needy children within the community.

The bank's team is also active with its support of Relay for Life and the American Cancer Society.

The most fun part of banking? According to Kirk is building lasting friendships with people and having the opportunity to make a difference within your community.



Colony Bank Market President, Kirk Scott with Dr. Vernard Hodges and Dr. Terrence Ferguson of Critter Fixer.



East Market

Lee A. Northcutt, EVP, Regional Executive Officer

Lee, a native of Valdosta, Georgia and a member of the Colony Bank team since 2009, is responsible to lead and direct the City Presidents in the East Division with banking operations, loan and deposit portfolios, and overall financial performance of the respective banks. An integral part of this position is a skill set that includes a high level of communication, focus and follow-up. Lee provides support and assistance for each East Market location to realize priorities, reach goals, and successfully execute community activities in each market. To do this, he meets regularly with Colony Bank City Presidents and their Advisory Board of Directors.

East Division:

Douglas/Broxtton
Eastman/Chester/Soperton
Valdosta
Quitman
Savannah
Rochelle/Pitts
Fitzgerald



“I am pleased to be associated with a dynamic team of bankers that are dedicated to their respective markets and the growth strategies the company has adopted.”

— LEE A. NORTH CUTT

Market Highlights: Fitzgerald



Serving Businesses That Help Protect The Environment

We are pleased to have as one of our commercial clients, Enviro-Log, Inc., an eco-friendly consumer products and recycling company located in Fitzgerald, Georgia. The company manufactures fire logs nationally for customers such as Walmart, Home Depot and Lowes.

Enviro-Log, Inc. owners **Ross McRoy**, left; and **Allen Conger**, right, are joined by Colony Bank's Fitzgerald City President, **Mark Turner**.



Market Highlights: Quitman

Customer Service, Community Service

In addition to serving customers like the Basshams, our bank team also serves our community by participating in Relay for Life, the Boys and Girls Club, Destination Brooks, the Brooks-Quitman Chamber of Commerce and Public Library, the FERST Foundation, local schools and Brooks County Board of Education, as well as the Quitman-Brooks Kiwanis Club.



Bill Durham, right, Colony Bank City President, with Dr. Dennie Bassham, a local veterinarian, who with his brother, Hugh, continue an animal care practice started by their father more than 40 years ago. Dennie has been a Colony Bank customer since 2002.



Market Highlights: Rochelle/Pitts



Rooted in Agriculture

The economic and social base of our market is agriculture. Our bank is proud to partner with local producers who also join our bankers as leaders in the community.

The Colony team models responsible corporate citizenship by their participation in Relay for Life, the Young Farmer program, FFA programs, Elementary School Council, sponsoring the retired educators luncheon and working the concessions at high school football games.

From left to right: **Bob McLeod**, owner-operator of Pineview Peanut, **Ronnie Conner**, co-owner of Southern Renewable Resources, Colony Bank City President **Nic Worthy**, and **Bobby Gibbs**, Tax Commissioner of Wilcox County.

In addition, Bob and Ronnie each have row crop operations and Bobby runs a cattle operation.



Market Highlights: Savannah

Myrick Marine Contracting Corporation is a commercial and industrial maritime construction company that services Georgia, South Carolina, Florida and The Bahamas. The company was founded in 1988 by Bob Myrick. In 2011 Myrick Marine Contracting was recognized for a second consecutive year as a “Bulldog 100, Fastest Growing Bulldog Businesses” in America.

Bob Myrick moved his entire banking relationship to Colony Bank from a local competing community bank, based on a long-time banking relationship with Colony Market President Tommy Hester. He and his Company utilize many of Colony Bank’s services including checking accounts, business line of credit, Remote Deposit Capture, ACH transactions, and Internet Banking.

“The success of our business can be attributed to many things, one of which is the close relationship we have enjoyed with our banker through the years. We consider Colony Bank part of our team because they continue to help us grow and prosper.”

— BOB MYRICK, PRESIDENT OF MYRICK MARINE CONTRACTING CORP.



Tommy Hester, Colony Bank Market President and Bob Myrick, president of Myrick Marine.

Market Highlights: Douglas/Broxtown



From left: Scott Miller, Colony Bank City President, and Mike Wills, Veterinarian and Owner, Lindsey & Wills Animal Hospital.

Serving Coffee County

The Coffee County market serves a diverse customer base. Our community houses industries ranging from agriculture, water bottling, processing, industrial manufacturing, and professional service corporations. Our larger industry partners in this community include Pilgrims Pride, Walmart Distribution, Coffee Regional Hospital, and the Coffee County Board of Education. We are also proud to serve small businesses like Mike Wills (pictured), a local veterinarian, who owns Lindsey & Wills Animal Hospital.

Our staff at the Broxtown and Douglas offices are proud to provide services for our neighbors and friends. The current state of the economy is ever-changing and often unpredictable but Colony Bank is always looking for ways to improve customer service, and is prepared to embrace and meet the challenges of the future for our customers.



Market Highlights: Eastman/Chester/ Soperton

Building Healthy Local Economies

In addition to his Colony Bank responsibilities, City President Butch Kirkley is Chairman of the Chamber Board of Directors. His personal goal is to take the Chamber to another level of service to its members through improved communication, and to reorganize the Chamber's committee structure and Board functions to improve efficiency that allows an increased focus on local economic development in the Eastman Dodge County market.

The bank staff is highly involved in the community as well through Rotary Club, Lions Club, the local Fall Festival, and sponsorships of recreation sports teams.



Left to Right: **Rebecca McWilliam**, Tourism Director, **Judy Madden**, Chamber CEO and **Kori Peterson**, Welcome Center Manager.
Seated: **James E. (Butch) Kirkley**, Colony Bank City President.

Market Highlights: Valdosta

Experience. Knowledge. Service.

Colony Bank has two full-service locations in Valdosta to serve the Lowndes County area. Our officers and staff grew up in this area and have a combined 194 years of banking experience and knowledge to help our valuable customers like Keith and his team at Automotive Transfers.

Our employees are very active in the community, participating on boards of various civic clubs and non-profit organizations. They are also involved in Partners in Education, Relay for Life, and Toys for Tots fund-raisers.



Edward G. Smith, III, (right) Colony Bank City President with **Keith Trumm**, Owner of Automotive Transfers, Inc. Automotive Transfers has been in Valdosta for more than 12 years and employs over 35 employees. When they were in need of a new location, Colony Bank was able to help with the construction of their new 9500-square-foot office building which was completed in October 2011. Many of their employees are Colony Bank customers as well.





McNAIR, McLEMORE, MIDDLEBROOKS & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS

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March 15, 2012

**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, 2011 and 2010 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, 2011. 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, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 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, 2011 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>2011</u>	<u>2010</u>
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 28,380,368	\$ 16,613,187
Federal Funds Sold	54,991,474	32,536,482
Securities Purchased Under Agreements to Resell	-	5,000,000
	<u>83,371,842</u>	<u>54,149,669</u>
Interest-Bearing Deposits	<u>28,957,310</u>	<u>50,726,734</u>
Investment Securities		
Available for Sale, at Fair Value	303,890,847	303,837,606
Held to Maturity, at Cost (Fair Value of \$45,635 and \$52,941 as of December 31, 2011 and 2010, Respectively)	<u>46,111</u>	<u>48,412</u>
	<u>303,936,958</u>	<u>303,886,018</u>
Federal Home Loan Bank Stock, at Cost	<u>5,398,200</u>	<u>6,063,500</u>
Loans	716,321,321	813,250,673
Allowance for Loan Losses	(15,649,594)	(28,280,077)
Unearned Interest and Fees	<u>(57,646)</u>	<u>(61,311)</u>
	<u>700,614,081</u>	<u>784,909,285</u>
Premises and Equipment	<u>25,750,235</u>	<u>27,147,725</u>
Other Real Estate (Net of Allowance of \$1,411,061 and \$1,293,174 in 2011 and 2010, Respectively)	<u>20,445,085</u>	<u>20,207,806</u>
Other Intangible Assets	<u>259,258</u>	<u>295,007</u>
Other Assets	<u>26,643,467</u>	<u>28,272,629</u>
Total Assets	<u><u>\$1,195,376,436</u></u>	<u><u>\$1,275,658,373</u></u>

See accompanying notes which are an integral part of these financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2011</u>	<u>2010</u>
Deposits		
Noninterest-Bearing	\$ 94,268,911	\$ 102,959,423
Interest-Bearing	<u>905,716,361</u>	<u>956,164,581</u>
	<u>999,985,272</u>	<u>1,059,124,004</u>
Borrowed Money		
Securities Sold Under Agreements to Repurchase	-	20,000,000
Subordinated Debentures	24,229,000	24,229,000
Other Borrowed Money	<u>71,000,000</u>	<u>75,076,010</u>
	<u>95,229,000</u>	<u>119,305,010</u>
Other Liabilities	<u>3,549,354</u>	<u>4,270,776</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,662,476	27,505,910
Common Stock, Par Value \$1; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,442,958 Shares as of December 31, 2011 and 2010, Respectively	8,439,258	8,442,958
Paid-In Capital	29,145,094	29,171,087
Retained Earnings	29,456,240	28,479,211
Restricted Stock - Unearned Compensation	-	(40,794)
Accumulated Other Comprehensive Income (Loss), Net of Tax	<u>1,909,742</u>	<u>(599,789)</u>
	<u>96,612,810</u>	<u>92,958,583</u>
Total Liabilities and Stockholders' Equity	<u><u>\$1,195,376,436</u></u>	<u><u>\$1,275,658,373</u></u>

See accompanying notes which are an integral part of these financial statements.

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

	2011	2010	2009
Interest Income			
Loans, Including Fees	\$44,460,149	\$ 51,728,665	\$ 57,620,911
Federal Funds Sold and Securities Purchased Under Agreements to Resell	114,794	95,428	24,438
Deposits with Other Banks	45,646	38,085	553
Investment Securities			
U. S. Government Agencies	6,873,296	6,613,030	7,626,856
State, County and Municipal	160,892	103,133	258,545
Corporate Obligations	91,034	137,831	296,273
Dividends on Other Investments	47,001	21,547	19,846
	<u>51,792,812</u>	<u>58,737,719</u>	<u>65,847,422</u>
Interest Expense			
Deposits	12,950,229	17,212,312	21,642,734
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	337,711	721,044	876,484
Borrowed Money	3,517,633	3,589,847	3,761,924
	<u>16,805,573</u>	<u>21,523,203</u>	<u>26,281,142</u>
Net Interest Income	34,987,239	37,214,516	39,566,280
Provision for Loan Losses	8,250,000	13,350,000	43,445,000
Net Interest Income (Loss) After Provision for Loan Losses	<u>26,737,239</u>	<u>23,864,516</u>	<u>(3,878,720)</u>
Noninterest Income			
Service Charges on Deposits	3,244,536	3,597,416	4,198,019
Other Service Charges, Commissions and Fees	1,311,758	1,139,935	986,392
Mortgage Fee Income	265,636	313,005	447,989
Securities Gains	2,923,601	2,617,062	2,625,867
Gain on Sale of SBA Loans	946,732	1,004,585	140,122
Other	1,258,813	1,334,846	1,145,798
	<u>9,951,076</u>	<u>10,006,849</u>	<u>9,544,187</u>
Noninterest Expenses			
Salaries and Employee Benefits	14,632,693	14,096,698	14,483,306
Occupancy and Equipment	3,997,667	4,422,152	4,287,006
Directors' Fees	466,075	495,950	502,575
Legal and Professional Fees	1,186,884	1,369,864	1,362,536
Foreclosed Property	4,045,245	4,943,530	2,270,792
FDIC Assessment	1,828,799	1,866,956	2,662,042
Goodwill Impairment	-	-	2,412,338
Advertising	508,329	743,278	758,458
Software	660,120	630,543	498,657
Telephone	735,758	703,786	764,373
Other	4,989,267	4,583,606	4,842,139
	<u>33,050,837</u>	<u>33,856,363</u>	<u>34,844,222</u>
Income (Loss) Before Income Taxes (Benefits)	3,637,478	15,002	(29,178,755)
Income Taxes (Benefits)	<u>1,103,883</u>	<u>(459,214)</u>	<u>(9,994,881)</u>
Net Income (Loss)	2,533,595	474,216	(19,183,874)
Preferred Stock Dividends	1,400,000	1,400,000	1,365,000
Net Income (Loss) Available to Common Stockholders	<u>\$ 1,133,595</u>	<u>\$ (925,784)</u>	<u>\$(20,548,874)</u>
Net Income (Loss) Per Share of Common Stock			
Basic	<u>\$ 0.13</u>	<u>\$ (0.11)</u>	<u>\$ (2.85)</u>
Diluted	<u>\$ 0.13</u>	<u>\$ (0.11)</u>	<u>\$ (2.85)</u>
Cash Dividends Declared Per Share of Common Stock	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.146</u>
Weighted Average Shares Outstanding	<u>\$ 8,439,258</u>	<u>8,149,217</u>	<u>7,213,430</u>

