

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
(Fee Required)

For the Fiscal Year Ended December 31, 2016

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
(No Fee Required)

For the Transition Period from _____ to _____

Commission File Number 000-12436

COLONY BANKCORP, INC.
(Exact Name of Registrant Specified in its Charter)

Georgia
(State or Other Jurisdiction of
Incorporation or Organization)

58-1492391
(I.R.S. Employer
Identification Number)

115 South Grant Street
Fitzgerald, Georgia
(Address of Principal Executive Offices)

31750
(Zip Code)

(229) 426-6000
Issuer's Telephone Number, Including Area Code

Securities Registered Pursuant to Section 12(b) of the Act: None.

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$1.00	The NASDAQ Stock Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☐
Nonaccelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of June 30, 2016: \$58,532,814 based on stock price of \$9.51.

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 8,439,258 shares of \$1.00 par value

common stock as of March 10, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information required by Part III of this Annual Report are incorporated by reference from the Registrant's definitive Proxy Statement for the 2016 annual meeting of shareholders to be filed with Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report.

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Part I

Item 1

Business

COLONY BANKCORP, INC.

General

Colony Bankcorp, Inc. (the “Company” or “Colony”) is a Georgia business corporation which was incorporated on November 8, 1982. The Company was organized for the purpose of operating as a bank holding company under the Bank Holding Company Act of 1956, as amended, and the bank holding company laws of Georgia (Georgia Laws 1976, p. 168, et. seq.). On July 22, 1983, the Company, after obtaining the requisite regulatory approvals, acquired 100 percent of the issued and outstanding common stock of Colony Bank (formerly Colony Bank of Fitzgerald and The Bank of Fitzgerald), Fitzgerald, Georgia (the “Bank” or “Colony Bank”), through the merger of the Bank with a subsidiary of the Company which was created for the purpose of organizing the Bank into a one-bank holding company. Since that time, Colony Bank has operated as a wholly-owned subsidiary of the Company. Our business is conducted primarily through our wholly-owned bank subsidiary, which provides a broad range of banking services to its retail and commercial customers. The company headquarters is located at 115 South Grant Street, Fitzgerald, Georgia 31750, its telephone number is 229-426-6000 and its Internet address is <http://www.colonybank.com>. We operate twenty-seven domestic banking offices and one corporate operations office and, at December 31, 2016, we had approximately \$1.21 billion in total assets, \$754.28 million in total loans, \$1.04 billion in total deposits and \$93.39 million in stockholder’s equity. Deposits are insured, up to applicable limits, by the Federal Deposit Insurance Corporation.

The Parent Company

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

Colony Bank - Banking Services

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

For additional discussion of our loan portfolio and deposit accounts, see “Management’s Discussion of Financial Condition and Results of Operations - Loans and Deposits.”

Part I (Continued)**Item 1 (Continued)****Subordinated Debentures (Trust Preferred Securities)**

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

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

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

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

Markets and Competition

The banking industry in general is highly competitive. Our market areas of central, south and coastal Georgia have experienced good economic and population growth the past several years. In contrast to our rural markets, in which we typically rank in the top three in terms of market share, in our larger markets, we face competitive pressures in attracting deposits and making loans from larger regional banks and smaller community banks, thrift institutions, credit unions, consumer finance companies, mortgage bankers, brokerage firms and insurance companies. The principal factors in competing for deposits and loans include interest rates, fee structures, range of products and services offered and convenience of office and ATM locations. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds. In addition, intense market demands, economic concerns, volatile interest rates and customer awareness of product and services have forced banks to be more competitive - often resulting in margin compression and a decrease in operating efficiency.

Correspondents

Colony Bank has correspondent relationships with the following banks: Federal Reserve Bank of Atlanta; SunTrust Bank in Atlanta, Georgia; FTN Financial in Memphis, Tennessee, CenterState Bank in Lake Wales, Florida and the Federal Home Loan Bank of Atlanta. These correspondent relationships facilitate the transactions of business by means of loans, collections, investment services, lines of credit and exchange services, particularly in markets in which Colony Bank does not have a physical presence. As compensation for these services, the Bank maintains balances with its correspondents in primarily interest-bearing accounts and pays some service charges.

Part I (Continued)**Item 1 (Continued)****Employees**

On December 31, 2016, the Company had a total of 333 employees, 318 of which are full-time employees. We consider our relationship with our employees to be satisfactory.

The Company has a profit-sharing plan covering all employees, subject to certain minimum age and service requirements. In addition, the Company maintains a comprehensive employee benefit program providing, among other benefits, hospitalization, major medical, life insurance and disability insurance. Management considers these benefits to be competitive with those offered by other financial institutions in our market area. Colony's employees are not represented by any collective bargaining group.

**SUPERVISION AND REGULATION
BANK HOLDING COMPANY REGULATION**

General

As a bank holding company under federal and state law, we are subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Our bank subsidiary, Colony Bank, is chartered in the State of Georgia and is subject to regulation, supervision and examination by the Georgia Department of Banking and Finance (the "Georgia Department") and the Federal Deposit Insurance Corporation ("FDIC"). In addition, as discussed in more detail below, Colony Bank is subject to regulation by, and potentially supervision and examination by the Consumer Financial Protection Bureau ("CFPB"). Supervision, regulation, and examination of the company and the Bank by the bank regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund ("DIF") of the FDIC, rather than holders of our capital stock.

This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions described below and is not intended to be an exhaustive description of the statutes or regulations applicable to the Company and the Bank's business. Any change in laws, regulations, or supervisory actions, whether by the FDIC, the Federal Reserve, the Georgia Department, the CFPB, Congress or the Georgia legislature, could have a material adverse impact on the Company and the Bank.

We are also required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and Nasdaq. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities. The assessments of our financial reporting controls as of December 31, 2016 are included in this report under "Section 9A. Controls and Procedures."

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on the business of the Company.

Part I (Continued)

Item 1 (Continued)

Recent Regulatory Developments -- The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Provisions of the Dodd-Frank Act that have affected or are likely to affect our operations or the operations of Colony Bank include:

- Creation of the CFPB with centralized authority, including examination and enforcement authority, for consumer protection in the banking industry.
- New prohibitions and restrictions on the ability of a banking entity to engage in proprietary trading for its own account and have certain interests in, or relationships with, certain unregistered hedge funds, private equity funds and commodity pools.
- Application of new regulatory capital requirements, including changes to leverage and risk-based capital standards and changes to the components of permissible tiered capital.
- Requirement that holding companies and their subsidiary banks be well capitalized and well managed in order to engage in activities permitted for financial holding companies.
- Changes to the assessment base for deposit insurance premiums.
- Permanently raising the FDIC's standard maximum insurance amount to \$250,000.
- Repealed the prohibition on the payment of interest on demand deposits.
- Restrictions on compensation, including a prohibition on incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions that are deemed to be excessive, or that may lead to material losses.
- Requirement that sponsors of asset-backed securities retain a percentage of the credit risk underlying the securities.
- Requirement that banking regulators remove references to and requirements of reliance upon credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness.

Part I (Continued)

Item 1 (Continued)

While most of the requirements called for in the Dodd-Frank Act have been implemented, others will continue to be implemented over time. Given the extent of the changes brought about by the Dodd-Frank Act and the significant discretion afforded to federal regulators to implement those changes, we cannot fully predict the extent of the impact such requirements will have on our operations. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

The following items and information provided in subsequent sections provide a further description of certain relevant provisions of the Dodd-Frank Act and their potential impact on our operations and activities, both currently and prospectively.

Creation of New Governmental Authorities. The Dodd-Frank Act created various new governmental authorities such as the CFPB, an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products. The CFPB's authority to supervise and examine depository institutions with \$10 billion or less in assets, such as us, for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB also may participate in examinations of Colony Bank, which currently has assets of less than \$10 billion, and could supervise and examine other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers.

Incentive Compensation. The Dodd-Frank Act requires the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than \$1 billion in assets, such as us and Colony Bank, which prohibit incentive compensation arrangements that the agencies determine encourage inappropriate risks by the institution. The banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies. In 2016, the Federal Reserve and the FDIC have also proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2016, these rules have not been implemented.

Part I (Continued)**Item 1 (Continued)**

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The first say-on-pay vote occurred at our 2011 annual shareholders meeting. The say-on-pay, the say-on-parachute and the say-on-frequency votes are explicitly nonbinding and cannot override a decision of our board of directors.

Volcker Rule. In December 2013, the Federal Reserve and other regulators jointly issued final rules implementing requirements of a new Section 13 to the Bank Holding Company Act, commonly referred to as the "Volcker Rule." The Volcker Rule generally prohibits us and our subsidiaries from (i) engaging in proprietary trading for our own account, and (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund," all subject to certain exceptions. The Volcker Rule also specifies certain limited activities in which we and our subsidiaries may continue to engage. The regulators provided for a Volcker Rule conformance date of July 21, 2015. The Federal Reserve extended the conformance deadline to July 21, 2016 for certain legacy "covered funds" activities and investments in place before December 31, 2013, and the Federal Reserve expressed its intention to grant the last available statutory extension for such covered funds activities until July 21, 2017. Further, the Federal Reserve Board permits limited exemptions, upon application, for divestiture of certain "illiquid" covered funds, for an additional period of up to 5 years beyond that date.

Bank Holding Company Regulation

As a bank holding company, we are subject to supervision and regulation by the Federal Reserve under the BHCA. Bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve determines to be so closely related to banking, or managing or controlling banks as to be a proper incident thereto. We are required to file with the Federal Reserve periodic reports and such other information as the Federal Reserve may request. Ongoing supervision is provided through regular examinations by the Federal Reserve and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. The Federal Reserve may also examine our non-bank subsidiaries.

Expansion and Activity Limitations . The BHCA permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Georgia or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. Federal law also permits national and state-chartered banks to branch interstate through acquisitions of banks in other states, subject to certain requirements.

Part I (Continued)

Item 1 (Continued)

Subject to prior notice or Federal Reserve approval, under the BHCA, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5 percent of the voting shares of, any company engaged in the following activities:

- Banking or managing or controlling banks;
- Furnishing services to or performing services for our subsidiaries; and
- Any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking, including:
 - Factoring accounts receivable;
 - Making, acquiring, brokering or servicing loans and usual related activities;
 - Leasing personal or real property;
 - Operating a non-bank depository institution, such as a savings association;
 - Performing trust company functions;
 - Providing financial and investment advisory activities;
 - Conducting discount securities brokerage activities;
 - Underwriting and dealing in government obligations and money market instruments;
 - Providing specified management consulting and counseling activities;
 - Performing selected data processing services and support services;
 - Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions;
 - Performing selected insurance underwriting activities;
 - Providing certain community development activities (such as making investments in projects designed primarily to promote community welfare); and
 - Issuing and selling money orders and similar consumer-type payment instruments.

Part I (Continued)**Item 1 (Continued)**

Bank holding companies that elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to the GLBA and the Dodd-Frank Act, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of that bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (“CRA”), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to the required divestiture of subsidiary banks or the termination of all activities that do not conform to those permissible for a bank holding company. The Company has not elected financial holding company status and neither Company nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature.

Other Restrictions on the Company’s Activities

As contained in both federal and state banking laws and regulations, a wide range of requirements and restrictions apply to bank holding companies and their subsidiaries which:

- Require periodic reports and such additional information as the Federal Reserve may require bank holding companies to meet or exceed minimum capital requirements;
- In certain circumstances, limit dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks;
- Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- Require the prior approval for changes in senior executive officer or directors and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination when a bank holding company is deemed to be in troubled condition;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and
- Require prior approval of acquisitions and mergers with other banks or bank holding companies and consider certain competitive, management, financial, and compliance concerns.

Part I (Continued)**Item 1 (Continued)***Source of Strength*

Federal Reserve policy requires a bank holding company to act as a source of financial and managerial strength and to support its bank subsidiary in situations where additional investments in a troubled bank may not otherwise be warranted. The holding company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHCA provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment. Notably, the Dodd-Frank Act has codified the Federal Reserve's "source of strength" doctrine. In addition, the Dodd-Frank Act's new provisions authorize the Federal Reserve to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its "source of strength" obligations and to enforce the company's compliance with these obligations.

Change in Control

As a general proposition, other companies seeking to acquire control of a bank holding company would require the approval of the Federal Reserve under the BHCA. In addition, individuals or groups of individuals seeking to acquire control of a bank holding company would need to file a prior notice with the Federal Reserve (which the Federal Reserve may disapprove under certain circumstances) under the Change in Bank Control Act. Control is conclusively presumed to exist if an individual or company acquires 25 percent or more of any class of voting securities of the bank holding company. Control may exist under the Change in Bank Control Act if the individual or company acquires 10 percent or more of any class of voting securities of the bank holding company.

Capital Adequacy Requirements

We and Colony Bank were required to comply with higher minimum capital requirements as of January 1, 2015. These new rules ("Revised Capital Rules") implement the Dodd-Frank Act and a separate international regulatory regime known as "Basel III" (which is discussed below). Prior to January 1, 2015, we and Colony Bank were subject to risk-based capital guidelines issued by the Federal Reserve and the FDIC for bank holding companies and state non-member banks, respectively. The risk-based capital guidelines that applied to us and Colony Bank through December 31, 2014 were based upon the 1988 capital accord of the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies on an interagency basis.

The following is a brief description of the relevant provisions of the Revised Capital Rules and their impact on our capital levels. Among other things, the Revised Capital Rules (i) introduced a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specified that Tier 1 Capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting certain requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments from capital as compared to existing regulation that apply to us and other banking organizations.

Part I (Continued)

Item 1 (Continued)

New Minimum Capital Requirements. The Revised Capital Rules required the following initial minimum capital ratios as of January 1, 2015:

- 4.5% CET1 to risk-weighted assets
- 6.0% Tier 1 capital to risk-weighted assets
- 8.0% Total capital to risk-weighted assets
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio")

Capital Conservation Buffer. The Revised Capital Rules also introduced a new "capital conservation buffer," composed entirely of CET1, on top of the minimum risk-weighted asset ratios, which is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of this difference.

When fully phased in on January 1, 2019, the Revised Capital Rules will require us and Colony Bank to maintain (i) a minimum ratio of CET1 to risk-weighted assets of 7% (4.5% attributable to CET1 plus the 2.5% capital conservation buffer); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 8.5% (6.0% attributable to Tier 1 capital plus the 2.5% capital conservation buffer), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 10.5% (8.0% attributable to Total capital plus the 2.5% capital conservation buffer) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

Regulatory Deductions. The Revised Capital Rules provide for a number of deductions from and adjustments to CET1, including the requirement that mortgage servicing rights, deferred tax assets that arise from operating loss and tax credit carryforwards, net of associated DTLs, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter until fully phased-in at January 1, 2018).

Under the Revised Capital Rules, the effects of certain accumulated other comprehensive items (except gains and losses on cash flow hedges where the hedged item is not recognized on a banking organization's balance sheet at fair value) are not excluded; however, certain banking organizations, including us and Colony Bank, may make a one-time permanent election to continue to exclude these items. We and Colony Bank each made this election as of January 1, 2015. The Revised Capital Rules also preclude counting certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank or thrift holding companies. However, for bank or thrift holding companies that had assets of less than \$15 billion as of December 31, 2009 like us, trust preferred securities issued prior to May 19, 2010 can be treated as Tier 1 capital to the extent that they do not exceed 25% of Tier 1 capital after applying all capital deductions and adjustments.

Management believes, at December 31, 2016, that we and Colony Bank meet all capital adequacy requirements under the Revised Capital Rules on a fully phased-in basis if such requirements were currently effective.

Part I (Continued)**Item 1 (Continued)****Dividends**

The Company is a legal entity separate and distinct from the Bank. The principal source of the Company's cash flow, including cash flow to pay dividends to its stockholders, is dividends that the Bank pays to it. A variety of federal and state laws and regulations affect the ability of the Bank and the Company to pay dividends. For example, Georgia law requires prior approval for a bank to pay dividends where the aggregate amount of dividends to be declared or anticipated to be declared during the current calendar year exceeds 50 percent of its net after-tax profits before dividends for the previous calendar year. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. The federal banking agencies may prevent the payment of a dividend if they determine that the payment would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- Its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- Its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- It will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Neither the Company nor Colony Bank can give assurances that it will receive all required regulatory approvals to pay dividends. Subject to these regulatory restrictions, future cash dividends by the Company and the Bank will depend upon management's assessment of future capital requirements, contractual restrictions and other factors.

Colony Bank received regulatory approvals in 2014 to pay a dividend of \$12 million to the Company, the proceeds of which were used in 2014 to pay Preferred Stock dividends and interest due on the Company's junior subordinated debentures. The Bank was granted approval to pay total dividend payments of \$10 million to the Company during 2015, and the Company used these proceeds to redeem \$9.979 million of Preferred Stock during 2015. The Bank was also granted approval to pay total dividend payments of \$9.1 million to the Company during 2016, and the Company used these proceeds to redeem \$8.661 million of Preferred Stock during 2016.

Part I (Continued)**Item 1 (Continued)****BANK REGULATION****General**

The Bank is a commercial bank chartered under the laws of the State of Georgia, and as such is subject to supervision, regulation and examination by the Georgia Department. The Bank is a member of the FDIC, and their deposits are insured by the FDIC's Deposit Insurance Fund up to the amount permitted by law. The FDIC and the Georgia Department routinely examine the Bank and monitor and regulate all of the Bank's operations, including such things as adequacy of reserves, quality and documentation of loans, payments of dividends, capital adequacy, adequacy of systems and controls, credit underwriting and asset liability management, compliance with laws and establishment of branches. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and certain federal laws concerning interest rates. The Bank files periodic reports with the FDIC and the Georgia Department.

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized". A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified.

All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. Notably, the Revised Capital Rule updated the prompt corrective action framework to correspond to the rule's new minimum capital thresholds, which took effect on January 1, 2015. Under this new framework, (i) a well-capitalized insured depository institution is one having a total risk-based capital ratio of 10 percent or greater, a Tier 1 risk-based capital ratio of 8 percent or greater, a CET1 capital ratio of 6.5 percent or greater, a leverage capital ratio of 5 percent or greater and that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure; (ii) an adequately-capitalized depository institution is one having a total risk based capital ratio of 8 percent or more, a Tier 1 capital ratio of 6 percent or more, a CET1 capital ratio of 4.5 percent or more, and a leverage ratio of 4 percent or more; (iii) an undercapitalized depository institution is one having a total capital ratio of less than 8 percent, a Tier 1 capital ratio of less than 6 percent, a CET1 capital ratio of less than 4.5 percent, or a leverage ratio of less than 4 percent; and (iv) a significantly undercapitalized institution is one having a total risk-based capital ratio of less than 6 percent, a Tier 1 capital ratio of less than 4 percent, a CET1 ratio of less than 3 percent or a leverage capital ratio of less than 3 percent. The Revised Capital Rules retain the 2 percent threshold for critically undercapitalized institutions, but make certain changes to the framework for calculating an institution's ratio of tangible equity to total assets.

Part I (Continued)**Item 1 (Continued)**

As of December 31, 2016, Colony Bank was considered “well capitalized,” and the consolidated capital ratios of the Company were as follows:

	December 31, 2016	
	Amount	Percent
Leverage Ratio		
Actual	\$ 121,862	10.29%
Well-Capitalized Requirement	59,210	5.00
Minimum Required (1)	47,368	4.00
Risk Based Capital:		
Tier 1 Capital		
Actual	121,862	15.50
Well-Capitalized Requirement	62,880	8.00
Minimum Required (1)	47,160	6.00
Common Equity Tier 1 Capital		
Actual	89,002	11.32
Well-Capitalized Requirement	51,090	6.50
Minimum Required (1)	35,370	4.50
Total Capital		
Actual	130,785	16.64
Well-Capitalized Requirement	78,600	10.00
Minimum Required (1)	62,880	8.00

- (1) Represents the minimum requirement. Institutions that are contemplating acquisitions or anticipating or experiencing significant growth may be required to maintain a substantially higher leverage ratio.

The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to applicable restrictions.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit a capital restoration plan for approval within 90 days of becoming undercapitalized. For a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of 5% of the depository institution’s total assets at the time it became undercapitalized and the amount necessary to bring the institution into compliance with applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. If the controlling holding company fails to fulfill its obligations under FDICIA and files (or has filed against it) a petition under the federal Bankruptcy Code, the claim for such liability would be entitled to a priority in such bankruptcy proceeding over third party creditors of the bank holding company. In addition, an undercapitalized institution is subject to increased monitoring and asset growth restrictions and is required to obtain prior regulatory approval for acquisitions, new lines of business, and branching. Such an institution also is barred from soliciting, taking or rolling over brokered deposits.

Part I (Continued)**Item 1 (Continued)**

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator within 90 days of becoming significantly undercapitalized, except under limited circumstances. Because our company and Colony Bank exceed applicable capital requirements, the respective managements of our company and Colony Bank do not believe that the provisions of FDICIA have had any material effect on our company and Colony Bank or our respective operations.

FDICIA also contains a variety of other provisions that may affect the operations of our company and Colony Bank, including reporting requirements, regulatory standards for real estate lending, “truth in savings” provisions, the requirement that a depository institution give 90 days’ prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized, or are adequately capitalized and have not received a waiver from the FDIC. Colony Bank was well capitalized at December 31, 2016, and brokered deposits are not restricted.

Standards for Safety and Soundness

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality.

The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Part I (Continued)**Item 1 (Continued)**

The federal and Georgia regulatory structures give the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. If, as a result of an examination, the Georgia Department or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the Georgia Department and the FDIC, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

FDIC Insurance Assessments

Colony Bank's deposits are insured by the FDIC's DIF, and Colony Bank is subject to FDIC assessments for its deposit insurance, as well as assessments by the FDIC to pay interest on Financing Corporation ("FICO") bonds.

Effective April 1, 2011, the FDIC began calculating assessments based on an institution's average consolidated total assets less its average tangible equity in accordance with changes mandated by the Dodd-Frank Act. The FDIC also established a new assessment rate schedule, as well as alternative rate schedules that become effective when the DIF reserve ratio reaches certain levels. In determining the deposit insurance assessments to be paid by insured depository institutions, the FDIC generally assigns institutions to one of four risk categories based on supervisory ratings and capital ratios. Under the FDIC's risk-based assessment system, insured institutions are assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. The FDIC's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's aggregate deposits.

The Dodd-Frank Act also increased the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Under FDIC rules, banks with at least \$10 billion in assets would also pay a surcharge to enable the reserve ratio to reach 1.35%. In addition, the FDIC collects FICO deposit assessments, which are calculated off of the assessment base described above.

Part I (Continued)

Item 1 (Continued)

The Bank's FDIC insurance expense totaled \$604 thousand for 2016. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Other Regulations

Anti-Money Laundering . The International Money Laundering Abatement and Anti-Terrorism Funding Act of 2001 specifies "know your customer" requirements that obligate financial institutions to take actions to verify the identity of the account holders in connection with opening an account at any U.S. financial institution. Banking regulators will consider compliance with the Act's money laundering provisions in acting upon acquisition and merger proposals. Sanctions for violations of the Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to \$1 million.

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs with minimum standards that include:

- The development of internal policies, procedures, and controls;
- The designation of a compliance officer;
- An ongoing employee training program; and
- An independent audit function to test the programs.

Bank regulators routinely examine institutions for compliance with these anti-money laundering obligations and recently have been active in imposing "cease and desist" and other regulatory orders and money penalty sanctions against institutions found to be in violation of these requirements. In addition, the Financial Crimes Enforcement Network has proposed new regulations that would require financial institutions to obtain beneficial ownership information for certain accounts, however, it has yet to establish final regulations on this topic.

Economic Sanctions . The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

Part I (Continued)

Item 1 (Continued)

Transactions with Related Parties . We are a legal entity separate and distinct from Colony Bank and our other subsidiaries. Various legal limitations restrict our banking subsidiary from lending or otherwise supplying funds to us or our non-bank subsidiaries. We and our banking subsidiary are subject to Section 23A of the Federal Reserve Act and the corresponding provisions of Federal Reserve Regulation W thereunder. Section 23A defines “covered transactions” to include, among other types of transactions, extensions of credit, and limits a bank’s covered transactions with any of its “affiliates” to 10% of such bank’s capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their operating subsidiaries are prohibited from purchasing low-quality assets from the bank’s affiliates. Finally, Section 23A requires that all of a bank’s extensions of credit to its affiliates be appropriately secured by acceptable collateral, generally United States government or agency securities.

We and our bank subsidiary also are subject to Section 23B of the Federal Reserve Act and the corresponding provisions of Federal Reserve Regulation W thereunder, which generally require covered transactions and certain other transactions between a bank and its affiliates to be on terms, including credit standards, that are substantially the same, or at least as favorable to, the bank as those prevailing at the time for similar transactions with unaffiliated companies.

The Dodd-Frank Act generally enhanced the restrictions on banks’ transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Specifically, Section 608 of the Dodd-Frank Act broadened the definition of “covered transactions” to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions will be viewed as extensions of credit (instead of asset purchases) and thus become subject to collateral requirements. The ability of the Federal Reserve to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including with respect to the requirement for the OCC, FDIC and Federal Reserve to coordinate with one another.

Concentrations in Lending . During 2006, the federal bank regulatory agencies released guidance on “Concentrations in Commercial Real Estate Lending” (the “Guidance”) and advised financial institutions of the risks posed by commercial real estate (“CRE”) lending concentrations. The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100 percent or more of a bank’s total risk based capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300 percent or more of a bank’s total risk based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type.

Part I (Continued)

Item 1 (Continued)

Community Reinvestment Act. We and our banking subsidiary are subject to the provisions of the Community Reinvestment Act (“CRA”) and related federal bank regulatory agencies’ regulations. Under the CRA, all banks and thrifts have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA requires a depository institution’s primary federal regulator, in connection with its examination of the institution, to assess the institution’s record of assessing and meeting the credit needs of the communities served by that institution, including low- and moderate-income neighborhoods. The bank regulatory agency’s assessment of the institution’s record is made available to the public. Further, such assessment is required of any institution which has applied to: (i) charter a national bank; (ii) obtain deposit insurance coverage for a newly-chartered institution; (iii) establish a new branch office that accepts deposits; (iv) relocate an office; (v) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution, or (vi) expand other activities, including engaging in financial services activities authorized by the GLBA. A less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company.

Following the enactment of the GLBA, CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank’s primary federal regulator. A bank holding company will not be permitted to become or remain a financial holding company and no new activities authorized under GLBA may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a “satisfactory” CRA rating in its latest CRA examination. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation.

Privacy and Data Security. The GLBA generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the GLBA. The GLBA also directed federal regulators, including the FDIC and the OCC, to prescribe standards for the security of consumer information. Colony Bank is subject to such standards, as well as standards for notifying customers in the event of a security breach. Under federal law, Colony Bank must disclose its privacy policy to consumers, permit customers to opt out of having nonpublic customer information disclosed to third parties in certain circumstances, and allow customers to opt out of receiving marketing solicitations based on information about the customer received from another subsidiary. States may adopt more extensive privacy protections. We are similarly required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Consumer Regulation. The Bank must also comply with numerous federal and state consumer protection statutes and implementing regulations, including the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, and various federal and state privacy protection laws. Noncompliance with these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair, deceptive, or abusive acts and practices.

