2012 ANNUAL REPORT

BUILDING COMMUNITIES

VISION

Colony Bank strives to be a high performance community bank, providing shareholders with a fair return on their investment while improving the quality of life in the communities we serve.

MISSION

Our mission can best be accomplished by applying sound banking principles in corporate decision-making and by providing our customers a degree of highly personalized, professional service that is unmatched in the market.

- Service
- Stability
- Success

Build *your* future with us

In 2012 the economic and financial landscape continued a trajectory of change. At the time of this writing, interest rates remain historically low. Industry regulation may be nearing a historical high. And this "new normal" presents both challenges and opportunities for consumers, businesses, farms and families.

At Colony Bank we clearly understand that whatever the current environment, our success is closely aligned with the success of the communities we serve, and strengthening that alignment drives the way we do business every day. We focus on supporting families and locally owned businesses because we know they are the backbone of a healthy community. We focus on fair pricing and rates because we believe that is what responsible companies do.

We are dedicated to employing the best and brightest bankers who know our communities and are eager to share their experience to benefit our customers. Our staff has a deep commitment to the people and the communities that we serve. Visit our Market Highlights pages to read about the extent to which our employees give their time and energy to numerous community organizations during the year.

This report provides the detail of how in 2012 we worked to build strong communities and prosperous businesses, families and individuals who enjoy quality services as well as opportunity for growth and enhanced financial success.

Welcome

On May 14, 2012, Colony Bank welcomed its new President and CEO, **Edward P. Loomis, Jr.**

A seasoned executive with over 30 years' experience in the financial industry. Ed's leadership experience and demonstrated record in business development, strategic planning, team building, and vision development will all be significant assets in guiding Colony Bank into the future.

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Dear Shareholders,

2012 was a very interesting year for Colony Bank. While the banking industry faced another year of adversity, the economy began to show signs of improvement. Unemployment, while still at a historically high level, seemed to peak and some improvement was achieved. Bank closures peaked and only a few were closed in the last half of the year. Bank balance sheets have been bolstered by the resolution of and/or disposal of problem assets, and many banks are returning historical levels of profitability.

Dan Minix served as Interim President and CEO until the arrival of Ed Loomis in May, 2012. We want to thank Dan for his service to the company and for the time he spent introducing Ed to the many people who comprise the Colony family.

Arriving at Colony Bank as industry trends were improving provided considerable opportunity to a new CEO. After three to four years of addressing loan quality issues, we can begin to see a more normal period of prosperity returning to the markets we serve. Certainly we still have to be vigilant of all credit-related issues and insure we are prepared for a more aggressive compliance world. However, for the first time in several years, we experienced growth in our loan portfolio. Loans increased 4.27% from $716 million to $746 million. Real estate values seem to have stabilized, and in some cases, farm crops have set records in both yield and price. No one is expecting a vibrant, robust recovery, but a stable economy with gradually improving trends is quite an improvement from the economy of the last four years.

National and international trends both reflect a "steady as we go" strategy. Excessive debt and operating deficits threaten the economic stability of several countries. Hopefully, steady improvement will continue as prudent long-term solutions are developed and implemented.

At Colony Bank, we state our vision as follows: *"Colony Bank strives to be a high performance community bank, providing shareholders with a fair return on their investment, while improving the quality of life in the communities we serve."* This vision states quite clearly that as an organization we are committed to our communities. From Columbus to Savannah and from Valdosta to middle Georgia, we strive to support our citizens, local leaders, local businesses and local business interests. In this annual report you will see the faces of Colony Bank in the communities we serve and some of the projects in which we have been fortunate enough to participate.

As we begin 2013, we are aware of the challenges and the opportunities afforded us by improvements in technology. While we intend to embrace new technologies to enhance our customer experience, the cornerstone of Colony Bank's strategy is the commitment to a partnership with our customers. To achieve this partnership, we must empower our market leaders with the tools to compete and the time to interact personally with the customers they serve. The human touch is critical in a real partnership, and at Colony Bank we look for ways to provide that touch every day.

On behalf of our board of directors, officers and staff, we want to thank you for your support over the past year. We look forward to 2013 with great anticipation!

Edward P. Loomis, Jr.
President and Chief Executive Officer

B. Gene Waldron
Chairman of the Board

FINANCIAL SUMMARY

2012 KEY PERFORMANCE INDICATORS

Years Ended December 31, 2012 and 2011

Dollar amounts in thousands except per share data	2012	2011	Percent Change
Total Assets	$1,139,397	$1,195,376	(4.68)%
Total Deposits	$979,685	$999,985	(2.03)%
Loans (Net of Unearned Income)	$746,816	$716,264	4.27%
Net Income	$1,206	$1,133	6.44%
Per Share Data:			
Basic Earnings	$0.14	$0.13	7.69%
Common Book Value/Share	$8.05	$8.17	(1.47)%

KEY TRENDS

A Historical Comparative

Years Ending	2012	2011	2010	2009	2008
Net Income (in thousands)	$1,206	$1,133	$(926)	$(20,549)	$2,029
Return on Average Shareholders' Equity	1.25%	1.20%	(0.98)%	(19.45)%	2.40%
Diluted Earnings Per Share	$0.14	$0.13	$(0.11)	$(2.85)	$0.28

RETURN ON AVERAGE ASSETS	
2012	2011
0.11%	0.09%

NET INTEREST MARGIN	
2012	2011
3.41%	3.11%

BOARD OF DIRECTORS

Edward P. Loomis, Jr.
President and CEO
Colony Bankcorp, Inc.
Fitzgerald, Georgia

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

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

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

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

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

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

Scott L. Downing
President
SDI Investments
Fitzgerald, Georgia

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

DIRECTORS EMERITUS

L. Morris Downing, Jr.

Harold Kimball

Ben B. Mills

Marion H. Massee, IIII

Ralph D. Roberts, MD

Joe K. Shiver

WEST MARKET *Highlights*

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

West Market Community Presidents *(left to right)* Front Row: John Gandy, Walter Patten, Tony Chiri, Bob Evans, Phil Franklin, Ricky Freeman, Back Row: Bill Marsh, Kirk Scott and John Roberts *(top stairs)*.

Eddie Hoyle,
EVP, Regional Executive Officer

"I'm pleased to be associated with a great team of bank leaders who are dedicated to their respective markets and realizing the growth strategies that the company has adopted. We want to build solid relationships with our friends and neighbors and provide the best financial products and services available. We have embedded our values in the communities we serve and want to help build and foster healthier financial lives."

— EDDIE HOYLE

Eddie Hoyle joined the Colony Bank team in 2011. A native of Northeast Georgia, he brings 34 years of banking experience to the management of the Western Division. Eddie is responsible to lead and direct the Market Leaders in the West Division as they grow their consumer, commercial, and deposit portfolios as well as manage their overall banking operations. Eddie brings a high level of communication skills and expertise in financial performance which he leverages with each of his respective community bank locations.

Eddie provides support and assistance for the West Market to reach goals and successfully execute community activities. He enjoys the challenges associated with execution of the Colony Business Plan as it relates to increasing profitability and market share in his division.

MARKET HIGHLIGHTS: ALBANY/CHEHAW/LEESBURG

Corporate Citizenship

A community bank has many responsibilities, and one of the most important is to actively support the communities they serve.

The Albany, Chehaw and Leesburg market Colony Bank offices are involved in fundraisers throughout the year, including:

March	April	October	November	December
March of Dimes	Relay for Life held at Darton College	Leukemia and Lymphoma Walk held at Chehaw Park	Alzheimer's Walk held at Riverfront Park	Toys for Tots held at Albany MCLB

During the month of April, the Albany staff pays $5.00 each Friday to wear jeans and help raise funds for Relay for Life. The team also holds periodic bake sales and raffles to raise monies for civic and charitable endeavors.

Heather Dozier and Katie Leckrone helping collect items for Toys for Tots.

MARKET HIGHLIGHTS: ASHBURN

Top: The Colony Bank Ashburn team. Bottom: Barbara Keen and Jessica James (staff).

Enhancing Business, Improving Lives

Each year the Colony Bank Ashburn team hosts a community event to raise money for Relay for Life.

In 2012 the Ashburn Office hosted a "Breakfast with Santa" with pictures taken and fee given to Relay for Life. The bank has also initiated a Relay for Life Pageant that is intended to be an annual event in the community. Colony Bank was also able to assist with the improvement to the property for Carroll's Sausage, a great business and asset for the community.

The bank team actively supports the city's annual Trick or Treat, the annual Ashburn Christmas Parade, the Chamber of Commerce, and the Rotary Club.

Market President Ricky Freeman and customer Hugh Hardy.

MARKET HIGHLIGHTS: COLUMBUS

Caring in Action

John Roberts, Colony Bank Market President, is an active member of Kiwanis, a civic group that has adopted Johnson Elementary School as part of the citywide Adopt-A-School program. Visiting the school and reading to the students is one of the ways members of Kiwanis give back to the community. The group also sponsors an annual golf tournament with the proceeds going to the top academic middle school students (as voted by the schools) in the Columbus area.

Michael Welch, senior commercial lender, gives by serving on the board of directors of the United Way and Easter Seals.

Lance Hemmings, senior commercial lender, is the chairman of Clubview Elementary School Governing Board. Clubview is a charter and international baccalaureate school. He also is a member of Richards Middle School local school council. Lance is a board member of Columbus Land Bank Authority and a board member of River City Youth Football. He also coaches youth football and baseball.

Colony Bank Columbus has been making monetary, clothing and food donations to the House of Mercy since the opening of the branch in 2006. The House of Mercy is a non-profit homeless shelter.

Pictured directly below from left to right are Elder Bobby Harris (Director) Johannie Harris, his wife; George Luttrell and Stephanie Wade of Colony Bank. George and Stephanie presented a check to the couple for the benefit of the House of Mercy on 12/10/12.

MARKET HIGHLIGHTS: CORDELE

The Power of Partnership

Through community involvement, Colony Bank Cordele develops relationships with both potential and current customers. This exposure helps reaffirm the bank's brand by emphasizing industrial, business and community development. The bank is represented in the following organizations and endeavors:

- Downtown Business Organization/ MainStreet
- Kiwanis Club
- Lions Club
- Rotary
- Leadership Crisp graduates
- Georgia Academy for Economic Development graduate
- GA Banking School participant
- Habitat for Humanity
- Higher Education Committee
- Southwest GA Empowerment Zone
- Crisp Area Arts Alliance
- United Industrial Development
- Cordele-Crisp Industrial Development Authority
- City of Cordele Revolving Loan Fund
- Agri-Industrial Board
- Cordele-Crisp Chamber of Commerce Ambassadors
- Red Cross Blood Drive
- Relay for Life
- United Way
- Adopt an Angel
- Watermelon Days Festival
- Red Ribbon Week
- Atlanta Legislative Fish Fry
- Food Drive
- Thanksgiving and Christmas needy family food drive
- Young Professionals Network in Cordele
- Retired Teachers Recognition Breakfast
- Teacher of the Year Judging
- Financial Literacy program – Crisp Co High School
- 4-H
- Bethel CME historical church renovation
- Chinese government officials hosting

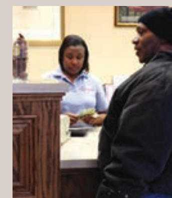
Colony Bank recently helped finance a multi-million dollar construction loan for the Cordele Higher Education Center which will be the home for Darton State College.