See accompanying notes which are an integral part of these financial statements.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Income (Loss)	<u>\$ 2,533,595</u>	<u>\$ 474,216</u>	<u>\$(19,183,874)</u>
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	4,439,108	1,227,281	1,257,136
Reclassification Adjustment	<u>(1,929,577)</u>	<u>(1,727,261)</u>	<u>(1,733,072)</u>
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	<u>2,509,531</u>	<u>(499,980)</u>	<u>(475,936)</u>
Comprehensive Income (Loss)	<u><u>\$ 5,043,126</u></u>	<u><u>\$ (25,764)</u></u>	<u><u>\$(19,659,810)</u></u>

See accompanying notes which are an integral part of these financial statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	<u>Preferred Stock</u>	<u>Shares Issued</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Restricted Stock - Unearned Compensation</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
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)
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 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		1,216,545	1,216,545	3,861,710				5,078,255
Forfeiture of Restricted Stock		(2,750)	(2,750)	(27,570)		30,320		-
Tax Loss on Restricted Stock				(55,966)				(55,966)
Amortization of Unearned Compensation						87,434		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					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
Forfeiture of Restricted Stock		(3,700)	(3,700)	(25,993)		29,693		-
Amortization of Unearned Compensation						11,101		11,101
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							2,509,531	2,509,531
Accretion of Fair Value of Warrant	156,566				(156,566)			-
Dividends on Preferred Shares					(1,400,000)			(1,400,000)
Net Income					2,533,595			2,533,595
Balance, December 31, 2011	<u><u>\$27,662,476</u></u>	<u><u>8,439,258</u></u>	<u><u>\$8,439,258</u></u>	<u><u>\$29,145,094</u></u>	<u><u>\$29,456,240</u></u>	<u><u>\$ -</u></u>	<u><u>\$1,909,742</u></u>	<u><u>\$ 96,612,810</u></u>

See accompanying notes which are an integral part of these financial statements.

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

	2011	2010	2009
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 2,533,595	\$ 474,216	\$ (19,183,874)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided from Operating Activities			
Depreciation	1,790,041	2,140,735	2,092,845
Amortization and Accretion	3,487,124	4,043,795	3,807,011
Goodwill Impairment	-	-	2,412,338
Provision for Loan Losses	8,250,000	13,350,000	43,445,000
Deferred Income Taxes	867,006	639,607	(5,869,055)
Securities Gains	(2,923,601)	(2,617,062)	(2,625,867)
(Gain) Loss on Sale of Premises and Equipment	3,668	28,146	(82,503)
Loss on Sale of Other Real Estate and Repossessions	1,106,479	1,827,704	163,642
Provision for Losses on Other Real Estate	1,411,061	1,293,174	467,408
Increase in Cash Surrender Value of Life Insurance	(174,289)	(56,024)	(184,905)
Change In			
Interest Receivable	739,423	1,325,068	699,018
Prepaid Expenses	1,861,810	2,006,032	(5,785,826)
Interest Payable	(398,903)	(452,764)	(1,256,460)
Accrued Expenses and Accounts Payable	(405,612)	(148,591)	315,879
Other	(2,987,906)	3,500,575	(3,360,614)
	15,159,896	27,354,611	15,054,037
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	21,769,424	(44,247,933)	(6,331,814)
Purchase of Investment Securities			
Available for Sale	(381,284,748)	(380,490,982)	(488,257,181)
Proceeds from Sale of Investment Securities			
Available for Sale	342,672,937	286,387,727	368,575,701
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	41,978,769	55,648,274	58,599,391
Held to Maturity	12,565	14,001	12,688
Proceeds from Sale of Premises and Equipment	1,605	-	125,512
Net Loans to Customers	63,267,200	88,105,734	(18,973,081)
Purchase of Premises and Equipment	(397,825)	(490,256)	(1,290,324)
Proceeds from Sale of Other Real Estate and Repossessions	9,991,792	9,866,063	12,158,095
Federal Home Loan Bank Stock	665,300	281,900	(73,000)
	98,677,019	15,074,528	(75,454,013)
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	(50,448,220)	(17,183,061)	43,853,063
Noninterest-Bearing Customer Deposits	(8,690,512)	18,720,584	6,741,949
Proceeds from Other Borrowed Money	-	23,076,010	19,000,000
Principal Payments on Other Borrowed Money	(4,076,010)	(39,000,000)	(19,000,000)
Dividends Paid on Preferred Stock	(1,400,000)	(1,400,000)	(1,190,000)
Dividends Paid on Common Stock	-	-	(1,760,665)
Issuance of Common Stock	-	5,078,255	-
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	(20,000,000)	(20,000,000)	(2,274,000)
Proceeds Allocated to Issuance of Preferred Stock	-	-	27,215,218
Proceeds Allocated to Warrants Issued	-	-	784,782
	(84,614,742)	(30,708,212)	73,370,347
Net Increase in Cash and Cash Equivalents	29,222,173	11,720,927	12,970,371
Cash and Cash Equivalents, Beginning	54,149,669	42,428,742	29,458,371
Cash and Cash Equivalents, Ending	\$ 83,371,842	\$ 54,149,669	\$ 42,428,742

See accompanying notes which are an integral part of these financial 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 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 Company 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 and other intangible assets.

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 2011. 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, 2011, 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 recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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. Securities available for sale includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities (Continued)

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Loans Modified in a Troubled Debt Restructuring (TDR)

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

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The historical component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (1) changes in the composition of the loan portfolio, (2) the extent of loan concentrations within the portfolio, (3) the effectiveness of the Company's lending policies, procedures and internal controls, (4) the experience, ability and effectiveness of the Company's lending management and staff, and (5) national and local economics and business conditions.

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

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

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.

(1) Summary of Significant Accounting Policies (Continued)

Premises and Equipment

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

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

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

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

Intangible Assets

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on 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.

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 Under Agreement to Resell and Securities Sold Under Agreements to Repurchase

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

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

(1) Summary of Significant Accounting Policies (Continued)

Advertising Costs

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

Income Taxes

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

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

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

(1) Summary of Significant Accounting Policies (Continued)

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Adoption of New Accounting Standards

ASU No. 2010-20, “*Receivables (Topic 310) - Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses.*” ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (1) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (3) 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. ASU 2010-20 became effective for the Company’s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company’s financial statements on January 1, 2011. Certain disclosures related to troubled debt restructurings were temporarily deferred by ASU 2011-01, “*Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20,*” and became effective on July 1, 2011 as required by ASU No. 2011-02, “*Receivables (Topic 310) - A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring,*” as further discussed below.

ASU No. 2011-02, “*Receivables (Topic 310) - A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.*” ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (1) the restructuring constitutes a concession; and (2) the debtor is experiencing financial difficulties. ASU 2011-02 became effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011.

(1) Summary of Significant Accounting Policies (Continued)

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

Recently Issued But Not Yet Effective Accounting Standards

ASU No. 2011-03, “*Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements.*” ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company’s consolidated financial statements.

ASU 2011-04, “*Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.*” ASU 2011-04 amends Topic 820, “*Fair Value Measurements and Disclosures,*” to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company’s consolidated financial statements.

ASU 2011-05, “*Comprehensive Income (Topic 220) - Presentation of Comprehensive Income.*” ASU 2011-05 amends Topic 220, “*Comprehensive Income,*” to require that all nonowner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 “*Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,*” as further discussed below. ASU 2011-05 is not expected to have a significant impact on the Company’s consolidated financial statements.

ASU 2011-11, “*Balance Sheet (Topic 210) - “Disclosures about Offsetting Assets and Liabilities.”*” ASU 2011-11 amends Topic 210, “*Balance Sheet,*” to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to 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)

Recently Issued But Not Yet Effective Accounting Standards (Continued)

ASU 2011-12 “Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011 and is not expected to 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>2011</u>	<u>2010</u>
Cash on Hand and Cash Items	\$ 9,271,705	\$ 8,897,618
Noninterest-Bearing Deposits with Other Banks	<u>19,108,663</u>	<u>7,715,569</u>
	<u>\$28,380,368</u>	<u>\$16,613,187</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 \$4,183,000 and \$916,000 at December 31, 2011 and 2010, respectively.

(3) Investment Securities

Investment securities as of December 31, 2011 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	\$291,096,606	\$3,152,095	\$(187,902)	\$294,060,799
State, County and Municipal	7,474,500	132,226	(23,035)	7,583,691
Corporate Obligations	2,000,000	123,930	(10,000)	2,113,930
Asset-Backed Securities	<u>426,191</u>	<u>-</u>	<u>(293,764)</u>	<u>132,427</u>
	<u>\$300,997,297</u>	<u>\$3,408,251</u>	<u>\$(514,701)</u>	<u>\$303,890,847</u>
Securities Held to Maturity				
State, County and Municipal	<u>\$ 46,111</u>	<u>\$ -</u>	<u>\$ (476)</u>	<u>\$ 45,635</u>

(3) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of December 31, 2011, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due After One Year Through Five Years	\$ 2,684,705	\$ 2,830,842	\$46,111	\$45,635
Due After Five Years Through Ten Years	4,473,468	4,550,705	-	-
Due After Ten Years	2,742,518	2,448,501	-	-
	9,900,691	9,830,048	46,111	45,635
Mortgage-Backed Securities	291,096,606	294,060,799	-	-
	<u>\$300,997,297</u>	<u>\$303,890,847</u>	<u>\$46,111</u>	<u>\$45,635</u>

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$299,018,595	\$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	\$ 48,412	\$ 4,529	\$ -	\$ 52,941

Proceeds from sales of investments available for sale were \$342,672,937 in 2011, \$286,387,727 in 2010 and \$368,575,701 in 2009. Gross realized gains totaled \$2,978,193 in 2011, \$2,617,062 in 2010 and \$3,204,669 in 2009. Gross realized losses totaled \$54,592 in 2011, \$0 in 2010 and \$578,802 in 2009.

Nonaccrual securities are securities for which principal and interest are doubtful of collection in accordance with original terms and for which accruals of interest have been discontinued due to payment delinquency. Fair value of securities on nonaccrual status totaled \$132,000 as of December 31, 2011 and 2010.

Investment securities having a carrying value totaling \$136,838,456 and \$123,789,118 as of December 31, 2011 and 2010, respectively, were pledged to secure public deposits and for other purposes.