Part I (Continued)**Item 1 (Continued)**

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting, and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

These laws and regulations include, among numerous other things, provisions that:

- Limit the interest and other charges collected or contracted for by Colony Bank, including new rules respecting the terms of credit cards and of debit card overdrafts;
- Govern Colony Bank's disclosures of credit terms to consumer borrowers;
- Require Colony Bank to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;
- Prohibit Colony Bank from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;
- Govern the manner in which Colony Bank may collect consumer debts; and
- Prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

Mortgage-Related Reforms. The CFPB adopted a rule that implements the ability-to-repay and qualified mortgage provisions of the Dodd-Frank Act (the "ATR/QM rule"), which took effect on January 10, 2014, and has impacted our residential mortgage lending practices, and the residential mortgage market generally. The ATR/QM rule requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance "safe harbor" for lenders that issue certain "qualified mortgages." The ATR/QM rule defines a "qualified mortgage" to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt-to-income ratio that is less than or equal to 43 percent. While "qualified mortgages" will generally be afforded safe harbor status, a rebuttable presumption of compliance with the ability-to-repay requirements will attach to "qualified mortgages" that are "higher priced mortgages" (which are generally subprime loans). In particular, it will prevent banks from making "no doc" and "low doc" home loans, as the rules require that banks determine a consumer's ability to pay based in part on verified and documented information. Because we do not originate "no doc" or "low doc" loans, we do not believe this regulation will have a significant effect on our operations.

Part I (Continued)**Item 1 (Continued)**

In addition, under rules that became effective December 24, 2015, the securitizer of asset-backed securities must retain not less than 5 percent of the credit risk of the assets collateralizing the asset-backed securities, unless subject to an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages.” These definitions are expected to significantly shape the parameters for the majority of consumer mortgage lending in the U.S.

Reflecting the CFPB's focus on the residential mortgage lending market, the CFPB has also issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) and has finalized integrated mortgage disclosure rules that replace and combine certain requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act. In addition, the CFPB has issued rules that require servicers to comply with new standards and practices with regard to: error correction; information disclosure; force-placement of insurance; information management policies and procedures; requiring information about mortgage loss mitigation options be provided to delinquent borrowers; providing delinquent borrowers access to servicer personnel with continuity of contact about the borrower's mortgage loan account; and evaluating borrowers' applications for available loss mitigation options. These rules also address initial rate adjustment notices for adjustable-rate mortgages (ARMs), periodic statements for residential mortgage loans, and prompt crediting of mortgage payments and response to requests for payoff amounts. The CFPB has indicated that it expects to issue additional mortgage-related rules in the future.

The CFPB has indicated that, in addition to specific statutory mandates, it is working on a wide range of initiatives to address issues in markets for consumer financial products and services. The CFPB has also undertaken an effort to “streamline” consumer regulations and has established a database to collect, track and make public consumer complaints, including complaints against individual financial institutions.

The CFPB also has broad authority to prohibit unfair, deceptive and abusive acts and practices (“UDAAP”) and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate this prohibition, certain aspects of these standards are untested, which has created some uncertainty regarding how the CFPB will exercise this authority. The CFPB has, however, brought enforcement actions against certain financial institutions for UDAAP violations and issued some guidance on the topic, which provides insight into the agency's expectations regarding these standards. Among other things, CFPB guidance and its UDAAP-related enforcement actions have emphasized that management of third-party service providers is essential to effective UDAAP compliance and that the CFPB is particularly focused on marketing and sales practices.

Part I (Continued)

Item 1 (Continued)

We cannot fully predict the effect that implementing regulations or revisions to existing regulations enforcement actions or other activity of the CFPB may have on our businesses.

The deposit operations of Colony Bank are also subject to laws and regulations that:

- Require Colony Bank to adequately disclose the interest rates and other terms of consumer deposit accounts;
- Impose a duty on Colony Bank to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records;
- Require escheatment of unclaimed funds to the appropriate state agencies after the passage of certain statutory time frames; and
- Govern automatic deposits to and withdrawals from deposit accounts with Colony Bank and the rights and liabilities of customers who use automated teller machines, or ATMs, and other electronic banking services.
- Limit the Bank's ability to charge fees for the payment of overdrafts for one-time debit and ATM card transactions.

Non-Discrimination Policies. Colony Bank is also subject to, among other things, the provisions of the Equal Credit Opportunity Act (the "ECOA") and the Fair Housing Act (the "FHA"), both of which prohibit discrimination based on race or color, religion, national origin, sex, and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The Department of Justice (the "DOJ"), and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending that provides guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has increased its efforts to prosecute what it regards as violations of the ECOA and FHA.

Enforcement Authority. Colony Bank and its "institution-affiliated parties," including management, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. Violations can include failure to timely file required reports, filing false or misleading information or submitting inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations, and criminal penalties for some financial institution crimes may include imprisonment for 20 years. Regulators have flexibility to commence enforcement actions against institutions and institution-affiliated parties, and the FDIC has the authority to terminate deposit insurance. When issued by a banking agency, cease-and-desist orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering agency. The federal banking agencies also may remove a director or officer from an insured depository institution (or bar them from the industry) if a violation is willful or reckless.

Part I (Continued)

Item 1 (Continued)

Evolving Legislation and Regulatory Action . Proposals for new statutes and regulations are frequently circulated at both the federal and state levels, and may include wide-ranging changes to the structures, regulations and competitive relationships of financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition or results of operations.

Other Regulatory Matters . We and our subsidiaries are subject to oversight by the SEC, the Financial Industry Regulatory Authority (“FINRA”), the Public Company Accounting Oversight Board (“PCAOB”), Nasdaq and various state securities regulators. We and our subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business.

Iran Sanctions Related Disclosure

Under the Iran Threat Reduction and Syrian Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended, we are required to include certain disclosures in our periodic reports if we or any of our “affiliates” knowingly engaged in certain specified activities during the period covered by this Annual Report on Form 10-K. Because the SEC defines the term “affiliate” broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us. We do not believe we and our consolidated subsidiary have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during fiscal year 2015.

Risk Factors

Strong competition and changing banking environment may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms operating locally and elsewhere, and non-traditional financial institutions, including non-depository financial services providers. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Additionally, non-traditional financial institutions may not have the same regulatory requirements or burdens as we do. Despite playing a rapidly increasing role in the financial services industry including providing services previously limited to commercial banks. Such competition could ultimately limit our growth, profitability and shareholder value. Our profitability depends upon our ability to successfully compete in our market areas and adapt to the ever changing banking environment.

Any future economic downturn could have a material adverse effect on our capital, financial condition, results of operations, and future growth.

Our management continually monitors market conditions and economic factors throughout our footprint. While recent economic data suggests that overall economic conditions have improved, as supported by our improved credit trends, we cannot make any assurance that these economic conditions - both nationally and in our principal markets - will not worsen in the future. If these conditions were to worsen, then we could see a sharp increase in our total net charge-offs and also be required to significantly increase our allowance for loan losses. Furthermore, the demand for loans and our other products and services could decline. Any future increase in our non-performing assets and related increases in our provision for loan losses, coupled with a potential decrease in the demand for loans and our other products and services, could negatively affect our business and could have a material adverse effect on our capital, financial condition, results of operations and future growth.

Part I (Continued)**Item 1A****A reduction in consumer confidence could negatively impact our results of operations and financial condition.**

The beginning of 2017 has seen significant market volatility driven in part by concerns relating to, among other things, the 2016 U.S. presidential election. The continued impact of this issue could adversely affect the U.S. or global economies, with direct or indirect impacts on the Company and its business. Results could include drops in consumer and business confidence, credit deterioration, diminished capital markets activity, and delays in the Federal Reserve Board increases in interest rates.

Our business may be adversely affected by downturns in our national and local economies.

Our operations are significantly affected by national and local economic conditions. Substantially all of our loans are to businesses and individuals in Georgia. All of our branches and most of our deposit customers are also located in this area. A decline in the economies in which we operate could have a material adverse effect on our business, financial condition and results of operations.

A deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- Demand for our loans, deposits and services may decline;
- Loan delinquencies, problem assets and foreclosures may increase;
- Weak economic conditions may continue to limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;
- Collateral for our loans may decline further in value; and
- The amount of our low-cost or non-interest bearing deposits may decrease.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, a sustained increase in interest rates generally would tend to reduce our interest income.

Part I (Continued)**Item 1A (Continued)**

In an attempt to help the overall economy, the Federal Reserve Board has kept interest rates low through its targeted Fed Funds rate. In December 2016, the Federal Reserve Board increased the Fed Funds rate by 25 basis points and intends further increases during 2017, subject to economic conditions. As the Federal Reserve Board increases the Fed Funds rate, overall interest rates will likely rise, which may negatively impact the U.S. economic recovery. Further, changes in monetary policy, including changes in interest rates, could influence (i) the amount of interest we receive on loans and securities, (ii) the amount of interest we pay on deposits and borrowings, (iii) our ability to originate loans and obtain deposits, (iv) the fair value of our assets and liabilities, and (v) the reinvestment risk associated with a reduced duration of our mortgage-backed securities portfolio as borrowers refinance to reduce borrowing costs. When interest-bearing liabilities reprice or mature more quickly than interest-earning assets, an increase in interest rates generally would tend to result in a decrease in net interest income.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2016, the fair value of our portfolio of investment securities, mortgage-backed securities and collateralized mortgage obligations totaled \$323,657,870. Net unrealized losses on these securities totaled \$7,609,303 at December 31, 2016.

Additionally, 5.54% of our one- to four-family loan portfolio is comprised of adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable-rate mortgage loans, which would increase the possibility of default.

Although management believes it has implemented an effective asset and liability management strategy to manage the potential effects of changes in interest rates, including the use of adjustable rate and/or short-term assets, and FHLB advances or longer term repurchase agreements, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of our operation and/or our strategies may not always be successful in managing the risk associated with changes in interest rates.

Our allowance for loan losses may not cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We derive the most significant portion of our revenues from our lending activities. When we lend money, commit to lend money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, which is the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts. We estimate and maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses, which represents management's best estimate of probable credit losses that have been incurred within the existing portfolio of loans, as described under [Note 5 of Notes to Consolidated Financial Statements in this Report and under "Allowance for Loan Losses" under "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.]

Part I (Continued)**Item 1A (Continued)**

The allowance, in the judgment of management, is established to reserve for estimated loan losses and risks inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, risk ratings, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

Because the risk rating of the loans is dependent on some subjective information and subject to changes in the borrower's credit risk profile, evolving local market conditions and other factors, it can be difficult for us to predict the effects that those factors will have on the classifications assigned to the loan portfolio, and thus difficult to anticipate the velocity or volume of the migration of loans through the classification process and effect on the level of the allowance for loan losses. An increase in the allowance for loan losses would result in a decrease in net income and capital, and could have a material adverse effect on our capital, financial condition and results of operations. Accordingly, we monitor our credit quality and our reserve requirements and use that as a basis for capital planning and other purposes. [See "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital and Liquidity" of this Report for further information.]

Our commercial real estate, real estate construction, and commercial business loans increase our exposure to credit risks.

Over the last several years, we have increased our non-residential lending in order to improve the yield and reduce the average duration of our assets. At December 31, 2016, our portfolio of commercial real estate, real estate construction, and commercial business loans totaled \$438,303,718, or 58.11% of total loans, compared to \$443,563,618, or 58.47% of total loans at December 31, 2015. At December 31, 2016, the amount of nonperforming commercial real estate, real estate construction, and commercial business loans was \$7,185,000, or 58.18% of total nonperforming loans. These loans may expose us to a greater risk of non-payment and loss than residential real estate loans because, in the case of commercial loans, repayment often depends on the successful operation and earnings of the borrower's businesses and, in the case of consumer loans, the applicable collateral is subject to rapid depreciation. Additionally, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest due on the loan, which could cause us to increase our provision for loan losses and adversely affect our financial condition and operating results.

We hold certain intangible assets that in the future could be classified as either partially or fully impaired, which would reduce our earnings and the book values of these assets.

Pursuant to applicable accounting requirements, we are required to periodically test our goodwill and core deposit intangible assets for impairment. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. Future impairment testing may result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment.

Part I (Continued)**Item 1A (Continued)****Acquisitions could disrupt our business and adversely affect our operating results.**

To the extent that we grow through acquisitions, we may not be able to adequately or profitably manage this growth. In addition, such acquisitions may involve the issuance of securities, which may have a dilutive effect on earnings per share. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including:

- Potential exposure to unknown or contingent liabilities we acquire;
- Exposure to potential asset quality problems of the acquired financial institutions, businesses or branches;
- Difficulty and expense of integrating the operations and personnel of financial institutions, businesses or branches we acquire;
- Higher than expected deposit attrition;
- Potential diversion of our management's time and attention;
- The possible loss of key employees and customers of financial institutions, businesses or branches we acquire;
- Difficulty in safely investing any cash generated by the acquisition;
- Inability to utilize potential tax benefits from such transactions;
- Difficulty in estimating the fair value of the financial institutions, businesses or branches to be acquired which affects the profits we generate from the acquisitions; and
- Potential changes in banking or tax laws or regulations that may affect the financial institutions or businesses to be acquired.

Reductions in service charge income or failure to comply with payment network rules could negatively impact our earnings.

We derive significant revenue from service charges on deposit accounts, the bulk of which comes from overdraft-related fees. Changes in banking regulations could have an adverse impact on our ability to derive income from service charges. Increased competition from other financial institutions or changes in consumer behavior could lead to declines in our deposit balances, which would result in a decline in service charge fees. Such a reduction could have a material impact on our earnings.

Part I (Continued)**Item 1A (Continued)****Reductions in interchange income could negatively impact our earnings.**

Interchange income is derived from fees paid by merchants to the interchange network in exchange for the use of the network's infrastructure and payment facilitation. These fees are paid to card issuers to compensate them for the costs associated with issuance and operation. We earn interchange fees on card transactions from debit cards, including \$2,410,035 during the year ended December 31, 2016. Merchants have attempted to negotiate lower interchange rates, and the Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that may be charged for certain debit card transactions. Merchants may also continue to pursue alternative payment platforms, such as Apple Pay, to lower their processing costs. Any such new payment system may reduce our interchange income. Our failure to comply with the operating regulations set forth by payment card networks, which may change, could subject us to penalties, fees or the termination of our license to use the networks. Any of these scenarios could have a material impact on our business, financial condition and results of operations.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

We are exposed to many types of operation risks, including reputational risk, legal and regulatory and compliance risk, the risk of fraud or theft by employees or persons outside our company, including the execution of unauthorized transactions by employees or operational errors, clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Actual or alleged conduct by Colony Bank can result in negative public opinion about our business. Negative public opinion could also affect our credit ratings, which are important to our access to unsecured wholesale borrowings.

Our business involves storing and processing sensitive consumer and business customer data. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who were not permitted to have that information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties. Furthermore, a cybersecurity breach could result in theft of such data.

Because we operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions, and our large transaction volume, may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers, computer break-ins, phishing and other disruptions or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may result in violations of consumer privacy laws including the Gramm-Leach-Bliley Act, cause significant liability to us and give reason for existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage and potential liability, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition or operations results, perhaps materially.

Part I (Continued)

Item 1A (Continued)

As an issuer of debit cards, we are exposed to losses in the event that holders of our cards experience fraud on their card accounts.

Our customers regularly use Colony Bank-issued debit cards to pay for transactions with retailers and other businesses. There is the risk of data security breaches at these retailers and other businesses that could result in the misappropriation of our customers' debit card information. When our customers use Colony Bank-issued cards to make purchases from those businesses, card account information is provided to the business. If the business's systems that process or store card account information are subject to a data security breach, holders of our cards who have made purchases from that business may experience fraud on their card accounts. Colony Bank may suffer losses associated with reimbursing our customers for such fraudulent transactions on customers' card accounts, as well as for other costs related to data security compromise events, such as replacing cards associated with compromised card accounts.

The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage.

We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

Part I (Continued)

Item 1A (Continued)

We face significant cyber and data security risk that could result in the dissemination of confidential and sensitive information, adversely affecting our business or reputation and exposing us to material liabilities.

Our business model enables our customers to utilize the Internet and other remote channels to transact business. As a financial institution, we are under continuous threat of loss due to the swiftness and sophistication of hacking and cyber-attacks. This risk, although considerable at the present, will only increase in the future. Two of the most significant cyber-attack risks that we face are electronic fraud and loss of sensitive customer data. Loss from electronic fraud occurs when cybercriminals breach and extract funds directly from customer accounts or our own accounts. The attempts to breach sensitive customer data, such as account numbers, social security numbers, or other personal information are less frequent but would present significant legal and/or regulatory costs to us if successful, as well as potentially damage our reputation among the markets we serve. Our risk and exposure to these matters will remain relevant because of the evolving nature and complexity of the threats posed by cybercriminals and hackers along with our plans to continue to provide Internet banking and mobile banking avenues for transacting business. While we have not experienced material losses relating to cyber-attacks or other information security breaches to date, we have been the subject of attempted hacking and cyber-attacks and there can be no assurance that we will not suffer such losses in the future.

The occurrence of any cyber-attack or information security breach could result in material adverse consequences including damage to our reputation and the loss of current or potential customers. We also could face litigation or additional regulatory scrutiny due to such an occurrence. Litigation or regulatory actions in turn could lead to material liability, including, but not limited to, fines and penalties or reimbursement to customers adversely affected by a data breach. Even if we do not suffer any material adverse consequences as a result of events affecting us directly, successful attacks or systems failures at other financial institutions could lead to a general loss of customer confidence in our company.

We continually review our network and systems security and make the necessary investments to improve the resiliency of our systems and their security from attack. Nonetheless, there remains the risk that we may be materially harmed by a cyber-attack or information security breach. Methods used to attack information systems continue to evolve in sophistication, swiftness, and frequency and can occur from a variety of sources, such as foreign governments, hacktivists, or other well-financed entities, and may originate from remote and less regulated areas of the world. If such an attack or breach were to occur, we might not be able to address and find a solution in a timely and adequate manner. We will, however, promptly take reasonable and customary measures to address the situation.

Part I (Continued)

Item 1A (Continued)

As a community bank, our recruitment and retention efforts may not be sufficient enough to implement our business strategy and execute successful operations.

Our financial success depends upon our ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees from financial institutions and others. As we continue to grow, we may find our recruitment and retention efforts more challenging. If we do not succeed in attracting, hiring, and integrating experienced or qualified personnel, we may not be able to successfully implement our business strategy, and we may be required to substantially increase our overall compensation or benefits to attract and retain such employees. Furthermore, in June 2010, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly restricts the amount, form, and context in which we pay incentive-based compensation and may put us at a competitive disadvantage compared to non-financial institutions in terms of attracting and retaining senior level employees.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We rely on third-party vendors for key components of our business.

Many key components of our operations, including data processing, recording and monitoring transactions, online interfaces and services, internet connections and network access are provided by other companies. Our vendor management process selects third-party vendors carefully, but we do not control their actions. Problems, including disruptions in communication, security breaches, or failure of a vendor to provide services, could hurt our operations or our relationships with customers. If our vendors suffer financial or operational issues, our operations and reputation could suffer if it harms the vendors' ability to serve us and our customers. Third-party vendors are also a source of operational and information security risk to us. Replacing or renegotiating contracts with vendors could entail significant operational expense and delays. The use of third-party vendors represents an unavoidable inherent risk to our company.

Part I (Continued)

Item 1A (Continued)

Hurricanes or other adverse weather events would negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Our market area is located in the southeastern region of the United States and is susceptible to natural disasters, such as hurricanes, tornadoes, tropical storms, other severe weather events and related flooding and wind damage, and man-made disasters. These natural disasters could negatively impact regional economic conditions, cause a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us, damage our banking facilities and offices and negatively impact our growth strategy. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where they operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or tornadoes will affect our operations or the economies in our current or future market areas, but such weather events could negatively impact economic conditions in these regions and result in a decline in local loan demand and loan originations, a decline in the value or destruction of properties securing our loans and an increase in delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of natural or man-made disasters.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. Any such losses could have a material adverse effect on our financial condition and results of operations.

Regulation of the financial services industry continues to undergo major changes, and future legislation could increase our cost of doing business or harm our competitive position.

The Dodd-Frank Act brought about a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives, lending limits, mortgage lending practices, registration of investment advisors and changes among the bank regulatory agencies.

Part I (Continued)**Item 1A (Continued)**

Major changes in the law could materially impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. We cannot fully predict the effect that compliance with changing laws or any implementing regulations will have on the Company's or the Bank's businesses or our ability to pursue future business opportunities, our financial condition or results of operations. [See "Part I - Item 1. Business - Supervision, Regulation and Other Factors" of this Report for further information.] We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

New regulations could restrict our ability to originate and sell mortgage loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this "qualified mortgage" definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a "qualified mortgage" loan must not contain certain specified features, including:

- Excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans);
- Interest-only payments;
- Negative-amortization; and
- Terms longer than 30 years.

Also, to qualify as a "qualified mortgage," a borrower's total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

Bank regulatory agencies, such as the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations are likely to increase our costs of regulatory compliance and costs of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge, and our ongoing operations, costs and profitability. For example, regulatory changes to our overdraft protection programs could decrease the amount of fees we receive for these services. We cannot fully predict the effect that changes in law or regulation will have on the Company's or the Bank's businesses or our ability to pursue future business opportunities, our financial condition or results of operations.

Part I (Continued)

Item 1A (Continued)

Our management team's strategies for the enhancement of shareholder value may not succeed.

Our management team is taking and considering actions to enhance shareholder value, including reviewing personnel, developing new products, issuing dividends and exploring acquisition opportunities. These actions may not enhance shareholder value. For example, holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. We are not legally required to do so. Further, the Federal Reserve could decide at any time that paying any dividends on our common stock could be an unsafe or unsound banking practice. The reduction or elimination of dividends paid on our common stock could adversely affect the market price of our common stock.

Our stock price may be volatile due to limited trading volume.

Our common stock is traded on the NASDAQ Global Select Market. However, the average daily trading volume in the Company's common stock has been relatively small, averaging approximately 21 total trades per day during 2016. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.

The costs and effects of litigation, investigations or similar matters involving us or other financial institutions or counterparties, or adverse facts and developments related thereto, could materially affect our business, operating results and financial condition.

We may be involved from time to time in a variety of litigation, investigations, inquiries or similar matters arising out of our business, including those described in ["Part I - Item 3. Legal Proceedings" and "Part II - Item 8. Financial Statements and Supplementary Data" of this Report.] We cannot predict the outcome of these or any other legal matters. We establish reserves for legal claims when payments associated with the claims become probable and the losses can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. In addition, in the future, we may need to record additional litigation reserves with respect to these matters. Further, regardless of how these matters proceed, it could divert our management's attention and other resources away from our business. Our insurance may not cover all claims that may be asserted against it and indemnification rights to which we are entitled may not be honored, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our business, financial condition and results of operations. In addition, premiums for insurance covering the financial and banking sectors are rising. We may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms or at historic rates, if at all.

Our stock price is subject to fluctuations, and the value of your investment may decline.

The trading price of our common stock is subject to wide fluctuations. The stock market in general, and the market for the stocks of commercial banks and other financial services companies in particular, has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance, and the value of your investment may decline.

Part I (Continued)**Item 1B****Unresolved Staff Comments**

Not Applicable.

Item 2**Properties**

The principal properties of the Registrant consist of the properties of the Bank. The Bank owns all of the banking offices occupied except one office in Valdosta and one office in Douglas which are leased. In addition, the Company owns the corporate offices located in Fitzgerald, Georgia.

Item 3**Legal Proceedings**

The Company and its subsidiary may become parties to various legal proceedings arising from the normal course of business. As of December 31, 2016, there are no material pending legal proceedings to which Colony or its subsidiary are a party or of which any of its property is the subject.

Item 4**Mine Safety Disclosures**

Not Applicable.

Part II
Item 5

Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Effective April 2, 1998, Colony Bankcorp, Inc. common stock is quoted on the NASDAQ Global Market under the symbol "CBAN." Prior to this date, there was no public market for the common stock of the registrant.

The following table sets forth the high, low and close sale prices per share of the common stock as reported on the NASDAQ Global Market, and the dividends declared per share for the periods indicated.

Year Ended December 31, 20 16	High	Low	Close
Fourth Quarter	13.30	9.45	13.20
Third Quarter	10.06	8.80	9.89
Second Quarter	10.00	9.20	9.51
First Quarter	10.04	8.11	9.19
Year Ended December 31, 20 15			
Fourth Quarter	9.99	8.75	9.53
Third Quarter	9.20	8.61	8.90
Second Quarter	9.35	8.06	8.56
First Quarter	8.38	7.31	8.10

No cash dividends were paid on its common stock in 2015 or 2016. The Company's board of directors suspended the payment of dividends in the third quarter of 2009. For a description of the restrictions and limitations on the Company's ability to pay dividends, please see "Dividends" on Page 13.

As of February 15, 2017, the Company had approximately 1,906 common stockholders of record.

Issuer Purchase of Equity Securities

The Company purchased no shares of the Company's common stock during the quarter ended December 31, 2016.

Part II (Continued)
Item 6
Selected Financial Data

	Year Ended December 31,				
	20 16	2015	2014	2013	2012
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data					
Total Assets	\$ 1,210,442	\$ 1,174,149	\$ 1,146,898	\$ 1,148,551	\$ 1,139,397
Total Loans, Net of Unearned Interest and Fees	753,922	758,279	745,733	750,857	746,816
Total Deposits	1,044,357	1,011,554	979,303	987,529	979,685
Investment Securities	323,658	296,149	274,624	263,295	268,342
Federal Home Loan Bank Stock	3,010	2,731	2,831	3,164	3,364
Stockholders' Equity	93,388	95,457	99,027	89,954	95,759
Selected Income Statement Data					
Interest Income	44,589	44,275	44,762	45,186	47,289
Interest Expense	6,483	6,569	6,799	7,497	11,016
Net Interest Income	38,106	37,706	37,963	37,689	36,273
Provision for Loan Losses	1,062	866	1,308	4,485	6,785
Other Income	9,553	9,045	9,125	8,377	9,733
Other Expense	34,073	33,724	34,980	34,617	35,379
Income Before Tax	12,524	12,161	10,800	6,964	3,842
Income Tax Expense	3,851	3,788	3,268	2,335	1,201
Net Income	8,673	8,373	7,532	4,629	2,641
Preferred Stock Dividends	1,493	2,375	2,689	1,509	1,435
Net Income Available to Common Stockholders	\$ 7,180	\$ 5,998	\$ 4,843	\$ 3,120	\$ 1,206
Weighted Average					
Common Shares Outstanding, Basic	8,439	8,439	8,439	8,439	8,439
Common Shares Outstanding, Diluted	8,513	8,458	8,439	8,439	8,439
Shares Outstanding	8,439	8,439	8,439	8,439	8,439
Intangible Assets	\$ 81	\$ 116	\$ 152	\$ 188	\$ 224
Dividends Declared	-	-	-	-	-
Average Assets	1,163,863	1,146,984	1,128,052	1,118,071	1,139,814
Average Stockholders' Equity	100,114	101,710	94,751	93,358	96,541
Net Charge-Offs	743	1,064	4,312	5,416	9,698
Reserve for Loan Losses	8,923	8,604	8,802	11,806	12,737
OREO	6,439	8,839	10,402	15,502	15,941
Nonperforming Loans	12,350	14,416	18,341	24,118	29,855
Nonperforming Assets	18,789	23,255	28,743	39,620	46,162
Average Interest-Earning Assets	1,090,967	1,074,556	1,057,608	1,048,185	1,066,333
Noninterest-Bearing Deposits	159,059	133,886	128,340	115,261	123,967

Part II (Continued)

Item 6 (Continued)

	Year Ended December 31,				
	20 16	2015	2014	2013	2012
	(Dollars in Thousands, except per share data)				
Per Share Data:					
Net Income Per Common Share (Diluted)	\$ 0.84	\$ 0.71	\$ 0.57	\$ 0.37	\$ 0.14
Common Book Value Per Share	9.96	9.18	8.42	7.34	8.05
Tangible Common Book Value Per Share	9.95	9.16	8.40	7.32	8.02
Dividends Per Common Share	0.00	0.00	0.00	0.00	0.00
Profitability Ratios:					
Net Income to Average Assets	0.62%	0.52%	0.43%	0.28%	0.11%
Net Income to Average Stockholders' Equity	7.17	5.90	5.11	3.34	1.25
Net Interest Margin	3.51	3.52	3.60	3.61	3.41
Loan Quality Ratios:					
Net Charge-Offs to Total Loans	0.10	0.14	0.58	0.72	1.30
Reserve for Loan Losses to Total Loans and OREO	1.17	1.12	1.16	1.54	1.67
Nonperforming Assets to Total Loans and OREO	2.47	3.03	3.80	5.17	6.05
Reserve for Loan Losses to Nonperforming Loans	72.25	59.68	47.99	48.95	42.66
Reserve for Loan Losses to Total Nonperforming Assets	47.49	37.00	30.62	29.80	27.59
Liquidity Ratios:					
Loans to Total Deposits (1)	72.19	74.96	76.15	76.03	76.23
Loans to Average Interest-Earning Assets (1)	69.11	70.57	70.51	71.63	70.04
Noninterest-Bearing Deposits to Total Deposits	15.23	13.24	13.11	11.67	12.65
Capital Adequacy Ratios:					
Common Stockholders' Equity to Total Assets	6.94	6.60	6.20	5.39	5.96
Total Stockholders' Equity to Total Assets	7.72	8.13	8.63	7.83	8.40
Dividend Payout Ratio	0.00	0.00	0.00	0.00	0.00

(1) Total loans, net of unearned interest and fees.