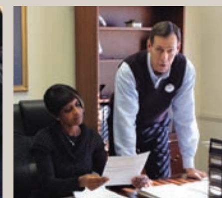
MARKET HIGHLIGHTS: THOMASTON

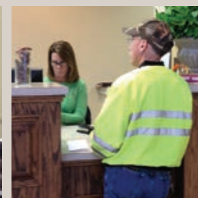
Clubs, Kids, Commitment

Colony Bank Thomaston is regularly well-represented in the civic events that impact Thomaston. Members of the bank team have membership in the local Rotary Club, Sertoma, and the Chamber of Commerce, as well as the Thomaston Upson Business Association that holds an annual Easter Egg Hunt for local children and the annual Thomaston Christmas Parade. At the annual Smoke on the Water event, the Kids Zone is sponsored by the bank. And, in 2012, Colony Bank contributed 6 computers and enlisted other businesses for an additional 29 computers to be sent to missionary schools in the Philippines and Jamaica.

In addition, the bank supports the local Relay for Life event and a group called SUPPORT that gives encouragement and monetary assistance to Upson County residents that are dealing with the effects of cancer.







MARKET HIGHLIGHTS: TIFTON

(Above Left) The Colony Bank Tifton team at work – and having fun supporting great causes and a great community.

Helping Build a Better Future for Tift County

The Colony Bank Tifton team from Second Street and Tifton Village locations has a simple approach to corporate citizenship; if it's a cause that's important to the community, it's a cause that's important to the bank. In 2012 the bank's partnership outreach included Tift County sports, YMCA Adopt a Child, Suitcase for Kids, ABAC Student Orientation, and TCHS Teacher Appreciation.

The bank consistently sponsors Sunset Tifton, which targets new and existing businesses in Tifton, the American Cancer Association and the March of Dimes. Market President, Bill Marsh, is a member of the Chamber of Commerce Board; Susan Warren and Sheila Davis are Chamber Ambassadors.

A major philanthropic effort in 2012 was supporting and participating in the Breast Cancer Awareness Walk.

MARKET HIGHLIGHTS: MOULTRIE

The Hometown Team

Colony Bank Moultrie is dedicated to customer and community service. Since opening its facility in 2000, the bank has continued to expand its efforts to support worthy and worthwhile causes.

Making a difference. In 2012 the bank made substantial contributions to United Way, The Boys & Girls Club of Moultrie, the Packer Touchdown Club and War of the Borders. The bank also supports the efforts of fighting muscular dystrophy and cancer. The Colony Bank Moultrie Team Members also gave back to the community by supporting the Moultrie YMCA "Building Better Lives" Campaign and Habitat for Humanity.

The Georgia Sheriffs' Youth Homes Boys Ranch was another major priority. Focusing on providing quality child care for Georgia's children who, through no fault of their own, may be products of abuse, neglect and dysfunctional families. The program provides opportunities for boys and girls to resolve their personal conflicts, find their identities, and learn proper values as they work toward a lawful, productive and secure future.

The bank also has an ongoing commitment to support civic organizations like Kiwanis, and hallmark charitable events including Relay for Life.

The Colony Bank Moultrie team welcomes you!

MARKET HIGHLIGHTS: SYLVESTER

Our Focus, Their Future

Providing responsive banking services and responsible support to local schools and their students are high priorities at Colony Bank Sylvester.

At the beginning of each school term, the bank provides academic calendars to all teachers in the Worth County School System. In addition, the bank team visits local schools throughout the school year to meet with and read books to the younger children. Students from the Worth County School System visit the bank to tour and learn about banking and, annually, members of the bank team participate in the high school's career fair to talk to students about banking and establishing checking and savings accounts.

The bank is a member of the Sylvester-Worth County Chamber of Commerce, several local civic clubs including Kiwanis and the Lions Club, and the bank team provides meals to local firefighters.

Longtime commercial client, Chris Shipp, with Colony Bank lender, Johnny Sumner. Chris, owner of mowing, irrigation repair and landscaping firm "Ship Shape," is active in the Sylvester-Worth community, serving on the executive board of the Chamber of Commerce, advisory board of Albany Tech, and is active in New Bethel Baptist Church in Sumner, Georgia.

MARKET HIGHLIGHTS: WARNER ROBINS/CENTERVILLE

Market President, Kirk Scott and Misty Marney showing the result of efforts to help families in need at Christmas.

A Profile of Service

Colony Bank's Warner Robins and Centerville locations place great emphasis on being good bankers – and good neighbors. In 2012 the following organizations benefitted from the Colony Bank partnership:

SPONSORSHIPS

Cherished Children – Golf Tournament

Crimestoppers (Macon Regional) Luncheon sponsor

Feed The City – Food for the community during holidays

Georgia Girls – Softball Team

Golden Eagle Award Dinner – honoring Dr. Dan Callahan

Heart of Georgia Hospice 27th Anniversary Celebration

Houston County High School – Dugout Club

Houston County Meals on Wheels

Methodist Home for Children and Youth

Perry Junior League – All Stars Baseball

Perry High School – Softball

Warner Robins High School

Waterford Golf Club – Ladies Association

Westfield School – Ball field

DONATIONS

It Takes A Village Foundation

Miller Elementary Title One School

Project Giving – Adopted a family for Christmas

CHAMBER EVENT ATTENDANCE

Eggs & Issues

Business After Hours

Business Play Day

LEADERSHIP

Colony Bank Market President, Kirk Scott, President of Centerville Rotary Club

Earl Spivey, Heart of Georgia Board – Rotary Club of Byron – Warner Robins Civitan

Jackie White, Co-Chair Relay for Life, Church: Women's Ministry Team – Finance Committee

Wanda Kelley, Co-Chair Relay for Life, Chamber Ambassador

EAST MARKET *Highlights*

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

East Market Community Presidents *(left to right)*: Mark Turner, Edward G. Smith, III, Chip Carroll, Tommy Hester, Nic Worthy, and Scott Miller *(top stairs)*.

Lee A. Northcutt,

EVP, Regional Executive Officer

"Colony Bank prides itself in offering financial solutions for every stage of life and helping friends and neighbors maximize their endless possibilities. We are privileged to support the families and locally owned businesses of the communities we serve."

— LEE A. NORTHCUTT

Lee Northcutt has been a member of the Colony Bank team since 2009. He is a native of Valdosta, Georgia and brings 33 years of banking experience to his position. His responsibilities include oversight of the East Division's performance, including its consumer, commercial, mortgage and deposit portfolios and overall banking operations.

Lee is pleased to be associated with a dynamic team of bankers that are dedicated to their respective markets and the growth strategies the company has adopted. He looks forward to continuing to help his team build the strong community and client relationships that have defined Colony Bank's priority and strong financial performance.

MARKET HIGHLIGHTS: FITZGERALD

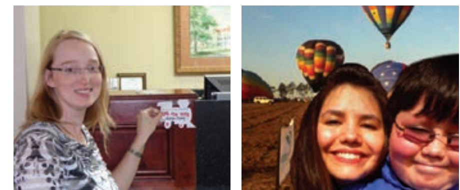
Superior Service to Customers – and Community

Colony Bank's team members from the Main and Southside offices are involved in nearly every community organization from the Chamber of Commerce to civic clubs.

Every year the bank supports the Communities in Schools annual fundraiser, Chamber of Commerce events, Relay for Life, Wiregrass Technical College events, Wild Chicken Festival, Downtown Easter egg hunt, July 4th events, Downtown Halloween Blast and school events.

The bank's community partnership included participating in the July 4th event, where Colony Business Association proceeds raised that day went to the Colony Business Association Benevolence Fund to assist local citizens in need with major medical expenses.

The bank also helped raise funds for communities and schools and collected toys and raised money to support Toys for Tots. The bank provided nearly 2,000 toys to over 530 children in Ben Hill County. The Colony office also sponsored a needy family in December and provided clothes and toys for Christmas.



MARKET HIGHLIGHTS:
QUITMAN

Leading the Way

Impacting the children of our community positively has been a major accomplishment for Colony Bank Quitman.

This is accomplished through service commitments with Brooks County School Board, Kiwanis Club, FERST Foundation, Boys & Girls Club, Junior Board donations to needy families, and annually participating in the Christmas Parade. For 13 years the bank team has been involved in teaching community service to Junior Board members.

Specific events supported annually include: The Camellia Flower Show, Relay for Life, Christmas Parade, Business After Hours, Skillet Festival, Hope and Dreams Riding Facility, Brooks County School Academic, Sports, and Band; Hog Show, Boys & Girls Club, and the Chamber of Commerce.

MARKET HIGHLIGHTS:
ROCHELLE/PITTS

The Strength to Serve

Customer support for Colony Bank Wilcox County continued to be strong in 2012, resulting in deep current client relationships and the growth of new customers as well.

Wilcox County is one of those caring counties where "everybody knows your name." A helping hand is always there no matter what the need may be, and Colony Bank is proud to be one of those helping hands.

Whether it is helping out at the homecoming game, collecting toys for the needy, participating in Relay for Life, coaching a team at the recreation department, supporting and helping at all grade levels in the schools, or just saying thank you to our customers for all that they do and for all that they mean to us, the team consistently helps give back to worthy causes and events.

The staff in Wilcox County always put forth an extra effort to make sure that the bank is making a positive difference in the community and in the lives of the customers we serve.

MARKET HIGHLIGHTS: SAVANNAH

Giving Back is Always a Priority

Colony Bank Savannah is continuously looking for opportunities to help our communities.

The Hodgson Memorial and Ogeechee Richmond Hill Colony Bank offices are involved in fundraisers throughout the year, including:

Colony Bank Savannah had 100% employee participation in raising over $2,000 to help the local community.

Employees participated in the American Cancer Society's Relay for Life walk held at Benedictine Military School. The event raised over $2,000 for the American Cancer Society.