(3) Investment Securities (Continued)

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2011						
U.S. Government Agencies						
Mortgage-Backed	\$ 26,439,317	\$ (187,902)	\$ -	\$ -	\$ 26,439,317	\$ (187,902)
State, County and Municipal	1,224,119	(21,704)	73,193	(1,807)	1,297,312	(23,511)
Corporate Obligations	-	-	990,000	(10,000)	990,000	(10,000)
Asset-Backed Securities	-	-	132,427	(293,764)	132,427	(293,764)
	<u>\$ 27,663,436</u>	<u>\$ (209,606)</u>	<u>\$1,195,620</u>	<u>\$ (305,571)</u>	<u>\$ 28,859,056</u>	<u>\$ (515,177)</u>
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>

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, 2011, the debt securities with unrealized losses have depreciated 1.75 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations, except for asset-backed securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. 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. However, the Company did own one asset-backed security at December 31, 2011 which has been in a continuous unrealized loss position for more than 12 months. This investment is comprised of one issuance of a trust preferred security, has a book value of \$426,191 and an unrealized loss of \$293,764. Management evaluates this investment on a quarterly basis utilizing a third-party valuation model. The results of this model revealed other-than-temporary impairment and as a result, \$53,058 and \$520,751 were written off during the years ended December 31, 2011 and 2009, respectively. The Company does not intend to sell this investment, nor does the Company consider it likely that it will be required to sell the investment prior to recovery of the remaining fair value.

(4) Loans

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

	<u>2011</u>	<u>2010</u>
Commercial and Industrial		
Commercial	\$ 48,986,102	\$ 53,220,341
Industrial	8,421,884	10,551,791
Real Estate		
Commercial Construction	58,545,820	72,309,231
Residential Construction	3,530,502	4,373,011
Commercial	315,280,748	362,878,565
Residential	193,637,817	207,471,813
Farmland	48,225,406	52,778,389
Consumer and Other		
Consumer	30,449,303	33,563,863
Other	9,243,739	16,103,669
Total Loans	<u><u>\$716,321,321</u></u>	<u><u>\$813,250,673</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 (1) the risk grade assigned to commercial and consumer loans, (2) the level of classified commercial loans, (3) net charge-offs, (4) nonperforming loans, and (5) 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. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

December 31, 2011	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	\$ 42,586,230	\$ 1,480,726	\$ 4,919,146	\$ 48,986,102
Industrial	8,153,224	-	268,660	8,421,884
Real Estate				
Commercial Construction	28,745,596	2,814,113	26,986,111	58,545,820
Residential Construction	3,227,392	303,110	-	3,530,502
Commercial	272,062,206	14,789,290	28,429,252	315,280,748
Residential	175,099,480	8,343,336	10,195,001	193,637,817
Farmland	43,664,126	1,413,476	3,147,804	48,225,406
Consumer and Other				
Consumer	29,372,493	361,714	715,096	30,449,303
Other	9,028,428	99,418	115,893	9,243,739
Total Loans	\$611,939,175	\$29,605,183	\$74,776,963	\$716,321,321

(4) Loans (Continued)

December 31, 2010	<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.

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. Nonaccrual loans totaled \$38,821,632 and \$28,901,974 as of December 31, 2011 and 2010, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest totaled \$15,160 and \$19,188, 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.

(4) Loans (Continued)

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

2011	Accruing Loans			Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due			
Commercial and Industrial						
Commercial	\$ 644,899	\$ -	\$ 644,899	\$ 2,102,522	\$ 46,238,681	\$ 48,986,102
Industrial	-	-	-	85,670	8,336,214	8,421,884
Real Estate						
Commercial Construction	513,905	-	513,905	23,578,263	34,453,652	58,545,820
Residential Construction	33,541	-	33,541	-	3,496,961	3,530,502
Commercial	2,930,743	-	2,930,743	9,193,650	303,156,355	315,280,748
Residential	2,251,009	15,160	2,266,169	3,110,032	188,261,616	193,637,817
Farmland	376,426	-	376,426	486,683	47,362,297	48,225,406
Consumer and Other						
Consumer	410,041	-	410,041	221,360	29,817,902	30,449,303
Other	-	-	-	43,452	9,200,287	9,243,739
Total Loans	<u>\$ 7,160,564</u>	<u>\$15,160</u>	<u>\$ 7,175,724</u>	<u>\$38,821,632</u>	<u>\$670,323,965</u>	<u>\$716,321,321</u>
2010						
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

(4) Loans (Continued)

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately \$1,639,800, \$1,621,700 and \$2,318,100 for the years ended December 31, 2011, 2010 and 2009, respectively.

During the first quarter, as a result of recently issued guidance regarding troubled debt restructurings, the Company reviewed its policy for designating loans as impaired. As a result of this review, the Company identified additional loans which are now included in the impaired loan disclosures that were not previously reported as impaired. The loans identified were those troubled debt restructurings which were on accrual status. The inclusion of these accruing troubled debt restructurings in the impaired loan disclosures for December 31, 2011 did not have an impact on the allowance for loan losses.

The following table details impaired loan data as of December 31, 2011:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 1,742,961	\$ 1,580,140	\$ -	\$ 946,466	\$ 60,078	\$ 65,346
Agricultural	85,670	85,670	-	208,162	(4,024)	-
Commercial Construction	17,699,542	12,799,454	-	13,309,517	116,077	143,443
Commercial Real Estate	34,686,574	29,384,623	-	27,027,403	832,590	834,161
Residential Real Estate	2,600,919	1,933,669	-	3,176,244	88,419	80,334
Farmland	277,656	227,233	-	342,280	66,273	66,273
Consumer	228,688	215,956	-	184,372	10,732	12,203
Other	51,666	43,452	-	39,621	1,107	1,606
	<u>57,373,676</u>	<u>46,270,197</u>	<u>-</u>	<u>45,234,065</u>	<u>1,171,252</u>	<u>1,203,366</u>
With An Allowance Recorded						
Commercial	775,506	775,506	308,211	213,898	15,086	19,171
Agricultural	-	-	-	-	-	-
Commercial Construction	14,035,742	11,489,233	2,693,571	10,470,491	13,759	61,012
Commercial Real Estate	6,429,874	6,429,874	2,060,815	6,556,769	181,799	197,132
Residential Real Estate	4,771,867	4,041,950	674,998	3,858,609	97,383	96,534
Farmland	298,893	259,450	11,878	64,862	(17,958)	-
Consumer	5,404	5,404	1,632	3,987	607	724
Other	-	-	-	19,566	-	-
	<u>26,317,286</u>	<u>23,001,417</u>	<u>5,751,105</u>	<u>21,188,182</u>	<u>290,676</u>	<u>374,573</u>
Total						
Commercial	2,518,467	2,355,646	308,211	1,160,364	75,164	84,517
Agricultural	85,670	85,670	-	208,162	(4,024)	-
Commercial Construction	31,735,284	24,288,687	2,693,571	23,780,008	129,836	204,455
Commercial Real Estate	41,116,448	35,814,497	2,060,815	33,584,172	1,014,389	1,031,293
Residential Real Estate	7,372,786	5,975,619	674,998	7,034,853	185,802	176,868
Farmland	576,549	486,683	11,878	407,142	48,315	66,273
Consumer	234,092	221,360	1,632	188,359	11,339	12,927
Other	51,666	43,452	-	59,187	1,107	1,606
	<u>\$83,690,962</u>	<u>\$69,271,614</u>	<u>\$5,751,105</u>	<u>\$66,422,247</u>	<u>\$1,461,928</u>	<u>\$1,577,939</u>

(4) Loans (Continued)

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	4,550	7,760
	<u>\$28,901,974</u>	<u>\$655,830</u>	<u>\$28,700,626</u>	<u>\$484,984</u>	<u>\$694,764</u>

(4) Loans (Continued)

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

- Interest rate reductions - Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.
- Amortization or maturity date changes - Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.
- Principal reductions - These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon our normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged-off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged-off during modification there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2011. The following tables present the number of loan contracts restructured during the 12 months ended December 31, 2011 and the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 12 months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings	# of Contracts	Pre-Modification	Post-Modification
Commercial	3	\$ 3,240,469	\$ 1,541,882
Commercial Construction	3	1,430,147	1,430,101
Commercial RE	9	20,827,349	15,906,547
Residential RE	8	1,505,356	1,456,878
Total Loans	23	\$27,003,321	\$20,335,408

Troubled Debt Restructurings That Subsequently Defaulted	# of Contracts	Recorded Investment
Commercial	1	\$1,175,922
Commercial Construction	3	4,475,473
Commercial RE	3	2,322,361
Total Loans	7	\$7,973,756

(5) Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	December 31		
	2011	2010	2009
Balance, Beginning of Year	\$ 28,280,077	\$ 31,400,641	\$ 17,015,883
Provision for Loan Losses	8,250,000	13,350,000	43,445,000
Loans Charged Off	(22,850,673)	(17,622,454)	(29,493,324)
Recoveries of Loans Previously Charged Off	1,970,190	1,151,890	433,082
Balance, End of Year	<u>\$ 15,649,594</u>	<u>\$ 28,280,077</u>	<u>\$ 31,400,641</u>

The following table details activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

2011	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Industrial					
Commercial	\$ 4,414,817	\$ (841,887)	\$ 127,490	\$(2,629,860)	\$ 1,070,560
Industrial	698,637	(455,165)	454,453	(400,757)	297,168
Real Estate					
Commercial Construction	4,126,043	(6,957,181)	557,168	5,396,564	3,122,594
Residential Construction	519,766	(481)	-	(381,193)	138,092
Commercial	8,029,525	(12,492,097)	527,996	10,382,640	6,448,064
Residential	5,941,696	(1,704,887)	149,173	(690,625)	3,695,357
Farmland	944,323	(60,447)	411	(519,624)	364,663
Consumer and Other					
Consumer	3,074,220	(222,878)	145,279	(2,791,467)	205,154
Other	531,050	(115,650)	8,220	(115,678)	307,942
	<u>\$28,280,077</u>	<u>\$(22,850,673)</u>	<u>\$1,970,190</u>	<u>\$ 8,250,000</u>	<u>\$15,649,594</u>

(5) Allowance for Loan Losses (Continued)

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 and periodically may result in reallocation within the provision categories.

2010	<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>

The Company determines its individual loan reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or below and an outstanding balance of \$50,000 or more. At December 31, 2011 and 2010, impaired loans totaling \$995,168 and \$976,971 were below the \$50,000 review threshold and were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Since not all loans in the substandard category are considered impaired, this quarterly assessment often results in the identification of individual reserves which are placed against certain loans as part of management's allowance for loan loss calculation. The total of these loans and the related reserves are presented in the column titled "Substandard Loans Individually Reviewed for Impairment" in the following tables. The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for December 31, 2011 and 2010:

(5) Allowance for Loan Losses (Continued)

2011	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Ending Allowance Balance		
			Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Industrial					
Commercial	\$ 308,211	\$ 590,543	\$ 898,754	\$ 171,806	\$ 1,070,560
Industrial	-	-	-	297,168	297,168
Real Estate					
Commercial Construction	2,693,571	190,800	2,884,371	238,223	3,122,594
Residential Construction	-	-	-	138,092	138,092
Commercial	2,060,815	347,260	2,408,075	4,039,989	6,448,064
Residential	674,998	764,835	1,439,833	2,255,524	3,695,357
Farmland	11,878	-	11,878	352,785	364,663
Consumer and Other					
Consumer	1,632	33,000	34,632	170,522	205,154
Other	-	-	-	307,942	307,942
Total End of Period Allowance Balance	\$ 5,751,105	\$ 1,926,438	\$ 7,677,543	\$ 7,972,051	\$ 15,649,594

2011	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Ending Loan Balance		
			Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Industrial					
Commercial	\$ 2,237,878	\$ 2,300,231	\$ 4,538,109	\$ 44,447,993	\$ 48,986,102
Industrial	-	164,090	164,090	8,257,794	8,421,884
Real Estate					
Commercial Construction	24,212,519	2,560,484	26,773,003	31,772,817	58,545,820
Residential Construction	-	-	-	3,530,502	3,530,502
Commercial	35,715,026	4,629,461	40,344,487	274,936,261	315,280,748
Residential	5,614,744	4,441,958	10,056,702	183,581,115	193,637,817
Farmland	486,683	2,589,640	3,076,323	45,149,083	48,225,406
Consumer and Other					
Consumer	9,596	38,354	47,950	30,401,353	30,449,303
Other	-	22,166	22,166	9,221,573	9,243,739
Total End of Period Loan Balance	\$68,276,446	\$16,746,384	\$85,022,830	\$631,298,491	\$716,321,321

(5) Allowance for Loan Losses (Continued)

The presentation of loans individually reviewed for impairment is consolidated into one column for the year ended December 31, 2010.