Part II (Continued)

Item 7

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;

Part II (Continued)**Item 7 (Continued)**

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

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

Future Outlook

During the recent financial crisis, the financial 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 developments throughout the county. While much has been accomplished in addressing problem assets the past several years, there is still work to be done in bringing our problem assets to an acceptable level. A focus in 2017 will be directed toward further reduction of problem assets.

As we look forward to 2017 we are committed to improving earnings, reducing problem assets and redeeming TARP preferred stock. We plan to seek approval from the Federal Reserve and the Department of Finance to completely eliminate the Preferred Stock during 2017. Given the improved condition of the company we are also considering product and market expansion. In 2016 we opened new offices in Tifton and Statesboro, while closing four offices in smaller rural markets. In January 2017, the Company opened its third office in Savannah.

While the Company has improved earnings, reduced problem assets and maintained strong capital levels, we have reinstated dividend payments beginning first quarter 2017. The Company's board of directors suspended the payment of dividends in the third quarter of 2009.

We continue to explore opportunities to improve core non-interest income. Revenue enhancement initiatives to accomplish this include new product lines and services. The Company will also invest in new technology with implementation of a new loan platform which will offer much efficiency with our "back-office" operations.

In addition, we continue to make efforts to attract and retain top talent to improve business operations. To that end, the Company entered into Retention Agreements with members of management in the first quarter of 2015. The Company expects that these agreements will facilitate the retention of key individuals responsible for maintaining current operations and spearheading future product and market expansion.

Part II (Continued)**Item 7 (Continued)****Non-GAAP Financial Measures**

Our accounting and reporting policies conform to generally accepted accounting principles (GAAP) in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of our performance. These include the fully-taxable equivalent measures: tax-equivalent net interest income, tax-equivalent net interest margin, and tax-equivalent net interest spread, which include the effects of taxable-equivalent adjustments using a federal income tax rate of 34% to increase tax-exempt interest income to a tax-equivalent basis. Tax-equivalent adjustments are reported in Notes 1 and 2 to the Average Balances with Average Yields and Rates table under Rate/Volume Analysis. Tangible book value per common share is also a non-GAAP measure used in the selected Financial Data Section.

Tax-equivalent net interest income, net interest margin and net interest spread . Net interest income on a tax-equivalent basis is a non-GAAP measure that adjusts for the tax-favored status of net interest income from loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. The most directly comparable financial measure calculated in accordance with GAAP is our net interest income. Net interest margin on a tax-equivalent basis is net interest income on a tax-equivalent basis divided by average interest-earning assets on a tax-equivalent basis. The most directly comparable financial measure calculated in accordance with GAAP is our net interest margin. Net interest spread on a tax-equivalent basis is the difference in the average yield on average interest-earning assets on a tax equivalent basis and the average rate paid on average interest-bearing liabilities. The most directly comparable financial measure calculated in accordance with GAAP is our net interest spread.

These non-GAAP financial measures should not be considered alternatives to GAAP-basis financial statements, and other bank holding companies may define or calculate these non-GAAP measures or similar measures differently.

A reconciliation of these performance measures to GAAP performance measures is included in the tables below.

Non-GAAP Performance Measures Reconciliation

	Year s Ended December 31,				
	20 16	2015	2014	2013	2012
	(Dollars in Thousands, except per share data)				
Interest Income Reconciliation					
Interest Income – Taxable Equivalent	\$ 44,762	\$ 44,407	\$ 44,879	\$ 45,356	\$ 47,433
Tax Equivalent Adjustment	173	132	117	170	144
Interest Income (GAAP)	<u>\$ 44,589</u>	<u>\$ 44,275</u>	<u>\$ 44,762</u>	<u>\$ 45,186</u>	<u>\$ 47,289</u>
Net Interest Income Reconciliation					
Net Interest Income – Taxable Equivalent	\$ 38,279	\$ 37,838	\$ 38,080	\$ 37,859	\$ 36,417
Tax Equivalent Adjustment	173	132	117	170	144
Net Interest Income (GAAP)	<u>\$ 38,106</u>	<u>\$ 37,706</u>	<u>\$ 37,963</u>	<u>\$ 37,689</u>	<u>\$ 36,273</u>
Net Interest Margin Reconciliation					
Net Interest Margin – Taxable Equivalent	3.51%	3.52%	3.60%	3.61%	3.42%
Tax Equivalent Adjustment	.02	.01	.01	.02	.01
Net Interest Margin (GAAP)	<u>3.49%</u>	<u>3.51%</u>	<u>3.59%</u>	<u>3.59%</u>	<u>3.41%</u>

Part II (Continued)

Item 7 (Continued)

Non-GAAP Performance Measures Reconciliation (Continued)

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in Thousands, except per share data)				
Interest Rate Spread Reconciliation					
Interest Rate Spread – Taxable Equivalent	3.40%	3.41%	3.49%	3.50%	3.27%
Tax Equivalent Adjustment	.02	.01	.01	.02	.01
Interest Rate Spread (GAAP)	3.38%	3.40%	3.48%	3.48%	3.26%
Selected Financial Data					
Tangible Book Value Per Common Share	\$ 9.95	\$ 9.16	\$ 8.40	\$ 7.32	\$ 8.02
Effect of Other Intangible Assets	0.01	0.02	0.02	0.02	0.03
Book Value Per Common Share (GAAP)	\$ 9.96	\$ 9.18	\$ 8.42	\$ 7.34	\$ 8.05

The Company

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company’s financial condition as of December 31, 2016 and 2015, and results of operations for each of the years in the three-year period ended December 31, 2016. 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.

Part II (Continued)
Item 7 (Continued)
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 interest-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 interest-earning assets. Net income available to common shareholders totaled \$7.18 million, or \$0.84 per diluted common share in 2016, compared to \$6.00 million, or \$0.71 per diluted common share in 2015 and compared to \$4.84 million, or \$0.57 per diluted common share in 2014.

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

	<u>2016</u>	<u>2015</u>	<u>\$ Variance</u>	<u>% Variance</u>	<u>2015</u>	<u>2014</u>	<u>\$ Variance</u>	<u>% Variance</u>
Taxable-equivalent net interest income	\$ 38,279	\$ 37,838	\$ 441	1.17%	\$ 37,838	\$ 38,080	\$ (242)	(0.64)%
Taxable-equivalent adjustment	173	132	41	31.06	132	117	15	12.82
Net interest income	38,106	37,706	400	1.06	37,706	37,963	(257)	(0.68)
Provision for loan losses	1,062	866	196	22.63	866	1,308	(442)	(33.79)
Noninterest income	9,553	9,045	508	5.62	9,045	9,125	(80)	(0.88)
Noninterest expense	34,073	33,724	349	1.03	33,724	34,980	(1,256)	(3.59)
Income before income taxes	\$ 12,524	\$ 12,161	\$ 363	2.98%	\$ 12,161	\$ 10,800	\$ 1,361	12.60%
Income Taxes	3,851	3,788	63	1.66	3,788	3,268	520	15.91
Net income	\$ 8,673	\$ 8,373	\$ 300	3.58%	\$ 8,373	\$ 7,532	\$ 841	11.17%
Preferred stock dividends	\$ 1,493	\$ 2,375	\$ (882)	(37.14)%	\$ 2,375	\$ 2,689	\$ (314)	(11.68)%
Net income available to common shareholders	\$ 7,180	\$ 5,998	\$ 1,182	19.71%	\$ 5,998	\$ 4,843	\$ 1,155	23.85%
Net income available to common shareholders:								
Basic	\$ 0.85	\$ 0.71	\$ 0.14	19.72%	\$ 0.71	\$ 0.57	\$ 0.14	24.56%
Diluted	\$ 0.84	\$ 0.71	\$ 0.13	18.31%	\$ 0.71	\$ 0.57	\$ 0.14	24.56%
Return on average assets (1)	0.62%	0.52%	0.10%	19.23%	0.52%	0.43%	0.09%	20.93%
Return on average common equity (1)	7.17%	5.90%	1.27%	21.53%	5.90%	5.11%	0.79%	15.46%

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

Part II (Continued)**Item 7 (Continued)****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 79.96 percent of total revenue during 2016, 80.65 percent of total revenue during 2015 and 80.62 percent during 2014.

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

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 3.75 percent. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. For the first time in several years, the prime interest rate increased by 25 basis points in the fourth quarter of 2015, followed by a similar 25-point increase in the fourth quarter of 2016. We anticipate that the prime interest rate will again rise in 2017. Given that the federal funds rate moves in accordance with the movement of the prime interest rate, we anticipate that the federal funds rate will also increase from its current 0.75 percent.

Part II (Continued)

Item 7 (Continued)

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of interest-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 Rate/Volume Analysis.

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 2015 to 2016 (a)			Changes From 2014 to 2015 (a)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans, Net-Taxable	\$ 221	\$ (951)	\$ (730)	\$ 831	\$ (831)	\$ -
Investment Securities						
Taxable	381	669	1,050	(89)	(396)	(485)
Tax-Exempt	12	(15)	(3)	(12)	(3)	(15)
Total Investment Securities	393	654	1,047	(101)	(399)	(500)
Interest-Bearing Deposits in Other Banks	(18)	62	44	35	3	38
Federal Funds Sold	(15)	-	(15)	(16)	(1)	(17)
Other Interest - Earning Assets	4	5	9	(6)	13	7
Total Interest Income	585	(230)	355	743	(1,215)	(472)
Interest Expense						
Interest-Bearing Demand and Savings Deposits	137	62	199	126	(29)	97
Time Deposits	(271)	(4)	(275)	(240)	(113)	(353)
Total Interest Expense On Deposits	(134)	58	(76)	(114)	(142)	(256)
Other Interest-Bearing Liabilities						
Subordinated Debentures	-	98	98	-	(15)	(15)
Other Debt	74	(183)	(109)	-	41	41
Federal Funds Purchased	-	1	1	-	-	-
Total Interest Expense	(60)	(26)	(86)	(114)	(116)	(230)
Net Interest Income (Loss)	\$ 645	\$ (204)	\$ 441	\$ 857	\$ (1,099)	\$ (242)

- (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.

Part II (Continued)

Item 7 (Continued)

The Company maintains about 21.2 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 non-maturing core deposits and short term certificates of deposit that mature within one year. The Federal Reserve rates have remained flat since 2008 until the 25 basis point increase in the fourth quarter of 2015 followed by the 25 basis point increase in the fourth quarter of 2016. We have seen the net interest margin change to 3.51 percent for 2016, compared to 3.52 percent for 2015 and 3.60 percent for 2014. We have seen our net interest margin reach a low of 3.39 percent in fourth quarter 2016 to a high of 3.59 percent in second quarter 2016.

Taxable-equivalent net interest income for 2016 increased by \$441 thousand, or 1.17 percent, compared to 2015 while taxable-equivalent net interest income for 2015 decreased by \$242 thousand, or 0.64 percent compared to 2014. The average volume of interest-earning assets during 2016 increased \$16.41 million compared to 2015 while over the same period the net interest margin dropped to 3.51 percent from 3.52 percent. The average volume of interest-earning assets during 2015 increased \$16.95 million compared to 2014 while over the same period the net interest margin dropped to 3.52 percent from 3.60 percent. The change in the net interest margin in 2016 and 2015 was primarily driven by reduction in the cost of funds and a higher level of low yielding assets. The increase in average interest-earning assets in 2016 was in loans, investments and other interest-earning assets. The increase in average interest-earning assets in 2015 was in loans and interest-bearing deposits.

The average volume of loans increased \$4.20 million in 2016 compared to 2015, and increased \$15.47 million in 2015 compared to 2014. The average yield on loans decreased 13 basis points in 2016 compared to 2015 and decreased 11 basis points in 2015 compared to 2014. The average volume of deposits increased \$17.35 million in 2016 compared to 2015. The average volume of deposits increased \$17.29 million in 2015 compared to 2014. Demand deposits made up \$11.80 million of the increase in average deposits in 2016 compared to \$10.09 million of the increase in average deposits in 2015.

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 85.9 percent in 2016, 86.8 percent in 2015 and 87.6 percent in 2014. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 2 basis points in 2016 compared to 2015 and decreasing the average cost of total deposits by 3 basis points in 2015 compared to 2014, and (ii) mitigating a portion of the impact of decreasing yields on interest-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 interest-earning assets and the average rate paid on interest-bearing liabilities, was 3.40 percent in 2016 compared to 3.41 percent in 2015 and 3.49 percent in 2014. 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 *Market Risk and Interest Rate Sensitivity* included elsewhere in this report.

Part II (Continued)
Item 7 (Continued)
Rate/Volume Analysis (Continued)
AVERAGE BALANCE SHEETS

	2016			2015			2014		
	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)	\$ 761,149	\$ 39,084	5.13%	\$ 756,953	\$ 39,814	5.26%	\$ 741,484	\$ 39,814	5.37%
Investment Securities									
Taxable	301,357	5,328	1.77	276,807	4,278	1.55	282,056	4,763	1.69
Tax-Exempt (2)	2,440	95	3.89	2,171	98	4.51	2,418	113	4.67
Total Investment Securities	303,797	5,423	1.79	278,978	4,376	1.57	284,474	4,876	1.71
Interest-Bearing Deposits	23,167	124	0.54	29,815	80	0.27	16,193	42	0.26
Federal Funds Sold	-	-	-	6,056	15	0.25	12,551	32	0.25
Other Interest-Earning Assets	2,854	131	4.59	2,754	122	4.43	2,906	115	3.96
Total Interest-Earning Assets	1,090,967	44,762	4.10	1,074,556	44,407	4.13	1,057,608	44,879	4.24
Noninterest-Earning Assets									
Cash	19,208			19,049			9,698		
Allowance for Loan Losses	(9,372)			(8,587)			(10,841)		
Other Assets	63,060			61,966			71,587		
Total Noninterest-Earning Assets	72,896			72,428			70,444		
Total Assets	\$ 1,163,863			\$ 1,146,984			\$ 1,128,052		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	\$ 469,740	\$ 1,694	0.36%	\$ 430,731	\$ 1,495	0.35%	\$ 394,615	\$ 1,398	0.35%
Other Time	383,628	3,087	0.80	417,080	3,362	0.81	445,993	3,715	0.83
Total Interest-Bearing Deposits	853,368	4,781	0.56	847,811	4,857	0.57	840,608	5,113	0.61
Other Interest-Bearing Liabilities									
Other Borrowed Money	42,470	1,100	2.59	40,000	1,209	3.02	40,000	1,168	2.92
Subordinated Debentures	24,229	601	2.48	24,229	503	2.08	24,229	518	2.14
Federal Funds Purchased and Repurchase Agreements	35	1	2.86	3	-	-	2	-	-
Total Other Interest- Bearing Liabilities	66,734	1,702	2.55	64,232	1,712	2.67	64,231	1,686	2.62
Total Interest-Bearing Liabilities	920,102	6,483	0.70	912,043	6,569	0.72	904,839	6,799	0.75
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	140,338			128,541			118,452		
Other Liabilities	3,309			4,690			10,010		
Stockholders' Equity	100,114			101,710			94,751		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	243,761			234,941			223,213		
Total Liabilities and Stockholders' Equity	\$ 1,163,863			\$ 1,146,984			\$ 1,128,052		
Interest Rate Spread			3.40%			3.41%			3.49%
Net Interest Income	\$ 38,279			\$ 37,838			\$ 38,080		
Net Interest Margin			3.51%			3.52%			3.60%

(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 \$141, \$99 and \$79 for 2016, 2015 and 2014, respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.

- (2) Taxable-equivalent adjustments totaling \$32, \$33 and \$38 for 2016, 2015 and 2014, 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.

Part II (Continued)**Item 7 (Continued)****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 \$1.06 million in 2016 compared to \$866 thousand in 2015 and \$1.31 million in 2014. 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>2016</u>	<u>2015</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>	<u>2015</u>	<u>2014</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>
Service Charges on Deposit Accounts	\$ 4,307	\$ 4,269	\$ 38	0.89%	\$ 4,269	\$ 4,649	\$ (380)	(8.17)%
Other Charges, Commissions and Fees	2,803	2,627	176	6.70	2,627	2,388	239	10.01
Mortgage Fee Income	682	527	155	29.41	527	420	107	25.48
Securities Gains (Losses)	385	(11)	396	3,600.00	(11)	24	(35)	(145.83)
Other	1,377	1,633	(256)	(15.68)	1,633	1,644	(11)	(0.67)
Total	\$ 9,554	\$ 9,045	\$ 509	5.63%	\$ 9,045	\$ 9,125	\$ (80)	(0.88)%

Other Charges, Commissions and Fees. Significant amounts impacting the comparable periods was primarily attributed to ATM and debit card interchange fees which increased \$184 thousand in 2016 compared to 2015 and \$251 thousand in 2015 compared to 2014.

Mortgage Fee Income. The increase in mortgage fee income in 2016 compared to the same period in 2015 is due to an increase in the volume of mortgage loans.

Securities Gains (Losses). The increase in 2016 is attributable to the gain on sale of securities compared to 2015 with a loss on sale of securities.

Other. Significant amounts impacting the comparable periods was primarily attributed to having income from the sale of a tax credit of \$66 thousand and life insurance benefits of \$137 that did not occur in 2016. The Bank did not have any significant changes for 2015 compared to 2014.

Part II (Continued)**Item 7 (Continued)****Noninterest Expense**

The components of noninterest expense were as follows:

	<u>2016</u>	<u>2015</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>	<u>2015</u>	<u>2014</u>	<u>\$</u> <u>Variance</u>	<u>%</u> <u>Variance</u>
Salaries and Employee Benefits	\$ 18,483	\$ 17,590	\$ 893	5.08%	\$ 17,590	\$ 17,508	\$ 82	0.47%
Occupancy and Equipment	3,970	3,989	(19)	(0.48)	3,989	4,063	(74)	(1.82)
Directors' Fees	349	358	(9)	(2.51)	358	392	(34)	(8.67)
Legal and Professional Fees	792	738	54	7.32	738	786	(48)	(6.11)
Foreclosed Property	1,143	1,683	(540)	(32.09)	1,683	2,701	(1,018)	(37.69)
FDIC Assessment	604	899	(295)	(32.81)	899	966	(67)	(6.94)
Advertising	610	625	(15)	(2.40)	625	652	(27)	(4.14)
Software	1,112	993	119	11.98	993	925	68	7.35
Telephone	737	710	27	3.80	710	736	(26)	(3.53)
ATM/Card Processing	1,136	1,061	75	7.07	1,061	906	155	17.11
Other	5,137	5,078	59	1.16	5,078	5,345	(267)	(5.00)
Total	\$ 34,073	\$ 33,724	\$ 349	1.03%	\$ 33,724	\$ 34,980	\$ (1,256)	(3.59)%

Salaries and Employee Benefits. The increase in salary and employee benefits for 2016 is due to merit pay increases. Salary and employee benefits remained flat in 2015 compared to 2014.

Foreclosed Property. The decrease in foreclosed property and repossession expense for 2016 and 2015 is primarily attributable to the decrease in the volume of OREO.

Part II (Continued)**Item 7 (Continued)****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 \$1.16 billion in 2016 compared to \$1.15 billion in 2015 and \$1.13 billion in 2014.

	2016		2015		2014				
Sources of Funds:									
Deposits:									
Noninterest-Bearing	\$	140,338	12.1%	\$	128,541	11.2%	\$	118,452	10.5%
Interest-Bearing		853,368	73.3%		847,811	73.9%		840,608	74.5%
Federal Funds Purchased and Repurchase Agreements		35	-%		3	-%		2	-%
Subordinated Debentures and Other Borrowed Money		66,699	5.7%		64,229	5.6%		64,229	5.7%
Other Noninterest-Bearing Liabilities		3,309	0.3%		4,690	0.4%		10,010	0.9%
Equity Capital		100,114	8.6%		101,710	8.9%		94,751	8.4%
Total	\$	1,163,863	100.0%	\$	1,146,984	100.0%	\$	1,128,052	100.0%
Uses of Funds:									
Loans (Net of Allowance)	\$	751,777	64.6%	\$	748,366	65.3%	\$	730,643	64.8%
Investment Securities		303,797	26.1%		278,978	24.3%		284,474	25.2%
Federal Funds Sold		-	-%		6,056	0.5%		12,551	1.1%
Interest-Bearing Deposits		23,167	2.0%		29,815	2.6%		16,193	1.4%
Other Interest-Earning Assets		2,854	0.2%		2,754	0.2%		2,906	0.3%
Other Noninterest-Earning Assets		82,268	7.1%		81,015	7.1%		81,285	7.2%
Total	\$	1,163,863	100.0%	\$	1,146,984	100.0%	\$	1,128,052	100.0%

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 85.9 percent of total average deposits in 2016 compared to 86.8 percent in 2015 and 87.6 percent in 2014.

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 decreased in 2016 as total loans were \$754.3 million at December 31, 2016, down 0.57 percent, compared to loans of \$758.6 million at December 31, 2015, which went up 1.68 percent, compared to loans of \$746.1 million at December 31, 2014. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" on the following page. The majority of funds provided by deposits have been invested in loans and securities.

Part II (Continued)**Item 7 (Continued)****Loans**

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

	2016	2015	2014	2013	2012
Commercial and Agricultural					
Commercial	\$ 47,025	\$ 47,782	\$ 50,960	\$ 48,107	\$ 55,684
Agricultural	17,080	19,193	16,689	10,666	6,211
Real Estate					
Commercial Construction	30,358	40,107	51,259	52,739	53,808
Residential Construction	11,830	9,413	11,221	6,549	5,852
Commercial	349,090	346,262	332,231	341,783	334,386
Residential	195,580	197,002	203,753	206,258	203,845
Farmland	66,877	61,780	49,951	47,034	49,057
Consumer and Other					
Consumer	19,695	20,605	22,820	25,676	29,778
Other	16,748	16,492	7,210	12,406	8,429
	754,283	758,636	746,094	751,218	747,050
Unearned Interest and Fees	(361)	(357)	(362)	(360)	(234)
Allowances for Loan Losses	(8,923)	(8,604)	(8,802)	(11,806)	(12,737)
Loans	<u>\$ 744,999</u>	<u>\$ 749,675</u>	<u>\$ 736,930</u>	<u>\$ 739,052</u>	<u>\$ 734,079</u>

The following table presents total loans as of December 31, 2016 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	\$ 264,807
After One Year through Three Years	287,713
After Three Years through Five Years	149,866
Over Five Years	51,897
	<u>\$ 754,283</u>

Overview . Loans totaled \$754.3 million at December 31, 2016, down 0.57 percent from \$758.6 million at December 31, 2015. The majority of the Company's loan portfolio is comprised of the real estate loans. Commercial and residential real estate which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 72.21 percent and 71.61 percent of total loans, real estate construction loans made up 5.59 percent and 6.53 percent while commercial and agricultural loans made up 8.50 percent and 8.83 percent of total loans at December 31, 2016 and December 31, 2015, respectively.

Part II (Continued)

Item 7 (Continued)

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 both an Executive Loan Committee and a Director 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 agricultural loans are underwritten similarly to how other loans are underwritten throughout the Company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. In addition, the Company restricts total loans to \$10 million per borrower, subject to exception and approval by the Director Loan Committee. 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 monthly 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 utilizes an independent third party company for loan review and validation of the credit risk program on an ongoing quarterly 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 and Agricultural. Commercial and agricultural loans at December 31, 2016 decreased 4.3 percent to \$64.1 million from December 31, 2015 at \$67.0 million. The Company's commercial and agricultural 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.

Part II (Continued)**Item 7 (Continued)**

Real Estate. Commercial and residential construction loans decreased by \$7.3 million, or 14.8 percent, at December 31, 2016 to \$42.2 million from \$49.52 million at December 31, 2015. This decrease is partially due to completion of construction and the new loans transferring to the commercial real estate category. Therefore, commercial real estate increased \$2.8 million or 0.8 percent at December 31, 2016 to \$349.09 million from \$346.26 million at December 31, 2015.

Other. Other loans at December 31, 2016 increased 1.5 percent to \$16.75 million from \$16.49 million in December 31, 2015.

Industry Concentrations. As of December 31, 2016 and December 31, 2015, 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. The Company has established industry-specific guidelines with respect to maximum loans permitted for each industry with which the Company does 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, 2016, approximately 87 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. 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 central, south and coastal Georgia and includes 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, 2016 and December 31, 2015.

	December 31, 2016			December 31, 2015		
	Number of Relationships	Period End Balances		Number of Relationships	Period End Balances	
		Committed	Outstanding		Committed	Outstanding
Large Credit Relationships: \$5 million to \$9.9 million	14	\$ 96,807	\$ 86,712	16	\$ 108,432	\$ 99,126

Part II (Continued)

Item 7 (Continued)

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, 2016. 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	\$ 181,178	\$ 263,748	\$ 98,267	\$ 51,151	\$ 594,344
Loans with floating interest rates	<u>83,629</u>	<u>23,965</u>	<u>51,599</u>	<u>746</u>	<u>159,939</u>
Total	<u>\$ 264,807</u>	<u>\$ 287,713</u>	<u>\$ 149,866</u>	<u>\$ 51,897</u>	<u>\$ 754,283</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.