Colony Bank was a sponsor of the Great Ogeechee Seafood Festival, an event that draws thousands of people from in and out of state that was sponsored by the Richmond Hill Chamber.

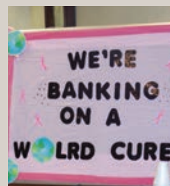
At the end of 2012 the bank participated with Home Instead Senior Care and the Be a Santa to a Senior program to help bring holiday cheer to local citizens.

In addition to participating in these events, bank officers and employees currently serve our community by their memberships in the following organizations: Savannah Chamber of Commerce, The Richmond Hill Bryan County Chamber, Savannah Economic Development Authority, World Trade Center Savannah, Savannah Downtown Business Association, Home Builders Association of Bryan County, Jaycees, Lions Club, The Newland Family Foundation, The Telfair Museum and Wesley Monumental Church.

Colony Bank Savannah Gives A Lending Hand

In 2012 Colony Bank was very proactive in lending a helping hand with a significant building project to one of the oldest and largest Baptist Churches in the region. Colony was fortunate to provide immediate and long-term financing to assist one of the outstanding Christian organizations in the Savannah Market.

MARKET HIGHLIGHTS: DOUGLAS/BROXTON/PALMS



From using lobby space to raising cancer awareness to sponsoring and staffing public service events, Colony Bank shares the priorities of its community.

Making a Difference

Colony Bank's Coffee County offices in Douglas at Ward Street and the Palms office, and in Broxton, consistently focus on seizing opportunities to support the bank's brand and the bank's customers in the community.

Team members participate in civic organizations, including the local Lions Club, Douglas/Coffee County Exchange Club and the Chamber of Commerce, and there is always a bank representative at grand openings and ribbon cuttings.

In 2012 the bank participated in: Relay for Life which supports The American Cancer Society, Passionately Pink Day which supports the Susan G. Komen Society, the Annual Big Buck Contest sponsored by the Douglas/Coffee County Lions Club (Camp for the Blind), Adopt A Child at Christmas providing assistance to less fortunate kids within the community, and Bell Ringing for the Salvation Army.

MARKET HIGHLIGHTS: EASTMAN/CHESTER/SOPERTON

Kids, Causes and Community

If there's a civic event, a service organization or a worthy cause to support, it's almost a certainty that Colony Bank in Eastman, Soperton and Chester will be part of it. In 2012 the team gave back by:

Sponsoring:

- A Little League Baseball Team for the Soperton/Treutlen Recreation Department
- A recreation basketball team for the youth of Treutlen County
- The "toss-out" program for home football games at Treutlen High School

Serving:

- Loan Officer, Eric Kight, served as Lions Club president
- Office Manager, Samantha Kight, served as a member of the financial advisory committee for Treutlen 4-H

The team also collected toys for the underprivileged children toy drive at Christmas, and collected "box tops for education" for our local elementary school. In addition, the bank donated school supplies to Concerned Citizens of Treutlen County for a Back to School drive for needy families.

The Eastman team follows suit, supporting Relay for Life, the Lions Club Empty Stocking Fund, and Georgia Peanut Week. They participate in the Accelerated Reader program at Dodge County Elementary School, the Youth League at Eastman-Dodge Recreation Department and the Dodge County Middle School Sports awards. They also support the Character Counts program and "Banking Is" at Dodge County High School.

MARKET HIGHLIGHTS: VALDOSTA

Investing in the Future

The team at Colony Bank's two Valdosta locations at North Ashley Street and Camelot, combine professional banking with personal service to enhance the lives of the people they serve.

In 2012 the Valdosta offices spent approximately $10,625 in 2012 for special events, causes and organizations in the Valdosta community:

Sports & Education

- D.A.R.E. Program
- VSU Fellowship of Christian Athletes
- Pine Grove Middle School Athletes
- Moulton Branch Elementary School (CPIE)
- Valdosta Boys & Girls Club
- Children's Advocacy Center
- Georgia Christian School
- War of the Borders All-Star Game
- Lowndes High Touchdown Club
- Valwood School

Civic

- 4-H Clubs
- Habitat for Humanity
- Parks & Recreation All-Star Teams
- Valdosta/Lowndes County Chamber of Commerce
- Lake Park Chamber of Commerce
- Leadership Lowndes
- Homebuilders Association
- MLK Jr. Commemoration Association
- Quota Club Taste of Valdosta

Health & Charitable

- Shrine Club
- Lowndes High Georgia Bridgemen
- Alzheimer's Association
- Hospice of South Georgia
- South Georgia Rivers Sams (Childhood Cancer Research)
- Paws for a Cause
- Jacobs Ladder
- Dance Arts, Nutcracker

The bank also consistently supports the following organizations by participating in events and providing financial resources:

Shriners
Rotary Club
CPIE
Kiwanis Club

Toys for Tots
Quota International
Leadership Lowndes
VSU Alumni Association

Relay for Life
Home Instead (Adopt a Senior)
In the Game Awards Dinner

Robin McCormick, Becky Briggs, Melody Samples, bank customer Mike Gammons, Amy Smith and Eddie Smith, attending a community banquet.

Rhonda Walker and Michael Oppel supporting Toys for Tots.

Market President, Eddie Smith and Offensive Player of the Year Malkom Parrish, Brooks County at the Sports Banquet for *In the Game* Magazine.

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March 12, 2013

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, 2012 and 2011 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, 2012. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colony Bankcorp, Inc. and Subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 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, 2012 included under Item 9A, *Controls and Procedures*, in Colony Bankcorp, Inc.'s Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

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

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

ASSETS

	2012	2011
Cash and Cash Equivalents		
Cash and Due from Banks	**$ 29,243,927**	$ 28,380,368
Federal Funds Sold	**20,001,906**	54,991,474
	49,245,833	83,371,842
Interest-Bearing Deposits	**21,795,341**	28,957,310
Investment Securities		
Available for Sale, at Fair Value	**268,300,411**	303,890,847
Held to Maturity, at Cost (Fair Value of $41,909 and $45,635 as of December 31, 2012 and 2011, Respectively)	**41,467**	46,111
	268,341,878	303,936,958
Federal Home Loan Bank Stock, at Cost	**3,364,300**	5,398,200
Loans	**747,050,011**	716,321,321
Allowance for Loan Losses	**(12,736,921)**	(15,649,594)
Unearned Interest and Fees	**(233,927)**	(57,646)
	734,079,163	700,614,081
Premises and Equipment	**24,916,106**	25,750,235
Other Real Estate (Net of Allowance of $4,561,099 and $2,373,511 in 2012 and 2011, Respectively)	**15,940,693**	20,445,085
Other Intangible Assets	**223,510**	259,258
Other Assets	**21,489,957**	26,643,467
Total Assets	**$1,139,396,781**	$1,195,376,436

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	2012	2011
Deposits		
Noninterest-Bearing	**$ 123,966,542**	$ 94,268,911
Interest-Bearing	**855,718,349**	905,716,361
	979,684,891	999,985,272
Borrowed Money		
Subordinated Debentures	**24,229,000**	24,229,000
Other Borrowed Money	**35,000,000**	71,000,000
	59,229,000	95,229,000
Other Liabilities	**4,723,723**	3,549,354
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, Stated Value $1,000; Authorized 10,000,000 Shares, Issued 28,000 Shares	**27,827,053**	27,662,476
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,439,258 Shares as of December 31, 2012 and 2011, Respectively	**8,439,258**	8,439,258
Paid-In Capital	**29,145,094**	29,145,094
Retained Earnings	**30,497,576**	29,456,240
Accumulated Other Comprehensive Income (Loss), Net of Tax	**(149,814)**	1,909,742
	95,759,167	96,612,810
Total Liabilities and Stockholders' Equity	**$1,139,396,781**	$1,195,376,436

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

	2012	2011	2010
Interest Income			
Loans, Including Fees	**$41,963,113**	$44,460,149	$ 51,728,665
Federal Funds Sold and Securities Purchased Under Agreements to Resell	**99,273**	114,794	95,428
Deposits with Other Banks	**42,903**	45,646	38,085
Investment Securities			
U. S. Government Agencies	**4,824,423**	6,873,296	6,613,030
State, County and Municipal	**206,483**	160,892	103,133
Corporate Obligations	**76,029**	91,034	137,831
Dividends on Other Investments	**77,203**	47,001	21,547
	47,289,427	51,792,812	58,737,719
Interest Expense			
Deposits	**8,737,281**	12,950,229	17,212,312
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	**-**	337,711	721,044
Borrowed Money	**2,279,469**	3,517,633	3,589,847
	11,016,750	16,805,573	21,523,203
Net Interest Income	**36,272,677**	34,987,239	37,214,516
Provision for Loan Losses	**6,784,767**	8,250,000	13,350,000
Net Interest Income After Provision for Loan Losses	**29,487,910**	26,737,239	23,864,516
Noninterest Income			
Service Charges on Deposits	**3,572,897**	3,244,536	3,597,416
Other Service Charges, Commissions and Fees	**1,514,898**	1,311,758	1,139,935
Mortgage Fee Income	**400,009**	265,636	313,005
Securities Gains	**2,837,464**	2,923,601	2,617,062
Gain on Sale of SBA Loans	**305,924**	946,732	1,004,585
Other	**1,102,077**	1,258,813	1,334,846
	9,733,269	9,951,076	10,006,849
Noninterest Expenses			
Salaries and Employee Benefits	**15,564,893**	14,632,693	14,096,698
Occupancy and Equipment	**3,878,268**	3,997,667	4,422,152
Directors' Fees	**465,220**	466,075	495,950
Legal and Professional Fees	**1,085,881**	1,186,884	1,369,864
Foreclosed Property	**5,613,316**	4,045,245	4,943,530
FDIC Assessment	**1,497,974**	1,828,799	1,866,956
Advertising	**422,718**	508,329	743,278
Software	**789,226**	660,120	630,543
Telephone	**744,930**	735,758	703,786
Other	**5,316,604**	4,989,267	4,583,606
	35,379,030	33,050,837	33,856,363
Income Before Income Taxes (Benefits)	**3,842,149**	3,637,478	15,002
Income Taxes (Benefits)	**1,200,851**	1,103,883	(459,214)
Net Income	**2,641,298**	2,533,595	474,216
Preferred Stock Dividends	**1,435,385**	1,400,000	1,400,000
Net Income (Loss) Available to Common Stockholders	**$ 1,205,913**	$ 1,133,595	$ (925,784)
Net Income (Loss) Per Share of Common Stock			
Basic	**$ 0.14**	$ 0.13	$ (0.11)
Diluted	**$ 0.14**	$ 0.13	$ (0.11)
Cash Dividends Declared Per Share of Common Stock	**$ 0.00**	$ 0.00	$ 0.00
Weighted Average Shares Outstanding	**8,439,258**	8,439,258	8,149,217