2010	Ending Allowance 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

2010	Ending Loan Balance		
	Individually Reviewed for Impairment	Collectively Reviewed for Impairment	Total
Commercial and Industrial			
Commercial	\$ 2,131,375	\$ 51,088,966	\$53,220,341
Industrial	274,679	10,277,112	10,551,791
Real Estate			
Commercial Construction	28,392,107	43,917,124	72,309,231
Residential Construction	194,881	4,178,130	4,373,011
Commercial	58,562,946	304,315,619	362,878,565
Residential	13,645,907	193,825,906	207,471,813
Farmland	1,416,538	51,361,851	52,778,389
Consumer and Other			
Consumer	76,420	33,487,443	33,563,863
Other	113,002	15,990,667	16,103,669
	\$104,807,855	\$708,442,818	\$813,250,673

(6) Premises and Equipment

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

	<u>2011</u>	<u>2010</u>
Land	\$ 7,780,167	\$ 7,787,667
Building	23,662,849	23,790,525
Furniture, Fixtures and Equipment	12,982,160	13,737,177
Leasehold Improvements	994,637	993,086
Construction in Progress	<u>77,366</u>	<u>-</u>
	45,497,179	46,308,455
Accumulated Depreciation	<u>(19,746,944)</u>	<u>(19,160,730)</u>
	<u>\$ 25,750,235</u>	<u>\$ 27,147,725</u>

Depreciation charged to operations totaled \$1,790,041 in 2011, \$2,140,735 in 2010 and \$2,092,845 in 2009.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$376,000 for 2011, \$377,000 for 2010 and \$365,000 for 2009.

Future minimum rental payments as of December 31, 2011 are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2012	\$126,033
2013	88,658
2014	<u>10,139</u>
	<u>\$224,830</u>

(7) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at December 31, 2011 and 2010 was \$20,445,805 and \$20,207,806, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO during 2011 and 2010.

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Balance, Beginning of Year	\$20,207,806	\$19,705,044
Additions	12,555,622	13,159,402
Sales of OREO	(9,804,669)	(9,531,210)
Loss on Sale	(1,102,613)	(1,832,256)
Provision for Losses	<u>(1,411,061)</u>	<u>(1,293,174)</u>
Balance, End of Year	<u>\$20,445,085</u>	<u>\$20,207,806</u>

(8) Intangible Assets

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

	<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	-	(35,749)	(35,749)
Balance, December 31, 2010	1,056,693	(761,686)	\$295,007
Amortization Expense	-	(35,749)	(35,749)
Balance, December 31, 2011	<u>\$1,056,693</u>	<u>\$(797,435)</u>	<u>\$259,258</u>

Amortization expense related to the core deposit intangible was \$35,749 for the years ended December 31, 2011, 2010 and 2009. Amortizations expense will continue at an annual rate of approximately \$35,750 through the first quarter of 2019, at which point the core deposit will be fully amortized.

(9) Income Taxes

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Federal (Benefit) Expense	\$ 311,174	\$(1,037,717)	\$(4,075,442)
Deferred Federal (Benefit) Expense	<u>867,006</u>	<u>639,607</u>	<u>(5,869,055)</u>
Federal Income Tax (Benefit) Expense	1,178,180	(398,110)	(9,944,497)
Current State Income Tax (Benefit) Expense	<u>(74,297)</u>	<u>(61,104)</u>	<u>(50,384)</u>
	<u>\$1,103,883</u>	<u>\$ (459,214)</u>	<u>\$(9,994,881)</u>

The federal income tax (benefit) expense of \$1,178,180 in 2011, \$(398,110) in 2010 and \$(9,944,497) in 2009 is different 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>2011</u>	<u>2010</u>	<u>2009</u>
Statutory Federal Income Taxes	\$1,228,538	\$ 5,101	\$(9,920,776)
Tax-Exempt Interest	(126,468)	(117,586)	(185,775)
Interest Expense Disallowance	8,751	8,400	16,729
Premiums on Officers' Life Insurance	(52,431)	(134,106)	(58,906)
Meal and Entertainment Disallowance	20,693	24,972	32,068
Goodwill	-	-	58,507
Other	<u>99,097</u>	<u>(184,891)</u>	<u>113,656</u>
Actual Federal Income Taxes	<u>\$1,178,180</u>	<u>\$(398,110)</u>	<u>\$(9,944,497)</u>

(9) Income Taxes (Continued)

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

	<u>2011</u>	<u>2010</u>
Deferred Tax Assets		
Allowance for Loan Losses	\$ 5,320,862	\$ 9,615,226
Other Real Estate	1,012,326	511,839
Deferred Compensation	386,225	423,233
Restricted Stock	508,547	504,772
Goodwill	392,124	439,100
Net Operating Loss Carryforward	2,992,777	
Other	559,836	470,435
	<u>11,172,697</u>	<u>11,964,605</u>
Deferred Tax Liabilities		
Premises and Equipment	(1,195,334)	(1,184,064)
Vested Restricted Stock	(476,540)	(412,715)
Other	(4,185)	(4,185)
	<u>(1,676,059)</u>	<u>(1,600,964)</u>
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	<u>(983,807)</u>	<u>308,982</u>
Net Deferred Tax Assets	<u><u>\$ 8,512,831</u></u>	<u><u>\$10,672,623</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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Balance, Beginning	\$ 78,121	\$ 221,584
Positions Taken During the Current Year	14,275	17,259
Reductions Resulting from Lapse of Statutes of Limitation	<u>(59,028)</u>	<u>(160,722)</u>
Balance, Ending	<u><u>\$ 33,368</u></u>	<u><u>\$ 78,121</u></u>

The net reduction of \$44,753 and \$143,463 is included in income tax benefits for the years ended December 31, 2011 and 2010, respectively.

(10) Fair Value Measurements

Generally accepted accounting principles related to *Fair Value Measurements* define fair value, establish a framework for measuring fair value, establish a three-level valuation hierarchy for disclosure of fair value measurement and enhance 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. When the fair value of collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring level 2. When a current appraisal value is not available or management determines the value, the Company records the impaired loan as nonrecurring level 3.

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 current 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.

(10) 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, 2011 and 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

		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)
2011	Total Fair Value			
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$294,060,799	\$ -	\$294,060,799	\$ -
State, County and Municipal	7,583,691	-	7,583,691	-
Corporate Obligations	2,113,930	-	1,123,930	990,000
Asset-Backed Securities	132,427	-	-	132,427
	<u>\$303,890,847</u>	<u>\$ -</u>	<u>\$302,768,420</u>	<u>\$ 1,122,427</u>
Nonrecurring				
Impaired Loans	<u>\$ 63,520,509</u>	<u>\$ -</u>	<u>\$ 34,935,324</u>	<u>\$28,585,185</u>
Other Real Estate	<u>\$ 20,445,085</u>	<u>\$ -</u>	<u>\$ 6,170,534</u>	<u>\$14,274,551</u>
2010				
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>

Liabilities

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, 2011 and 2010.

(10) Fair Value Measurements (Continued)**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	Available for Sale Securities		
	2011	2010	2009
Balance, Beginning	\$ 1,016,997	\$ 982,427	\$1,426,220
Total Realized/Unrealized Gains (Losses) Included In			
Loss on OTTI Impairment	(53,058)	-	(520,751)
Other Comprehensive Income	158,488	34,570	76,958
Balance, Ending	<u>\$ 1,122,427</u>	<u>\$ 1,016,997</u>	<u>\$ 982,427</u>

(11) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$147,398 and \$250,200 as of December 31, 2011 and 2010, respectively.

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

	2011	2010
Interest-Bearing Demand	\$284,870,972	\$235,855,037
Savings	41,230,662	36,629,698
Time, \$100,000 and Over	247,589,188	298,009,596
Other Time	332,025,539	385,670,250
	<u>\$905,716,361</u>	<u>\$956,164,581</u>

At December 31, 2011 and 2010, the Company had brokered deposits of \$28,157,961 and \$36,328,659, respectively. Of the brokered deposits at December 31, 2011 and 2010, \$28,157,961 and \$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 \$0 and \$5,200,000 at December 31, 2011 and 2010, respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000, was approximately \$190,876,500 and \$216,656,200 as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2012	\$428,602,577
2013	117,066,000
2014	20,552,850
2015	8,382,521
2016 and Thereafter	<u>5,010,779</u>
	<u><u>\$579,614,727</u></u>

(12) Securities Sold Under Agreements to Repurchase

On December 31, 2010, the Company had \$20,000,000 outstanding in securities sold under an agreement to repurchase. Interest payments were due quarterly at a fixed rate of 3.34 percent. The repurchase agreement was secured with U.S. Government mortgage-backed securities. The repurchase agreement matured on June 30, 2011. At December 31, 2011, the Company had an available repurchase agreement line of credit with a third party totaling \$50,000,000. Use of this credit facility is subject to the underwriting and risk management policies of the third-party in effect at the time of the request. Such policies may take into consideration current market conditions, the current financial condition of the Company and the ability of the Company to provide adequate securities as collateral for the transaction, among other factors.

(13) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Federal Home Loan Bank Advances	\$71,000,000	\$71,000,000
Other Secured Borrowing	<u>-</u>	<u>4,076,010</u>
	<u>\$71,000,000</u>	<u>\$75,076,010</u>

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2012 to 2019 and interest rates ranging from 3.17 percent to 4.75 percent. 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, 2011 of approximately \$36,047,000 as additional collateral, as well as cash balances held on deposit with the FHLB. At December 31, 2011 the Company had remaining credit availability from the FHLB of approximately \$100,440,000. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

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

The aggregate stated maturities of other borrowed money at December 31, 2011 are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$41,000,000
2013	-
2014	-
2015	-
2016 and Thereafter	<u>30,000,000</u>
	<u>\$71,000,000</u>

(13) Other Borrowed Money (Continued)

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,000,000, of which there were none outstanding at December 31, 2011.

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 caused by internal or external disruptions. At December 31, 2011, the Company had approximately \$6.4 million of borrowing capacity available under this arrangement, with no outstanding balances. Certain available-for-sale investment securities totaling approximately \$6.5 million were pledged as collateral under this agreement.

(14) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500,000 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, 2011, the floating rate securities had a 3.24 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, 2011, the floating rate securities had a 2.08 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, 2011, the floating rate securities had a 2.23 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, 2011, the floating rate securities had a 1.83 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, 2011 was \$23,500,000. The total aggregate principal amount of subordinated debentures outstanding at December 31, 2011 was \$24,229,000.

(15) 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, (1) 28,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (the Preferred Stock), and (2) 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 nonvoting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed by the Company 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.

(16) Restricted Stock - Unearned Compensation

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and 17,798 shares have been forfeited; thus, remaining shares which may be issued are 108,042 at December 31, 2011. 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).

(17) 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 2011 and 2010 and \$(19,411) for 2009.

(18) 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, 2011 and 2010, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2011	2010
Commitments to Extend Credit	\$39,966,000	\$39,457,000
Standby Letters of Credit	1,327,000	1,540,000

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

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

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

Legal Contingencies. In the ordinary course of business, there are various legal proceedings pending against Colony and its 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. The Company's federal and state income tax returns for tax years 2011, 2010, 2009 and 2008 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing. During 2011, the IRS completed its review of the Company's 2009 federal income tax return. As a result of this exam, \$390,152 of additional tax was paid during the year.