Part II (Continued)**Item 7 (Continued)****Nonperforming Assets and Potential Problem Loans**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Loans Accounted for on Nonaccrual	\$ 12,350	\$ 14,408	\$ 18,334	\$ 24,114	\$ 29,851
Loans Accruing Past Due 90 Days or More	-	8	7	4	4
Other Real Estate Foreclosed	6,439	8,839	10,402	15,502	15,941
Securities Accounted for on Nonaccrual	-	-	-	-	366
Total Nonperforming Assets	<u>\$ 18,789</u>	<u>\$ 23,255</u>	<u>\$ 28,743</u>	<u>\$ 39,620</u>	<u>\$ 46,162</u>
Nonperforming Assets by Segment					
Construction and Land Development	3,376	7,106	9,655	17,323	23,832
1-4 Family Residential	4,375	4,197	8,237	5,926	7,153
Multifamily Residential	-	-	173	335	627
Nonfarm Residential	9,182	9,908	8,375	12,441	10,421
Farmland	800	1,103	1,449	1,629	2,413
Commercial and Consumer	1,056	941	854	1,966	1,716
Total Nonperforming Assets	<u>\$ 18,789</u>	<u>\$ 23,255</u>	<u>\$ 28,743</u>	<u>\$ 39,620</u>	<u>\$ 46,162</u>
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	2.47%	3.03%	3.80%	5.17%	6.05%
Total Assets	1.55%	1.98%	2.51%	3.45%	4.05%
Nonperforming Loans as a Percentage of:					
Total Loans	1.64%	1.90%	2.46%	3.21%	4.00%
Supplemental Data:					
Trouble Debt Restructured Loans In Compliance with Modified Terms					
	\$ 17,992	\$ 19,375	\$ 19,229	\$ 20,715	\$ 24,870
Trouble Debt Restructured Loans Past Due 30-89 Days	319	344	757	435	1,377
Accruing Past Due Loans:					
30-89 Days Past Due	4,469	10,959	9,701	9,366	14,911
90 or More Days Past Due	-	8	7	4	4
Total Accruing Past Due Loans	<u>\$ 4,469</u>	<u>\$ 10,967</u>	<u>\$ 9,708</u>	<u>\$ 9,370</u>	<u>\$ 14,915</u>
Allowance for Loan Losses	\$ 8,923	\$ 8,604	\$ 8,802	\$ 11,806	\$ 12,737
ALLL as a Percentage of:					
Total Loans	1.18%	1.13%	1.18%	1.57%	1.70%
Nonperforming Loans	72.25%	59.68%	47.99%	48.95%	42.66%

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2016 decreased 19.20 percent from December 31, 2015.

Part II (Continued)**Item 7 (Continued)**

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

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for 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.

Part II (Continued)**Item 7 (Continued)**

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. During the first quarter of 2016 Company management implemented a change to its allowance for loan loss methodology by expanding the historical loss period from a rolling 8 quarters to 16 quarters. Management believes the longer historical loss period better reflects the current and expected loss behavior of the loan portfolio within the current credit cycle. The transition to a rolling 16 quarter loss period will be complete in the first quarter of 2017. As of December 31, 2016, this change in the historical loss period resulted in an increase to the allowance for loan losses of \$804,000. The loss history period used at December 31, 2015 and 2014 was based on the loss rate from the eight quarters ended September 30, 2015 and 2014, respectively.

Effective with the quarter ended June 30, 2015, the calculation of the amount needed in the Allowance for Loan Losses changed. Management determined that the segmentation method for the ASC 450-20 portion of the loan portfolio should be changed to bank call report categories. Prior to this change, the ASC 450-20 segmentation categorized loans by various non-owner occupied commercial real estate loan types and risk grades for the remainder of the ASC 450-20 portion of the portfolio. On the date of change, June 30, 2015, the change in methodology resulted in an increase to the calculated allowance for loan loss reserve of \$1,621,424.

The allowances established for probable losses on specific loans are the result of management's quarterly review of substandard loans with an outstanding balance of \$250,000 or more. This review process usually involves regional credit officers along with local lending officers reviewing the loans for impairment. 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. In the case of collateral dependent loans, collateral shortfall is most often based upon local market real estate value estimates. This review process is performed at the subsidiary bank level and is reviewed at the parent Company level.

Once the loan becomes impaired, it is removed from the pool of loans covered by the general reserve and reviewed individually for exposure as described above. In cases where the individual review reveals no exposure, no reserve is recorded for that loan, either through an individual reserve or through a general reserve. 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. Those loans deemed uncollectible are transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department obtains a current appraisal on the property in order to record the fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate.

The allowances established for the remainder of the loan portfolio are based on historical loss factors, adjusted for certain qualitative factors, which are applied to groups of loans with similar risk characteristics. Loans are segregated into fifteen separate groups based on call codes. Most of the Company's charge-offs during the past two years have been real estate dependent loans. The historical loss ratios applied to these groups of loans are updated quarterly based on actual charge-off experience. The historical loss ratios are further adjusted by qualitative factors.

Part II (Continued)

Item 7 (Continued)

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. Additional information about the Company's allowance for loan losses is provided in the Notes to the Consolidated Financial Statements for Allowance for Loan Losses.

The following table sets forth the breakdown of the allowance for loan losses by loan category for the periods indicated. The allocation of the allowance to each category is subjective and is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other category.

		2016		2015		2014		2013		2012	
		Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial and Agricultural											
Commercial	\$	456	6%	\$ 855	6%	\$ 497	7%	1,017	6%	981	7%
Agricultural		168	2%	203	3%	304	2%	294	2%	296	1%
Real Estate											
Commercial Construction		323	4%	691	5%	1,223	7%	1,782	7%	1,890	7%
Residential Construction		13	2%	20	1%	138	1%	138	1%	138	1%
Commercial		5,751	46%	3,851	46%	3,665	45%	4,380	46%	5,163	45%
Residential		1,396	26%	1,990	26%	2,425	27%	3,278	27%	3,406	27%
Farmland		722	9%	912	8%	104	7%	312	6%	291	7%
Consumer and Other											
Consumer		80	3%	63	3%	67	3%	243	3%	228	4%
Other		14	2%	19	2%	379	1%	362	2%	344	1%
	\$	8,923	100%	\$ 8,604	100%	\$ 8,802	100%	\$ 11,806	100%	\$ 12,737	100%

* Percentage represents the loan balance in each category expressed as a percentage of total end of period loans.

Part II (Continued)**Item 7 (Continued)**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Allowance for Loan Losses at Beginning of Year	\$ 8,604	\$ 8,802	\$ 11,806	\$ 12,737	\$ 15,650
Charge-Offs					
Commercial	305	455	625	121	653
Agricultural	19	5	-	34	3
Commercial Construction	25	98	1,543	2,071	4,106
Residential Construction	-	-	-	-	-
Commercial	992	275	1,327	2,873	4,326
Residential	362	930	1,034	706	961
Farmland	120	40	233	21	225
Consumer	265	255	342	398	169
Other	-	25	-	4	11
	2,088	2,083	5,104	6,228	10,454
Recoveries					
Commercial	67	52	76	56	140
Agricultural	4	3	3	6	-
Commercial Construction	814	486	485	253	209
Residential Construction	-	-	-	-	-
Commercial	206	270	90	298	233
Residential	50	110	31	65	47
Farmland	145	20	20	22	5
Consumer	53	62	72	94	82
Other	6	16	15	18	40
	1,345	1,019	792	812	756
Net Charge-Offs	743	1,064	4,312	5,416	9,698
Provision for Loans Losses	1,062	866	1,308	4,485	6,785
Allowance for Loan Losses at End of Year	\$ 8,923	\$ 8,604	\$ 8,802	\$ 11,806	\$ 12,737
Ratio of Net Charge-Offs to Average Loans	0.10%	0.14%	0.58%	0.73%	1.34%

The allowance for loan losses increased from \$8.60 million, or 1.13 percent of total loans at December 31, 2015 to \$8.92 million, or 1.18 percent at December 31, 2016. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. Significant changes in the allowance during 2016 was the reduction in the net charge-offs in 2016 to \$743 thousand from \$1.06 million in 2015, or a reduction of \$321 thousand. Significant changes in the allowance during 2015 was the reduction in the net charge-offs in 2015 to \$1.06 million from \$4.31 million in 2014. The Company believes that collection efforts have reduced impaired loans and the reduction in net charge-offs runs parallel with the improvement in the substandard assets. As we begin to see stabilization in the economy and the housing and real estate market, we expect continued improvement in our substandard assets, including net charge-offs. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

Part II (Continued)**Item 7 (Continued)****Investment Portfolio**

The following table presents carrying values of investment securities held by the Company as of December 31, 2016, 2015 and 2014.

	2016	2015	2014
State, County and Municipal	\$ 4,561	\$ 5,099	\$ 3,560
Mortgage-Backed Securities	319,097	291,050	271,064
Total Investment Securities and Mortgage-Backed Securities	<u>\$ 323,658</u>	<u>\$ 296,149</u>	<u>\$ 274,624</u>

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2016. (Mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	\$ 32,166	1.54%	\$ 191,290	1.57%	\$ 73,706	2.40%	\$ 21,935	2.33%
Obligations of State and Political Subdivisions	363	3.72	2,570	2.15	1,391	2.94	237	4.03
Total Investment Portfolio	<u>\$ 32,529</u>	<u>1.56%</u>	<u>\$ 193,860</u>	<u>1.58%</u>	<u>\$ 75,097</u>	<u>2.41%</u>	<u>\$ 22,172</u>	<u>2.35%</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 100 percent of its portfolio classified as available for sale.

At December 31, 2016, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's stockholders' equity.

The average yield of the securities portfolio was 1.79 percent in 2016 compared to 1.57 percent in 2015 and 1.71 percent in 2014. The increase in the average yield from 2015 to 2016 was primarily attributed to the adjustment in amortization resulting from the deceleration of prepayment speeds. The decrease in the average yield from 2014 to 2015 was primarily attributed to the adjustment in amortization resulting from the acceleration of prepayment speeds.

Part II (Continued)**Item 7 (Continued)****Deposits**

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2016, 2015 and 2014.

	2016		2015		2014	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	\$ 140,338		\$ 128,541		\$ 118,452	
Interest-Bearing Demand and Savings	469,740	0.36%	430,731	0.35%	394,615	0.35%
Time Deposits	383,628	0.80%	417,080	0.81%	445,993	0.83%
Total Deposits	\$ 993,706	0.48%	\$ 976,352	0.50%	\$ 959,060	0.53%

The following table presents the maturities of the Company's time deposits as of December 31, 2016.

	Time Deposits \$ 100,000 or Greater	Time Deposits Less Than \$ 100,000	Total
Months to Maturity			
3 or Less	\$ 31,113	\$ 43,150	\$ 74,263
Over 3 through 6	30,844	33,443	64,287
Over 6 through 12	61,656	56,680	118,336
Over 12 Months	59,998	50,344	110,342
	\$ 183,611	\$ 183,617	\$ 367,228

Average deposits increased \$17.35 million in 2016 compared to 2015 and increased \$17.29 million in 2015 compared to 2014. The increase in 2016 included \$39.01 million, or 9.06 percent in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased \$11.80 million, or 9.18 percent and time deposits decreased \$33.45 million, or 8.02 percent. The increase in 2015 included \$36.12 million, or 9.15 percent in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased \$10.09 million, or 8.52 percent and time deposits decreased \$28.91 million, or 6.48 percent. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 14.12 percent in 2016, 13.17 percent in 2015 and 12.35 percent in 2014. The general decrease in market rates in 2016 had the effect of (i) decreasing the average cost of interest-bearing deposits by 2 basis points in 2016 compared to 2015 and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets in the Company's net interest income in 2016. The general decrease in market rates in 2015 had the effect of (i) decreasing the average cost of interest-bearing deposits by 3 basis points in 2015 compared to 2014 and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets in the Company's net interest income in 2015.

Part II (Continued)**Item 7 (Continued)**

Total average interest-bearing deposits increased \$5.56 million, or 0.66 percent in 2016 compared to 2015 and increased \$7.20 million, or 0.86 percent in 2015 compared to 2014. This increase was primarily attributable to the increase in interest-bearing demand and savings accounts in 2016 and in 2015 as well.

The Company supplements deposit sources with brokered deposits. As of December 31, 2016, the Company had \$49.30 million, or 4.72 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additional information is provided in the Notes to Consolidated Financial Statements for Deposits.

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, 2016. 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. The off-balance-sheet arrangements for loan commitments consist of approximately \$10 million in 1-4 residential home equity and construction loans, \$4 million in commercial real estate construction loans, \$19 million in commercial/industrial loans and \$38 million in the overdraft privilege program.

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual Obligations:					
Subordinated Debentures	\$ -	\$ -	\$ -	\$ 24,229	\$ 24,229
Federal Home Loan Bank Advances	-	7,500	2,500	36,000	46,000
Operating Leases	40	-	-	-	40
Deposits with Stated Maturity Dates	256,886	85,794	15,859	8,689	367,228
	<u>\$ 256,926</u>	<u>93,294</u>	<u>18,359</u>	<u>68,918</u>	<u>\$ 437,497</u>
Other Commitments:					
Loan Commitments	71,359	-	-	-	71,359
Standby Letters of Credit	1,551	-	-	-	1,551
	<u>72,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,910</u>
Total Contractual Obligations and Other Commitments	<u>\$ 329,836</u>	<u>\$ 93,294</u>	<u>\$ 18,359</u>	<u>\$ 68,918</u>	<u>\$ 510,407</u>

In the ordinary course of business, the Company has 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.

Part II (Continued)

Item 7 (Continued)

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 loan losses. Loan commitments outstanding at December 31, 2016 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, 2016 are included in the preceding table.

Capital and Liquidity

At December 31, 2016, shareholders' equity totaled \$93.39 million compared to \$95.46 million at December 31, 2015. In addition to net income of \$8.67 million, other significant changes in shareholders' equity during 2016 included \$1.49 million of dividends declared on preferred stock and \$8.66 million redemption of preferred stock. The accumulated other comprehensive loss component of stockholders' equity totaled \$(5.02) million at December 31, 2016 compared to \$(4.43) million at December 31, 2015. 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, 2016 was 15.50 percent and total Tier 1 and 2 risk-based capital was 16.64 percent. Both of these measures compare favorably with the regulatory minimum of 6 percent for Tier 1 and 8 percent for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2016 was 11.32, which exceeds the regulatory minimum of 4.50 percent. The Company's Tier 1 leverage ratio as of December 31, 2016 was 10.29 percent, which exceeds the required ratio standard of 4 percent.

For 2016, average capital was \$100.11 million, representing 8.60 percent of average assets for the year. This compares to 8.87 percent for 2015.

For 2016, the Company did not have any material commitments for capital expenditures.

Part II (Continued)

Item 7 (Continued)

The Company did not pay any common stock dividends in 2016 or 2015. The Company suspended common stock dividend payments beginning in the third quarter of 2009 for capital retention purposes.

The Company declared dividends of \$1,493 and \$2,375 on preferred stock during 2016 and 2015, respectively. On November 17, 2014 the Company reinstated dividend payments after being on deferral since February 12, 2012, on the Preferred Stock and paid \$5.5 million of accumulated dividends in arrears to the holders of the Preferred Stock. Additional information is provided in the Notes to the Consolidated Financial Statements for Preferred Stock.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2016, the available for sale bond portfolio totaled \$323.7 million. At December 31, 2015, the available for sale bond portfolio totaled \$296.2 million. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for 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 72.2 percent as of December 31, 2016 and 75.0 percent as of December 31, 2015. 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, 2016 and December 31, 2015 were 69.2 percent and 72.1 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, 2016 and December 31, 2015, the Bank had \$184 million and \$203 million, respectively, in certificates of deposit of \$100,000 or more. These larger deposits represented 17.6 percent and 20.1 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.

Part II (Continued)**Item 7 (Continued)**

The Company supplemented deposit sources with brokered deposits. As of December 31, 2016, the Company had \$49.3 million or 4.7 percent of total deposits in CDARS. Additional information is provided in the Notes to the Consolidated Financial Statements regarding these brokered deposits. Additionally, the Company uses external deposit listing services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. The deposits obtained from listing services are often referred to as wholesale or Internet CDs. As of December 31, 2016, the Company had \$15.6 million, or 1.5 percent of total deposits, in internet certificates of deposit obtained through deposit listing services.

To plan for contingent sources of funding not satisfied by both local and out-of-market deposit balances, Colony and its subsidiary 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 Bank has 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 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.

Part II (Continued)**Item 7 (Continued)****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, though given recent economic conditions, the Company has not experienced any material effects of inflation during the last three fiscal years. 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 borrowings 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.

Part II (Continued)

Item 7 (Continued)

Market Risk and Interest Rate Sensitivity

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 3 ½ - 5 ½ year range.

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. This risk of loss can be reflected in either reduced current market values or reduced current and potential net income. Colony's most significant market risk is interest rate risk. This risk arises primarily from Colony's extension of loans and acceptance of deposits.

Managing interest rate risk is a primary goal of the asset liability management function. Colony attempts to achieve stability in net interest income while limiting volatility arising from changes in interest rates. Colony seeks to achieve this goal by balancing the maturity and repricing characteristics of assets and liabilities. Colony manages its exposure to fluctuations in interest rates through policies established by ALCO and approved by the Board of Directors. ALCO meets at least quarterly and has responsibility for developing asset liability management policies, reviewing the interest rate sensitivity of Colony, and developing and implementing strategies to improve balance sheet structure and interest rate risk positioning.

Part II (Continued)**Item 7 (Continued)**

Colony measures the sensitivity of net interest income to changes in market interest rates through the utilization of Asset/Liability simulation modeling. On at least a quarterly basis, the following twenty-four month time period is simulated to determine a baseline net interest income forecast and the sensitivity of this forecast to changes in interest rates. These simulations include all of Colony's earning assets and liabilities. Forecasted balance sheet changes, primarily reflecting loan and deposit growth and forecasts, are included in the periods modeled. Projected rates for loans and deposits are based on management's outlook and local market conditions.

The magnitude and velocity of rate changes among the various asset and liability groups exhibit different characteristics for each possible interest rate scenario; additionally, customer loan and deposit preferences can vary in response to changing interest rates. Simulation modeling enables Colony to capture the expected effect of these differences. Assumptions utilized in the model are updated on an ongoing basis and are reviewed and approved by the ALCO Committee of the Board of Directors.

Colony has modeled its baseline net interest income forecast assuming a flat interest rate environment with the federal funds rate at the Federal Reserve's current targeted range of 0.50% to 0.25% and the current prime rate of 3.75%. Colony has modeled the impact of a gradual increase in short-term rates of 100 and 200 basis points and a decline of 100 basis points to determine the sensitivity of net interest income for the next twelve months. As illustrated in the table below, the net interest income sensitivity model indicates that, compared with a net interest income forecast assuming stable rates, net interest income is projected to increase by 1.88% and increase by 3.35% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 3.67% if interest rates decreased by 100 basis points. These changes were within Colony's policy limit of a maximum 15% negative change.

Twelve Month Net Interest Income Sensitivity

Change in Short-term Interest Rates (in basis points)	Estimated Change in Net Interest Income As of December 31,	
	2016	2015
+200	3.35%	-0.32%
+100	1.88%	0.13%
Flat	-%	-%
-100	-3.67%	-1.16%

The measured interest rate sensitivity indicates an asset sensitive position over the next year, which could serve to improve net interest income in a rising interest rate environment. The actual realized change in net interest income would depend on several factors, some of which could serve to reduce or eliminate the asset sensitivity noted above. These factors include a higher than projected level of deposit customer migration to higher cost deposits, such as certificates of deposit, which would increase total interest expense and serve to reduce the realized level of asset sensitivity. Another factor which could impact the realized interest rate sensitivity in a rising rate environment is the repricing behavior of interest bearing non-maturity deposits. Assumptions for repricing are expressed as a beta relative to the change in the prime rate. For instance, a 25% beta would correspond to a deposit rate that would increase 0.25% for every 1% increase in the prime rate. Projected betas for interest bearing non-maturity deposit repricing are a key component of determining the Company's interest rate risk position. Should realized betas be higher than projected betas, the expected benefit from higher interest rates would be reduced.

Part II (Continued)**Item 7 (Continued)**

The net interest income simulation model is the primary tool utilized to evaluate potential interest rate risks over a shorter term time horizon. Colony also evaluates potential longer term interest rate risk through modeling and evaluation of economic value of equity (EVE). This EVE modeling allows Colony to capture longer-term repricing risk and options risk embedded in the balance sheet. Simulation modeling is utilized to measure the economic value of equity and its sensitivity to immediate changes in interest rates. These simulations value only the current balance sheet and do not incorporate growth assumptions used in the net interest income simulation. The economic value of equity is the net fair value of assets and liabilities derived from the present value of future cash flows discounted at current market interest rates. From this baseline valuation, Colony evaluates changes in the value of each of these items in various interest rate scenarios to determine the net impact on the economic value of equity. Key assumptions utilized in the model, namely loan prepayments, deposit pricing betas, and non-maturity deposit durations have a significant impact on the results of the EVE simulations.

As illustrated in the table below, the economic value of equity model indicates that, compared with a valuation assuming stable rates, EVE is projected to increase by 9.59% and 16.27%, assuming an immediate and sustained increase in interest rates of 100 and 200 basis points, respectively. The primary reason for the increase in asset sensitivity from the prior year is a more aggressive assumption regarding non-maturity deposit durations. Assuming an immediate 100 basis point decline in rates, EVE is projected to decrease by 12.44%. These changes were within Colony's policy except in the -100 basis point change, which limits the maximum negative change in EVE to 10% of the base EVE. We believe this projection outside of policy is mitigated by the unlikely reduction in interest rates due to the current rate environment.

Economic Value of Equity Sensitivity

Immediate Change in Interest Rates (in basis points)	Estimated Change in EVE As of December 31,	
	2016	2015
+200	16.27%	13.43%
+100	9.59%	8.62%
-100	-12.44%	-7.74%

Colony is also subject to market risk in certain of its fee income business lines. Financial management services revenues, which include trust, brokerage, and asset management fees, can be affected by risk in the securities markets, primarily the equity securities market. A significant portion of the fees in this unit are determined based upon a percentage of asset values. Weaker securities markets and lower equity values have an adverse impact on the fees generated by these operations. Trading account assets, maintained to facilitate brokerage customer activity, are also subject to market risk. This risk is not considered significant, as trading activities are limited and subject to risk policy limits. Mortgage banking income is also subject to market risk. Mortgage loan originations are sensitive to levels of mortgage interest rates and therefore, mortgage banking income could be negatively impacted during a period of rising interest rates. The extension of commitments to customers to fund mortgage loans also subjects Colony to market risk. This risk is primarily created by the time period between making the commitment and closing and delivering the loan. Colony seeks to minimize this exposure by utilizing various risk management tools, the primary of which are forward sales commitments and best efforts commitments.

Part II (Continued)

Item 7 (Continued)

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2016. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	Total
INTEREST-EARNING ASSETS:						
Interest-Bearing Deposits	\$ 46,345	\$ -	\$ 46,345	\$ -	\$ -	\$ 46,345
Investment Securities	3,298	4,494	7,792	198,173	117,693	323,658
Loans, Net of Unearned Income	133,589	131,037	264,626	437,399	51,897	753,922
Other Interest- Earning Assets	3,010	-	3,010	-	-	3,010
Total Interest-Earning Assets	186,242	135,531	\$ 321,773	635,572	169,590	\$ 1,126,935
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand Deposits (1)	448,004	-	448,004	-	-	448,004
Savings (1)	70,066	-	70,066	-	-	70,066
Time Deposits	74,263	182,623	256,886	101,653	8,689	367,228
Other Borrowings	-	-	-	10,000	36,000	46,000
Subordinated Debentures	24,229	-	24,229	-	-	24,229
Total Interest-Bearing Liabilities	616,562	182,623	799,185	111,653	44,689	955,527
Interest Rate-Sensitivity Gap	(430,320)	(47,092)	(477,412)	523,919	124,901	\$ 171,408
Cumulative Interest-Sensitivity Gap	\$ (430,320)	\$ (477,412)	\$ (477,412)	\$ 46,507	\$ 171,408	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(38.18)%	(4.18)%	(42.36)%	46.49%	11.08%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(38.18)%	(42.36)%	(42.36)%	4.13%	15.21%	

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

Part II (Continued)

Item 7 (Continued)

The foregoing table indicates that we had a one year negative gap of \$477.4 million, or 42.36 percent of total interest-earning assets at December 31, 2016. In theory, this would indicate that at December 31, 2016, \$477.4 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 interest-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. 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 has established its one year gap to be 80 percent to 120 percent. The most recent analysis as of December 31, 2016 indicates a one year gap of 122 percent. The analysis reflects slight net interest margin compression in both a declining and increasing 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 2016. 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.

The Company utilizes FTN Financial Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established policies for rate shock per basis point (bp) for earnings at risk for net interest income and for equity at risk. The following table shows the policy limits with the rate shock for earnings at risk and equity at risk as of December 31, 2016.

	Rate Shock	Policy Limit	Immediate Shock (-) decrease bp	Immediate Shock (+) increase bp
Net Interest Income –				
Earnings at Risk	+/- 100 bp	+/- 10%	-3.83%	2.01%
	+/- 200 bp	+/- 15%	-9.39	3.35
	+/- 300 bp	+/- 20%	-10.90	4.75
	+/- 400 bp	+/- 25%	-12.53	4.82
Equity at Risk				
	+/- 100 bp	+/- 10%	-12.44	9.59
	+/- 200 bp	+/- 20%	-28.91	16.27
	+/- 300 bp	+/- 30%	-36.87	20.52
	+/- 400 bp	+/- 40%	-37.08	23.18

Part II (Continued)
Item 7 (Continued)

Return on Assets and Stockholder’s Equity

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

	Year s Ended December 31		
	20 16	2015	2014
Return on Average Assets(1)	0.62%	0.52%	0.43%
Return on Average Equity(1)	7.17%	5.90%	5.11%
Equity to Assets	7.72%	8.13%	8.63%
Common Stock Dividends Declared	\$ 0.00	\$ 0.00	\$ 0.00

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

Part II (Continued)

Item 7A

Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is located in Item 7 under the heading Market Risk and Interest Rate Sensitivity.