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

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

	2012	2011	2010
Net Income	**$ 2,641,298**	$ 2,533,595	$ 474,216
Other Comprehensive Income, Net of Tax			
Gains (Losses) on Securities Arising During the Year	**(186,830)**	4,439,108	1,227,281
Reclassification Adjustment	**(1,872,726)**	(1,929,577)	(1,727,261)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(2,059,556)**	2,509,531	(499,980)
Comprehensive Income (Loss)	**$ 581,742**	$ 5,043,126	$ (25,764)

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, 2012, 2011 AND 2010

	Preferred Stock	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Restricted Stock - Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	$27,356,964	7,229,163	$7,229,163	$25,392,913	$29,553,941	$(158,548)	$ (99,809)	$89,274,624
Issuance of Common Stock		1,216,545	1,216,545	3,861,710				5,078,255
Forfeiture of Restricted Stock		(2,750)	(2,750)	(27,570)		30,320		-
Tax Loss on Restricted Stock				(55,966)				(55,966)
Amortization of Unearned Compensation						87,434		87,434
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(499,980)	(499,980)
Accretion of Fair Value of Warrant	148,946				(148,946)			-
Dividends on Preferred Shares					(1,400,000)			(1,400,000)
Net Income					474,216			474,216
Balance, December 31, 2010	27,505,910	8,442,958	8,442,958	29,171,087	28,479,211	(40,794)	(599,789)	92,958,583
Forfeiture of Restricted Stock		(3,700)	(3,700)	(25,993)		29,693		-
Amortization of Unearned Compensation						11,101		11,101
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							2,509,531	2,509,531
Accretion of Fair Value of Warrant	156,566				(156,566)			-
Dividends on Preferred Shares					(1,400,000)			(1,400,000)
Net Income					2,533,595			2,533,595
Balance, December 31, 2011	27,662,476	8,439,258	8,439,258	29,145,094	29,456,240	-	1,909,742	96,612,810
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(2,059,556)	(2,059,556)
Accretion of Fair Value of Warrant	164,577				(164,577)			-
Dividends on Preferred Shares					(1,435,385)			(1,435,385)
Net Income					2,641,298			2,641,298
Balance, December 31, 2012	**$27,827,053**	**8,439,258**	**$8,439,258**	**$29,145,094**	**$30,497,576**	**$ -**	**$ (149,814)**	**$95,759,167**

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

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

	2012	2011	2010
Cash Flows from Operating Activities			
Net Income	**$ 2,641,298**	$ 2,533,595	$ 474,216
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation	**1,676,820**	1,790,041	2,140,735
Amortization and Accretion	**4,180,158**	3,487,124	4,043,795
Provision for Loan Losses	**6,784,767**	8,250,000	13,350,000
Deferred Income Taxes	**1,204,439**	867,006	639,607
Securities Gains	**(2,837,464)**	(2,923,601)	(2,617,062)
Loss on Sale of Premises and Equipment	**1,148**	3,668	28,146
Loss on Sale of Other Real Estate and Repossessions	**1,839,196**	1,106,479	1,827,704
Provision for Losses on Other Real Estate	**2,702,709**	1,411,061	1,293,174
Increase in Cash Surrender Value of Life Insurance	**(185,341)**	(174,289)	(56,024)
Change In			
Interest Receivable	**250,755**	739,423	1,325,068
Prepaid Expenses	**1,741,834**	1,861,810	2,006,032
Interest Payable	**74,637**	(398,903)	(452,764)
Accrued Expenses and Accounts Payable	**(95,972)**	(405,612)	(148,591)
Other	**2,827,648**	(2,987,906)	3,500,575
	22,806,632	15,159,896	27,354,611
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	**7,161,969**	21,769,424	(44,247,933)
Purchase of Investment Securities Available for Sale	**(250,445,594)**	(381,284,748)	(380,490,982)
Proceeds from Sale of Investment Securities Available for Sale	**227,690,806**	342,672,937	286,387,727
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	**54,006,594**	41,978,769	55,648,274
Held to Maturity	**14,019**	12,565	14,001
Proceeds from Sale of Premises and Equipment	**1,500**	1,605	-
Net Loans to Customers	**(50,126,252)**	63,267,200	88,105,734
Purchase of Premises and Equipment	**(845,338)**	(397,825)	(490,256)
Proceeds from Sale of Other Real Estate and Repossessions	**9,876,136**	9,991,792	9,866,063
Proceeds from Sale of Federal Home Loan Bank Stock	**2,033,900**	665,300	281,900
	(632,260)	98,677,019	15,074,528
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	**(49,998,012)**	(50,448,220)	(17,183,061)
Noninterest-Bearing Customer Deposits	**29,697,631**	(8,690,512)	18,720,584
Proceeds from Other Borrowed Money	**5,000,000**	-	23,076,010
Principal Payments on Other Borrowed Money	**(41,000,000)**	(4,076,010)	(39,000,000)
Dividends Paid on Preferred Stock	**-**	(1,400,000)	(1,400,000)
Issuance of Common Stock	**-**	-	5,078,255
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	**-**	(20,000,000)	(20,000,000)
	(56,300,381)	(84,614,742)	(30,708,212)
Net Increase (Decrease) in Cash and Cash Equivalents	**(34,126,009)**	29,222,173	11,720,927
Cash and Cash Equivalents, Beginning	**83,371,842**	54,149,669	42,428,742
Cash and Cash Equivalents, Ending	**$ 49,245,833**	$ 83,371,842	$ 54,149,669

See accompanying notes which are an integral part of these 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, Chester, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Pitts, Quitman, Rochelle, Savannah, Soperton, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. Lending and investing activities are funded primarily by deposits gathered through its retail banking office network.

Use of Estimates

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

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 2012. Such reclassifications had no effect on previously reported stockholders' equity or net income.

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2012, 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. The downturn of the housing and real estate market that began in 2007 resulted in an increase of problem loans secured by real estate, of which most are centered in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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

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

Investment Securities

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

Investment Securities (Continued)

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Loans Modified in a Troubled Debt Restructuring (TDR)

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

Allowance for Loan Losses

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

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

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

Premises and Equipment

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

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

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

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

Intangible Assets

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

(1) Summary of Significant Accounting Policies (Continued)

Transfers of Financial Assets

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

Statement of Cash Flows

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

Securities Purchased Under Agreement to Resell and Securities Sold Under Agreements to Repurchase

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

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

Advertising Costs

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

Income Taxes

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

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

The Company’s federal and state income tax returns for tax years 2012, 2011, 2010 and 2009 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing.

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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.

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 balance sheet when they are funded.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Adoption of New Accounting Standards

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

(1) Summary of Significant Accounting Policies (Continued)

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

Adoption of New Accounting Standards (Continued)

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective for the Company on January 1, 2012 and, aside from new disclosures included in Note 20 - Fair Value of Financial Instruments and Fair Value Measurements, did not have a significant impact on the Company's consolidated financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 became effective for the Company on January 1, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below.

ASU 2011-12, "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's consolidated financial statements.

Recently Issued But Not Yet Effective Accounting Standards

ASU 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the consolidated balance sheet and/or subject to a master netting arrangement or similar agreement. ASU No. 2013-01, "Balance Sheet (Topic 210) - Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," clarifies that ordinary trade receivables are not within the scope of ASU 2011-11. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's consolidated financial statements.

(2) Cash and Balances Due from Banks

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

	2012	2011
Cash on Hand and Cash Items	**$ 9,063,437**	$ 9,271,705
Noninterest-Bearing Deposits with Other Banks	**20,180,490**	19,108,663
	$29,243,927	$28,380,368

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 $6,065,000 and $4,183,000 at December 31, 2012 and 2011, respectively.

(3) Investment Securities

Investment securities as of December 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies Mortgage-Backed	**$263,186,852**	**$833,920**	**$ (961,698)**	**$263,059,074**
State, County and Municipal	**3,973,926**	**34,670**	**(4,586)**	**4,004,010**
Corporate Obligations	**1,000,000**	**104,900**	**-**	**1,104,900**
Asset-Backed Securities	**366,623**	**-**	**(234,196)**	**132,427**
	$268,527,401	**$973,490**	**$(1,200,480)**	**$268,300,411**
Securities Held to Maturity				
State, County and Municipal	**$ 41,467**	**$ 442**	**$ -**	**$ 41,909**

The amortized cost and fair value of investment securities as of December 31, 2012, 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		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ 125,000	$ 125,665	$ -	$ -
Due After One Year Through Five Years	2,758,034	2,892,955	41,467	41,909
Due After Five Years Through Ten Years	1,882,647	1,882,228	-	-
Due After Ten Years	574,868	340,489	-	-
	5,340,549	5,241,337	41,467	41,909
Mortgage-Backed Securities	263,186,852	263,059,074	-	-
	$268,527,401	$268,300,411	$41,467	$41,909

(3) Investment Securities (Continued)

Investment securities as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies Mortgage-Backed	$291,096,606	$3,152,095	$(187,902)	$294,060,799
State, County and Municipal	7,474,500	132,226	(23,035)	7,583,691
Corporate Obligations	2,000,000	123,930	(10,000)	2,113,930
Asset-Backed Securities	426,191	-	(293,764)	132,427
	$300,997,297	$3,408,251	$(514,701)	$303,890,847
Securities Held to Maturity				
State, County and Municipal	$ 46,111	$ -	$ (476)	$ 45,635

Proceeds from sales of investments available for sale were $227,690,806 in 2012, $342,672,937 in 2011 and $286,387,727 in 2010. Gross realized gains totaled $3,084,666 in 2012, $2,978,193 in 2011 and $2,617,062 in 2010. Gross realized losses totaled $247,202 in 2012, $54,592 in 2011 and $0 in 2010.

Nonaccrual securities are securities for which principal and interest are doubtful of collection in accordance with original terms and for which accruals of interest have been discontinued due to payment delinquency. Fair value of securities on nonaccrual status totaled $132,427 as of December 31, 2012 and 2011.