(19) 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 \$1,135,956 and \$1,244,803 as of December 31, 2011 and 2010, respectively. Benefit payments under the contracts were \$196,501 in 2011 and \$206,955 in 2010. Provisions charged to operations totaled \$98,901 in 2011, \$154,553 in 2010 and \$361,171 in 2009.

Fee income recognized with deferred compensation plans totaled \$154,210 in 2011, \$182,685 in 2010 and \$173,253 in 2009.

(20) Supplemental Cash Flow Information

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest Expense	<u>\$17,204,476</u>	<u>\$21,975,968</u>	<u>\$27,537,602</u>
Income Taxes	<u>\$ 390,152</u>	<u>\$ 275,000</u>	<u>\$ -</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acquisitions of Real Estate Through Loan Foreclosures	<u>\$12,555,622</u>	<u>\$13,159,402</u>	<u>\$19,258,910</u>
Unrealized (Gain) Loss on Investment Securities	<u>\$ (3,802,320)</u>	<u>\$ 757,545</u>	<u>\$ 721,116</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 \$5,504,230 as of December 31, 2011 and \$9,797,492 as of December 31, 2010. 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>2011</u>	<u>2010</u>
Balance, Beginning	\$ 9,797,492	\$ 6,473,238
New Loans	15,455,299	12,533,229
Repayments	(17,871,362)	(9,208,975)
Transactions Due to Changes in Directors	(1,877,199)	-
Balance, Ending	<u>\$ 5,504,230</u>	<u>\$ 9,797,492</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.

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

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

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

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

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

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

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

(22) Fair Value of Financial Instruments (Continued)

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

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in Thousands)			
Assets				
Cash and Short-Term Investments	\$112,329	\$ 112,329	\$ 104,876	\$ 104,876
Investment Securities Available for Sale	303,891	303,891	303,838	303,838
Investment Securities Held to Maturity	46	46	48	53
Federal Home Loan Bank Stock	5,398	5,398	6,064	6,064
Loans, Net	700,614	702,438	784,909	788,455
Liabilities				
Deposits	999,985	1,003,648	1,059,124	1,064,695
Subordinated Debentures	24,229	24,229	24,229	24,229
Securities Sold Under				
Agreements to Repurchase	-	-	20,000	20,308
Other Borrowed Money	71,000	74,720	75,076	77,119

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, 2011, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

The Company is subject to various regulatory capital requirements administered by 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, 2011, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

(23) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of December 31, 2011 and 2010 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, 2011			(In Thousands)			
Total Capital to Risk-Weighted Assets						
Consolidated	\$118,913	16.50%	\$57,658	8.00%	N/A	N/A
Colony Bank	117,243	16.29	57,584	8.00	\$71,980	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	109,822	15.24	28,829	4.00	N/A	N/A
Colony Bank	108,163	15.03	28,792	4.00	43,188	6.00
Tier I Capital to Average Assets						
Consolidated	109,822	9.51	46,185	4.00	N/A	N/A
Colony Bank	108,163	9.38	46,117	4.00	57,646	5.00
As of December 31, 2010						
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

The Bank is currently subject to a memorandum of understanding (MOU) which requires, among other things, that the Bank maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10 percent during the life of the MOU. The MOU also requires that, prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators. Additional requirements of the MOU are discussed in Part 1, Item 1 of the Company's December 31, 2011 Form 10-K filed with the Securities Exchange Commission on March 15, 2012. Failure to comply with the terms of the MOU could have an adverse impact on the Company's consolidated financial condition.

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

The parent company's balance sheets as of December 31, 2011 and 2010 and the related statements of operations and comprehensive income (loss) 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>2011</u>	<u>2010</u>
Cash	\$ 1,051,904	\$ 3,173,061
Premises and Equipment, Net	1,378,395	1,478,045
Investment in Subsidiary, at Equity	118,289,024	112,389,013
Other	<u>437,414</u>	<u>484,008</u>
Total Assets	<u>\$121,156,737</u>	<u>\$117,524,127</u>

LIABILITIES AND STOCKHOLDERS' EQUITY**Liabilities**

Dividends Payable	\$ 175,000	\$ 175,000
Other	<u>139,927</u>	<u>161,544</u>
	<u>314,927</u>	<u>336,544</u>
Subordinated Debt	<u>24,229,000</u>	<u>24,229,000</u>

Stockholders' Equity

Preferred Stock, Stated Value \$1,000; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,662,476	27,505,910
Common Stock, Par Value \$1; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,442,958 Shares as of December 31, 2011 and 2010, Respectively	8,439,258	8,442,958
Paid-In Capital	29,145,094	29,171,087
Retained Earnings	29,456,240	28,479,211
Restricted Stock - Unearned Compensation	-	(40,794)
Accumulated Other Comprehensive Income, Net of Tax	<u>1,909,742</u>	<u>(599,789)</u>
	<u>96,612,810</u>	<u>92,958,583</u>
Total Liabilities and Stockholders' Equity	<u>\$121,156,737</u>	<u>\$117,524,127</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>2011</u>	<u>2010</u>	<u>2009</u>
Income			
Dividends from Subsidiary	\$ 15,265	\$ 15,536	\$ 2,170,827
Management Fees	505,414	455,241	227,620
Other	98,180	119,776	100,157
	<u>618,859</u>	<u>590,553</u>	<u>2,498,604</u>
Expenses			
Interest	508,081	516,170	659,456
Amortization	2,250	2,250	2,250
Salaries and Employee Benefits	734,104	761,873	848,076
Goodwill Impairment	-	-	172,029
Other	656,914	807,209	799,924
	<u>1,901,349</u>	<u>2,087,502</u>	<u>2,481,735</u>
Income (Loss) Before Taxes and Equity in Undistributed Earnings of Subsidiary	(1,282,490)	(1,496,949)	16,869
Income Tax Benefits	<u>425,605</u>	<u>532,823</u>	<u>608,062</u>
Income (Loss) Before Equity in Undistributed Earnings of Subsidiary	(856,885)	(964,126)	624,931
Equity in Undistributed Earnings (Losses) of Subsidiary	<u>3,390,480</u>	<u>1,438,342</u>	<u>(19,808,805)</u>
Net Income (Loss)	2,533,595	474,216	(19,183,874)
Preferred Stock Dividends	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,365,000</u>
Net Income (Loss)			
Available to Common Stockholders	<u><u>\$ 1,133,595</u></u>	<u><u>\$ (925,784)</u></u>	<u><u>\$(20,548,874)</u></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>2011</u>	<u>2010</u>	<u>2009</u>
Net Income (Loss)	<u>\$ 2,533,595</u>	<u>\$ 474,216</u>	<u>\$(19,183,874)</u>
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	4,439,108	1,227,281	1,257,136
Reclassification Adjustment	<u>(1,929,577)</u>	<u>(1,727,261)</u>	<u>(1,733,072)</u>
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	<u>2,509,531</u>	<u>(499,980)</u>	<u>(475,936)</u>
Comprehensive Income (Loss)	<u><u>\$ 5,043,126</u></u>	<u><u>\$ (25,764)</u></u>	<u><u>\$(19,659,810)</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>2011</u>	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities			
Net Income (Loss)	\$ 2,533,595	\$ 474,216	\$(19,183,874)
Adjustments to Reconcile Net Income (Loss) to			
Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	112,651	194,918	295,209
Goodwill Impairment	-	-	172,029
Equity in Undistributed			
(Earnings) Losses of Subsidiary	(3,390,480)	(1,438,342)	19,808,805
Other	24,977	(260,318)	31,634
	<u>(719,257)</u>	<u>(1,029,526)</u>	<u>1,123,803</u>
Cash Flows from Investing Activities			
Capital Infusion in Subsidiary	-	-	(25,500,000)
Purchases of Premises and Equipment	(1,900)	(31,877)	(119,156)
	<u>(1,900)</u>	<u>(31,877)</u>	<u>(25,619,156)</u>
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	(1,400,000)	(1,400,000)	(1,190,000)
Dividends Paid on Common Stock	-	-	(1,760,665)
Proceeds from Issuance of Common Stock	-	5,078,255	-
Proceeds Allocated to Issuance of Preferred Stock	-	-	27,215,218
Proceeds Allocated to Warrants Issued	-	-	784,782
	<u>(1,400,000)</u>	<u>3,678,255</u>	<u>25,049,335</u>
Increase (Decrease) in Cash	(2,121,157)	2,616,852	553,982
Cash, Beginning	<u>3,173,061</u>	<u>556,209</u>	<u>2,227</u>
Cash, Ending	<u>\$ 1,051,904</u>	<u>\$ 3,173,061</u>	<u>\$ 556,209</u>

(25) Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income (loss) after preferred stock dividends. The following table presents earnings per share for the years ended December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Numerator			
Net Income (Loss) Available to Common Stockholders	<u><u>\$1,135,595</u></u>	<u><u>\$ (925,784)</u></u>	<u><u>\$(20,548,874)</u></u>
Denominator			
Weighted Average Number of Common Shares			
Outstanding for Basic Earnings Per Common Share	<u><u>8,439,258</u></u>	<u><u>8,149,217</u></u>	<u><u>7,213,430</u></u>
Dilutive Effect of Potential Common Stock			
Restricted Stock	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Stock Warrants	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	<u><u>8,439,258</u></u>	<u><u>8,149,217</u></u>	<u><u>7,213,430</u></u>
Earnings (Loss) Per Share - Basic	<u><u>\$ 0.13</u></u>	<u><u>\$ (0.11)</u></u>	<u><u>\$ (2.85)</u></u>
Earnings (Loss) Per Share - Diluted	<u><u>\$ 0.13</u></u>	<u><u>\$ (0.11)</u></u>	<u><u>\$ (2.85)</u></u>

For the years ended December 31, 2011, 2010 and 2009, 501,855, 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.

(26) Subsequent Event

On February 13, 2012, the Company announced that it would exercise its right to suspend its regularly scheduled interest payments on its trust preferred securities. The Company may defer interest payments for consecutive periods of up to five years (20 consecutive quarters) without default or penalty under the terms of the trust preferred agreements. Interest payments on the trust preferred securities will continue to be accrued for payment at a future date and reported as an expense in the financial statements. The Company also announced that it would exercise its right to suspend the \$350,000 quarterly dividend payment on its \$28 million of Cumulative Perpetual Preferred Stock, Series A that was issued to the U.S. Treasury under its Capital Purchase Program. The Company may defer dividend payments for up to six consecutive quarters without default or penalty under the terms of the investment documents. The quarterly dividend payments on the Company's Series A preferred stock will also continue to be accrued for payment at a future date. The accrued dividends will be reported for the duration of the deferral period as a preferred dividend requirement that is deducted from income available to common stockholders for financial statement purposes. Both deferral decisions were made in consultation with the Georgia Department of Banking and Finance and the Federal Reserve Bank of Atlanta.

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

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

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

Other Real Estate Owned and Foreclosed Assets

Other real estate owned or other foreclosed assets acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value declines subsequent to foreclosure, the valuation allowance is adjusted through a charge to noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and recognized in noninterest expense. Management obtains appraisals performed by certified, third-parties within one year of placing a property into OREO. The fair value of the property is then evaluated by management annually going forward, or more often if necessary. Annual evaluations may be performed by certified third parties, or internally by management comparing recent sales of similar properties within the Company's OREO portfolio.