Item 8

Financial Statements and Supplemental Data

The following consolidated financial statements of the Registrant and its subsidiaries are included on Exhibit 13 of this Annual Report on Form 10-K:

Consolidated Balance Sheets - December 31, 2016 and 2015

Consolidated Statements of Income - Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income - Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity - Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows - Years Ended December 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

Part II (Continued)**Item 8 (Continued)****Quarterly Results of Operations (Unaudited)**

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2016 and 2015:

	Three Months Ended			
	December 31	September 30	June 30	March 31
20 16	(\$ in Thousands, Except Per Share Data)			
Interest Income	\$ 11,203	\$ 11,156	\$ 11,141	\$ 11,089
Interest Expense	1,634	1,600	1,616	1,633
Net Interest Income	9,569	9,556	9,525	9,456
Provision for Loan Losses	-	354	354	354
Securities Gains	-	256	127	2
Noninterest Income	2,392	2,381	2,225	2,170
Noninterest Expense	8,830	8,654	8,354	8,235
Income Before Income Taxes	3,131	3,185	3,169	3,039
Provision for Income Taxes	944	927	1,002	978
Net Income	2,187	2,258	2,167	2,061
Preferred Stock Dividends	304	378	406	405
Net Income Available to Common Stockholders	\$ 1,883	\$ 1,880	\$ 1,761	\$ 1,656
Net Income Per Common Share				
Basic	\$ 0.22	\$ 0.22	\$ 0.21	\$ 0.20
Diluted	\$ 0.22	\$ 0.22	\$ 0.21	\$ 0.20
2015				
Interest Income	\$ 11,362	\$ 11,117	\$ 10,930	\$ 10,866
Interest Expense	1,602	1,620	1,683	1,664
Net Interest Income	9,760	9,497	9,247	9,202
Provision for Loan Losses	125	250	129	362
Securities Gains	(23)	9	-	3
Noninterest Income	2,265	2,224	2,358	2,209
Noninterest Expense	8,783	8,335	8,320	8,286
Income Before Income Taxes	3,094	3,145	3,156	2,766
Provision for Income Taxes	989	945	971	883
Net Income	2,105	2,200	2,185	1,883
Preferred Stock Dividends	521	594	630	630
Net Income Available to Common Stockholders	\$ 1,584	\$ 1,606	\$ 1,555	\$ 1,253
Net Income Per Common Share				
Basic	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.15
Diluted	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.15

Part II (Continued)

Item 9

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company did not change auditors in 2016. In addition, there was no accounting or disclosure disagreement or reportable event with the current auditors that would have required the filing of a report on Form 8-K.

Item 9A

Controls and Procedures

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

During the year ended December 31, 2016, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Colony's management is responsible for establishing and maintaining adequate internal control over financial reporting. Colony's internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Colony's financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Colony's management assessed the effectiveness of Colony's internal control over financial reporting as of December 31, 2016 based on the criteria for effective internal control over financial reporting established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that Colony maintained effective internal control over financial reporting as of December 31, 2016.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. The Company's registered public accounting firm was not required to issue an attestation on its internal controls over financial reporting pursuant to the rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Colony Bankcorp, Inc.
March 10, 2017

Part II (Continued)

Item 9A (Continued)

Changes in Internal Controls

There were no changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect these controls.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Item 9B

Other Information

None.

Part III

Item 10

Directors and Executive Officers and Corporate Governance**Code of Ethics**

Colony Bankcorp, Inc. has adopted a Code of Ethics that applies to the Company's principal executive officer and principal accounting and financial officer. A copy of the Code of Ethics will be provided to any person without charge, upon written request mailed to Terry Hester, Colony Bankcorp, Inc., 115 S. Grant Street, Fitzgerald, Georgia 31750.

The remaining information required by this item is incorporated by reference to the Directors and Nominees section of the Company's definitive Proxy Statements to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 11

Executive Compensation

The information required by this item is incorporated by reference to the Executive Compensation section of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Part III (Continued)

Item 12

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

EQUITY COMPENSATION PLAN INFORMATION

The Company does not currently have any securities authorized for issuance pursuant to the grant or exercise of awards under an equity compensation plan.

The remaining information required by this item is incorporated by reference to Security Ownership of Certain Beneficial Owners section of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 13

Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference to the Governance of the Company and Related Party Transactions with the Company sections of the Company's definitive Proxy Statements to be filed with Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the fiscal year covered by this Annual Report.

Item 14

Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the Independent Public Accountants section of the Company's definitive Proxy Statements to be filed with Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the fiscal year covered by this Annual Report.

Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

- (1) Financial Statements
- (2) Financial Statements Schedules:

All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or the related notes.

- (3) A list of the exhibits required by Item 601 of Regulation S-K to be filed as a part of this report is shown on the "Exhibit Index" filed herewith.

Exhibit Index

3.1 Articles of Incorporation , As Amended

-filed as Exhibit 99.1 to the Registrant's 10-Q for the period ended June 30, 2014 (File No. 0-12436), filed with the Commission on August 4, 2014 and incorporated herein by reference.

3.2 Bylaws, as Amended

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

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

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

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

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

3.5 Amendment to the Company's Bylaws

-filed as Exhibit 99.1 to the Registrant's 8-K (File No.000-12436), filed with the Commission on May 29, 2015 and incorporated herein by reference.

4.1 Instruments Defining the Rights of Security Holders

-incorporated herein by reference to page 1 of the Company's Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 26, 2005, filed with the Securities and Exchange Commission on March 2, 2005 (File No. 000-12436).

Part IV (Continued)

Item 15 (Continued)

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

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

4.3 Form of Series A Preferred Stock Certificate

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

10.1 Deferred Compensation Plan and Sample Director Agreement

-filed as Exhibit 10(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 125, 1990 and incorporated herein by reference.

10.2 Profit-Sharing Plan Dated January 1, 1979

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

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

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

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

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

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

Part IV (Continued)

Item 15 (Continued)

10.7 Form of Waiver, Executed by Each of Messrs A1D. Ross, Terry L. Hester, Henry F. Brown, Jr., Walter P. Patten and Larry E. Stevenson

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

10.8 Employment Agreement, Dated April 27, 2012 Between Edward P. Loomis, Jr. and Colony Bankcorp, Inc.

-filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on May 2, 2012 and incorporated herein by reference.

10.9 Retention Agreements

-filed as Exhibit 99.1 to the Registrant's 10-Q for the period ended March 31, 2015 (File No. 000-12436), filed with the Commission on May 4, 2015 and incorporated herein by reference.

13 Consolidated Financial Statements of Colony Bankcorp, Inc. as of December 31, 2016, 2015 and 2014

21 Subsidiaries of the Company

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

31.2 Certificate of Chief Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

99.2 Retention Agreement

-filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on October 18, 2016 and incorporated herein.

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Colony Bankcorp, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

COLONY BANKCORP, INC.

/s/ Edward P. Loomis, Jr.

Edward P. Loomis, Jr.

President/Director/Chief Executive Officer

March 10, 2017

Date

/s/ Terry L. Hester

Terry L. Hester

Executive Vice-President/Chief Financial Officer/Director

March 10, 2017

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ B. Gene Waldron

B. Gene Waldron, Director

March 10, 2017

Date

/s/ Mark H. Massee

Mark H. Massee, Director

March 10, 2017

Date

/s/ Jonathan W. R. Ross

Jonathan W. R. Ross, Director

March 10, 2017

Date

/s/ Frederick Dwozan

M. Frederick Dwozan, Director

March 10, 2017

Date

/s/ Scott Lowell Downing

Scott Lowell Downing, Director

March 10, 2017

Date

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC
CERTIFIED PUBLIC ACCOUNTANTS
389 Mulberry Street • Post Office Box One • Macon, GA 31202
Telephone (478) 746-6277 • Facsimile (478) 743-6858
mmmcpa.com

March 10, 2017

**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, 2016 and 2015 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, 2016. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2016 and 2015, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2016 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, 2016 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

	20 16	2015
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	<u>28,822,104</u>	<u>\$ 22,256,646</u>
Interest-Bearing Deposits	<u>46,344,859</u>	<u>38,615,299</u>
Investment Securities		
Available for Sale, at Fair Value	<u>323,657,870</u>	<u>296,149,299</u>
Federal Home Loan Bank Stock, at Cost	<u>3,010,000</u>	<u>2,730,500</u>
Loans	<u>754,283,563</u>	<u>758,635,595</u>
Allowance for Loan Losses	<u>(8,923,293)</u>	<u>(8,603,905)</u>
Unearned Interest and Fees	<u>(361,042)</u>	<u>(356,798)</u>
	<u>744,999,228</u>	<u>749,674,892</u>
Premises and Equipment	<u>27,969,260</u>	<u>26,453,530</u>
Other Real Estate (Net of Allowance of \$1,878,127 and \$ 1,582,101 in 20 16 and 20 15 , Respectively)	<u>6,439,226</u>	<u>8,839,103</u>
Other Intangible Assets	<u>80,515</u>	<u>116,264</u>
Other Assets	<u>29,118,555</u>	<u>29,313,894</u>
Total Assets	<u><u>1,210,441,617</u></u>	<u><u>\$ 1,174,149,427</u></u>

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

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

	20 16	2015
LIABILITIES AND STOCKHOLDERS ' EQUITY		
Deposits		
Noninterest-Bearing	\$ 159,058,633	\$ 133,886,271
Interest-Bearing	<u>885,297,895</u>	<u>877,667,965</u>
	<u>1,044,356,528</u>	<u>1,011,554,236</u>
Borrowed Money		
Subordinated Debentures	24,229,000	24,229,000
Other Borrowed Money	<u>46,000,000</u>	<u>40,000,000</u>
	<u>70,229,000</u>	<u>64,229,000</u>
Other Liabilities	<u>2,468,356</u>	<u>2,909,569</u>
Commitments and Contingencies		
Stockholders ' Equity		
Preferred Stock, Stated Value \$1,000; 10,000,000 Shares Authorized, 9,360 and 18,021 Shares Issued and Outstanding as of December 31, 2016 and 2015	9,360,000	18,021,000
Common Stock, Par Value \$1; 20,000,000 Shares Authorized, 8,439,258 Shares Issued and Outstanding as of December 31, 2016 and 2015	8,439,258	8,439,258
Paid-In Capital	29,145,094	29,145,094
Retained Earnings	51,465,521	44,285,621
Accumulated Other Comprehensive Loss, Net of Tax	<u>(5,022,140)</u>	<u>(4,434,351)</u>
	<u>93,387,733</u>	<u>95,456,622</u>
Total Liabilities and Stockholders ' Equity	<u><u>\$ 1,210,441,617</u></u>	<u><u>\$ 1,174,149,427</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

	20 16	2015	2014
Interest Income			
Loans, Including Fees	\$ 38,942,503	\$ 39,716,269	\$ 39,735,615
Federal Funds Sold	-	14,561	32,100
Deposits with Other Banks	124,459	79,735	41,639
Investment Securities			
U.S. Government Agencies	5,263,741	4,235,207	4,737,878
State, County and Municipal	127,379	107,638	99,736
Dividends on Other Investments	131,007	122,070	115,134
	44,589,089	44,275,480	44,762,102
Interest Expense			
Deposits	4,781,228	4,856,673	5,113,024
Federal Funds Purchased	581	26	19
Borrowed Money	1,701,522	1,712,548	1,685,744
	6,483,331	6,569,247	6,798,787
Net Interest Income	38,105,758	37,706,233	37,963,315
Provision for Loan Losses	1,062,000	865,500	1,308,000
Net Interest Income After Provision for Loan Losses	37,043,758	36,840,733	36,655,315
Noninterest Income			
Service Charges on Deposits	4,307,214	4,268,438	4,649,008
Other Service Charges, Commissions and Fees	2,802,651	2,627,157	2,387,589
Mortgage Fee Income	681,806	527,187	419,963
Securities Gains (Losses)	385,223	(11,466)	23,735
Other	1,376,860	1,633,205	1,644,294
	9,553,754	9,044,521	9,124,589
Noninterest Expenses			
Salaries and Employee Benefits	18,482,693	17,589,631	17,507,926
Occupancy and Equipment	3,970,244	3,989,347	4,062,844
Directors' Fees	348,755	358,291	392,132
Legal and Professional Fees	791,563	737,731	785,683
Foreclosed Property	1,143,518	1,682,783	2,701,436
FDIC Assessment	603,654	899,302	965,898
Advertising	609,892	624,844	652,374
Software	1,112,065	992,593	925,489
Telephone	737,063	710,038	735,735
ATM/Card Processing	1,136,122	1,061,262	905,732
Other	5,137,400	5,078,932	5,344,743
	34,072,969	33,724,754	34,979,992
Income Before Income Taxes	12,524,543	12,160,500	10,799,912
Income Taxes	3,851,333	3,787,803	3,268,287
Net Income	8,673,210	8,372,697	7,531,625
Preferred Stock Dividends	1,493,310	2,375,010	2,688,604
Net Income Available to Common Stockholders	\$ 7,179,900	\$ 5,997,687	\$ 4,843,021
Net Income Per Share of Common Stock			
Basic	\$ 0.85	\$ 0.71	\$ 0.57
Diluted	\$ 0.84	\$ 0.71	\$ 0.57
Cash Dividends Declared Per Share of Common Stock	\$ 0.00	\$ 0.00	\$ 0.00
Weighted Average Shares Outstanding , Basic	8,439,258	8,439,258	8,439,258

Weighted Average Shares Outstanding, Diluted	<u>8,513,295</u>	<u>8,458,461</u>	<u>8,439,258</u>
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See accompanying notes which are an integral part of these financial statements.

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

	<u>20 16</u>	<u>2015</u>	<u>2014</u>
Net Income	\$ 8,673,210	\$ 8,372,697	\$ 7,531,625
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	(505,367)	610,689	6,432,906
Tax Effect	171,825	(207,634)	(2,187,189)
Realized (Gains) Losses on Sale of AFS Securities	(385,223)	11,466	(23,735)
Tax Effect	130,976	(3,898)	8,070
Impairment Loss on Securities	-	-	-
Tax Effect	-	-	-
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	(587,789)	410,623	4,230,052
Comprehensive Income	\$ 8,085,421	\$ 8,783,320	\$ 11,761,677

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, 2016, 2015 AND 2014

	<u>Preferred Shares Issued</u>	<u>Preferred Stock</u>	<u>Common Shares Issued</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance, December 31, 2013	28,000	28,000,000	8,439,258	8,439,258	29,145,094	33,444,913	(9,075,026)	89,954,239
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							4,230,052	4,230,052
Dividends on Preferred Shares						(2,688,604)		(2,688,604)
Net Income						7,531,625		7,531,625
Balance, December 31, 2014	28,000	28,000,000	8,439,258	8,439,258	29,145,094	38,287,934	(4,844,974)	99,027,312
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							410,623	410,623
Dividends on Preferred Shares						(2,375,010)		(2,375,010)
Redemption of Preferred Stock	(9,979)	(9,979,000)						(9,979,000)
Net Income						8,372,697		8,372,697
Balance, December 31, 2015	18,021	\$ 18,021,000	8,439,258	\$ 8,439,258	\$ 29,145,094	\$ 44,285,621	\$ (4,434,351)	\$ 95,456,622
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(587,789)	(587,789)
Dividends on Preferred Shares						(1,493,130)		(1,493,130)
Redemption of Preferred Stock	(8,661)	(8,661,000)						(8,661,000)
Net Income						8,673,210		8,673,210
Balance, December 31, 2016	<u>9,360</u>	<u>\$ 9,360,000</u>	<u>8,439,258</u>	<u>\$ 8,439,258</u>	<u>\$ 29,145,094</u>	<u>\$ 51,465,521</u>	<u>\$ (5,022,140)</u>	<u>\$ 93,387,733</u>

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

PART I (Continued)

Item 1 (Continued)

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

	2016	2015	2014
Cash Flows from Operating Activities			
Net Income	8,673,210	\$ 8,372,697	\$ 7,531,625
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation	1,574,249	1,657,229	1,595,253
Amortization and Accretion	1,609,339	1,797,152	1,312,857
Provision for Loan Losses	1,062,000	865,500	1,308,000
Deferred Income Taxes	222,120	625,436	1,932,950
Securities (Gains) Losses	(385,223)	11,466	(23,735)
(Gain) Loss on Sale of Premises and Equipment	80,329	11,047	(12,489)
Loss on Sale of Other Real Estate and Repossessions	160,682	600,663	828,411
Provision for Losses on Other Real Estate	501,736	453,148	1,006,827
Increase in Cash Surrender Value of Life Insurance	(589,408)	(299,010)	(590,674)
Change In			
Interest Receivable	176,766	(354,274)	55,786
Prepaid Expenses	(372,380)	278,637	(64,633)
Interest Payable	(46,284)	32,253	(1,099,756)
Accrued Expenses and Accounts Payable	(252,617)	(202,343)	197,195
Other	973,972	217,686	788,958
	<u>13,388,491</u>	<u>14,067,287</u>	<u>14,766,575</u>
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	(7,729,560)	(17,409,260)	754,252
Purchase of Investment Securities Available for Sale	(109,634,793)	(102,336,227)	(56,201,891)
Proceeds from Sale of Investment Securities Available for Sale	25,209,851	28,273,634	13,620,956
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	54,868,726	51,423,541	36,440,646
Held to Maturity	-	9,734	12,968
Proceeds from Sale of Premises and Equipment	89,551	28,608	14,376
Net Loans to Customers	(2,167,126)	(21,255,018)	(3,156,342)
Purchase of Premises and Equipment	(3,259,859)	(3,189,969)	(1,681,115)
Proceeds from Sale of Other Real Estate and Repossessions	7,529,131	8,154,596	7,233,497
Proceeds from Sale of Federal Home Loan Bank Stock	-	100,300	333,100
Purchase of Federal Home Loan Bank Stock	(279,500)	-	-
	<u>(35,373,579)</u>	<u>(56,200,061)</u>	<u>(2,629,553)</u>
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	7,629,930	26,704,254	(21,305,068)
Noninterest-Bearing Customer Deposits	25,172,362	5,546,508	13,079,062
Proceeds from Other Borrowed Money	10,000,000	27,000,000	-
Principal Payments on Other Borrowed Money	(4,000,000)	(27,000,000)	-
Dividends Paid on Preferred Stock	(1,590,746)	(2,487,274)	(5,492,749)
Redemption of Preferred Stock	(8,661,000)	(9,979,000)	-
	<u>28,550,546</u>	<u>19,784,488</u>	<u>(13,718,755)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,565,458	(22,348,286)	(1,581,733)
Cash and Cash Equivalents, Beginning	22,256,646	44,604,932	46,186,665
Cash and Cash Equivalents, Ending	<u>\$ 28,822,104</u>	<u>\$ 22,256,646</u>	<u>\$ 44,604,932</u>

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

PART I (Continued)**Item 1 (Continued)****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, 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 central, south and coastal Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Quitman, Rochelle, Savannah, Soperton, Statesboro, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. Lending and investing activities are funded primarily by deposits gathered through its retail banking office network.

Use of Estimates

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

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements and note disclosures have been reclassified to conform to statement presentations selected for 2016. Such reclassifications had no effect on previously reported stockholders' equity or net income.

PART I (Continued)**Item 1 (Continued)****(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, 2016, approximately 87 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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.

PART I (Continued)**Item 1 (Continued)****(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.

PART I (Continued)**Item 1 (Continued)****(1) Summary of Significant Accounting Policies (Continued)****Loans Modified in a Troubled Debt Restructuring (TDR)**

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a 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.

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 are 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 lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio and terms of loans, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the organization's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and (9) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

PART I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether to obtain an external third-party appraisal usually depends on the type of property being evaluated. External appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff. When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are "as is" or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals may not be obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management's knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the initial appraisal was performed.

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

PART I (Continued)
Item 1 (Continued)

(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.

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

Advertising Costs

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

PART I (Continued)**Item 1 (Continued)****(1) Summary of Significant Accounting Policies (Continued)****Income Taxes**

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

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax basis. 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.

The Company's federal and state income tax returns for tax years 2016, 2015, 2014 and 2013 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing.

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 operations.

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.

PART I (Continued)**Item 1 (Continued)****(1) Summary of Significant Accounting Policies (Continued)****Bank-Owned Life Insurance**

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of \$15,419,269 and \$14,829,861 as of December 31, 2016 and 2015, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners. 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 on the consolidated balance sheets when they are funded.

PART I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, is effective for the Company in the first quarter of fiscal year 2018. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective for the Company on January 1, 2018. The Company is currently evaluating the impact of the pending adoption of ASU 2016-01 on the consolidated financial statements.

ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the impact of this ASU on its financial statements and disclosures.

ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods therein. The Company is evaluating the impact of this ASU on its financial statements and disclosures.

PART I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)**Changes in Accounting Principles and Effects of New Accounting Pronouncements (Continued)**

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supported forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our 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>20 16</u>	<u>2015</u>
Cash on Hand and Cash Items	\$ 8,509,530	\$ 9,061,678
Noninterest-Bearing Deposits with Other Banks	<u>20,312,574</u>	<u>13,194,968</u>
	<u>\$ 28,822,104</u>	<u>\$ 22,256,646</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 \$1,417,000 and \$1,275,000 at December 31, 2016 and 2015, respectively.

PART I (Continued)

Item 1 (Continued)

(3) Investment Securities

Investment securities as of December 31, 2016 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	\$ 326,694,417	\$ 75,743	\$ (7,672,786)	\$ 319,097,374
State, County and Municipal	4,572,756	18,350	(30,610)	4,560,496
	<u>\$ 331,267,173</u>	<u>\$ 94,093</u>	<u>\$ (7,703,396)</u>	<u>\$ 323,657,870</u>

The amortized cost and fair value of investment securities as of December 31, 2016, by contractual maturity, are shown hereafter. Expected maturities may differ from contractual maturities for certain investments because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities Available for Sale	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in One Year or Less	\$ 360,471	\$ 362,760
Due After One Year Through Five Years	1,618,395	1,610,940
Due After Five Years Through Ten Years	1,106,315	1,107,718
Due After Ten Years	1,487,575	1,479,078
	<u>4,572,756</u>	<u>4,560,496</u>
Mortgage-Backed Securities	<u>326,694,417</u>	<u>319,097,374</u>
	<u>\$ 331,267,173</u>	<u>\$ 323,657,870</u>

Investment securities as of December 31, 2015 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	\$ 297,778,875	\$ 62,815	\$ (6,791,837)	\$ 291,049,853
State, County and Municipal	5,089,137	30,542	(20,233)	5,099,446
	<u>\$ 302,868,012</u>	<u>\$ 93,357</u>	<u>\$ (6,812,070)</u>	<u>\$ 296,149,299</u>

PART I (Continued)

Item 1 (Continued)

(3) Investment Securities (Continued)

Proceeds from sales of investments available for sale were \$25,209,851 in 2016, \$28,273,634 in 2015, and 13,620,956 in 2014. Gross realized gains totaled \$391,976 in 2016, \$207,896 in 2015, and \$67,601 in 2014. Gross realized losses totaled \$6,753 in 2016, \$196,316 in 2015, and \$45,666 in 2014. Gross realized losses of \$23,046 in 2015 was due to a loss on a maturity for a held-to-maturity investment and gross realized gains of \$1,800 in 2014 was due to a gain on a call for a held-to-maturity investment.

Investment securities having a carrying value totaling \$144,853,885 and \$133,754,087 as of December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
December 31, 2016						
U.S. Government Agencies						
Mortgage-Backed	\$ 174,200,881	\$ (3,459,564)	\$ 107,481,698	\$ (4,213,222)	\$ 281,682,579	\$ (7,672,786)
State, County and Municipal	3,487,647	(30,610)	-	-	3,487,647	(30,610)
	<u>\$ 177,688,528</u>	<u>\$ (3,490,174)</u>	<u>\$ 107,481,698</u>	<u>\$ (4,213,222)</u>	<u>\$ 285,170,226</u>	<u>\$ (7,703,396)</u>
December 31, 2015						
U.S. Government Agencies						
Mortgage-Backed	\$ 139,765,025	\$ (1,270,011)	\$ 139,720,125	\$ (5,521,826)	\$ 279,485,150	\$ (6,791,837)
State, County and Municipal	1,034,613	(20,233)	-	-	1,034,613	(20,233)
	<u>\$ 140,799,638</u>	<u>\$ (1,290,244)</u>	<u>\$ 139,720,125</u>	<u>\$ (5,521,826)</u>	<u>\$ 280,519,763</u>	<u>\$ (6,812,070)</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.

PART I (Continued)**Item 1 (Continued)****(3) Investment Securities (Continued)**

At December 31, 2016, 108 securities have unrealized losses which have depreciated 2.63 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company did own one asset-backed security at December 31, 2016 which was completely written off during prior years. This investment is comprised of one issuance of a trust preferred security and has no book value.

(4) Loans

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

	<u>20 16</u>	<u>2015</u>
Commercial and Agricultural		
Commercial	\$ 47,024,878	\$ 47,781,689
Agricultural	17,079,579	19,193,497
Real Estate		
Commercial Construction	30,358,362	40,106,633
Residential Construction	11,830,447	9,413,263
Commercial	349,090,031	346,262,033
Residential	195,579,967	197,002,419
Farmland	66,877,197	61,779,859
Consumer and Other		
Consumer	19,695,241	20,605,465
Other	16,747,861	16,490,737
Total Loans	<u>\$ 754,283,563</u>	<u>\$ 758,635,595</u>

PART I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

Commercial and agricultural 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.
- 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.

PART I (Continued)**Item 1 (Continued)****(4) Loans (Continued)**

The following tables present 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.