Investment securities having a carrying value totaling $117,450,817 and $136,838,456 as of December 31, 2012 and 2011, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2012 and 2011 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2012						
U.S. Government Agencies Mortgage-Backed	**$142,103,991**	**$(961,698)**	**$ -**	**$ -**	**$142,103,991**	**$ (961,698)**
State, County and Municipal	**1,430,512**	**(4,586)**	**-**	**-**	**1,430,512**	**(4,586)**
Asset-Backed Securities	**-**	**-**	**132,427**	**(234,196)**	**132,427**	**(234,196)**
	$143,534,503	**$(966,284)**	**$132,427**	**$(234,196)**	**$143,666,930**	**$(1,200,480)**
December 31, 2011						
U.S. Government Agencies Mortgage-Backed	$ 26,439,317	$(187,902)	$ -	$ -	$ 26,439,317	$ (187,902)
State, County and Municipal	1,224,119	(21,704)	73,193	(1,807)	1,297,312	(23,511)
Corporate Obligations	-	-	990,000	(10,000)	990,000	(10,000)
Asset-Backed Securities	-	-	132,427	(293,764)	132,427	(293,764)
	$ 27,663,436	$(209,606)	$1,195,620	$(305,571)	$ 28,859,056	$ (515,177)

(3) Investment Securities (Continued)

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2012, the debt securities with unrealized losses have depreciated 0.84 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations, except for asset-backed securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company did own one asset-backed security at December 31, 2012 which has been in a continuous unrealized loss position for more than 12 months. This investment is comprised of one issuance of a trust preferred security, has a book value of $366,623 and an unrealized loss of $234,196. Management evaluates this investment on a quarterly basis utilizing a third-party valuation model. The results of this model revealed other-than-temporary impairment and as a result, $59,568, $53,058 and $520,751 were written off during the years ended December 31, 2012, 2011 and 2009, respectively. The Company does not intend to sell this investment, nor does the Company consider it likely that it will be required to sell the investment prior to recovery of the remaining fair value.

(4) Loans

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

	2012	2011
Commercial and Agricultural		
Commercial	**$ 55,684,492**	$ 48,986,102
Agricultural	**6,210,953**	8,421,884
Real Estate		
Commercial Construction	**53,808,056**	58,545,820
Residential Construction	**5,852,238**	3,530,502
Commercial	**334,386,177**	315,280,748
Residential	**203,844,522**	193,637,817
Farmland	**49,056,861**	48,225,406
Consumer and Other		
Consumer	**29,777,776**	30,449,303
Other	**8,428,936**	9,243,739
Total Loans	**$747,050,011**	$716,321,321

(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.

(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.

2012	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	**$ 49,947,552**	**$ 1,417,735**	**$ 4,319,205**	**$ 55,684,492**
Agricultural	**6,155,864**	**-**	**55,089**	**6,210,953**
Real Estate				
Commercial Construction	**37,256,301**	**1,663,588**	**14,888,167**	**53,808,056**
Residential Construction	**5,748,829**	**103,409**	**-**	**5,852,238**
Commercial	**298,222,139**	**9,759,473**	**26,404,565**	**334,386,177**
Residential	**183,222,020**	**11,412,973**	**9,209,529**	**203,844,522**
Farmland	**45,495,038**	**913,487**	**2,648,336**	**49,056,861**
Consumer and Other				
Consumer	**28,839,058**	**293,467**	**645,251**	**29,777,776**
Other	**8,350,772**	**8,907**	**69,257**	**8,428,936**
Total Loans	**$663,237,573**	**$25,573,039**	**$58,239,399**	**$747,050,011**

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

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

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

(4) Loans (Continued)

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. Nonaccrual loans totaled $29,850,735 and $38,821,632 as of December 31, 2012 and 2011, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest totaled $4,355 and $15,160, respectively. During its review of impaired loans, the Company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

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

	Accruing Loans					
2012	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Accruing Loans Past Due**	**Nonaccrual Loans**	**Current Loans**	**Total Loans**
Commercial and Agricultural						
Commercial	**$ 797,612**	**$ -**	**$ 797,612**	**$ 1,033,371**	**$ 53,853,509**	**$ 55,684,492**
Agricultural	**28,228**	**-**	**28,228**	**39,213**	**6,143,512**	**6,210,953**
Real Estate						
Commercial Construction	**1,309,618**	**-**	**1,309,618**	**14,032,580**	**38,465,858**	**53,808,056**
Residential Construction	**-**	**-**	**-**	**-**	**5,852,238**	**5,852,238**
Commercial	**3,771,106**	**-**	**3,771,106**	**6,629,789**	**323,985,282**	**334,386,177**
Residential	**8,223,174**	**-**	**8,223,174**	**5,429,971**	**190,191,377**	**203,844,522**
Farmland	**140,095**	**-**	**140,095**	**2,413,104**	**46,503,662**	**49,056,861**
Consumer and Other						
Consumer	**636,888**	**4,355**	**641,243**	**255,216**	**28,881,317**	**29,777,776**
Other	**4,557**	**-**	**4,557**	**17,491**	**8,406,888**	**8,428,936**
Total Loans	**$14,911,278**	**$ 4,355**	**$14,915,633**	**$29,850,735**	**$702,283,643**	**$747,050,011**
2011						
Commercial and Agricultural						
Commercial	$ 644,899	$ -	$ 644,899	$ 2,102,522	$ 46,238,681	$ 48,986,102
Agricultural	-	-	-	85,670	8,336,214	8,421,884
Real Estate						
Commercial Construction	513,905	-	513,905	23,578,263	34,453,652	58,545,820
Residential Construction	33,541	-	33,541	-	3,496,961	3,530,502
Commercial	2,930,743	-	2,930,743	9,193,650	303,156,355	315,280,748
Residential	2,251,009	15,160	2,266,169	3,110,032	188,261,616	193,637,817
Farmland	376,426	-	376,426	486,683	47,362,297	48,225,406
Consumer and Other						
Consumer	410,041	-	410,041	221,360	29,817,902	30,449,303
Other	-	-	-	43,452	9,200,287	9,243,739
Total Loans	$ 7,160,564	$15,160	$ 7,175,724	$38,821,632	$670,323,965	$716,321,321

(4) Loans (Continued)

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $1,634,600, $1,639,800 and $1,621,700 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table details impaired loan data as of December 31, 2012:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 1,508,236	$ 1,041,938	$ -	$ 1,052,916	$ 27,407	$ 28,410
Agricultural	39,213	39,213	-	58,056	-	-
Commercial Construction	10,624,917	6,414,986	-	9,194,360	27,377	51,820
Commercial Real Estate	16,565,971	15,505,907	-	26,482,274	430,339	420,549
Residential Real Estate	4,450,128	4,131,707	-	3,096,151	89,139	123,101
Farmland	2,828,539	2,413,103	-	2,326,180	42,588	55,258
Consumer	297,356	255,216	-	228,181	10,441	12,920
Other	17,491	17,491	-	24,414	1,191	1,291
	36,331,851	29,819,561	-	42,462,532	628,482	693,349
With An Allowance Recorded						
Commercial	1,493,432	1,493,432	462,555	942,673	91,888	87,611
Agricultural	-	-	-	-	-	-
Commercial Construction	8,266,649	7,617,594	1,732,534	10,533,468	-	-
Commercial Real Estate	12,758,884	12,745,422	1,236,526	6,398,364	383,356	366,423
Residential Real Estate	5,514,994	4,421,809	840,492	4,288,062	144,661	117,266
Farmland	-	-	-	64,862	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	28,033,959	26,278,257	4,272,107	22,227,429	619,905	571,300
Total						
Commercial	3,001,668	2,535,370	462,555	1,995,589	119,295	116,021
Agricultural	39,213	39,213	-	58,056	-	-
Commercial Construction	18,891,566	14,032,580	1,732,534	19,727,828	27,377	51,820
Commercial Real Estate	29,324,855	28,251,329	1,236,526	32,880,638	813,695	786,972
Residential Real Estate	9,965,122	8,553,516	840,492	7,384,213	233,800	240,367
Farmland	2,828,539	2,413,103	-	2,391,042	42,588	55,258
Consumer	297,356	255,216	-	228,181	10,441	12,920
Other	17,491	17,491	-	24,414	1,191	1,291
	$64,365,810	$56,097,818	$4,272,107	$64,689,961	$1,248,387	$1,264,649

(4) Loans (Continued)

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

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

At December 31, 2010, the average recorded investment in impaired loans was $28,700,626 and the interest income recognized and collected on impaired loans was $484,984 and $694,764, respectively.

(4) Loans (Continued)

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

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

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

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

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2012. The following tables present the number of loan contracts restructured during the 12 months ended December 31, 2012 and the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 12 months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings

2012	**# of Contracts**	**Pre-Modification**	**Post-Modification**
Commercial	**1**	**$ 107,749**	**$ 107,749**
Commercial Real Estate	**1**	**56,835**	**56,835**
Residential Real Estate	**5**	**1,082,585**	**1,079,614**
Total Loans	**7**	**$1,247,169**	**$1,244,198**

(4) Loans (Continued)

Troubled Debt Restructurings

2011	# of Contracts	Pre-Modification	Post-Modification
Commercial	3	$ 3,240,469	$ 1,541,882
Commercial Construction	3	1,430,147	1,430,101
Commercial Real Estate	9	20,827,349	15,906,547
Residential Real Estate	8	1,505,356	1,456,878
Total Loans	23	$27,003,321	$20,335,408

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

2012	**# of Contracts**	**Recorded Investment**
Residential Real Estate	**1**	**$ 10,000**
Commercial Real Estate	**1**	**203,291**
Total Loans	**2**	**$ 213,291**
2011		
Commercial	1	$ 1,175,922
Commercial Construction	3	4,475,473
Commercial Real Estate	3	2,322,361
Total Loans	7	$ 7,973,756

At December 31, 2012 and 2011, all restructured loans were performing as agreed. However, three restructured loans totaling $999,133, $51,998 and $10,000 at December 31, 2011 failed to continue to perform as agreed and, as a result, the loans were charged off in March 2011, December 2011 and January 2012, respectively.

(5) Allowance for Loan Losses

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

	December 31		
	2012	2011	2010
Balance, Beginning of Year	**$ 15,649,594**	$ 28,280,077	$ 31,400,641
Provision for Loan Losses	**6,784,767**	8,250,000	13,350,000
Loans Charged Off	**(10,454,175)**	(22,850,673)	(17,622,454)
Recoveries of Loans Previously Charged Off	**756,735**	1,970,190	1,151,890
Balance, End of Year	**$ 12,736,921**	$ 15,649,594	$ 28,280,077

(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.