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2011 and 2010, and results of operations for each of the years in the three-year period ended December 31, 2011. 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 \$1.13 million, or \$0.13 per diluted common share in 2011 compared to \$(0.93) million, or \$(0.11) diluted per common share in 2010 compared to \$(20.55) million, or \$(2.85) diluted per common share in 2009.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Taxable-Equivalent Net Interest Income	\$ 35,178	\$37,393	\$ 39,848
Taxable-Equivalent Adjustment	<u>191</u>	<u>178</u>	<u>282</u>
Net Interest Income	34,987	37,215	39,566
Provision for Loan Losses	8,250	13,350	43,445
Noninterest Income	9,951	10,007	9,544
Noninterest Expense	<u>33,051</u>	<u>33,857</u>	<u>34,844</u>
Income (Loss) Before Income Taxes	3,637	15	(29,179)
Income Taxes (Benefits)	<u>1,104</u>	<u>(459)</u>	<u>(9,995)</u>
Net Income (Loss)	<u>\$ 2,533</u>	<u>\$ 474</u>	<u>\$ (19,184)</u>
Preferred Stock Dividends	<u>1,400</u>	<u>1,400</u>	<u>1,365</u>
Net Income (Loss) Available to Common Stockholders	<u>\$ 1,133</u>	<u>\$ (926)</u>	<u>\$ (20,549)</u>
Basic per Common Share:			
Net Income (Loss)	\$ 0.13	\$ (0.11)	\$ (2.85)
Diluted per Common Share:			
Net Income (Loss)	\$ 0.13	\$ (0.11)	\$ (2.85)
Return on Average Assets:			
Net Income (Loss)	0.09%	(0.07)%	(1.60)%
Return on Average Equity:			
Net Income (Loss)	1.20%	(0.98)%	(19.45)%

Net income available to common shareholders for 2011 increased \$2.06 million, or 222.35 percent, compared to 2010. The increase was primarily the result of a \$5.1 million decrease in provision for loan losses and a decrease of \$805 thousand in noninterest expense. The impact of these items was partly offset by a \$2.23 million decrease in net interest income, a decrease of \$55 thousand in noninterest income and an increase of \$1.56 million in income tax expense.

Net loss available to common shareholders for 2010 decreased \$19.62 million, or 95.49 percent, compared to 2009. The decrease 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.

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 77.86 percent of total revenue during 2011 and 78.81 percent during 2010.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit is currently 3.25 percent and has been for the past three years. The federal funds rate moved similar to prime rate with interest rates currently at 0.25 percent and has been for the past three years. We anticipate the Federal Reserve maintaining its current interest rate policy in 2012, 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 2010 to 2011 (a)			Changes From 2009 to 2010 (a)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans, Net-taxable	\$(6,117)	\$ (1,149)	\$(7,266)	\$ (5,850)	\$ (67)	\$ (5,917)
Investment Securities						
Taxable	831	(581)	250	1,088	(2,260)	(1,172)
Tax-exempt	46	(15)	31	(226)	(8)	(234)
Total Investment Securities	877	(596)	281	862	(2,268)	(1,406)
Interest-Bearing Deposits in						
Other banks	(3)	28	25	27	(6)	21
Federal Funds Sold	15	5	20	76	(5)	71
Other Interest - Earning Assets	(3)	11	8	---	18	18
Total Interest Income	(5,231)	(1,701)	(6,932)	(4,885)	(2,328)	(7,213)
Interest Expense						
Interest-Bearing Demand and Savings Deposits	145	(549)	(404)	106	(206)	(100)
Time Deposits	(1,499)	(2,359)	(3,858)	(218)	(4,113)	(4,331)
Total Interest Expense						
On Deposits	(1,354)	(2,908)	(4,262)	(112)	(4,319)	(4,431)
Other Interest-Bearing Liabilities						
Federal Funds Purchased and Repurchase Agreements	(449)	385	(64)	(337)	308	(29)
Subordinated Debentures	---	(8)	(8)	---	(143)	(143)
Other Debt	(508)	125	(383)	(173)	18	(155)
Total Interest Expense	(2,311)	(2,406)	(4,717)	(622)	(4,136)	(4,758)
Net Interest Income (Loss)	\$(2,920)	\$ 705	\$(2,215)	\$(4,263)	\$ 1,808	\$ (2,455)

- (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 26.1 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 3.11 percent for 2011 compared to 3.12 percent for 2010 and to 3.27 percent for 2009. 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 2011, we have seen our net interest margin reach a low of 2.98 percent for first and second quarter of 2011 to a high of 3.28 percent for fourth quarter 2011.

Taxable-equivalent net interest income for 2011 decreased by \$2.21 million, or 5.92 percent, compared to 2010, while taxable-equivalent net interest income for 2010 decreased \$2.45 million, or 6.16 percent, compared to 2009. 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 2011 decreased \$66.69 million compared to 2010 while over the same period the net interest margin decreased to 3.11 from 3.12 percent. Similarly, 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 percent from 3.27 percent. Growth in average earning assets during 2011 and 2010 was primarily in fed funds sold and investment securities, while average loans outstanding decreased significantly. The slight reduction in the net interest margin in 2011 was primarily the result of the decrease in average earning assets and maintenance of a higher liquidity level.

The average volume of loans decreased \$102.12 million in 2011 compared to 2010 and decreased \$97.49 million in 2010 compared to 2009. The average yield on loans decreased 15 basis points in 2011 compared to 2010 and decreased 1 basis point in 2010 compared to 2009. The average volume of deposits decreased \$33.54 million while other borrowings decreased \$30.42 million in 2011 compared to 2010. 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. Interest-bearing deposits made up 135.02 percent of the decrease in average deposits in 2011 and 38.9 percent of the increase in average deposits in 2010. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 90.6 percent in 2011, 92.1 percent in 2010 and 93.0 percent in 2009. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 37 basis points in 2011 compared to 2010 and decreasing the average cost of total deposits by 47 basis points in 2010 compared to 2009, 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 2.93 percent in 2011 compared to 2.94 percent in 2010 and 3.05 percent in 2009. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in *Quantitative and Qualitative Disclosures About Interest Rate Sensitivity* included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled \$8.25 million in 2011 compared to \$13.35 million in 2010 and \$43.45 million in 2009. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Noninterest Income

The components of noninterest income were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Service Charges on Deposit Accounts	\$ 3,244	\$ 3,597	\$ 4,198
Other Charges, Commissions and Fees	1,312	1,140	986
Other	1,259	1,335	1,146
Mortgage Fee Income	265	313	448
Securities Gains	2,924	2,617	2,626
SBA Premiums	947	1,005	140
	<u>\$ 9,951</u>	<u>\$ 10,007</u>	<u>\$ 9,544</u>

Total noninterest income for 2011 decreased \$56 thousand, or 0.56 percent, compared to 2010 while total noninterest income for 2010 increased \$463 thousand, or 4.85 percent, compared to 2009. The decrease in 2011 noninterest income compared to 2010 was primarily in mortgage fee income, SBA premiums, and service charges on deposit accounts while the increase in 2010 noninterest income compared to 2009 was primarily in SBA premiums and other charges, commissions and fees. 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 2011 decreased \$353 thousand, or 9.81 percent, compared to 2010. Service charges on deposit accounts for 2010 decreased \$601 thousand, or 14.32 percent, compared to 2009. The decrease in both periods was primarily due to a decrease in volume of consumer and business account overdraft fees.

Mortgage Fee Income. Mortgage fee income for 2011 decreased \$48 thousand, or 15.34 percent, compared to 2010 while mortgage fee income for 2010 decreased \$135 thousand, or 30.13 percent, compared to 2009. The decrease in both periods was primarily due to decreased mortgage loan activity with the housing and real estate downturn.

Security Gains. The Company realized gains from the sale of securities of \$2.92 million for 2011 compared to \$2.62 million for 2010 and \$2.63 million in 2009.

All Other Noninterest Income. Other charges, commissions and fees, other income and SBA premiums for 2011 increased \$38 thousand, or 1.09 percent, compared to 2010. The slight increase was primarily attributable to increased ATM and bank debit card interchange fees. In 2010 other charges, commissions and fees, other income, and SBA premiums increased \$1.21 million, or 53.17 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.

Noninterest Expense

The components of noninterest expense were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries and Employee Benefits	\$ 14,633	\$ 14,098	\$ 14,483
Occupancy and Equipment	3,998	4,422	4,287
Other	<u>14,420</u>	<u>15,337</u>	<u>16,074</u>
	<u>\$ 33,051</u>	<u>\$ 33,857</u>	<u>\$ 34,844</u>

Total noninterest expense for 2011 decreased \$806 thousand, or 2.38 percent compared to 2010 while total noninterest expense decreased \$987 thousand, or 2.83 percent, compared to 2009. Reduction in noninterest expense in 2011 was primarily in occupancy and equipment and other noninterest expense while the Company had a slight increase in salaries and employee benefits. 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.

Salaries and Employee Benefits. Salaries and employee benefits expense for 2011 increased \$536 thousand, or 3.80 percent, compared to 2010. This increase is primarily attributable to an increase in headcount related to increased regulatory compliance demands. Salaries and employee benefits expense for 2010 decreased \$385 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 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 2010.

Occupancy and Equipment. Net occupancy expense for 2011 decreased \$424 thousand compared to 2010, or a decrease of 9.59 percent. The decrease in occupancy expense in 2011 is primarily due to a reduction in depreciation expense of \$351 thousand from 2010. Net occupancy expense for 2010 increased \$135 thousand compared to 2009, or an increase of 3.15 percent. The purchase of new data processing software and equipment resulted in additional depreciation expense of \$48 thousand for 2010 compared to 2009.

All Other Noninterest Expense. All other noninterest expense for 2011 decreased \$917 thousand, or 5.98 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees decreased to \$1.83 million for 2011 compared to \$1.87 million for 2010, or a decrease of \$38 thousand, legal and professional fees decreased to \$1.2 million for 2011 in comparison to \$1.4 million for 2010, or a decrease of \$183 thousand, foreclosed property and repossession expense decreased to \$4.0 million in 2011 compared to \$4.9 million in 2010, or a decrease of \$898 thousand, and advertising decreased to \$508 thousand in 2011 compared to \$743 thousand in 2010, or a decrease of \$235 thousand. 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; foreclosed property and repossession expense increased to \$4.94 million for 2010 compared to \$2.27 million for 2009, or an increase of \$2.67 million and goodwill impairment expense was \$0 for 2010 compared to \$2.41 million for 2009.

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 \$1.21 billion in 2011 compared to \$1.27 billion in 2010 and \$1.29 billion in 2009.

	<u>2011</u>		<u>2010</u>		<u>2009</u>	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	\$ 93,903	7.8%	\$ 82,160	6.5%	\$ 71,561	5.5%
Interest-Bearing	906,816	75.2	952,095	75.0	945,360	73.5
Federal Funds Purchased and Repurchase Agreements	9,851	0.8	26,070	2.0	42,452	3.3
Subordinated Debentures and Other Borrowed Money	95,949	8.0	110,149	8.7	115,229	9.0
Other Noninterest-Bearing Liabilities	4,635	0.4	4,681	0.4	6,161	0.5
Equity Capital	94,737	7.8	94,452	7.4	105,655	8.2
Total	<u>\$1,205,891</u>	<u>100.0%</u>	<u>\$1,269,607</u>	<u>100.0%</u>	<u>\$1,286,418</u>	<u>100.0%</u>
Uses of Funds:						
Loans	\$ 742,482	61.6%	\$ 834,739	65.8%	\$ 943,164	73.3%
Investment Securities	300,293	24.9	267,015	21.0	238,968	18.6
Federal Funds Sold	44,667	3.7	38,809	3.1	9,392	0.7
Interest-Bearing Deposits	18,715	1.5	21,911	1.7	788	0.1
Other Interest-Earning Assets	5,781	0.5	6,297	0.5	6,328	0.5
Other Noninterest-Earning Assets	93,953	7.8	100,836	7.9	87,778	6.8
Total	<u>\$1,205,891</u>	<u>100.0%</u>	<u>\$1,269,607</u>	<u>100.0%</u>	<u>\$1,286,418</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 90.62 percent of total average deposits in 2011 compared to 92.06 percent in 2010 and 92.96 percent in 2009.