2016	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	\$ 44,249,874	\$ 1,861,757	\$ 913,247	\$ 47,024,878
Agricultural	16,585,646	192,445	301,488	17,079,579
Real Estate				
Commercial Construction	28,425,373	1,349,447	583,542	30,358,362
Residential Construction	11,630,165	-	200,282	11,830,447
Commercial	327,561,169	9,403,077	12,125,785	349,090,031
Residential	178,618,510	5,658,526	11,302,931	195,579,967
Farmland	65,074,715	839,362	963,120	66,877,197
Consumer and Other				
Consumer	19,071,739	225,959	397,543	19,695,241
Other	16,747,861	-	-	16,747,861
Total Loans	\$ 707,965,052	\$ 19,530,573	\$ 26,787,938	\$ 754,283,563
2015				
Commercial and Agricultural				
Commercial	\$ 44,273,407	\$ 1,927,198	\$ 1,581,084	\$ 47,781,689
Agricultural	18,970,328	17,843	205,326	19,193,497
Real Estate				
Commercial Construction	36,516,165	912,295	2,678,173	40,106,633
Residential Construction	9,413,263	-	-	9,413,263
Commercial	320,566,237	13,652,416	12,043,380	346,262,033
Residential	177,054,188	8,545,942	11,402,289	197,002,419
Farmland	56,798,365	929,814	4,051,680	61,779,859
Consumer and Other				
Consumer	20,037,996	156,739	410,730	20,605,465
Other	16,465,593	636	24,508	16,490,737
Total Loans	\$ 700,095,542	\$ 26,142,883	\$ 32,397,170	\$ 758,635,595

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of \$250,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired. In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

PART I (Continued)**Item 1 (Continued)****(4) Loans (Continued)**

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

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

2016	Accruing Loans			Nonaccrual Loans	Current Loan s	Total Loans
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due			
Commercial and Agricultural						
Commercial	\$ 419,969	\$ -	\$ 419,969	\$ 634,955	\$ 45,969,954	\$ 47,024,878
Agricultural	33,046	-	33,046	208,522	16,838,011	17,079,579
Real Estate						
Commercial Construction	54,001	-	54,001	190,494	30,113,867	30,358,362
Residential Construction	-	-	-	-	11,830,447	11,830,447
Commercial	491,468	-	491,468	6,360,176	342,238,387	349,090,031
Residential	3,178,833	-	3,178,833	3,944,337	188,456,797	195,579,967
Farmland	95,309	-	95,309	799,556	65,982,332	66,877,197
Consumer and Other						
Consumer	196,242	122	196,364	212,026	19,286,851	19,695,241
Other	-	-	-	-	16,747,861	16,747,861
Total Loans	\$ 4,468,868	\$ 122	\$ 4,468,990	\$ 12,350,066	\$ 737,464,507	\$ 754,283,563
2015						
Commercial and Agricultural						
Commercial	\$ 490,727	\$ -	\$ 490,727	\$ 576,940	\$ 46,714,022	\$ 47,781,689
Agricultural	71,416	-	71,416	178,021	18,944,060	19,193,497
Real Estate						
Commercial Construction	90,163	-	90,163	1,642,666	38,373,804	40,106,633
Residential Construction	-	-	-	-	9,413,263	9,413,263
Commercial	6,031,257	-	6,031,257	7,564,691	332,666,085	346,262,033
Residential	3,682,509	-	3,682,509	3,163,571	190,156,339	197,002,419
Farmland	122,696	-	122,696	1,103,354	60,553,809	61,779,859
Consumer and Other						
Consumer	469,839	7,799	477,638	178,336	19,949,491	20,605,465
Other	636	-	636	100	16,490,001	16,490,737
Total Loans	\$ 10,959,243	\$ 7,799	\$ 10,967,042	\$ 14,407,679	\$ 733,260,874	\$ 758,635,595

PART I (Continued)**Item 1 (Continued)****(4) Loans (Continued)**

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately \$387,300, \$418,400, and \$591,900 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table details impaired loan data as of December 31, 2016:

	<u>Unpaid Contractual Principal Balance</u>	<u>Impaired Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Collected</u>
With No Related Allowance Recorded						
Commercial	\$ 634,955	\$ 634,955	\$ -	\$ 539,099	\$ 24,563	\$ 27,142
Agricultural	229,182	208,522	-	210,372	8,794	12,412
Commercial Construction	190,494	190,494	-	697,893	6,630	7,127
Commercial Real Estate	14,357,601	14,276,688	-	14,274,719	567,349	560,354
Residential Real Estate	4,261,558	3,952,139	-	4,553,322	73,099	190,373
Farmland	920,666	799,556	-	1,016,395	21,526	26,012
Consumer	212,376	212,026	-	213,309	9,599	12,036
	<u>\$ 20,806,832</u>	<u>\$ 20,274,380</u>	<u>\$ -</u>	<u>\$ 21,505,109</u>	<u>\$ 711,560</u>	<u>\$ 835,456</u>
With An Allowance Recorded						
Commercial	-	-	-	30,270	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	72,296	72,296	21,135	74,098	1,532	1,416
Commercial Real Estate	8,557,582	8,467,135	3,021,943	8,339,666	238,684	235,749
Residential Real Estate	1,475,594	1,467,833	362,521	1,042,750	27,759	32,260
Farmland	379,851	379,851	29,173	384,056	21,098	21,310
Consumer	-	-	-	-	-	-
	<u>\$ 10,485,323</u>	<u>\$ 10,387,115</u>	<u>\$ 3,434,772</u>	<u>\$ 9,870,840</u>	<u>\$ 289,073</u>	<u>\$ 290,735</u>
Total						
Commercial	\$ 634,955	\$ 634,955	\$ -	\$ 569,369	\$ 24,563	\$ 27,142
Agricultural	229,182	208,522	-	210,372	8,794	12,412
Commercial Construction	262,790	262,790	21,135	771,991	8,162	8,543
Commercial Real Estate	22,915,183	22,743,823	3,021,943	22,614,385	806,033	796,103
Residential Real Estate	5,737,152	5,419,972	362,521	5,596,072	100,858	222,633
Farmland	1,300,517	1,179,407	29,173	1,400,451	42,624	47,322
Consumer	212,376	212,026	-	213,309	9,599	12,036
	<u>\$ 31,292,155</u>	<u>\$ 30,661,495</u>	<u>\$ 3,434,772</u>	<u>\$ 31,375,949</u>	<u>\$ 1,000,633</u>	<u>\$ 1,126,191</u>

PART I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

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

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 454,423	\$ 454,013	-	\$ 534,814	\$ 17,259	\$ 21,253
Agricultural	195,654	178,021	-	163,078	(9,957)	10,334
Commercial Construction	6,887,522	1,896,938	-	2,867,061	25,788	27,007
Commercial Real Estate	15,569,340	15,122,486	-	15,430,252	529,376	530,699
Residential Real Estate	5,429,121	4,575,547	-	4,715,162	175,484	159,148
Farmland	1,104,887	1,103,353	-	1,339,863	583	2,076
Consumer	179,908	178,435	-	190,566	13,745	14,907
Other	-	-	-	48,438	-	-
	<u>\$ 29,820,855</u>	<u>\$ 23,508,793</u>	<u>-</u>	<u>\$ 25,289,234</u>	<u>\$ 752,278</u>	<u>\$ 765,424</u>
With An Allowance Recorded						
Commercial	\$ 122,928	\$ 122,928	\$ 94,538	\$ 99,749	\$ 2,275	\$ 2,438
Agricultural	-	-	-	-	-	-
Commercial Construction	76,644	76,644	25,344	92,200	375	375
Commercial Real Estate	8,969,329	8,955,503	1,607,962	6,673,087	213,693	208,657
Residential Real Estate	1,083,127	1,075,367	308,188	1,088,380	16,380	15,873
Farmland	387,968	387,969	37,386	391,060	20,880	20,954
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	<u>\$ 10,639,996</u>	<u>\$ 10,618,411</u>	<u>\$ 2,073,418</u>	<u>\$ 8,344,476</u>	<u>\$ 253,603</u>	<u>\$ 248,297</u>
Total						
Commercial	\$ 577,351	\$ 576,941	\$ 94,538	\$ 634,563	\$ 19,534	\$ 23,691
Agricultural	195,654	178,021	-	163,078	(9,957)	10,334
Commercial Construction	6,964,166	1,973,582	25,344	2,959,261	26,163	27,382
Commercial Real Estate	24,538,669	24,077,989	1,607,962	22,103,339	743,069	739,356
Residential Real Estate	6,512,248	5,650,914	308,188	5,803,542	191,864	175,021
Farmland	1,492,855	1,491,322	37,386	1,730,923	21,463	23,030
Consumer	179,908	178,435	-	190,566	13,745	14,907
Other	-	-	-	48,438	-	-
	<u>\$ 40,460,851</u>	<u>\$ 34,127,204</u>	<u>\$ 2,073,418</u>	<u>\$ 33,633,710</u>	<u>\$ 1,005,881</u>	<u>\$ 1,013,721</u>

PART I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

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

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 310,447	\$ 308,817	\$ -	\$ 679,267	\$ 9,248	\$ 17,973
Agricultural	50,163	44,605	-	50,959	(6,029)	3,000
Commercial Construction	9,573,141	3,463,502	-	3,376,033	13,111	12,833
Commercial Real Estate	17,129,876	16,227,379	-	18,350,015	462,355	474,936
Residential Real Estate	9,136,987	7,600,073	-	5,690,573	312,024	306,859
Farmland	1,450,759	1,449,226	-	949,003	(8,518)	17,273
Consumer	201,695	201,695	-	211,775	14,455	15,495
Other	206,894	195,497	-	197,519	5,874	10,677
	<u>38,059,962</u>	<u>29,490,794</u>	<u>-</u>	<u>29,505,144</u>	<u>802,520</u>	<u>859,046</u>
With An Allowance Recorded						
Commercial	96,580	96,580	96,580	419,464	(299)	-
Agricultural	-	-	-	-	-	-
Commercial Construction	207,308	136,369	53,947	1,528,817	375	375
Commercial Real Estate	6,135,238	6,135,238	456,941	6,415,086	60,629	50,468
Residential Real Estate	2,072,919	2,065,158	414,684	1,829,102	84,177	86,472
Farmland	396,048	396,048	28,962	529,555	13,077	12,210
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	<u>8,908,093</u>	<u>8,829,393</u>	<u>1,051,114</u>	<u>10,722,024</u>	<u>157,959</u>	<u>149,525</u>
Total						
Commercial	407,027	405,397	96,580	1,098,731	8,949	17,973
Agricultural	50,163	44,605	-	50,959	(6,029)	3,000
Commercial Construction	9,780,449	3,599,871	53,947	4,904,850	13,486	13,208
Commercial Real Estate	23,265,114	22,362,617	456,941	24,765,101	522,984	525,404
Residential Real Estate	11,209,906	9,665,231	414,684	7,519,675	396,201	393,331
Farmland	1,846,807	1,845,274	28,962	1,478,558	4,559	29,483
Consumer	201,695	201,695	-	211,775	14,455	15,495
Other	206,894	195,497	-	197,519	5,874	10,677
	<u>\$ 46,968,055</u>	<u>\$ 38,320,187</u>	<u>\$ 1,051,114</u>	<u>\$ 40,227,168</u>	<u>\$ 960,479</u>	<u>\$ 1,008,571</u>

PART I (Continued)

Item 1 (Continued)

(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 the Company's 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.

PART I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

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, 2016. The following tables present the number of loan contracts restructured during the 12 months ended December 31, 2016, 2015 and 2014. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 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. A TDR may cease being classified as impaired if the loan is subsequently modified at market terms, has performed according to the modified terms for at least six months, and has not had any prior principal forgiveness on a cumulative basis.

Troubled Debt Restructurings

2016	# of Contracts	Pre-Modification	Post-Modification
Commercial Real Estate	1	\$ 91,280	\$ 91,097
Residential Real Estate	1	354,784	354,784
Total Loans	2	\$ 446,064	\$ 445,881
2015			
Commercial Real Estate	1	\$ 513,868	\$ 505,978
Residential Real Estate	2	1,106,345	1,035,590
Total Loans	3	\$ 1,620,213	\$ 1,541,568
2014			
Farmland	1	\$ 400,778	\$ 400,778
Commercial Construction	1	349,976	349,976
Commercial Real Estate	1	1,771,395	1,775,407
Residential Real Estate	1	49,194	49,194
Total Loans	4	\$ 2,571,343	\$ 2,575,355

PART I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

Troubled debt restructurings that subsequently defaulted as of December 31 are as follows:

	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u># of Contracts</u>	<u>Recorded Investment</u>	<u># of Contracts</u>	<u>Recorded Investment</u>	<u># of Contracts</u>	<u>Recorded Investment</u>
Residential Real Estate	<u>1</u>	<u>\$ 89,297</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Total Loans	<u>1</u>	<u>\$ 89,297</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

During December 2016, a restructured loan totaling \$89,297 failed to continue to perform as agreed and was charged off in June 2016. At December 31, 2015 and 2014, all restructured loans were performing as agreed.

(5) Allowance for Loan Losses

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance, Beginning of Year	\$ 8,603,905	\$ 8,802,316	\$ 11,805,986
Provision for Loan Losses	1,062,000	865,500	1,308,000
Loans Charged Off	(2,087,850)	(2,083,347)	(5,104,491)
Recoveries of Loans Previously Charged Off	<u>1,345,238</u>	<u>1,019,436</u>	<u>792,821</u>
Balance, End of Year	<u>\$ 8,923,293</u>	<u>\$ 8,603,905</u>	<u>\$ 8,802,316</u>

PART I (Continued)**Item 1 (Continued)****(5) Allowance for Loan Losses (Continued)**

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the years ended December 31. 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.

2016	Beginning Balance	Charge- O ffs	Recoveries	Provision	Ending Balance
Commercial and Agricultur al					
Commercial	\$ 855,364	\$ (304,918)	\$ 66,738	\$ (160,987)	\$ 456,197
Agricultural	203,091	(19,258)	4,150	(20,291)	167,692
Real Estate					
Commercial Construction	690,766	(25,318)	814,586	(1,157,309)	322,725
Residential Construction	19,890	-	-	(6,399)	13,491
Commercial	3,850,527	(992,067)	206,154	2,686,384	5,750,998
Residential	1,990,355	(361,630)	49,660	(282,286)	1,396,099
Farmland	911,692	(119,576)	145,000	(214,785)	722,331
Consumer and Other					
Consumer	63,377	(265,083)	52,629	229,342	80,265
Other	18,843	-	6,321	(11,669)	13,495
	<u>\$ 8,603,905</u>	<u>\$ (2,087,850)</u>	<u>\$ 1,345,238</u>	<u>\$ 1,062,000</u>	<u>\$ 8,923,293</u>
2015					
Commercial and Agricultur al					
Commercial	\$ 497,561	\$ (454,971)	\$ 52,111	\$ 760,663	\$ 855,364
Agricultural	304,172	(5,000)	3,600	(99,681)	203,091
Real Estate					
Commercial Construction	1,222,695	(97,698)	485,834	(920,065)	690,766
Residential Construction	138,092	-	-	(118,202)	19,890
Commercial	3,664,777	(275,297)	270,003	191,044	3,850,527
Residential	2,425,327	(929,668)	109,626	385,070	1,990,355
Farmland	103,800	(40,000)	20,000	827,892	911,692
Consumer and Other					
Consumer	66,914	(255,062)	61,976	189,549	63,377
Other	378,978	(25,651)	16,286	(350,770)	18,843
	<u>\$ 8,802,316</u>	<u>\$ (2,083,347)</u>	<u>\$ 1,019,436</u>	<u>\$ 865,500</u>	<u>\$ 8,603,905</u>

PART I (Continued)**Item 1 (Continued)****(5) Allowance for Loan Losses (Continued)**

2014	<u>Beginning Balance</u>	<u>Charge -O ffs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
Commercial and Agricultural					
Commercial	\$ 1,017,073	\$ (624,944)	\$ 76,002	\$ 29,430	\$ 497,561
Agricultural	293,886	-	2,700	7,586	304,172
Real Estate					
Commercial Construction	1,782,179	(1,543,099)	485,005	498,610	1,222,695
Residential Construction	138,092	-	-	-	138,092
Commercial	4,379,276	(1,326,825)	90,042	522,284	3,664,777
Residential	3,278,269	(1,033,966)	31,127	149,897	2,425,327
Farmland	311,494	(233,580)	20,000	5,886	103,800
Consumer and Other					
Consumer	243,253	(342,077)	72,477	93,261	66,914
Other	362,464	-	15,468	1,046	378,978
	<u>\$ 11,805,986</u>	<u>\$ (5,104,491)</u>	<u>\$ 792,821</u>	<u>\$ 1,308,000</u>	<u>\$ 8,802,316</u>

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. During the first quarter of 2016 Company management implemented a change to its allowance for loan loss methodology by expanding the historical loss period from a rolling 8 quarters to 16 quarters. Management believes the longer historical loss period better reflects the current and expected loss behavior of the loan portfolio within the current credit cycle. The transition to a rolling 16 quarter loss period will be complete in the first quarter of 2017. As of December 31, 2016, this change in the historical loss period resulted in an increase to the allowance for loan losses of \$804,000. The loss history period used at December 31, 2015 and 2014 was based on the loss rate from the eight quarters ended September 30, 2015 and 2014, respectively.

Effective with the quarter ended June 30, 2015, the calculation of the amount needed in the Allowance for Loan Losses changed. Management determined that the segmentation method for the ASC 450-20 portion of the loan portfolio should be changed to bank call report categories. Prior to this change, the ASC 450-20 segmentation categorized loans by various non-owner occupied commercial real estate loan types and risk grades for the remainder of the ASC 450-20 portion of the portfolio. On the date of change, June 30, 2015, the change in methodology resulted in an increase to the calculated allowance for loan loss reserve of \$1,621,424.

During 2014, management changed its methodology for calculating the allowance for loan losses to better reflect the estimated losses inherent in the portfolio. Specific changes included:

- Reducing the historical loss ratios by including loan loss recoveries in the calculation. Previously, management included only the loan charge-off amount and did not consider the effect of subsequent recoveries.
- Reducing the balance of those loans which are guaranteed by government agencies, such as SBA loans. Previously, the entire balance of such loans was considered in the calculation of the general reserves; however, beginning in 2014, only the nonguaranteed portion of these loans is subject to the loss calculation.

PART I (Continued)**Item 1 (Continued)****(5) Allowance for Loan Losses (Continued)**

Management feels these changes better align the calculation of the allowance for loan losses with the direction of the loan portfolio. These changes did not result in a significant change to the recorded allowance for loan loss balance.

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

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is \$10,786,699 and \$11,155,813 as of December 31, 2016 and 2015, respectively. Specific allowance allocations were made for these loans totaling \$632,706 and \$276,731 as of December 31, 2016 and 2015, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the "Collectively Evaluated for Impairment" column of the following tables.

At December 31, 2016, there were 160 impaired loans totaling \$4,204,156 below the \$250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the Bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Likewise, at December 31, 2015 and 2014, impaired loans totaling \$3,744,733 and \$3,885,411, respectively, were below the \$250,000 review threshold and were subject to the Bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables.

2016	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	\$ -	\$ 456,197	\$ 456,197	\$ 6,671	\$ 47,018,207	\$ 47,024,878
Agricultural	-	167,692	167,692	-	17,079,579	17,079,579
Real Estate						
Commercial Construction	21,135	301,590	322,725	72,296	30,286,066	30,358,362
Residential Construction	-	13,491	13,491	-	11,830,447	11,830,447
Commercial	3,021,943	2,729,055	5,750,998	22,422,451	326,667,580	349,090,031
Residential	362,522	1,033,577	1,396,099	2,911,874	192,668,093	195,579,967
Farmland	29,172	693,159	722,331	1,044,047	65,833,150	66,877,197
Consumer and Other						
Consumer	-	80,265	80,265	-	19,695,241	19,695,241
Other	-	13,495	13,495	-	16,747,861	16,747,861
Total End of Year Balance	\$ 3,434,772	\$ 5,488,521	\$ 8,923,293	\$ 26,457,339	\$ 727,826,224	\$ 754,283,563

PART I (Continued)

Item 1 (Continued)

(5) Allowance for Loan Losses (Continued)

	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2015						
Commercial and Agricultural						
Commercial	\$ 94,538	\$ 760,826	\$ 855,364	\$ 122,928	\$ 47,658,761	\$ 47,781,689
Agricultural	-	203,091	203,091	8,445	19,185,052	19,193,497
Real Estate						
Commercial Construction	25,344	665,422	690,766	1,622,560	38,484,073	40,106,633
Residential Construction	-	19,890	19,890	-	9,413,263	9,413,263
Commercial	1,607,962	2,242,565	3,850,527	23,628,213	322,633,820	346,262,033
Residential	308,188	1,682,167	1,990,355	3,597,386	193,405,033	197,002,419
Farmland	37,386	874,306	911,692	1,402,939	60,376,920	61,779,859
Consumer and Other						
Consumer	-	63,377	63,377	-	20,605,465	20,605,465
Other	-	18,843	18,843	-	16,490,737	16,490,737
Total End of Year Balance	<u>\$ 2,073,418</u>	<u>\$ 6,530,487</u>	<u>\$ 8,603,905</u>	<u>\$ 30,382,471</u>	<u>\$ 728,253,124</u>	<u>\$ 758,635,595</u>
2014						
Commercial and Agricultural						
Commercial	\$ 96,580	\$ 400,981	\$ 497,561	\$ 96,580	\$ 50,863,685	\$ 50,960,265
Agricultural	-	304,172	304,172	-	16,689,444	16,689,444
Real Estate						
Commercial Construction	53,947	1,168,748	1,222,695	3,384,377	47,874,593	51,258,970
Residential Construction	-	138,092	138,092	-	11,220,683	11,220,683
Commercial	456,941	3,207,836	3,664,777	21,693,061	310,537,786	332,230,847
Residential	414,684	2,010,643	2,425,327	7,559,965	196,192,655	203,752,620
Farmland	28,962	74,838	103,800	1,700,793	48,250,191	49,950,984
Consumer and Other						
Consumer	-	66,914	66,914	-	22,820,314	22,820,314
Other	-	378,978	378,978	-	7,209,682	7,209,682
Total End of Year Balance	<u>\$ 1,051,114</u>	<u>\$ 7,751,202</u>	<u>\$ 8,802,316</u>	<u>\$ 34,434,776</u>	<u>\$ 711,659,033</u>	<u>\$ 746,093,809</u>

PART I (Continued)

Item 1 (Continued)

(6) Premises and Equipment

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

	20 16	2015
Land	\$ 9,668,722	\$ 9,696,723
Building	25,239,165	23,927,467
Furniture, Fixtures and Equipment	12,461,043	12,154,375
Leasehold Improvements	653,939	993,618
Construction in Progress	1,530,359	1,170,050
	49,553,228	47,942,233
Accumulated Depreciation	(21,583,968)	(21,488,703)
	<u>\$ 27,969,260</u>	<u>\$ 26,453,530</u>

Depreciation charged to operations totaled \$1,574,249 in 2016, \$1,657,229 in 2015, and \$1,595,253 in 2014.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$437,000 for 2016, \$560,000 for 2015, and \$613,000 for 2014.

Future minimum rental payments as of December 31, 2016 are as follows:

Year Ending December 31	Amount
2017	\$ 39,820
	<u>\$ 39,820</u>

(7) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at December 31, 2016, 2015 and 2014 was \$6,439,226, \$8,839,103, and \$10,401,832, 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 2016, 2015 and 2014 as of December 31:

	201 6	2015	2014
Balance, Beginning of Year	\$ 8,839,103	\$ 10,401,832	\$ 15,502,462
Additions	5,664,554	7,536,165	3,852,848
Sales of OREO	(7,416,293)	(8,054,675)	(7,102,136)
Loss on Sale	(146,402)	(591,071)	(844,515)
Provision for Losses	(501,736)	(453,148)	(1,006,827)
Balance, End of Year	<u>\$ 6,439,226</u>	<u>\$ 8,839,103</u>	<u>\$ 10,401,832</u>

At December 31, 2016, the Company held \$431,194 of residential real estate property as foreclosed property. Also at December 31, 2016, \$204,403 of consumer mortgage loans collateralized by residential real estate property was in the process of foreclosure according to local requirements of the applicable jurisdictions.

PART I (Continued)**Item 1 (Continued)****(8) Other Intangible Assets**

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

	Core Deposit Intangible	Accumulated Amortization	Net Core Deposit Intangible
Core Deposit Intangible			
Balance, December 31, 2014	\$ 1,056,693	(904,681)	152,012
Amortization Expense	-	(35,748)	(35,748)
Balance, December 31, 2015	\$ 1,056,693	\$ (940,429)	\$ 116,264
Amortization Expense	-	(35,749)	(35,749)
Balance, December 31, 201 6	\$ 1,056,693	\$ (976,178)	\$ 80,515

Amortization expense related to the core deposit intangible was \$35,749, \$35,748, and \$35,749 for the years ended December 31, 2016, 2015 and 2014. Amortizations expense will continue at an annual rate of approximately \$35,749 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:

	20 16	2015	2014
Current Federal Expense	\$ 3,629,213	\$ 3,162,367	\$ 1,335,337
Deferred Federal Expense	222,120	625,436	1,932,950
Federal Income Tax Expense	3,851,333	3,787,803	3,268,287
Current State Income Tax Expense	-	-	-
Federal and State Income Tax Expense	\$ 3,851,333	\$ 3,787,803	\$ 3,268,287

The federal income tax expense of \$3,851,333 in 2016, \$3,787,803 in 2015, and \$3,268,287 in 2014 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:

	20 16	2015	2014
Statutory Federal Income Taxes	\$ 4,283,394	\$ 4,134,570	\$ 3,671,971
Tax-Exempt Interest	(109,759)	(83,903)	(74,138)
Premiums on Officers' Life Insurance	(182,532)	(232,988)	(186,712)
Meal and Entertainment Disallowance	16,813	21,600	14,044
Other	(156,583)	(51,476)	(156,878)
Actual Federal Income Taxes	\$ 3,851,333	\$ 3,787,803	\$ 3,268,287

PART I (Continued)

Item 1 (Continued)

(9) Income Taxes (Continued)

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

	<u>20 16</u>	<u>2015</u>
Deferred Tax Assets		
Allowance for Loan Losses	\$ 3,033,920	\$ 2,925,328
Other Real Estate	688,162	537,914
Deferred Compensation	280,704	308,128
Investments	340,000	340,000
Goodwill	167,666	212,190
Other	379,304	418,165
	<u>4,889,756</u>	<u>4,741,725</u>
Deferred Tax Liabilities		
Premises and Equipment	(1,553,460)	(1,183,309)
Other	(4,185)	(4,185)
	<u>(1,557,645)</u>	<u>(1,187,494)</u>
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	<u>2,587,163</u>	<u>2,284,362</u>
Net Deferred Tax Assets	<u>\$ 5,919,274</u>	<u>\$ 5,838,593</u>

The deferred tax assets are included in Other Assets in the consolidated balance sheets. 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 as of December 31 follows.

	<u>201 6</u>	<u>2015</u>	<u>2014</u>
Balance, Beginning	\$ -	\$ -	\$ 42,327
Positions Taken During the Current Year	-	-	-
Reductions Resulting from Lapse of Statutes of Limitation	-	-	42,327
Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The net decrease of \$42,327 is included in income tax expense for the year ended December 31, 2014.

PART I (Continued)**Item 1 (Continued)****(10) Deposits**

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$413,563 and \$272,110 as of December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Interest-Bearing Demand	\$ 448,003,985	\$ 412,959,430
Savings	70,066,140	64,976,174
Time, \$100,000 and Over	183,610,778	202,800,899
Other Time	183,616,992	196,931,462
	<u>\$ 885,297,895</u>	<u>\$ 877,667,965</u>

At December 31, 2016 and December 31, 2015, the Company had brokered deposits of \$49,303,139 and \$25,576,524, respectively. All of these brokered deposits represent Certificate of Deposit Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was \$123,612,962 and \$141,900,102 as of December 31, 2016 and December 31, 2015, respectively. The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of \$250,000 was \$32,168,191 and \$31,755,483 as of December 31, 2016 and December 31, 2015, respectively.

As of December 31, 2016, the scheduled maturities of certificates of deposit are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 256,886,186
2018	63,055,100
2019	22,738,969
2020	15,858,433
2021 and Thereafter	8,689,082
	<u>\$ 367,227,770</u>

(11) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Federal Home Loan Bank Advances	\$ 46,000,000	\$ 40,000,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2018 to 2026 and interest rates ranging from 0.98 percent to 3.51 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At December 31, 2016, the book value of those loans pledged is \$104,769,821. At December 31, 2016, the Company had remaining credit availability from the FHLB of \$241,746,000. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

PART I (Continued)**Item 1 (Continued)****(11) Other Borrowed Money (Continued)**

The aggregate stated maturities of other borrowed money at December 31, 2016 are as follows:

Year	Amount
2018	\$ 2,500,000
2019	5,000,000
2020	2,500,000
2021	-
2022 and Thereafter	36,000,000
	<u>\$ 46,000,000</u>

At December 31, 2016, \$13,000,000 of FHLB advances are subject to fixed rates of interest, while the remaining \$33,000,000 is subject to floating interest rates which will convert to fixed rates of interests in the next few years.

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,500,000, of which there were none outstanding at December 31, 2016.

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, 2016, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

(12) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3-M onth Libor Rate	Added Points	Total Interest Rate	Maturity	5 - Year Call Option
		(In Thousands)					
Colony Bankcorp Statutory Trust III	6/17/2004	\$ 4,640	0.99317	2.68	3.67317	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	0.99789	1.50	2.49789	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	0.99817	1.65	2.64817	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	0.88733	1.40	2.28733	9/14/2037	9/14/2012

The Trust Preferred Securities are recorded as subordinated debentures on the consolidated balance sheets, and subject to certain limitations, qualify as Tier 1 Capital for regulatory capital purposes. The proceeds from these offerings were used to fund certain acquisitions, pay off holding company debt and inject capital into the Bank subsidiary.

The Trust Preferred Securities pay interest quarterly.

PART I (Continued)**Item 1 (Continued)****(12) Subordinated Debentures (Trust Preferred Securities) (Continued)**

Quarterly interest payments on the Trust Preferred Securities were suspended from February 13, 2012 until November 17, 2014, at which time the Company reinstated the interest payments and paid \$1,069,695 of interest payments in arrears.