2012	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	**$ 1,070,560**	**$ (653,389)**	**$ 139,802**	**$ 424,048**	**$ 981,021**
Agricultural	**297,168**	**(3,028)**	**-**	**2,035**	**296,175**
Real Estate					
Commercial Construction	**3,122,594**	**(4,106,124)**	**209,352**	**2,664,378**	**1,890,200**
Residential Construction	**138,092**	**-**	**-**	**-**	**138,092**
Commercial	**6,448,064**	**(4,325,642)**	**232,880**	**2,807,537**	**5,162,839**
Residential	**3,695,357**	**(960,620)**	**47,690**	**623,520**	**3,405,947**
Farmland	**364,663**	**(224,725)**	**4,716**	**145,872**	**290,526**
Consumer and Other					
Consumer	**205,154**	**(169,249)**	**81,956**	**109,913**	**227,774**
Other	**307,942**	**(11,398)**	**40,339**	**7,464**	**344,347**
	$15,649,594	**$(10,454,175)**	**$ 756,735**	**$6,784,767**	**$12,736,921**

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

(5) Allowance for Loan Losses (Continued)

2010	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 3,930,760	$ (469,214)	$ 80,181	$ 873,090	$ 4,414,817
Agricultural	779,337	(255,627)	1,377	173,550	698,637
Real Estate					
Commercial Construction	7,402,484	(4,648,124)	184,868	1,186,815	4,126,043
Residential Construction	447,676	-	-	72,090	519,766
Commercial	8,790,443	(7,459,619)	141,931	6,556,770	8,029,525
Residential	5,025,839	(2,929,668)	439,940	3,405,585	5,941,696
Farmland	942,019	(271,750)	7,639	266,415	944,323
Consumer and Other					
Consumer	2,826,058	(548,834)	245,641	551,355	3,074,220
Other	1,256,025	(1,039,618)	50,313	264,330	531,050
	$31,400,641	$(17,622,454)	$1,151,890	$13,350,000	$28,280,077

In 2012, the Company refined its methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL). Management has been proactive in identifying problem loans, assessing exposure and providing sufficient reserves to cover the exposures. The ALLL was increased in anticipation of identified exposures resulting in confirmed losses. When losses were confirmed, they were promptly charged off. As a result, losses for the years 2009, 2010 and 2011 were very high. During this period and in 2012, newer loans granted were made subject to higher underwriting standards and more conservative appraisals. Because of the prompt recognition of losses that drove the excessive charge-off history, management now believes the remaining losses incurred in the current portfolio, including newer loans made, will be less than unadjusted loss history factors will suggest. Considering the major losses taken, along with organizational and staffing changes, the validity of qualitative factors in determining adjustments of loss history needed to be reviewed. Recognizing the importance of credit administration and the role of personnel involved in granting, approving, administering, monitoring and collecting loans, management concluded that greater weight should be placed on factors associated with those activities. Additionally, during the year ended December 31, 2012, management reviewed the appropriateness of continuing to use a one-year annual loss rate to determine losses incurred in the loan portfolio segments of loans collectively reviewed for impairment. Consideration was given to the trends in losses incurred over prior quarters and economic indicators impacting the Company. Management concluded that the one-year charge-off history should be expanded to include quarters from the current year. Thus, the annualized loss rates used for the December 31, 2012 allowance for loan loss calculation were based on an expanded period that includes all four quarters of 2011 and the first three quarters of 2012. The effect of these changes on the ALLL resulted in a reduction in the ALLL estimate of $2,154,639. Management believes the adjustments made will result in a better estimation of losses incurred in the portfolio.

(5) Allowance for Loan Losses (Continued)

The Company determines its individual loan reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding relationship balance of $50,000 or more, regardless of the loan's 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 will make specific allocations of the allowance to those loans if warranted. Since these loans are not considered impaired, they are included in the "Collectively Evaluated for Impairment" column of the following tables. At December 31, 2012 and 2011, substandard loans, not classified as impaired, for which a specific allocation was made totaled $10,795,911 and $16,746,384, respectively. The specific allocation associated with these loans for December 31, 2012 and 2011 was $898,773 and $1,926,438. At December 31, 2012, 2011 and 2010, impaired loans totaling $1,026,624, $995,168 and $976,971, respectively, were below the $50,000 review threshold and were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for December 31, 2012 and 2011:

	Ending Allowance Balance			Ending Loan Balance		
2012	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
Commercial and Agricultural						
Commercial	$ 462,555	$ 518,466	$ 981,021	$ 2,512,133	$ 53,172,359	$ 55,684,492
Agricultural	-	296,175	296,175	-	6,210,953	6,210,953
Real Estate						
Commercial Construction	1,732,534	157,666	1,890,200	13,892,135	39,915,921	53,808,056
Residential Construction	-	138,092	138,092	-	5,852,238	5,852,238
Commercial	1,236,526	3,926,313	5,162,839	28,205,405	306,180,772	334,386,177
Residential	840,492	2,565,455	3,405,947	8,022,249	195,822,273	203,844,522
Farmland	-	290,526	290,526	2,393,775	46,663,086	49,056,861
Consumer and Other						
Consumer	-	227,774	227,774	28,007	29,749,769	29,777,776
Other	-	344,347	344,347	17,491	8,411,445	8,428,936
Total End of Year Balance	$4,272,107	$8,464,814	$12,736,921	$55,071,195	$691,978,816	$747,050,011

(5) Allowance for Loan Losses (Continued)

2011	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	$ 308,211	$ 762,349	$ 1,070,560	$ 2,237,878	$ 46,748,224	$ 48,986,102
Agricultural	-	297,168	297,168	-	8,421,884	8,421,884
Real Estate						
Commercial Construction	2,693,571	429,023	3,122,594	24,212,519	34,333,301	58,545,820
Residential Construction	-	138,092	138,092	-	3,530,502	3,530,502
Commercial	2,060,815	4,387,249	6,448,064	35,715,026	279,565,722	315,280,748
Residential	674,998	3,020,359	3,695,357	5,614,744	188,023,073	193,637,817
Farmland	11,878	352,785	364,663	486,683	47,738,723	48,225,406
Consumer and Other						
Consumer	1,632	203,522	205,154	9,596	30,439,707	30,449,303
Other	-	307,942	307,942	-	9,243,739	9,243,739
Total End of Year Balance	$ 5,751,105	$ 9,898,489	$15,649,594	$ 68,276,446	$648,044,875	$716,321,321

2010	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	$ 336,011	$ 4,078,806	$ 4,414,817	$ 2,131,375	$ 51,088,966	$ 53,220,341
Agricultural	-	698,637	698,637	274,679	10,277,112	10,551,791
Real Estate						
Commercial Construction	3,501,117	624,926	4,126,043	28,392,107	43,917,124	72,309,231
Residential Construction	-	519,766	519,766	194,881	4,178,130	4,373,011
Commercial	7,539,533	489,992	8,029,525	58,562,946	304,315,619	362,878,565
Residential	1,561,952	4,379,744	5,941,696	13,645,907	193,825,906	207,471,813
Farmland	-	944,323	944,323	1,416,538	51,361,851	52,778,389
Consumer and Other						
Consumer	3,033	3,071,187	3,074,220	76,420	33,487,443	33,563,863
Other	-	531,050	531,050	113,002	15,990,667	16,103,669
Total End of Year Balance	$12,941,646	$15,338,431	$28,280,077	$104,807,855	$708,442,818	$813,250,673

(6) Premises and Equipment

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

	2012	2011
Land	**$ 7,780,167**	$ 7,780,167
Building	**23,758,761**	23,662,849
Furniture, Fixtures and Equipment	**12,923,699**	12,982,160
Leasehold Improvements	**948,260**	994,637
Construction in Progress	**-**	77,366
	45,410,887	45,497,179
Accumulated Depreciation	**(20,494,781)**	(19,746,944)
	$ 24,916,106	$ 25,750,235

Depreciation charged to operations totaled $1,676,820 in 2012, $1,790,041 in 2011 and $2,140,735 in 2010.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $447,000 for 2012, $376,000 for 2011 and $377,000 for 2010.

Future minimum rental payments as of December 31, 2012 are as follows:

Year Ending December 31	**Amount**
2013	$131,978
2014	52,138
2015	42,000
2016 and After	84,000
	$310,116

(7) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at December 31, 2012, 2011 and 2010 was $15,940,693, $20,445,805 and $20,207,806, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO during 2012, 2011 and 2010.

	December 31		
	2012	2011	2010
Balance, Beginning of Year	**$20,445,085**	$20,207,806	$19,705,044
Additions	**9,729,174**	12,555,622	13,159,402
Sales of OREO	**(9,711,890)**	(9,804,669)	(9,531,210)
Loss on Sale	**(1,818,967)**	(1,102,613)	(1,832,256)
Provision for Losses	**(2,702,709)**	(1,411,061)	(1,293,174)
Balance, End of Year	**$15,940,693**	$20,445,085	$20,207,806

(8) 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, 2010	$1,056,693	$(761,686)	$295,007
Amortization Expense	-	(35,749)	(35,749)
Balance, December 31, 2011	1,056,693	(797,435)	259,258
Amortization Expense	-	(35,748)	(35,748)
Balance, December 31, 2012	**$1,056,693**	**$(833,183)**	**$223,510**

Amortization expense related to the core deposit intangible was $35,748, $35,749 and $35,749 for the years ended December 31, 2012, 2011 and 2010. 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 (benefit) expense for the years ended December 31 are as follows:

	2012	2011	2010
Current Federal (Benefit) Expense	**$ (3,588)**	$ 311,174	$(1,037,717)
Deferred Federal (Benefit) Expense	**1,204,439**	867,006	639,607
Federal Income Tax (Benefit) Expense	**1,198,325**	1,178,180	(398,110)
Current State Income Tax (Benefit) Expense	**2,526**	(74,297)	(61,104)
	$1,200,851	$1,103,883	$ (459,214)

The federal income tax (benefit) expense of $1,200,851 in 2012, $1,178,180 in 2011 and $(398,110) in 2010 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:

	2012	2011	2010
Statutory Federal Income Taxes	**$1,306,331**	$1,228,538	$ 5,101
Tax-Exempt Interest	**(94,891)**	(126,468)	(117,586)
Interest Expense Disallowance	**4,908**	8,751	8,400
Premiums on Officers' Life Insurance	**(59,603)**	(52,431)	(134,106)
Meal and Entertainment Disallowance	**25,567**	20,693	24,972
Other	**16,013**	99,097	(184,891)
Actual Federal Income Taxes	**$1,198,325**	$1,178,180	$(398,110)

(9) Income Taxes (Continued)

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

	2012	2011
Deferred Tax Assets		
Allowance for Loan Losses	**$ 4,330,553**	$ 5,320,862
Other Real Estate	**1,668,653**	1,012,326
Deferred Compensation	**342,547**	386,225
Restricted Stock	**-**	508,547
Goodwill	**345,762**	392,124
Net Operating Loss Carryforward	**2,310,708**	2,992,777
Other	**529,706**	559,836
	9,527,929	11,172,697
Deferred Tax Liabilities		
Premises and Equipment	**(1,232,905)**	(1,195,334)
Vested Restricted Stock	**-**	(476,540)
Other	**(4,185)**	(4,185)
	(1,237,090)	(1,676,059)
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	**77,177**	(983,807)
Net Deferred Tax Assets	**$ 8,368,016**	$ 8,512,831

As discussed in Note 1, certain positions taken in the Company's tax returns may be subject to challenge by the taxing authorities. An analysis of activity related to unrecognized taxes follows as of December 31, 2012 and 2011.