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 2011 as total loans were \$716.3 million at December 31, 2011, down 11.9 percent, compared to loans of \$813.3 million at December 31, 2010, while total loans at December 31, 2010 were down 12.7 percent, compared to loans of \$931.4 million at December 31, 2009. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included below. The majority of funds provided by deposits 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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Commercial, Financial and Agricultural	\$ 57,408	\$ 63,772	\$ 80,984	\$ 86,379	\$ 52,323
Real Estate					
Construction	62,076	76,682	113,117	160,374	211,484
Mortgage, Farmland	48,225	52,778	54,965	54,159	42,439
Mortgage, Other	508,919	570,350	626,993	600,653	544,655
Consumer	30,449	33,564	38,383	44,163	72,350
Other	<u>9,244</u>	<u>16,104</u>	<u>16,950</u>	<u>15,308</u>	<u>22,028</u>
	716,321	813,250	931,392	961,036	945,279
Unearned Interest and Fees	(57)	(61)	(140)	(179)	(301)
Allowance for Loan Losses	<u>(15,650)</u>	<u>(28,280)</u>	<u>(31,401)</u>	<u>(17,016)</u>	<u>(15,513)</u>
Loans	<u>\$700,614</u>	<u>\$784,909</u>	<u>\$899,851</u>	<u>\$943,841</u>	<u>\$929,465</u>

The following table presents total loans as of December 31, 2011 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	\$435,505
After One Year through Three Years	237,463
After Three Years through Five Years	28,972
Over Five Years	<u>14,381</u>
	<u>\$716,321</u>

Overview. Loans totaled \$716.3 million at December 31, 2011, down 11.9 percent from December 31, 2010 loans of \$813.3 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial financial and agricultural loans. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 71.01 percent and 70.13 percent of total loans, real estate construction made up 8.67 percent and 9.43 percent while commercial financial and agricultural loans made up 8.01 percent and 7.84 percent of total loans at December 31, 2011 and December 31, 2010, 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 non-owner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by 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, 2011 decreased 9.98 percent from December 31, 2010 to \$57.41 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, 2011 and December 31, 2010, 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, 2011, approximately 86.41 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in 2011. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Large Credit Relationships. 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, 2011 and December 31, 2010.

	December 31, 2011			December 31, 2010		
	Period End Balances			Period End Balances		
	Number of Relationships	Committed	Outstanding	Number of Relationships	Committed	Outstanding
Large Credit Relationships:						
\$10 million and greater	1	\$11,811	\$11,811	1	\$15,025	\$15,025
\$5 million to \$9.9 million	5	31,363	31,363	7	46,794	45,588

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at December 31, 2011. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	<u>Due in One Year or Less</u>	<u>After One, but Within Three Years</u>	<u>After Three, but Within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Loans with fixed interest rates	\$ 254,768	\$ 235,718	\$ 24,975	\$14,213	\$529,674
Loans with floating interest rates	<u>180,737</u>	<u>1,745</u>	<u>3,997</u>	<u>168</u>	<u>186,647</u>
Total	<u>\$435,505</u>	<u>\$237,463</u>	<u>\$28,972</u>	<u>\$14,381</u>	<u>\$716,321</u>

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

Nonperforming Assets and Potential Problem Loans

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loans Accounted for on Nonaccrual	\$38,822	\$28,902	\$33,535	\$35,124	\$ 14,956
Loans Past Due 90 Days or More	15	19	31	250	60
Other Real Estate Foreclosed	20,445	20,208	19,705	12,812	1,332
Securities Accounted for on Nonaccrual	<u>426</u>	<u>132</u>	<u>132</u>	---	---
Total Nonperforming Assets	<u>\$59,708</u>	<u>\$49,261</u>	<u>\$53,403</u>	<u>\$48,186</u>	<u>\$ 16,348</u>
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	8.10%	5.91%	5.62%	4.95%	1.73%
Total Assets	4.99%	3.86%	4.09%	3.85%	1.35%
Supplemental Data:					
Trouble Debt Restructured Loans					
In Compliance with Modified Terms	29,839	26,556	9,269	---	---
Trouble Debt Restructured Loans					
Past Due 30-89 Days	611	1,048	459	---	---
Accruing Past Due Loans:					
30-89 Days Past Due	7,161	19,740	25,547	18,675	15,681
90 or More Days Past Due	<u>15</u>	<u>19</u>	<u>31</u>	<u>250</u>	<u>60</u>
Total Accruing Past Due Loans	<u>\$7,176</u>	<u>\$19,759</u>	<u>\$25,578</u>	<u>\$18,925</u>	<u>\$15,741</u>

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2011 increased 21.21 percent from December 31, 2010.

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 non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest.

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

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

Allowance for Loan Losses

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

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

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment. In addition, the Company has also segmented 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. The Company maintained the same methodology in 2011.

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

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

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

	2011		2010		2009		2008		2007	
	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 1,368	8%	\$ 5,113	8%	\$ 4,710	9%	\$ 4,254	9%	\$ 3,645	6%
Real Estate - Construction	3,261	9	4,646	9	7,850	12	2,808	17	2,560	22
Real Estate - Farmland	365	7	944	7	942	6	681	6	621	4
Real Estate - Other	10,143	71	13,972	70	13,816	67	5,955	62	5,430	58
Loans to Individuals	205	4	3,074	4	2,826	4	2,467	4	2,404	8
All other loans	308	1	531	2	1,257	2	851	2	853	2
Total	<u>\$15,650</u>	<u>100%</u>	<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>

* 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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Allowance for Loan Losses at Beginning of Year	<u>\$28,280</u>	<u>\$31,401</u>	<u>\$17,016</u>	<u>\$15,513</u>	<u>\$11,989</u>
Charge-Offs					
Commercial, Financial and Agricultural	1,297	725	768	1,680	957
Real Estate	21,215	15,309	27,545	9,190	1,862
Consumer	223	549	908	994	793
All Other	115	1,040	272	103	296
	<u>22,850</u>	<u>17,623</u>	<u>29,493</u>	<u>11,967</u>	<u>3,908</u>
Recoveries					
Commercial, Financial and Agricultural	582	82	73	73	109
Real Estate	1,235	774	156	285	992
Consumer	145	246	191	155	312
All Other	8	50	13	19	88
	<u>1,970</u>	<u>1,152</u>	<u>433</u>	<u>532</u>	<u>1,501</u>
Net Charge-Offs	<u>20,880</u>	<u>16,471</u>	<u>29,060</u>	<u>11,435</u>	<u>2,407</u>
Provision for Loans Losses	<u>8,250</u>	<u>13,350</u>	<u>43,445</u>	<u>12,938</u>	<u>5,931</u>
Allowance for Loan Losses at End of Year	<u>\$15,650</u>	<u>\$28,280</u>	<u>\$31,401</u>	<u>\$17,016</u>	<u>\$15,513</u>
Ratio of Net Charge-Offs to Average Loans	<u>2.74%</u>	<u>1.90%</u>	<u>3.02%</u>	<u>1.19%</u>	<u>0.25%</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 \$5.1 million from \$13.35 million in 2010 to \$8.25 million in 2011. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at 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 2011 was the provision of \$8.25 million. Charge-offs largely consisted of seven construction and land development loans totaling \$6.26 million in 2011 compared to seven construction and land development loans totaling \$3.29 million in 2010, zero 1-4 family residence property loans of \$0 thousand in 2011 compared to two 1-4 family residence property loans of \$777 thousand in 2010; one multifamily residential property loan totaling \$595 thousand in 2011 compared to two multifamily residential property loans totaling \$477 thousand in 2010; and eleven nonfarm residential loans totaling \$9.5 million in 2011 compared to eight nonfarm residential loans totaling \$5.11 million in 2010.

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 8.10 percent at December 31, 2011 compared to 5.91 percent at December 31, 2010. Total nonperforming assets at December 31, 2011 were \$59.7 million, of which \$35.5 million were construction, land development and other land loans; \$0.7 million were farmland properties; \$4.6 million were 1-4 family residential properties; \$0.7 million were multifamily properties; \$15.3 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling \$2.9 million were commercial and consumer loans. 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 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. The allowance for loan losses of \$15.6 million at December 31, 2011 was 2.18 percent of total loans which compares to \$28.3 million at December 31, 2010, or 3.48 percent of total loans and to \$31.4 million at December 31, 2009, or 3.37 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 5.42 percent, 3.56 percent, and 3.60 percent, respectively as of December 31, 2011, December 31, 2010 and December 31, 2009, the Company's allowance for loan losses as a percentage of nonperforming loans was 40.29 percent, 97.78 percent, and 93.55 percent, respectively as of December 31, 2011, December 31, 2010 and December 31, 2009. We continue to identify new problem loans, though at a slower pace than the previous year.

While the allowance for loan losses decreased from \$28.28 million, or 3.48 percent of total loans at December 31, 2010 to \$15.65 million, or 2.18 percent of total loans at December 31, 2011, the Company also reflected an increase in nonperforming loans from \$28.92 million at December 31, 2010 to \$38.84 million at December 31, 2011. When a loan is performing, it is accounted for under the Company's general loan loss reserve methodology. Once the loan becomes impaired, it is removed from the pool of loans covered by the general reserve and reviewed individually for exposure. In cases where the individual review reveals no exposure, no reserve is recorded for that loan. If, however, the individual review of the loan does indicate some exposure, management often charges off this exposure, rather than recording a specific reserve. In these instances, a loan which becomes nonperforming could actually reduce the allowance for loan losses. 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 2011 and 2010, 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 charge-offs particularly during 2011.

Net charge-offs in 2011 increased \$4.41 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 \$12.63 million less than the prior year end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level. Restructuring of some substandard and non-performing loans during 2011 has resulted in significant charge-offs, but a strategy deemed prudent in bringing resolution with these credits and a return to performing status in the future. Management believes the level of the allowance for loan losses was adequate as of December 31, 2011. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Obligations of States and Political Subdivisions	\$ 7,630	\$ 3,305	\$ 4,121
Corporate Obligations	2,114	1,986	4,138
Asset-Backed Securities	<u>132</u>	<u>132</u>	<u>132</u>
Investment Securities	9,876	5,423	8,391
Mortgage-Backed Securities	<u>294,061</u>	<u>298,463</u>	<u>258,909</u>
Total Investment Securities and Mortgage-Backed Securities	<u><u>\$303,937</u></u>	<u><u>\$303,886</u></u>	<u><u>\$267,300</u></u>

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2011. (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 Within 5 Years</u>		<u>After 5 Years But Within 10 Years</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	\$13,286	1.44%	\$211,393	2.06%	\$34,513	2.80%	\$34,869	2.98%
Obligations of State and Political Subdivisions	1,573	4.16	1,870	2.89	4,187	3.11	--	--
Corporate Obligations	--	--	1,124	5.67	--	--	990	3.50
Asset-Backed Securities	--	--	--	--	--	--	132	--
Total Investment Portfolio	<u><u>\$14,859</u></u>	<u><u>1.73%</u></u>	<u><u>\$214,387</u></u>	<u><u>2.07%</u></u>	<u><u>\$38,700</u></u>	<u><u>2.91%</u></u>	<u><u>\$35,991</u></u>	<u><u>2.96%</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, 2011, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 2.39 percent in 2011 compared to 2.59 percent in 2010 and 3.48 percent in 2009. The decrease in the average yield from 2010 to 2011 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 2009 to 2010 primarily resulted from the turnover of the securities portfolio resulting in 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 2011, 2010 and 2009.