(13) Preferred Stock

The Company had 9,360 shares and 18,021 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) issued and outstanding with private investors as of December 31, 2016 and 2015, respectively. The Company redeemed 8,661 shares of Preferred Stock at \$1,000 per share during 2016. The Company also had a warrant (the Warrant) to purchase up to 500,000 shares of the Company's common stock outstanding with private investors. Both the Preferred Stock and the Warrant originated in 2009 through transactions with the United States Department of the Treasury and were subsequently sold to the public through an auction process during 2013.

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

The Preferred Stock requires a cumulative cash dividend be paid quarterly at a rate of 9 percent per annum. Prior to January 9, 2014, the annual dividend rate for the Preferred Stock was 5 percent. Unpaid dividends on the Preferred Stock must be declared and set aside for the benefit of the holders of the Preferred Stock before any dividend may be declared on common stock. On February 13, 2012, the Company announced the suspension of dividends on Preferred Stock. On November 17, 2014, the Company reinstated dividend payments on the Preferred Stock and paid \$5,492,749 of accumulated dividends in arrears to the holders of the Preferred Stock.

(14) Employee Benefit Plan

The Company offers a defined contribution 401(k) Profit Sharing Plan (the Plan) which covers substantially all employees who meet certain age and service requirements. The Plan allows employees to make voluntary pre-tax salary deferrals to the Plan. The Company, at its discretion, may elect to make an annual contribution to the Plan equal to a percentage of each participating employee's salary. Such discretionary contributions must be approved by the Company's board of directors. Employees are fully vested in the Company contributions after six years of service. In 2016, 2015 and 2014, the Company made total contributions of \$408,303, \$385,453 and \$401,497 to the Plan.

(1 5) 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.

PART I (Continued)**Item 1 (Continued)****(15) Commitments and Contingencies (Continued)**

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, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
Commitments to Extend Credit	\$ 71,359,000	\$ 67,889,000
Standby Letters of Credit	1,551,000	1,588,212

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.

(16) 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 \$825,599 and \$906,259 as of December 31, 2016 and 2015, respectively. Benefit payments under the contracts were \$135,885 in 2016 and \$131,652 in 2015.

PART I (Continued)**Item 1 (Continued)****(16) Deferred Compensation Plan (Continued)**

Provisions charged to operations totaled \$57,125 in 2016, \$196,869 in 2015 and \$69,653 in 2014.

The Company has purchased life insurance policies on the plans' participants and uses the cash flow from these policies to partially fund the plan. Fee income recognized with these plans totaled \$165,128 in 2016, \$174,675 in 2015 and \$167,911 in 2014. In addition death benefits recognized as income totaled \$137,058 in 2015.

(17) Supplemental Cash Flow Information

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest Expense	<u>\$ 6,529,615</u>	<u>\$ 6,536,994</u>	<u>\$ 7,898,543</u>
Income Taxes	<u>\$ 3,365,000</u>	<u>\$ 4,738,000</u>	<u>\$ 113,000</u>

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Acquisitions of Real Estate Through Loan Foreclosures	<u>\$ 5,664,554</u>	<u>\$ 7,536,165</u>	<u>\$ 3,852,848</u>
Change in Unrealized Gain (Loss) on AFS Investment Securities	<u>\$ (890,590)</u>	<u>\$ 622,155</u>	<u>\$ 6,409,171</u>

(18) Related Party Transactions

The following table reflects the activity and aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company. 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>2016</u>	<u>2015</u>
Balance, Beginning	\$ 1,816,609	\$ 3,233,949
New Loans	2,379,026	4,900,932
Repayments	(3,170,092)	(6,065,098)
Transactions Due to Changes in Directors	-	(253,174)
Balance, Ending	\$ 1,025,543	\$ 1,816,609

PART I (Continued)

Item 1 (Continued)

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

Generally accepted accounting standards in the U.S. require disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of Colony Bankcorp, Inc. and Subsidiary's financial instruments are detailed hereafter. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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.

The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

Cash and Short-Term Investments - For cash, due from banks, bank-owned deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value and is classified Level 1.

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

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

Loans - The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Most loans are classified as Level 2, but impaired loans with a related allowance are classified as Level 3.

PART I (Continued)

Item 1 (Continued)

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

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

Deposit Liabilities - The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date and is classified as Level 1. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities and is classified as Level 2.

Subordinated Debentures – The fair value of subordinated debentures is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. Subordinated debentures are classified as Level 2.

Other Borrowed Money - The fair value of other borrowed money is calculated by discounting contractual cash flows using an estimated interest rate based on current rates available to the Company for debt of similar remaining maturities and collateral terms. Other borrowed money is classified as Level 2 due to their expected maturities.

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

2016	Carrying Amount	Estimated Fair Value	Level		
			1	2	3
			(in Thousands)		
Assets					
Cash and Short-Term Investments	\$ 75,167	\$ 75,167	\$ 75,167	\$ -	\$ -
Investment Securities Available for Sale	323,658	323,658	-	323,082	576
Federal Home Loan Bank Stock	3,010	3,010	3,010	-	-
Loans, Net	744,999	745,240	-	738,288	6,952
Bank-Owned Life Insurance	15,419	15,419	15,419	-	-
Liabilities					
Deposits	1,044,357	1,045,726	677,129	368,597	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	46,000	46,232	-	46,232	-
2015					
Assets					
Cash and Short-Term Investments	\$ 60,872	\$ 60,872	\$ 60,872	\$ -	\$ -
Investment Securities Available for Sale	296,149	296,149	-	295,219	930
Federal Home Loan Bank Stock	2,731	2,731	2,731	-	-
Loans, Net	749,675	750,412	-	741,867	8,545
Bank-Owned Life Insurance	14,830	14,830	14,830	-	-
Liabilities					
Deposits	1,011,554	1,013,111	611,822	401,289	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	40,000	40,421	-	40,421	-

PART I (Continued)

Item 1 (Continued)

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

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

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

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

Assets

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

PART I (Continued)

Item 1 (Continued)

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

Assets (Continued)

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

Other Real Estate - Other real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Typically, an external, third-party appraisal is performed on the collateral upon transfer into the other real estate owned account to determine the asset's fair value. Subsequent adjustments to the collateral's value may be based upon either updated third-party appraisals or management's knowledge of the collateral and the current real estate market conditions. Appraised amounts used in determining the asset's fair value, whether internally or externally prepared, are discounted 10 percent to account for selling and marketing costs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of other real estate owned assets and because of the relationship between fair value and general economic conditions, we consider the fair value of other real estate owned assets to be highly sensitive to changes in market conditions.

Assets and Liabilities Measured at Fair Value on a Recurring and Nonrecurring 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, 2016 and 2015, aggregated by the level in the fair value hierarchy within which those measurements fall. The table below includes only impaired loans with a specific reserve and only other real estate properties with a valuation allowance at December 31, 2016 and 2015. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

PART I (Continued)

Item 1 (Continued)

(19) Fair Value of Financial Instruments and Fair Value Measurements (Continued)*Assets (Continued)*

			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)
	2016	Total Fair Value			
Recurring					
Securities Available for Sale					
U.S. Government Agencies					
Mortgage-Backed	\$ 319,097,374	\$	-	\$ 319,097,374	\$ -
State, County and Municipal	4,560,496		-	3,984,112	576,384
	<u>\$ 323,657,870</u>	<u>\$</u>	<u>-</u>	<u>\$ 323,081,486</u>	<u>\$ 576,384</u>
Nonrecurring					
Impaired Loans	\$ 6,952,343	\$	-	\$ -	\$ 6,952,343
Other Real Estate	<u>\$ 2,505,188</u>	<u>\$</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 2,505,188</u>
	2015				
Recurring					
Securities Available for Sale					
U.S. Government Agencies					
Mortgage-Backed	\$ 291,049,853	\$	-	\$ 291,049,853	\$ -
State, County and Municipal	5,099,446		-	4,169,135	930,311
	<u>\$ 296,149,299</u>	<u>\$</u>	<u>-</u>	<u>\$ 295,218,988</u>	<u>\$ 930,311</u>
Nonrecurring					
Impaired Loans	\$ 8,544,993	\$	-	\$ -	\$ 8,544,993
Other Real Estate	<u>\$ 2,535,884</u>	<u>\$</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 2,535,884</u>

Liabilities

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

PART I (Continued)

Item 1 (Continued)

(19) Fair Value of Financial Instruments and Fair Value Measurements (Continued)***Fair Value Measurements Using Significant Unobservable Inputs (Level 3)***

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2016 and 2015. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

	December 31, 201 6	Valuation Techniques	Unobservable Inputs	Range Weighted Avg		
Real Estate Commercial Construction	\$ 51,161	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(5.00)%	- 47.00%	99.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 5.00%	10.00%
Residential Real Estate	1,105,312	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00)%	- (11.00)%	0.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 20.00%	40.00%
Commercial Real Estate	5,445,192	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(14.08)%	- 5.27%	24.62%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 50.00%	100.00%
		Income Approach	Capitalization Rate		10.67 %	
Farmland	350,678	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(27.00)%	- (6.00)%	15.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00%	- 42.50%	75.00%
Other Real Estate Owned	2,505,188	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(50.80)%	- 132.60%	316.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	6.25%	- 36.31%	76.92%
		Income Approach	Discount Rate		12.50 %	

PART I (Continued)

Item 1 (Continued)

(19) Fair Value of Financial Instruments and Fair Value Measurements (Continued)***Fair Value Measurements using Significant Unobservable Inputs (Level 3) (Continued)***

	December 31, 201 5	Valuation Techniques	Unobservable Inputs	Range Weighted Avg		
Commercial	\$ 28,390	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(31.77)%	- 1.12%	34.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 5.00%	10.00%
		Income Approach	Capitalization Rate		11.00%	
Real Estate Commercial Construction	51,300	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(5.00)%	- 47.00%	99.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 5.00%	10.00%
Residential Real Estate	767,179	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00)%	- (5.60)%	10.80%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 12.50%	25.00%
Commercial Real Estate	7,347,541	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(31.77)%	- 1.12%	34.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%	- 5.00%	10.00%
		Income Approach	Capitalization Rate		10.25%	
Farmland	350,583	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(27.00)%	- (6.00)%	15.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00%	- 42.50%	75.00%
Other Real Estate Owned	2,535,884	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(50.80)%	- 46.05%	142.90%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	15.53%	- 43.37%	72.75%
		Income Approach	Discount Rate		12.50%	

PART I (Continued)

Item 1 (Continued)

(19) Fair Value of Financial Instruments and Fair Value Measurements (Continued)***Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Continued)***

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, 2016, 2015 and 2014:

	Available for Sale Securities		
	201 6	2015	2014
Balance, Beginning	\$ 930,311	\$ 948,390	\$ 941,265
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Securities Purchased During the Year	-	-	-
Securities Matured During the Year	(330,000)	-	-
Loss on OTTI Impairment Included in Noninterest Income	-	-	-
Unrealized Gains(Losses) Included in Other Comprehensive Income	(23,927)	(18,079)	7,125
Balance, Ending	\$ 576,384	\$ 930,311	\$ 948,390

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There were no transfers of securities between level 1 and level 2 or level 3 for the years ended December 31, 2016, 2015 or 2014.

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2016 and 2015:

December 31, 2016	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
State, County and Municipal	\$ 576,384	Discounted Cash Flow	Discount Rate or Yield	N/A*
December 31, 2015				
State, County and Municipal	\$ 930,311	Discounted Cash Flow	Discount Rate or Yield	N/A*

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

PART I (Continued)

Item 1 (Continued)

(20) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, the Company suspended the payment of dividends to its stockholders in the third quarter of 2009.

The Company is subject to various regulatory capital requirements administered by 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. As of December 31, 2016, the interim final Basel III rules (Basel III) require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2016, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

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

PART I (Continued)**Item 1 (Continued)****(20) Regulatory Capital Matters (Continued)**

The following table summarizes regulatory capital information as of December 31, 2016 and December 31, 2015 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2016 and 2015 were calculated in accordance with the Basel III rules.

The following table summarizes regulatory capital information as of December 31, 2016 and 2015 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
(In Thousands)						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 130,785	16.64%	\$ 62,880	8.00%	N/A	N/A
Colony Bank	127,646	16.26	62,796	8.00	\$ 78,495	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	121,862	15.50	47,160	6.00	N/A	N/A
Colony Bank	118,723	15.12	47,097	6.00	62,796	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	89,002	11.32	35,370	4.50	N/A	N/A
Colony Bank	118,723	15.12	35,323	4.50	51,022	6.50
Tier I Capital to Average Assets						
Consolidated	121,862	10.29	47,368	4.00	N/A	N/A
Colony Bank	118,723	10.04	47,290	4.00	59,113	5.00
As of December 31, 2015						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 131,948	16.60%	\$ 63,602	8.00%	N/A	N/A
Colony Bank	126,939	15.99	63,500	8.00	\$ 79,375	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	123,344	15.51	47,702	6.00	N/A	N/A
Colony Bank	118,335	14.91	47,625	6.00	63,500	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	81,823	10.29	35,776	4.50	N/A	N/A
Colony Bank	118,335	14.91	35,719	4.50	51,594	6.50
Tier I Capital to Average Assets						
Consolidated	123,344	10.69	46,149	4.00	N/A	N/A
Colony Bank	118,335	10.27	46,074	4.00	57,592	5.00

PART I (Continued)

Item 1 (Continued)

(2 0) Regulatory Capital Matters (Continued)

In 2016, the Bank obtained approval of its regulators and paid a \$9,100,000 dividend to the Company. The dividend was utilized to redeem 8,661 shares of Preferred Stock. In 2015, the Bank obtained approval of its regulators and paid a \$10,000,000 dividend to the Company. The dividend was utilized to redeem 9,979 shares of Preferred Stock.

Effective October 22, 2014, the Board Resolution (BR) the Bank had been operating under was lifted. The BR required that, prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators. In November 2014, the Bank paid a \$12,000,000 dividend to the Company. This dividend was utilized to bring the interest payments of the Trust Preferred Securities and the dividend payments of the Preferred Stock to a current status and to fund holding company operations for the coming year.

PART I (Continued)

Item 1 (Continued)

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

The parent company's balance sheets as of December 31, 2016 and 2015 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

	2016	2015
ASSETS		
Cash	\$ 2,307,008	\$ 4,100,860
Premises and Equipment, Net	1,074,884	1,134,524
Investment in Subsidiary, at Equity	114,478,277	114,677,455
Other	20,990	170,801
Total Assets	\$ 117,881,159	\$ 120,083,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	\$ 105,300	\$ 202,736
Other	159,126	195,282
	\$ 264,426	398,018
Subordinated Debt	24,229,000	24,229,000
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000; 10,000,000 Shares Authorized, 9,360 and 18,021 Shares Issued and Outstanding as of December 31, 2016 and 2015	9,360,000	18,021,000
Common Stock, Par Value \$1; 20,000,000 Shares Authorized, 8,439,258 Shares Issued and Outstanding as of December 31, 2016 and 2015	8,439,258	8,439,258
Paid-In Capital	29,145,094	29,145,094
Retained Earnings	51,465,521	44,285,621
Accumulated Other Comprehensive Loss, Net of Tax	(5,022,140)	(4,434,351)
	93,387,733	95,456,622
Total Liabilities and Stockholders' Equity	\$ 117,881,159	\$ 120,083,640

PART I (Continued)

Item 1 (Continued)

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income			
Dividends from Subsidiary	\$ 9,118,104	\$ 10,015,147	\$ 12,015,572
Management Fees	601,080	581,334	581,334
Other	103,612	112,876	100,269
	<u>\$ 9,822,796</u>	<u>\$ 10,709,357</u>	<u>\$ 12,697,175</u>
Expenses			
Interest	601,567	503,286	517,381
Amortization	-	-	938
Salaries and Employee Benefits	840,130	811,150	782,152
Other	554,434	666,872	538,847
	<u>1,996,131</u>	<u>1,981,308</u>	<u>1,839,318</u>
Income Before Taxes and Equity in Undistributed Earnings of Subsidiary	7,826,665	8,728,049	10,857,857
Income Tax Benefits	457,934	444,764	396,738
Income Before Equity in Undistributed Earnings of Subsidiary	8,284,599	9,172,813	11,254,595
Dividends Received in Excess of Earnings of Subsidiary	-	(800,116)	(3,722,970)
Equity in Undistributed Earnings of Subsidiary	388,611	-	-
Net Income	8,673,210	8,372,697	7,531,625
Preferred Stock Dividends	1,493,310	2,375,010	2,688,604
Net Income Available to Common Stockholders	\$ 7,179,900	\$ 5,997,687	\$ 4,843,021

PART I (Continued)

Item 1 (Continued)

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

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

	<u>20 16</u>	<u>2015</u>	<u>2014</u>
Net Income	\$ 8,673,210	\$ 8,372,697	\$ 7,531,625
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	(505,367)	610,689	6,432,906
Tax Effect	171,825	(207,634)	(2,187,189)
Realized (Gains) Losses on Sale of AFS Securities	(385,223)	11,466	(23,735)
Tax Effect	130,976	(3,898)	8,070
Impairment Loss on Securities	-	-	-
Tax Effect	-	-	-
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	(587,789)	410,623	4,230,052
Comprehensive Income	\$ 8,085,421	\$ 8,783,320	\$ 11,761,677

PART I (Continued)

Item 1 (Continued)

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities			
Net Income	\$ 8,673,210	\$ 8,372,697	\$ 7,531,625
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	66,476	73,999	75,347
Equity in Undistributed Earnings of Subsidiary	(388,611)	-	-
Dividends Received in Excess of Earnings of Subsidiary	-	800,116	3,722,970
Change in Interest Payable	5,367	23,072	(1,069,695)
Other	108,288	1,555,482	(437,115)
	<u>8,464,730</u>	<u>10,825,366</u>	<u>9,823,132</u>
Cash Flows from Investing Activities			
Purchases of Premises and Equipment	(6,836)	(8,884)	(2,020)
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	(1,590,746)	(2,487,274)	(5,492,749)
Redemption of Preferred Stock	(8,661,000)	(9,979,000)	-
	<u>(10,251,746)</u>	<u>(12,466,274)</u>	<u>(5,492,749)</u>
Increase (Decrease) in Cash	<u>(1,793,852)</u>	<u>(1,649,792)</u>	<u>4,328,363</u>
Cash, Beginning	<u>4,100,860</u>	<u>5,750,652</u>	<u>1,422,289</u>
Cash, Ending	<u>\$ 2,307,008</u>	<u>\$ 4,100,860</u>	<u>\$ 5,750,652</u>

PART I (Continued)**Item 1 (Continued)****(22) Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of common stock warrants. Net income available to common stockholders represents net income after preferred stock dividends. The following table presents earnings per share for the years ended December 31, 2016, 2015 and 2014 :

	2016	2015	2014
Numerator			
Net Income Available to Common Stockholders	<u>\$ 7,179,900</u>	<u>\$ 5,997,687</u>	<u>\$ 4,843,021</u>
Denominator			
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	8,439,258	8,439,258	8,439,258
Dilutive Effect of Potential Common Stock			
Stock Warrants	<u>74,037</u>	<u>19,203</u>	<u>-</u>
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	<u>8,513,295</u>	<u>8,458,461</u>	<u>8,439,258</u>
Earnings Per Share - Basic	<u>\$ 0.85</u>	<u>\$ 0.71</u>	<u>\$ 0.57</u>
Earnings Per Share - Diluted	<u>\$ 0.84</u>	<u>\$ 0.71</u>	<u>\$ 0.57</u>

For the year ended December 31, 2014, the Company has excluded 500,000 shares of common stock equivalents because the strike price of the common stock equivalents would cause them to have an anti-dilutive effect.

(23) Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for unrealized gains and losses securities available for sale for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Years Ended December 31,		
	2016	2015	2014
Beginning Balance	<u>\$ (4,434,351)</u>	<u>\$ (4,844,974)</u>	<u>\$ (9,075,026)</u>
Other Comprehensive Income Before Reclassification	(333,542)	403,055	4,245,717
Amounts Reclassified from Accumulated Other Comprehensive Income	<u>(254,247)</u>	<u>7,568</u>	<u>(15,665)</u>
Net Current Period Other Comprehensive Income	<u>(587,789)</u>	<u>410,623</u>	<u>4,230,052</u>
Ending Balance	<u>\$ (5,022,140)</u>	<u>\$ (4,434,351)</u>	<u>\$ (4,844,974)</u>

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	State of Incorporation
Colony Bank	Georgia
Colony Bankcorp Statutory Trust III	Delaware
Colony Bankcorp Capital Trust I	Delaware
Colony Bankcorp Capital Trust II	Delaware
Colony Bankcorp Capital Trust III	Delaware

**CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Edward P. Loomis, Jr., certify that:

1. I have reviewed this Form 10-K of Colony Bankcorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 10, 2017

/s/ EDWARD P. LOOMIS, JR.

EDWARD P. LOOMIS, JR.

President and Chief Executive Officer

**CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Terry L. Hester, certify that:

1. I have reviewed this Form 10-K of Colony Bankcorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 10, 2017

/s/ TERRY L. HESTER

TERRY L. HESTER

Executive Vice President and
Chief Financial Officer

**CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. §1350
AS ADOPTED PURSUANT TO
§906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-K of Colony Bankcorp, Inc. (the Company) for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Edward P. Loomis, Jr., President and Chief Executive Officer of the Company, and Terry L. Hester, Chief Financial and Accounting Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of our knowledge and belief that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward P. Loomis, Jr.

Edward P. Loomis, Jr.

President and Chief Executive Officer

March 10, 2017

/s/ Terry L. Hester

Terry L. Hester

Chief Financial and Accounting Officer

March 10, 2017

This certification accompanies this Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

RETENTION AGREEMENT

THIS RETENTION AGREEMENT (this "Agreement") is made and entered into this 24th day of October 2016 by and between Colony Bank, a Georgia bank (the "Bank") and Edward Lee Bagwell, III ("Employee"), to be effective as of October 24, 2016.

BACKGROUND

WHEREAS, the Bank presently employs Employee as its Senior Vice President and Chief Credit Officer;

WHEREAS, the Bank desires to promote the retention of Employee by offering protection in the event of a Change in Control (as defined herein); and

WHEREAS, in order to accomplish the foregoing objective, the Bank and Employee desire to enter into this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Retention Payments

(a) Subject to the terms and conditions of this Agreement, in the event of a Change in Control (as defined in Section 2 hereof) prior to March 27, 2018, the Bank shall pay to Employee a cash bonus equal to 0.75 times his then-current Base Salary (as defined in Section 2 hereof), less withholding for taxes and other similar items (the "Change in Control Bonus"), in a single lump sum within thirty (30) days following the Change in Control Effective Date (as defined in Section 2 hereof), provided that, except as otherwise provided in Section I(c) hereof, Employee is employed by the Bank on the Change in Control Effective Date.

(b) Subject to the terms and conditions of this Agreement, the Bank shall pay to Employee a cash retention bonus equal to 0.75 times his then-current Base Salary, less withholding for taxes and other similar items (the "Post-Closing Retention Bonus"), in a single lump sum within thirty (30) days following the Post-Closing Retention Payment Date (as defined in Section 2 hereof), provided that, except as otherwise provided in Section I(d) hereof, Employee is employed by the Bank on the Post-Closing Retention Payment Date.

(c) Notwithstanding anything in this Agreement to the contrary, if Employee incurs a Pre-Change in Control Qualifying Termination (as defined in Section 2 hereof), then Employee shall be entitled to receive, and the Bank shall pay to Employee, the Change in Control Bonus and the Post-Closing Retention Bonus in a single lump sum within thirty (30) days following the Change in Control Effective Date. If Employee's employment with the Bank is terminated for any reason other than by reason of a Pre-Change in Control Qualifying Termination prior to the Change in Control Effective Date, then Employee shall not be entitled to the Change in Control Bonus or the Post-Closing Retention Bonus.

(d) Notwithstanding anything in this Agreement to the contrary, if Employee incurs a Post-Change in Control Qualifying Termination (as defined in Section 2 hereof), then the Bank shall pay to Employee an amount equal to the Post-Closing Retention Bonus in a single lump sum within thirty (30) days following Employee's date of termination. If Employee's employment with the Bank is terminated for any reason other than by reason of a Post-Change in Control Qualifying Termination following the Change in Control Effective Date, then Employee shall not be entitled to the Post-Closing Retention Bonus.

(e) For purposes of clarity, Employee shall not be eligible for the Change in Control Bonus or the Post-Closing Retention Bonus unless and until a Change in Control occurs while this Agreement is in effect.

(f) Notwithstanding anything in this Agreement to the contrary, the Bank shall be obligated to pay Employee the Change in Control Bonus and the Post-Closing Retention Bonus only if (X) Employee shall have executed a separation agreement containing a full general release of claims and covenant not to sue in the form provided by the Bank (the "Release Agreement") within the time period specified in the Release Agreement and such Release Agreement shall not have been revoked within any revocation period specified in the Release Agreement, and (Y) Employee fully complies with the obligations set forth in Section 5 hereof.

2. Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Base Salary" means the amount Employee is entitled to receive as wages or salary on an annualized basis, without reduction for any pre-tax contributions to benefit plans. Base Salary does not include bonuses, commissions, overtime pay or income from stock options, stock grants or other incentive compensation.

(b) "Cause" shall mean (i) any intentional misconduct by Employee in connection with the Bank's business or relating to Employee's duties, or any willful violation of any laws, rules or regulations applicable to banks or the banking industry generally (including but not limited to the regulations of the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), the State of Georgia Department of Banking and Finance, or any other applicable regulatory authority); (ii) Employee's material failure to comply with the Bank's policies or guidelines of employment or corporate governance policies or guidelines, including, without limitation, any business code of ethics adopted by the Bank; (iii) any act of fraud, misappropriation or embezzlement by Employee, whether or not such act was committed in connection with the business of the Bank; (iv) a breach or threatened breach of this Agreement, including, without limitation, a breach of any of the obligations set forth in Section 5 hereof, that, if such breach is capable of being cured, is not cured by Employee within ten (10) days of written notice by the Bank of the breach; or (v) the commission by Employee of, or Employee's pleading guilty or nolo contendere to, a felony or a crime involving moral turpitude (including pleading guilty or nolo contendere to a felony or lesser charge which results from plea bargaining), whether or not such felony, crime or lesser offense is connected with the business of the Bank.

(c) “Change in Control” means and includes the occurrence of any one of the following events but shall specifically exclude a public offering of any class or series of the Holding Company's equity securities pursuant to a registration statement filed by the Holding Company under the Securities Act of 1933:

(i) during any consecutive 12-month period, individuals who, at the beginning of such period, constitute the Holding Company Board (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the beginning of such 12-month period and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Holding Company Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Holding Company as a result of an actual or threatened election contest with respect to the election or removal of directors (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Holding Company Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any person becomes a Beneficial Owner (as defined in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934), directly or indirectly, of either (A) 50% or more of the then-outstanding shares of common stock of the Holding Company (“Holding Company Common Stock”) or (B) securities of the Holding Company representing 50% or more of the combined voting power of the Holding Company's then outstanding securities eligible to vote for the election of directors (the “Holding Company Voting Securities”); provided, however, that for purposes of this subsection (ii), the following acquisitions of Holding Company Common Stock or Holding Company Voting Securities shall not constitute a Change in Control: (w) an acquisition directly from the Holding Company, (x) an acquisition by the Holding Company or a Subsidiary, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Holding Company or any Subsidiary, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Holding Company or a Subsidiary (a “Reorganization”), or the sale or other disposition of all or substantially all of the Holding Company's assets (a “Sale”) or the acquisition of assets or stock of another corporation or other entity (an “Acquisition”), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the outstanding Holding Company Common Stock and outstanding Holding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Reorganization, Sale or Acquisition (including, without limitation, an entity which as a result of such transaction owns the Holding Company or all or substantially all of the Holding Company's assets or stock either directly or through one or more subsidiaries, (the “Surviving Entity”) in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Holding Company Common Stock and the outstanding Holding Company Voting Securities, as the case may be, and (B) no person (other than (x) the Holding Company or any Subsidiary, (y) the Surviving Entity or its ultimate parent entity, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing is the Beneficial Owner, directly or indirectly, of 50% or more of the total common stock or 50% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Entity, and (C) at least a majority of the members of the board of directors of the Surviving Entity were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a “Non-Qualifying Transaction”).