	2012	2011
Balance, Beginning	**$ 33,368**	$ 78,121
Positions Taken During the Current Year	**11,794**	14,275
Reductions Resulting from Lapse of Statutes of Limitation	**(6,486)**	(59,028)
Balance, Ending	**$ 38,676**	$ 33,368

The net increase (decrease) of $5,308 and $(44,753) is included in income tax expense for the years ended December 31, 2012 and 2011, respectively.

The Company has cumulative federal net operation loss carryforwards of $4,299,505 at December 31, 2012 that expire beginning in 2021.

The Company considers the determination of the deferred tax asset amount and the need for any valuation reserve to be a critical accounting policy that requires significant judgment. The Company has, in its judgment, made reasonable assumptions and considered both positive and negative evidence relating to the ultimate realization of deferred tax assets. Based upon this evaluation, the Company determined that a valuation allowance on its deferred tax asset was not required as of December 31, 2012.

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $389,331 and $147,398 as of December 31, 2012 and 2011, respectively.

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

	2012	2011
Interest-Bearing Demand	**$314,030,843**	$284,870,972
Savings	**48,777,743**	41,230,662
Time, $100,000 and Over	**211,244,750**	247,589,188
Other Time	**281,665,013**	332,025,539
	$855,718,349	$905,716,361

At December 31, 2012 and 2011, the Company had brokered deposits of $28,229,608 and $28,157,961, respectively. Of the brokered deposits at December 31, 2012 and 2011, $28,229,608 and $28,157,961 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled $0 at December 31, 2012 and 2011. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $161,530,500 and $190,876,500 as of December 31, 2012 and 2011, respectively.

As of December 31, 2012, the scheduled maturities of certificates of deposit are as follows:

Year	**Amount**
2013	$388,484,260
2014	59,082,678
2015	28,380,949
2016	8,169,838
2017 and Thereafter	8,792,038
	$492,909,763

(11) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	2012	2011
Federal Home Loan Bank Advances	**$35,000,000**	$71,000,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2017 to 2019 and interest rates ranging from 0.56 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At December 31, 2012, the book value of those loans pledged approximated $76,000,000. At December 31, 2012, the Company had remaining credit availability from the FHLB of approximately $129,190,000. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

(11) Other Borrowed Money (Continued)

Other borrowed money of $9,000,000 matures in 2017, with the remainder of $26,000,000 maturing in 2018 and thereafter.

The Company also has available federal funds lines of credit with various financial institutions totaling $43,000,000, of which there were none outstanding at December 31, 2012.

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, 2012, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

In addition, at December 31, 2012, the Company had an available repurchase agreement line of credit with a third party totaling $50,000,000. Use of this credit facility is subject to the underwriting and risk management policies of the third party in effect at the time of the request. Such policies may take into consideration current market conditions, the current financial condition of the Company and the ability of the Company to provide adequate securities as collateral for the transaction, among other factors.

(12) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3-Month Libor Rate	Added Points	Total Interest Rate	Maturity	5-Year Call Option
		(In Thousands)					
Colony Bankcorp Statutory Trust III	6/17/2004	$4,500	0.30800	2.68	2.98800	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,000	0.31100	1.50	1.81100	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,000	0.31100	1.65	1.96100	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,000	0.31325	1.40	1.71325	9/14/2037	9/14/2012

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

On February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities. Under the terms of the trust documents, the Company may defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. The regularly scheduled interest payments will continue to be accrued for payment in the future and reported as an expense in the current period. At December 31, 2012, accrued but unpaid interest expense totaled $553,127.

(13) Preferred Stock

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

The Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Preferred Stock is 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. Accrued and 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 the Preferred Stock. At December 31, 2012, there were accumulated dividends in arrears of $1.61 million, approximately $57 per share, including related accrued interest. The Company may defer dividend payments for up to an aggregate of six dividend periods, whether consecutive or not, without default or penalty under the terms of the agreement. Failure to pay dividends for six periods would trigger board appointment rights for the holder of the Preferred Stock.

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

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

As discussed in Note 24, Subsequent Event, the Preferred Stock was sold by the Treasury at public auction on January 29, 2013.

(14) Restricted Stock - Unearned Compensation

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and 17,798 shares have been forfeited; thus, remaining shares which may be issued are 108,042 at December 31, 2012. During 2012, there were no shares of restricted stock issued or forfeited. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(15) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The Company has not made any provisions for contributions to the plan for 2012, 2011 and 2010.

(16) Commitments and Contingencies

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

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

At December 31, 2012 and 2011, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2012	2011
Commitments to Extend Credit	**$64,147,000**	$39,966,000
Standby Letters of Credit	**1,141,000**	1,327,000

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

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

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

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

(17) Deferred Compensation Plan

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

Liabilities accrued under the plans totaled $1,007,490 and $1,135,956 as of December 31, 2012 and 2011, respectively. Benefit payments under the contracts were $203,904 in 2012 and $196,501 in 2011. Provisions charged to operations totaled $82,250 in 2012, $98,901 in 2011 and $154,553 in 2010.

Fee income recognized with deferred compensation plans totaled $175,302 in 2012, $154,210 in 2011 and $182,685 in 2010.

(18) Supplemental Cash Flow Information

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

	2012	2011	2010
Interest Expense	**$10,942,113**	$17,204,476	$21,975,968
Income Taxes	**$ -**	$ 390,152	$ 275,000

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

	2012	2011	2010
Acquisitions of Real Estate Through Loan Foreclosures	**$9,729,174**	$12,555,622	$13,159,402
Unrealized (Gain) Loss on Investment Securities	**$3,120,540**	$ (3,802,320)	$ 757,545

(19) Related Party Transactions

The aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company was $4,776,492 as of December 31, 2012 and $5,504,230 as of December 31, 2011. 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:

	2012	2011
Balance, Beginning	**$ 5,504,230**	$ 9,797,492
New Loans	**8,075,835**	15,455,299
Repayments	**(10,510,517)**	(17,871,362)
Transactions Due to Changes in Directors	**1,706,944**	(1,877,199)
Balance, Ending	**$ 4,776,492**	$ 5,504,230

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

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

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

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

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

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

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

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.

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

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

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

	2012					2011	
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**	Carrying Amount	Estimated Fair Value
			(in Thousands)				
Assets							
Cash and Short-Term Investments	**$ 71,041**	**$ 71,041**	**$ 71,041**	**$ -**	**$ -**	$112,329	$ 112,329
Investment Securities Available for Sale	**268,300**	**268,300**	**-**	**267,162**	**1,138**	303,891	303,891
Investment Securities Held to Maturity	**41**	**42**	**-**	**42**	**-**	46	46
Federal Home Loan Bank Stock	**3,364**	**3,364**	**3,364**	**-**	**-**	5,398	5,398
Loans, Net	**734,079**	**735,115**	**-**	**713,109**	**22,006**	700,614	702,438
Liabilities							
Deposits	**979,685**	**982,215**	**486,775**	**495,440**	**-**	999,985	1,003,648
Subordinated Debentures	**24,229**	**24,229**	**24,229**	**-**	**-**	24,229	24,229
Other Borrowed Money	**35,000**	**38,424**	**-**	**38,424**	**-**	71,000	74,720

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.

Fair Value Measurements

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

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and represent the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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

Fair Value Measurements (Continued)

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

Assets

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

Impaired loans - Impaired loans are those that are not accounted for under ASC Subtopic 310-40, *Troubled Debt Restructurings by Creditors*, in 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.

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

Fair Value Measurements (Continued)

Assets (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis - The following table presents the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2012 and 2011, 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, 2012. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

		Fair Value Measurements at Reporting Date Using		
2012	**Total Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	**$263,059,074**	**$ -**	**$263,059,074**	**$ -**
State, County and Municipal	**4,004,010**	**-**	**2,998,199**	**1,005,811**
Corporate Obligations	**1,104,900**	**-**	**1,104,900**	**-**
Asset-Backed Securities	**132,427**	**-**	**-**	**132,427**
	$268,300,411	**$ -**	**$267,162,173**	**$ 1,138,238**
Nonrecurring				
Impaired Loans	**$ 22,006,150**	**$ -**	**$ -**	**$22,006,150**
Other Real Estate	**$ 8,817,204**	**$ -**	**$ -**	**$ 8,817,204**
2011				
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$294,060,799	$ -	$294,060,799	$ -
State, County and Municipal	7,583,691	-	7,583,691	-
Corporate Obligations	2,113,930	-	1,123,930	990,000
Asset-Backed Securities	132,427	-	-	132,427
	$303,890,847	$ -	$302,768,420	$ 1,122,427
Nonrecurring				
Impaired Loans	$ 17,250,312	$ -	$ -	$17,250,312
Other Real Estate	$ 5,094,081	$ -	$ -	$ 5,094,081

Liabilities

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

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

Fair Value Measurements (Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2012. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

	December 31, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired Loans				
Commercial	$ 1,030,877	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(45.00%)-80.00% (17.50%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%-80.00% (40.00%)
		Income Approach	Capitalization Rate	8.50%
Real Estate				
Commercial Construction	5,885,060	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00%-45.00% (22.50%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%-40.00% (20.00%)
		Income Approach	Discount Rate	7.94%
Residential Real Estate	3,581,317	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00%-24.00% (12.00%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%-40.00% (20.00%)
		Income Approach	Capitalization Rate	8.90%
Commercial Real Estate	11,508,896	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(7.40%)-73.70% (32.95%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00%-40.00% (20.00%)
		Income Approach	Capitalization Rate	9.50%
			Discount Rate	5.13%
Other Real Estate Owned	8,817,204	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(35.00%)-129.50% (47.25%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	3.10%-61.32% (32.33%)
		Income Approach	Discount Rate	3.00%

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

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, 2012, 2011 and 2010.

	Available for Sale Securities		
	2012	2011	2010
Balance, Beginning	**$ 1,122,427**	$ 1,016,997	$ 982,427
Total Realized/Unrealized Gains (Losses) Included In			
Purchases, Sales, Issuances and Settlements			
Transfers into Level 3	**788,933**	-	-
Securities Purchased During the Year	**208,245**	-	-
Securities Called During the Year	**(1,000,000)**	-	-
Unrealized Gains Included in Other Comprehensive Income	**78,201**	158,488	34,570
Loss on OTTI Impairment Included in Noninterest Income	**(59,568)**	(53,058)	-
Balance, Ending	**$ 1,138,238**	$ 1,122,427	$ 1,016,997

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. During the year ended December 31, 2012, the Company transferred certain state, county and municipal securities out of level 2 and into level 3. The transfers into level 3 were the result of decreased market activity for these types of securities, as well as a lack of current credit ratings on these securities. There were no gains or losses recognized as a result of the transfers. There were no transfers of securities between level 1 and level 2 for the years ended December 31, 2012, 2011 or 2010.