	2011		2010		2009	
	<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	\$ 93,903		\$ 82,160		\$ 71,561	
Interest-Bearing Demand and Savings	273,783	0.45%	251,537	0.65%	237,045	0.73%
Time Deposits	<u>633,033</u>	<u>1.85%</u>	<u>700,558</u>	<u>2.22%</u>	<u>708,315</u>	<u>2.81%</u>
Total Deposits	<u>\$1,000,719</u>	<u>1.29%</u>	<u>\$1,034,255</u>	<u>1.66%</u>	<u>\$1,016,921</u>	<u>2.13%</u>

The following table presents the maturities of the Company's other time deposits as of December 31, 2011.

	<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	\$ 54,215	\$ 71,819	\$126,034
Over 3 through 12	136,661	165,908	302,569
Over 12 Months	<u>56,713</u>	<u>94,299</u>	<u>151,012</u>
	<u>\$247,589</u>	<u>\$332,026</u>	<u>\$579,615</u>

Average deposits decreased \$33.54 million in 2011 compared to 2010 and increased \$17.33 million in 2010 compared to 2009. The decrease in 2011 included \$67.53 million, or 9.6 percent in time deposits while, at the same time, noninterest bearing deposits increased \$11.74 million, or 14.29 percent and interest-bearing demand and savings deposits increased \$22.25 million, or 8.84 percent. 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. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 9.4 percent in 2011, 7.9 percent in 2010 and 7.0 percent in 2009. The general decrease in market rates in 2011 had the effect of (i) decreasing the average cost of interest-bearing deposits by 38 basis points in 2011 compared to 2010 and (ii) mitigating a portion of the impact of decreasing yields on earning assets in the Company's net interest income in 2011. 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 on the Company's net interest income in 2010.

Total average interest-bearing deposits decreased \$45.3 million, or 4.8 percent in 2011 compared to 2010 and increased \$6.74 million, or 0.71 percent in 2010 compared to 2009. The decrease in average deposits in 2011 compared to 2010 was time deposit accounts.

The Company supplements deposit sources with brokered deposits. As of December 31, 2011, the Company had \$28.2 million, or 2.82 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, 2011. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due by Period				Total
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	
Contractual Obligations:					
Subordinated Debentures	\$ ----	\$ ----	\$ ----	\$ 24,229	\$ 24,229
Federal Home Loan Bank Advances	41,000	----	----	30,000	71,000
Operating Leases	126	99	----	----	225
Deposits with Stated Maturity Dates	428,603	137,619	13,364	29	579,615
	469,729	137,718	13,364	54,258	675,069
Other Commitments:					
Loan Commitments	39,666	----	----	----	39,666
Standby Letters of Credit	1,327	----	----	----	1,327
	40,993	----	----	----	40,993
Total Contractual Obligations and Other Commitments	\$510,722	\$137,718	\$13,364	\$54,258	\$716,062

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, 2011 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, 2011 are included in the preceding table.

Capital and Liquidity

At December 31, 2011, shareholders' equity totaled \$96.6 million compared to \$93.0 million at December 31, 2010. In addition to net income of \$2.5 million, other significant changes in shareholders' equity during 2011 included \$1.4 million of dividends declared and an increase of \$11 thousand resulting from the stock grant plan. The accumulated other comprehensive income component of shareholders' equity totaled \$1.9 million at December 31, 2011 compared to \$(600) thousand at December 31, 2010. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill and disallowed deferred tax assets. 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, 2011 was 15.24 percent and total Tier 1 and 2 risk-based capital was 16.50 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of December 31, 2011 was 9.51 percent, which exceeds the required ratio standard of 4 percent.

For 2011, average capital was \$94.7 million, representing 7.86 percent of average assets for the year. This compares to 7.44 percent for 2010.

The Company did not pay any common stock dividends in 2011 or 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.

The Company declared a quarterly dividend of \$350 thousand on preferred stock each quarter during 2011 and 2010, 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 non-core funding sources, and to balance ready access with risk and cost. Through various asset/liability management strategies, a balance is maintained among goals of liquidity, safety and earnings potential. Internal policies that are consistent with regulatory liquidity guidelines are monitored and enforced by the Banks.

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2011, the available for sale bond portfolio totaled \$303.9 million. At December 31, 2010, the Company held \$303.8 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. 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 71.6 percent as of December 31, 2011 and 76.8 percent at December 31, 2010. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at December 31, 2011 and December 31, 2010 were 66.9 percent and 70.5 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2011 and December 31, 2010, the Banks had \$248 million and \$298 million, respectively, in certificates of deposit of \$100,000 or more. These larger deposits represented 24.8 percent and 28.1 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

The Company supplemented deposit sources with brokered deposits. As of December 31, 2011, the Company had \$28.2 million, or 2.82 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, 2011, the Company had \$48.81 million, or 4.88 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

	2011			2010			2009		
	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)	\$763,067	\$44,593	5.84%	\$865,184	\$51,859	5.99%	\$962,677	\$57,776	6.00%
Investment Securities									
Taxable	296,948	7,012	2.36	264,494	6,762	2.56	232,590	7,934	3.41
Tax-Exempt (2)	3,345	171	5.11	2,521	140	5.55	6,378	374	5.86
Total Investment Securities	300,293	7,183	2.39	267,015	6,902	2.59	238,968	8,308	3.48
Interest-Bearing Deposits	18,715	47	0.25	21,911	22	0.10	788	1	0.13
Federal Funds Sold	44,667	115	0.26	38,809	95	0.25	9,392	24	0.26
Other Interest-Earning Assets	5,781	46	0.80	6,297	38	0.60	6,328	20	0.32
Total Interest-Earning Assets	1,132,523	51,984	4.59	1,199,216	58,916	4.92	1,218,153	66,129	5.43
Noninterest-Earning Assets									
Cash	19,057			19,347			21,011		
Allowance for Loan Losses	(20,585)			(30,445)			(19,513)		
Other Assets	74,896			81,489			66,767		
Total Noninterest-Earning Assets	73,368			70,391			68,265		
Total Assets	\$1,205,891			\$1,269,607			\$1,286,418		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	\$273,783	\$1,232	0.45%	\$251,537	\$1,636	0.65%	\$237,045	\$1,736	0.73%
Other Time	633,033	11,718	1.85	700,558	15,576	2.22	708,315	19,907	2.81
Total Interest-Bearing Deposits	906,816	12,950	1.43	952,095	17,212	1.81	945,360	21,643	2.29
Other Interest-Bearing Liabilities									
Other Borrowed Money	71,720	3,010	4.20	85,920	3,074	3.58	91,000	3,103	3.41
Subordinated Debentures	24,229	508	2.10	24,229	516	2.13	24,229	659	2.72
Federal Funds Purchased and									
Repurchase Agreements	9,851	338	3.43	26,070	721	2.77	42,452	876	2.06
Total Other Interest-Bearing									
Liabilities	105,800	3,856	3.64	136,219	4,311	3.17	157,681	4,638	2.94
Total Interest-Bearing Liabilities	1,012,616	16,806	1.66	1,088,314	21,523	1.98	1,103,041	26,281	2.38
Noninterest-Bearing Liabilities and									
Stockholders' Equity									
Demand Deposits	93,903			82,160			71,561		
Other Liabilities	4,635			4,681			6,161		
Stockholders' Equity	94,737			94,452			105,655		
Total Noninterest-Bearing									
Liabilities and Stockholders' Equity	193,275			181,293			183,377		
Total Liabilities and									
Stockholders' Equity	\$1,205,891			\$1,269,607			\$1,286,418		
Interest Rate Spread			2.93%			2.94%			3.05%
Net Interest Income	\$35,178			\$37,393			\$39,848		
Net Interest Margin			3.11%			3.12%			3.27%

- (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 \$133, \$130 and \$155 for 2011, 2010 and 2009 respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.
- (2) Taxable-equivalent adjustments totaling \$58, \$48 and \$127 for 2011, 2010, and 2009 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, 2011. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	<u>Assets and Liabilities Repricing Within</u>					
	<u>3 Months or Less</u>	<u>4 to 12 Months</u>	<u>1 Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
EARNING ASSETS:						
Interest-bearing Deposits	\$ 28,957	\$ ---	\$ 28,957	\$ ---	\$ ---	\$ 28,957
Federal Funds Sold	54,991	---	54,991	---	---	54,991
Investment Securities	2,225	10,710	12,935	211,470	79,532	303,937
Loans, Net of Unearned Income	295,902	139,575	435,477	266,406	14,381	716,264
Other Interest-bearing Assets	<u>5,398</u>	---	<u>5,398</u>	---	---	<u>5,398</u>
Total Interest-earning Assets	<u>387,473</u>	<u>150,285</u>	<u>537,758</u>	<u>477,876</u>	<u>93,913</u>	<u>1,109,547</u>
INTEREST-BEARING LIABILITIES:						
Interest-bearing Demand Deposits (1)	284,871	---	284,871	---	---	284,871
Savings (1)	41,231	---	41,231	---	---	41,231
Time Deposits	126,035	302,568	428,603	150,983	29	579,615
Other Borrowings (2)	13,500	27,500	41,000	---	30,000	71,000
Subordinated Debentures	<u>24,229</u>	---	<u>24,229</u>	---	---	<u>24,229</u>
Total Interest-bearing Liabilities	<u>489,866</u>	<u>330,068</u>	<u>819,934</u>	<u>150,983</u>	<u>30,029</u>	<u>1,000,946</u>
Interest Rate-Sensitivity Gap	<u>(102,393)</u>	<u>(179,783)</u>	<u>(282,176)</u>	<u>326,893</u>	<u>63,884</u>	<u>108,601</u>
Cumulative Interest-Sensitivity Gap	<u>\$(102,393)</u>	<u>\$(282,176)</u>	<u>\$(282,176)</u>	<u>\$44,717</u>	<u>\$108,601</u>	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	<u>(9.23)%</u>	<u>(16.20)%</u>	<u>(25.43)%</u>	<u>29.46%</u>	<u>5.76%</u>	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	<u>(9.23)%</u>	<u>(25.43)%</u>	<u>(25.43)%</u>	<u>4.03%</u>	<u>9.79%</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 \$282 million, or 25.43 percent of total assets at December 31, 2011. In theory, this would indicate that at December 31, 2011, \$282 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 nonrate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. 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, 2011 indicates that net interest income would deteriorate 21.33 percent with a 200 basis point decrease and would improve 10.00 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, 2011 indicates that net economic value of equity percentage change would increase 1.54 percent with a 200 basis point increase and would decrease 17.52 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, 2011 indicates a one year gap of 0.78 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 2012. 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.

	Years Ended December 31		
	2011	2010	2009
Return on Average Assets(1)	0.09%	(0.07)%	(0.60)%
Return on Average Equity(1)	1.20%	(0.98)%	(19.45)%
Equity to Assets	8.08%	7.29%	6.83%
Dividends Declared	\$0.00	\$0.00	\$0.146

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

Future Outlook

During the past three years, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country. Focus during 2011 and again in 2012 will be directed toward addressing and bringing resolution to problem assets.

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

Business

Regulatory Action

On October 21, 2010, the Board of Directors of the Company's subsidiary bank, Colony Bank (the "Bank"), received notification from its primary regulators, the Georgia Department of Banking and Finance ("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 leverage capital to total assets of 8% and total risk-based capital to total risk-weighted assets of 10%. At December 31, 2011, the Bank's capital ratios were 9.38% and 16.29%, respectively.



*Count on Colony, wherever you are.
Close to home. Close to you.*

Market Makers For Colony Bankcorp, Inc.
Common Stock
Sterne, Agee & Leach, Inc.
Sam Haskell, Vice President
Birmingham, Alabama
866-378-3763

Morgan Keegan & Co.
Warren Allen, Vice President
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Fig-Partners, LLC
Eric Lawless, Vice President
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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 22, 2012 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
Shareholder Services
59 Maiden Lane, Plaza Level
New York, New York 10038
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