(d) "Change in Control Effective Date" means the effective date of a Change in Control.

(e) "Code" means the Internal Revenue Code of 1986, as amended from time to time. For purposes of this Agreement, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.

(f) "Competitive Services" means the community banking or commercial banking business, including, without limitation, originating, underwriting, closing and selling loans, receiving deposits and otherwise engaging in the business of banking, as well as the business of providing any other activities, products, or services of the type conducted, authorized, offered, or provided by CBS as of Employee's Termination Date, or during the two (2) years immediately prior to Employee's Termination Date.

(g) "Confidential Information" means any and all data and information relating to CBS, its activities, business, or clients that (i) is disclosed to Employee or of which Employee becomes aware as a consequence of his employment with the Bank; (ii) has value to CBS; and (iii) is not generally known outside of the Bank. "Confidential Information" shall include, but is not limited to the following types of information regarding, related to, or concerning CBS: trade secrets (as defined by O.C.G.A. § 10-1-761); financial plans and data; management planning information; business plans; operational methods; market studies; marketing plans or strategies; pricing information; product development techniques or plans; customer lists; customer files, data and financial information; details of customer contracts; current and anticipated customer requirements; identifying and other information pertaining to business referral sources; past, current and planned research and development; computer aided systems, software, strategies and programs; business acquisition plans; management organization and related information (including, without limitation, data and other information concerning the compensation and benefits paid to officers, directors, employees and management); personnel and compensation policies; new personnel acquisition plans; and other similar information. "Confidential Information" also includes combinations of information or materials which individually may be generally known outside of CBS, but for which the nature, method, or procedure for combining such information or materials is not generally known outside of CBS. In addition to data and information relating to CBS, "Confidential Information" also includes any and all data and information relating to or concerning a third party that otherwise meets the definition set forth above, that was provided or made available to CBS by such third party, and that CBS has a duty or obligation to keep confidential. This definition shall not limit any definition of "confidential information" or any equivalent term under state or federal law. "Confidential Information" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of CBS.

(h) "Disability" means the inability of Employee, as reasonably determined by the Bank, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental illness which has lasted (or can reasonably be expected to last) for a period of six (6) consecutive months. At the request of Employee or his personal representative, the Bank's determination that the Disability of Employee has occurred shall be certified by a physician mutually agreed upon by Employee, or his personal representative, and the Bank.

(i) "CBS" means, collectively, the Holding Company and the Bank.

(j) "Holding Company" means Colony Bankcorp, Inc.

(k) "Material Contact" means contact between Employee and a customer or potential customer of CBS (i) with whom or which Employee has or had dealings on behalf of CBS; (ii) whose dealings with CBS are or were coordinated or supervised by Employee; (iii) about whom Employee obtains Confidential Information in the ordinary course of business as a result of his employment with the Bank; or (iv) who receives products or services of CBS, the sale or provision of which results or resulted in compensation, commissions, or earnings for Employee within the two (2) years preceding the conduct in question (if the conduct occurs while Employee is still employed by the Bank) or the Termination Date (if the conduct occurs after Employee's Termination), as applicable.

(l) "Person" means any individual or any corporation, partnership, joint venture, limited liability company, association or other entity or enterprise.

(m) "Post-Change in Control Qualifying Termination" means Employee's termination of employment with the Bank by the Bank without Cause on or following the Change in Control Effective Date and prior to the Post-Closing Retention Payment Date. For the avoidance of doubt, in no event shall Employee be deemed to have experienced a Post-Change in Control Qualifying Termination as a result of (i) Employee's termination of employment by the Bank without Cause other than during the period between the Change in Control Effective Date and the Post-Closing Retention Payment Date, (ii) Employee's death or Disability, (iii) Employee's resignation from employment with the Bank for any reason or no reason, or (iv) Employee's termination of employment by the Bank for Cause.

(n) "Post-Closing Retention Payment Date" means the date on which the Bank determines, in good faith, that it has successfully completed the conversion of its data, customers, accounts and transactions to the core processing system of any acquiring institution (whether such third party acquiring institution uses the same core processor as the Bank, or a core processor that is different from the Bank's core process) pursuant to a Change in Control.

(o) "Pre-Change in Control Qualifying Termination" means Employee's termination of employment with the Bank by the Bank without Cause within the ninety (90) day period immediately preceding the Change in Control Effective Date. For the avoidance of doubt, in no event shall Employee be deemed to have experienced a Pre-Change in Control Qualifying Termination as a result of (i) Employee's termination of employment by the Bank without Cause other than during the ninety (90) day period immediately preceding the Change in Control Effective Date, (ii) Employee's death or Disability, (iii) Employee's resignation from employment with the Bank for any reason or no reason, or (iv) Employee's termination of employment by the Bank for Cause.

(p) "Principal or Representative" means a principal, owner, partner, shareholder, joint venturer, investor, member, trustee, director, officer, manager, employee, agent, representative or consultant.

(q) "Protected Customer" means any Person to whom CBS has sold its products or services or actively solicited to sell its products or services, and with whom Employee has had Material Contact on behalf of CBS during his employment with the Bank.

(r) "Protected Work" means any and all ideas, inventions, formulas, Confidential Information, source codes, object codes, techniques, processes, concepts, systems, programs, software, software integration techniques, hardware systems, schematics, flow charts, computer data bases, client lists, trademarks, service marks, brand names, trade names, compilations, documents, data, notes, designs, drawings, technical data and/or training materials, including improvements thereto or derivatives therefrom, whether or not patentable, and whether or not subject to copyright or trademark or trade secret protection, conceived, developed or produced by Employee, or by others working with Employee or under his direction, during the period of his employment, or conceived, produced or used or intended for use by or on behalf of CBS or its customers.

(s) "Restricted Period" means any time during Employee's employment with the Bank as well as twelve (12) months following Employee's Termination Date following a Change in Control; provided, however, that the post-termination Restricted Period shall be reduced by the number of full months that Employee provides services to the Bank following the Change in Control prior to the Termination Date. For example, if the Employee's employment with the Bank terminates for any reason following his provision of six (6) months of services to the Bank following the Change in Control, then the post-termination Restricted Period shall be six (6) months.

(t) "Restrictive Covenants" means the restrictive covenants contained in Section 5(b), (c), (d), (e) and (f) hereof.

(u) "Termination" means the termination of Employee's employment with the Bank, for any reason, whether with or without cause, upon the initiative of either party.

(v) "Termination Date" means the date of Employee's Termination.

(w) "Subsidiary" means any corporation, limited liability company, partnership or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Holding Company.

3. Employment At-Will. Employee shall continue to be employed at-will and for no definite term. This means that either party may terminate the employment relationship at any time for any or no reason.

4. Term of Agreement This Agreement shall terminate on the earliest of (i) the date that the Bank fulfills its obligations set forth in Section 1 hereof; (ii) the date of Employee's termination of employment with the Bank other than by reason of a Pre-Change in Control Qualifying Termination prior to the Change in Control Effective Date; or (iii) March 27, 2018. Notwithstanding the foregoing, the Restrictive Covenants contained in Section 5 hereof, as well as any other provisions of this Agreement necessary to interpret or enforce the Restrictive Covenants, shall survive the termination of this Agreement and continue to be in full force and effect in accordance with their terms.

5. Protective Covenants. Subject to the limitations of reasonableness imposed by law, Employee shall be subject to the restrictions set forth in this Section 5. Employee agrees that the restrictions in this Section 5 are reasonable and necessary and shall survive the termination of this Agreement.

(a) Acknowledgments.

(i) Condition of Employment and Other Consideration. Employee acknowledges and agrees that he has received good and valuable consideration for entering into this Agreement and further acknowledges that the Bank would not continue to employ him in the absence of his execution of and compliance with this Agreement.

(ii) Access to Confidential Information, Relationships, and Goodwill. Employee acknowledges and agrees that he is being provided and entrusted with Confidential Information (as that term is defined below), including highly confidential customer information that is subject to extensive measures to maintain its secrecy within CBS, is not known in the trade or disclosed to the public, and would materially harm CBS's legitimate business interests if it was disclosed or used in violation of this Agreement. Employee also acknowledges and agrees that he is being provided and entrusted with access to CBS's customer and employee relationships and goodwill. Employee further acknowledges and agrees that CBS would not provide access to the Confidential Information, customer and employee relationships, and goodwill in the absence of Employee's execution of and compliance with this Agreement. Employee further acknowledges and agrees that CBS's Confidential Information, customer and employee relationships, and goodwill are valuable assets of CBS and are legitimate business interests that are properly subject to protection through the covenants contained in this Agreement.

(iii) Potential Unfair Competition. Employee acknowledges and agrees that as a result of his employment with the Bank, his knowledge of and access to Confidential Information, and his relationships with CBS's customers and employees, Employee would have an unfair competitive advantage if Employee were to engage in activities in violation of this Agreement.

(b) Restriction on Disclosure and Use of Confidential Information. Employee agrees that Employee shall not, directly or indirectly, use any Confidential Information on Employee's own behalf or on behalf of any Person other than CBS, or reveal, divulge, or disclose any Confidential Information to any Person not expressly authorized by CBS to receive such Confidential Information. This obligation shall remain in effect for as long as the information or materials in question retain their status as Confidential Information. Employee further agrees that he shall fully cooperate with CBS in maintaining the Confidential Information to the extent permitted by law. The parties acknowledge and agree that this Agreement is not intended to, and does not, alter either CBS's rights or Employee's obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices. Anything herein to the contrary notwithstanding, Employee shall not be restricted from disclosing information that is required to be disclosed by law, court order or other valid and appropriate legal process; provided, however, that in the event such disclosure is required by law, Employee shall provide CBS with prompt notice of such requirement so that CBS may seek an appropriate protective order prior to any such required disclosure by Employee.

(c) Non-Solicitation of Protected Customers. Employee agrees that, during the Restricted Period, he shall not, without the prior written consent of CBS, directly or indirectly, on his own behalf or as a Principal or Representative of any Person, solicit, divert, take away, or attempt to solicit, divert, or take away a Protected Customer for the purpose of engaging in, providing, or selling Competitive Services.

(d) Non- Recruitment of Employees. Employee agrees that during the Restricted Period, he shall not, without the prior written consent of CBS, directly or indirectly, whether on his own behalf or as a Principal or Representative of any Person, solicit or induce or attempt to solicit or induce any employee of CBS to terminate his employment relationship with the Bank or to enter into employment with Employee or any other Person.

(e) Proprietary Rights.

(i) Ownership and Assignment of Protected Works. Employee agrees that any and all Confidential Information and Protected Works are the sole property of CBS, and that no compensation in addition to Employee's base salary is due to Employee for development or transfer of such Protected Works. Employee agrees that he shall promptly disclose in writing to CBS the existence of any Protected Works. Employee hereby assigns and agrees to assign all of his rights, title and interest in any and all Protected Works, including all patents or patent applications, and all copyrights therein, to CBS. Employee shall not be entitled to use Protected Works for his own benefit or the benefit of anyone except CBS without written permission from CBS and then only subject to the terms of such permission. Employee further agrees that he will communicate to CBS any facts known to him and testify in any legal proceedings, sign all lawful papers, make all rightful oaths, execute all divisionals, continuations, continuations-in-part, foreign counterparts, or reissue applications, all assignments, all registration applications, and all other instruments or papers to carry into full force and effect the assignment, transfer, and conveyance hereby made or to be made and generally do everything possible for title to the Protected Works and all patents or copyrights or trademarks or service marks therein to be clearly and exclusively held by CBS. Employee agrees that he will not oppose or object in any way to applications for registration of Protected Works by CBS or others designated by CBS. Employee agrees to exercise reasonable care to avoid making Protected Works available to any third party and shall be liable to CBS for all damages and expenses, including reasonable attorneys' fees, if Protected Works are made available to third parties by him without the express written consent of CBS. Anything herein to the contrary notwithstanding, Employee will not be obligated to assign to CBS any Protected Work for which no equipment, supplies, facilities, or Confidential Information of CBS was used and which was developed entirely on Employee's own time, unless (a) the invention relates (1) directly to the business of CBS, or (2) to CBS's actual or demonstrably anticipated research or development; or (b) the invention results from any work performed by Employee for CBS. Employee likewise will not be obligated to assign to CBS any Protected Work that is conceived by Employee after Employee leaves the employ of the Bank, except that Employee is so obligated if the same relates to or is based on Confidential Information to which Employee had access by virtue of his employment with the Bank. Similarly, Employee will not be obligated to assign any Protected Work to CBS that was conceived and reduced to practice prior to his employment, regardless of whether such Protected Work relates to or would be useful in the business of CBS. Employee acknowledges and agrees that there are no Protected Works conceived and reduced to practice by him prior to his employment with the Bank.

(ii) No Other Duties. Employee acknowledges and agrees that there is no other contract or duty on his part now in existence to assign Protected Works to anyone other than CBS.

(iii) Works Made for Hire. The Bank and Employee acknowledge that in the course of his employment with the Bank, Employee may from time to time create for CBS copyrightable works. Such works may consist of manuals, pamphlets, instructional materials, computer programs, software, software integration techniques, software codes, and data, technical data, photographs, drawings, logos, designs, artwork or other copyrightable material, or portions thereof, and may be created within or without CBS's facilities and before, during or after normal business hours. All such works related to or useful in the business of CBS are specifically intended to be works made for hire by Employee, and Employee shall cooperate with CBS in the protection of CBS's copyrights in such works and, to the extent deemed desirable by CBS, the registration of such copyrights.

(f) Return of Materials. Employee agrees that he will not retain or destroy (except as set forth below), and will immediately return to CBS on or prior to the Termination Date, or at any other time CBS requests such return, any and all property of CBS that is in his possession or subject to his control, including, but not limited to, keys, credit and identification cards, personal items or equipment, customer files and information, papers, drawings, notes, manuals, specifications, designs, devices, code, email, documents, diskettes, CDs, tapes, keys, access cards, credit cards, identification cards, computers, mobile devices, other electronic media, all other files and documents relating to CBS and its business (regardless of form, but specifically including all electronic files and data of CBS), together with all Protected Works and Confidential Information belonging to CBS or that Employee received from or through his employment with the Bank. Employee will not make, distribute, or retain copies of any such information or property. To the extent that Employee has electronic files or information in his possession or control that belong to CBS, contain Confidential Information, or constitute Protected Works (specifically including but not limited to electronic files or information stored on personal computers, mobile devices, electronic media, or in cloud storage), on or prior to the Termination Date, or at any other time CBS requests, Employee shall (a) provide CBS with an electronic copy of all of such files or information (in an electronic format that readily accessible by CBS); (b) after doing so, delete all such files and information, including all copies and derivatives thereof, from all non-CBS-owned computers, mobile devices, electronic media, cloud storage, or other media, devices, or equipment, such that such files and information are permanently deleted and irretrievable; and (c) provide a written certification to CBS that the required deletions have been completed and specifying the files and information deleted and the media source from which they were deleted. Employee agrees that he will reimburse CBS for all of its costs, including reasonable attorneys' fees, of recovering the above materials and otherwise enforcing compliance with this provision if he does not return the materials to CBS or take the required steps with respect to electronic information or files on or prior to the Termination Date or at any other time the materials and/or electronic file actions are requested by CBS or if Employee otherwise fails to comply with this provision.

(g) Enforcement of Restrictive Covenants.

(i) Rights and Remedies Upon Breach. The parties specifically acknowledge and agree that the remedy at law for any breach of the Restrictive Covenants will be inadequate, and that in the event Employee breaches, or threatens to breach, any of the Restrictive Covenants, CBS shall have the right and remedy, without the necessity of proving actual damage or posting any bond, to enjoin, preliminarily and permanently, Employee from violating or threatening to violate the Restrictive Covenants and to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to CBS and that money damages would not provide an adequate remedy to CBS. Employee understands and agrees that if he violates any of the obligations set forth in the Restrictive Covenants, the period of restriction applicable to each obligation violated shall cease to run during the pendency of any litigation over such violation, provided that such litigation was initiated during the period of restriction. Such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to CBS at law or in equity. Employee understands and agrees that, if the parties become involved in legal action regarding the enforcement of the Restrictive Covenants and if CBS prevails in such legal action, CBS will be entitled, in addition to any other remedy, to recover from Employee its reasonable costs and attorneys' fees incurred in enforcing such covenants. CBS's ability to enforce its rights under the Restrictive Covenants or applicable law against Employee shall not be impaired in any way by the existence of a claim or cause of action on the part of Employee based on, or arising out of, this Agreement or any other event or transaction.

(ii) Severability and Modification of Restrictive Covenants. Employee acknowledges and agrees that each of the Restrictive Covenants is reasonable and valid in time and scope and in all other respects. The parties agree that it is their intention that the Restrictive Covenants be enforced in accordance with their terms to the maximum extent permitted by law. Each of the Restrictive Covenants shall be considered and construed as a separate and independent covenant. Should any part or provision of any of the Restrictive Covenants be held invalid, void, or unenforceable, such invalidity, voidness, or unenforceability shall not render invalid, void, or unenforceable any other part or provision of this Agreement or such Restrictive Covenant. If any of the provisions of the Restrictive Covenants should ever be held by a court of competent jurisdiction to exceed the scope permitted by the applicable law, such provision or provisions shall be automatically modified to such lesser scope as such court may deem just and proper for the reasonable protection of CBS's legitimate business interests and may be enforced by CBS to that extent in the manner described above and all other provisions of this Agreement shall be valid and enforceable.

(h) Disclosure of Agreement. Employee acknowledges and agrees that, during the Restricted Period, he will disclose the existence and terms of this Agreement to any prospective employer, business partner, investor or lender prior to entering into an employment, partnership or other business relationship with such prospective employer, business partner, investor or lender. Employee further agrees that CBS shall have the right to make any such prospective employer, business partner, investor or lender of Employee aware of the existence and terms of this Agreement.

6. Full Settlement; No Mitigation. The Bank's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Bank may have against Employee or others. In no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Employee obtains other employment.

7. Limitation of Benefits.

(a) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any benefit, payment or distribution by the Bank to or for the benefit of Employee (whether payable or distributable pursuant to the terms of this Agreement or otherwise) (such benefits, payments or distributions are hereinafter referred to as "Payments") would, if paid, be subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Code, then the aggregate present value of the Payments shall be reduced (but not below zero) to an amount expressed in present value that maximizes the aggregate present value of the Payments without causing the Payments or any part thereof to be subject to the Excise Tax and therefore nondeductible by the Bank because of Section 280G of the Code (the "Reduced Amount"). The reduction of the Payments due hereunder, if applicable, shall be made by first reducing cash Payments and then, to the extent necessary, reducing those Payments having the next highest ratio of Parachute Value to actual present value of such Payments as of the date of the change of control, as determined by the Determination Firm (as defined in Section 7(b) below). For purposes of this Section 7, present value shall be determined in accordance with Section 280G(d)(4) of the Code. For purposes of this Section 7, the "Parachute Value" of a Payment means the present value as of the date of the change of control of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code, as determined by the Determination Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

(b) All determinations required to be made under this Section 7, including whether an Excise Tax would otherwise be imposed, whether the Payments shall be reduced, the amount of the Reduced Amount, and the assumptions to be utilized in arriving at such determinations, shall be made by an independent, nationally recognized accounting firm or compensation consulting firm mutually acceptable to the Bank and Employee (the "Determination Firm") which shall provide detailed supporting calculations both to the Bank and Employee within 15 business days of the receipt of notice from Employee that a Payment is due to be made, or such earlier time as is requested by the Bank. All fees and expenses of the Determination Firm shall be borne solely by the Bank. Any determination by the Determination Firm shall be binding upon the Bank and Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Determination Firm hereunder, it is possible that Payments hereunder will have been unnecessarily limited by this Section 7 ("Underpayment")., consistent with the calculations required to be made hereunder. The Determination Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Bank to or for the benefit of Employee together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code, but no later than March 15 of the year after the year in which the Underpayment is determined to exist, which is when the legally binding right to such Underpayment arises.

(c) In the event that the provisions of Code Section 280G and 4999 or any successor provisions are repealed without succession, this Section 7 shall be of no further force or effect.

8. Successors.

(a) This Agreement is one for personal services and may not be assigned by Employee. This Agreement shall inure to the benefit of and be enforceable by Employee's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Bank and its successors and assigns.

(c) This Agreement shall bind any successor of or to the Bank, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Bank would be obligated under this Agreement if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Agreement, the Bank shall require such successor expressly and unconditionally to assume and agree to perform the Bank's obligations under this Agreement, in the same manner and to the same extent that the Bank would be required to perform if no such succession had taken place. The term "Bank," as used in this Agreement, shall mean the Bank as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Agreement.

9. Code Section 409A.

(a) This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements of Section 409A of the Code and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder (and any applicable transition relief under Section 409A of the Code). Nevertheless, the tax treatment of the benefits provided under the Agreement is not warranted or guaranteed. Neither the Bank nor its directors, officers, employees or advisers shall be held liable for any taxes, interest, penalties or other monetary amounts owed by Employee as a result of the application of Section 409A of the Code.

(b) Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Section 409A of the Code (" Non-Exempt Deferred Compensation ") would otherwise be payable or distributable hereunder, or a different form of payment of such Non-Exempt Deferred Compensation would be effected, by reason of a Change in Control or Employee's termination of employment, such Non-Exempt Deferred Compensation will not be payable or distributable to Employee by reason of such circumstance unless the circumstances giving rise to such Change in Control or termination of employment, as the case may be, meet any description or definition of "change in control event" or "separation from service", as the case may be, in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition). This provision does not prohibit the *vesting* of any Non-Exempt Deferred Compensation upon a Change in Control or termination of employment, however defined. If this provision prevents the payment or distribution of any Non-Exempt Deferred Compensation, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Section 409A-compliant "change in control event" or "separation from service", as the case may be, or such later date as may be required by Section 9(c) hereof.

(c) Notwithstanding anything in this Agreement to the contrary, if any Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Agreement by reason of Employee's separation from service during a period in which he is a Specified Employee (as defined below), then, subject to any permissible acceleration of payment by the Bank under Treas. Reg. Section 1.409A-3U(4)(ii) (domestic relations order), (j)(4)(iii) (conflicts of interest), or (j)(4)(vi) (payment of employment taxes): (i) if the payment or distribution is payable in a lump sum, Employee's right to receive payment or distribution of such non-exempt deferred compensation will be delayed until the earlier of Employee's death or the first day of the seventh month following Employee's separation from service; and (ii) if the payment or distribution is payable over time, the amount of such non-exempt deferred compensation that would otherwise be payable during the six-month period immediately following Employee's separation from service will be accumulated and Employee's right to receive payment or distribution of such accumulated amount will be delayed until the earlier of Employee's death or the first day of the seventh month following Employee's separation from service, whereupon the accumulated amount will be paid or distributed to Employee and the normal payment or distribution schedule for any remaining payments or distributions will resume. For purposes of this Agreement, the term " Specified Employee " has the meaning given such term in Code Section 409A.

(d) Whenever in this Agreement a payment or benefit is conditioned on Employee's execution of a release of claims, such release must be executed and all revocation periods shall have expired within 60 days after the date of termination; failing which such payment or benefit shall be forfeited. If such payment or benefit constitutes Non-Exempt Deferred Compensation, then such payment or benefit (including any installment payments) that would have otherwise been payable during such 60- day period shall be accumulated and paid on the 60th day after the date of termination provided such release shall have been executed and such revocation periods shall have expired. If such payment or benefit is exempt from Section 409A of the Code, the Bank may elect to make or commence payment at any time during such period.

(e) The Bank shall have the sole authority to make any accelerated distribution permissible under Treas. Reg. Section 1.409A-3(j)(4) to Employee of deferred amounts, provided that such distribution meets the requirements of Treas. Reg. Section 1.409A-3(j)(4).

(f) Each payment under this Agreement shall be considered a separate payment, as described in Treas. Reg. Section 1.409A-2(b)(2), for purposes of Section 409A of the Code.

10. Miscellaneous.

(a) The Bank and Employee agree that this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Georgia without giving effect to its conflicts of law principles. Employee agrees that the exclusive forum for any action to enforce this Agreement, as well as any action relating to or arising out of this Agreement, shall be Superior Court of Ben Hill County, Georgia or the U.S. District Court for the Middle District of Georgia, Albany Division. With respect to any such court action, Employee hereby (i) irrevocably submits to the personal jurisdiction of such courts; (ii) consents to service of process; (iii) consents to venue; and (iv) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction, service of process, or venue. The parties hereto further agree that such courts are convenient forums for any dispute that may arise herefrom and that neither party shall raise as a defense that such courts are not convenient forums.

(b) The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(c) This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(d) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee:

On file with the Bank

If to the Bank :

Colony Bank
115 South Grant Street
Fitzgerald, GA 31750
Attention : Edward P. Loomis

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(e) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(f) The Bank may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(g) Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

(h) This Agreement contains the entire agreement between the Bank and Employee with respect to the subject matter hereof and, from and after the date hereof, this Agreement shall supersede any other agreement, written or oral, between the parties relating to the subject matter of this Agreement.

(i) The parties understand and agree that because they both have been given the opportunity to have counsel review and revise this Agreement, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement shall be construed as a whole, and according to its fair meaning, and not strictly for or against either of the parties.

(j) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

(k) The parties acknowledge and agree that the Holding Company is an intended third-party beneficiary of this Agreement and may enforce the Bank's rights hereunder.

11. Regulatory Action.

(a) If Employee is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. 1818(e)(4) and (g)(1)), all obligations of the Bank under this agreement shall terminate, as of the effective date of such order.

(b) If Employee is suspended and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the FDIA (12 U.S.C. 1818(e)(3) and (g)(1)), all obligations of the Bank under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank shall reinstate (in whole or in part) any of its obligations which were suspended.

(c) If the Bank is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default.

(d) All obligations under this Agreement shall be terminated, except to the extent a determination is made that continuation of the Agreement is necessary for the continued operation of the Bank (1) by the director of the FDIC or his or her designee (the "Director"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in 13(c) of the FDIA; or (2) by the Director, at the time the Director approves a supervisory merger to resolve problems related to operation of the Bank when the Bank is determined by the Director to be in an unsafe and unsound condition.

(Signatures on following page)

IN WITNESS WHEREOF, Employee has hereunto set Employee's hand and the Bank has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ EDWARD LEE BAGWELL, III
EDWARD LEE BAGWELL, III

COLONY BANK

By: /s/Edward P. Loomis
Name: Edward P. Loomis
Title: President and Chief Executive Officer