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2012.

	Fair Value	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
Asset-Back Securities	**$ 132,427**	Discounted Cash Flow	Discount Rate	2.95%-3.42% (3.19%)
State, County and Municipal	**1,005,811**	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.

(21) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, the Company suspended the payment of dividends to its stockholders in the third quarter of 2009. At December 31, 2012, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2012, 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.

(21) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of December 31, 2012 and 2011 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, 2012			(In Thousands)			
Total Capital to Risk-Weighted Assets						
Consolidated	**$122,630**	**16.47%**	**$59,548**	**8.00%**	**N/A**	**N/A**
Colony Bank	**123,463**	**16.61**	**59,474**	**8.00**	**$74,342**	**10.00%**
Tier I Capital to Risk-Weighted Assets						
Consolidated	**113,283**	**15.22**	**29,774**	**4.00**	**N/A**	**N/A**
Colony Bank	**114,128**	**15.35**	**29,737**	**4.00**	**44,605**	**6.00**
Tier I Capital to Average Assets						
Consolidated	**113,283**	**10.22**	**44,343**	**4.00**	**N/A**	**N/A**
Colony Bank	**114,128**	**10.31**	**44,282**	**4.00**	**55,352**	**5.00**
As of December 31, 2011						
Total Capital to Risk-Weighted Assets						
Consolidated	$118,913	16.50%	$57,658	8.00%	N/A	N/A
Colony Bank	117,243	16.29	57,584	8.00	$71,980	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	109,822	15.24	28,829	4.00	N/A	N/A
Colony Bank	108,163	15.03	28,792	4.00	43,188	6.00
Tier I Capital to Average Assets						
Consolidated	109,822	9.51	46,185	4.00	N/A	N/A
Colony Bank	108,163	9.38	46,117	4.00	57,646	5.00

The Bank is currently subject to a memorandum of understanding (MOU) which requires, among other things, that the Bank maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8 percent and total risk-based capital to total risk-weighted assets of 10 percent during the life of the MOU. The MOU also requires that, prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators. Additional requirements of the MOU are discussed in Part 1, Item 1 of the Company's December 31, 2012 Form 10-K filed with the Securities Exchange Commission on March 12, 2013. Failure to comply with the terms of the MOU could have an adverse impact on the Company's consolidated financial condition.

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

The parent company's balance sheets as of December 31, 2012 and 2011 and the related statements of operations and comprehensive income (loss) and cash flows for each of the years in the three-year period then ended are as follows:

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

ASSETS

	2012	2011
Cash	**$ 494,432**	$ 1,051,904
Premises and Equipment, Net	**1,284,968**	1,378,395
Investment in Subsidiary, at Equity	**119,646,209**	118,289,024
Other	**821,145**	437,414
Total Assets	**$122,246,754**	$121,156,737

LIABILITIES AND STOCKHOLDERS' EQUITY

	2012	2011
Liabilities		
Dividends Payable	**$1,610,385**	$ 175,000
Other	**648,202**	139,927
	2,258,587	314,927
Subordinated Debt	**24,229,000**	24,229,000
Stockholders' Equity		
Preferred Stock, Stated Value $1,000; Authorized 10,000,000 Shares, Issued 28,000 Shares	**27,827,053**	27,662,476
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of December 31, 2012 and 2011	**8,439,258**	8,439,258
Paid-In Capital	**29,145,094**	29,145,094
Retained Earnings	**30,497,576**	29,456,240
Accumulated Other Comprehensive Income, Net of Tax	**(149,814)**	1,909,742
	95,759,167	96,612,810
Total Liabilities and Stockholders' Equity	**$122,246,754**	$121,156,737

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

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

	2012	2011	2010
Income			
Dividends from Subsidiary	**$ 17,372**	$ 15,265	$ 15,536
Management Fees	**590,422**	505,414	455,241
Other	**101,397**	98,180	119,776
	709,191	618,859	590,553
Expenses			
Interest	**554,004**	508,081	516,170
Amortization	**2,250**	2,250	2,250
Salaries and Employee Benefits	**735,919**	734,104	761,873
Other	**558,151**	656,914	807,209
	1,850,324	1,901,349	2,087,502
Loss Before Taxes and Equity in Undistributed Earnings of Subsidiary	**(1,141,133)**	(1,282,490)	(1,496,949)
Income Tax Benefits	**365,691**	425,605	532,823
Loss Before Equity in Undistributed Earnings of Subsidiary	**(775,442)**	(856,885)	(964,126)
Equity in Undistributed Earnings of Subsidiary	**3,416,740**	3,390,480	1,438,342
Net Income	**2,641,298**	2,533,595	474,216
Preferred Stock Dividends	**1,435,385**	1,400,000	1,400,000
Net Income (Loss) Available to Common Stockholders	**$ 1,205,913**	$ 1,133,595	$ (925,784)

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

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

	2012	2011	2010
Net Income	**$ 2,641,298**	$ 2,533,595	$ 474,216
Other Comprehensive Income, Net of Tax			
Gains (Losses) on Securities Arising During the Year	**(186,830)**	4,439,108	1,227,281
Reclassification Adjustment	**(1,872,726)**	(1,929,577)	(1,727,261)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(2,059,556)**	2,509,531	(499,980)
Comprehensive Income (Loss)	**$ 581,742**	$ 5,043,126	$ (25,764)

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

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

	2012	2011	2010
Cash Flows from Operating Activities			
Net Income	**$ 2,641,298**	$ 2,533,595	$ 474,216
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities			
Depreciation and Amortization	**93,427**	112,651	194,918
Equity in Undistributed Earnings of Subsidiary	**(3,416,740)**	(3,390,480)	(1,438,342)
Other	**124,543**	24,977	(260,318)
	(557,472)	(719,257)	(1,029,526)
Cash Flows from Investing Activities			
Purchases of Premises and Equipment	**-**	(1,900)	(31,877)
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	**-**	(1,400,000)	(1,400,000)
Proceeds from Issuance of Common Stock	**-**	-	5,078,255
	-	(1,400,000)	3,678,255
Increase (Decrease) in Cash	**(557,472)**	(2,121,157)	2,616,852
Cash, Beginning	**1,051,904**	3,173,061	556,209
Cash, Ending	**$ 494,432**	$ 1,051,904	$ 3,173,061

(23) Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income (loss) after preferred stock dividends. The following table presents earnings per share for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Numerator			
Net Income (Loss) Available to Common Stockholders	**$1,205,913**	$1,133,595	$ (925,784)
Denominator			
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	**8,439,258**	8,439,258	8,149,217
Dilutive Effect of Potential Common Stock			
Restricted Stock	**-**	-	-
Stock Warrants	**-**	-	-
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	**8,439,258**	8,439,258	8,149,217
Earnings (Loss) Per Share - Basic	**$ 0.14**	$ 0.13	$ (0.11)
Earnings (Loss) Per Share - Diluted	**$ 0.14**	$ 0.13	$ (0.11)

For the years ended December 31, 2012 and 2011, respectively, the Company has excluded 500,000 and 501,855 common stock equivalents with strike prices that would cause them to be antidilutive. Additionally, due to the net loss reported for the year ended December 31, 2010, the Company has excluded 505,283 shares of common stock equivalents because these would also have been antidilutive.

(24) Subsequent Event

On January 29, 2013, the Company's 28,000 shares of Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) was sold by the Treasury to the public through a modified dutch auction. This auction is part of the Treasury's ongoing efforts to wind down its remaining TARP bank investments. The sale of the Preferred Stock to new investors did not result in any accounting entries and does not change the Company's capital position. The Treasury continues to hold the Warrant for 500,000 shares of common stock; however, the Company has notified the Treasury of its intentions to repurchase the warrant, although no price for the repurchase has been set.

Cumulative dividends on the Preferred Shares will continue to accrue at a rate of 5 percent per annum for the first five years from initial issuance and at a rate of 9 percent per annum thereafter. The Preferred Stock continues to have no maturity date and ranks senior to the Company's Common Stock. The Preferred Stock continues to be redeemable at the option of the Company at 100 percent of their liquidation preference, plus any accrued and unpaid dividends.

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

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this Annual Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Colony Bankcorp, Inc. or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local and regional economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, market and monetary fluctuations.
- Political instability.
- Acts of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.

The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.

- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.

- Changes in the Company's organization, compensation and benefit plans.

- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

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

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

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

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

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

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

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

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

Other Real Estate Owned and Foreclosed Assets

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2012 and 2011, and results of operations for each of the years in the three-year period ended December 31, 2012. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 34 percent federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

Dollar amounts in tables are stated in thousands, except for per share amounts.

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income (loss) available to common shareholders totaled $1.21 million, or $0.14 per diluted common share in 2012 compared to $1.13 million, or $0.13 per diluted common share in 2011 compared to $(0.93) million, or $(0.11) diluted per common share in 2010.

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

	2012	2011	2010
Taxable-Equivalent Net Interest Income	**$ 36,417**	$ 35,178	$ 37,393
Taxable-Equivalent Adjustment	**144**	191	178
Net Interest Income	**36,273**	34,987	37,215
Provision for Loan Losses	**6,785**	8,250	13,350
Noninterest Income	**9,733**	9,951	10,007
Noninterest Expense	**35,379**	33,051	33,857
Income Before Income Taxes	**3,842**	3,637	15
Income Taxes (Benefits)	**1,201**	1,104	(459)
Net Income	**$ 2,641**	$ 2,533	$ 474
Preferred Stock Dividends	**1,435**	1,400	1,400
Net Income (Loss) Available to Common Stockholders	**$ 1,206**	$ 1,133	$ (926)
Basic per Common Share:			
Net Income (Loss)	**$ 0.14**	$ 0.13	$ (0.11)
Diluted per Common Share:			
Net Income (Loss)	**$ 0.14**	$ 0.13	$ (0.11)
Return on Average Assets:			
Net Income (Loss)	**0.11%**	0.09%	(0.07)%
Return on Average Equity:			
Net Income (Loss)	**1.25%**	1.20%	(0.98)%

Net income available to common shareholders for 2012 increased $73 thousand, or 6.44 percent, compared to 2011. The increase was primarily the result of a $1.47 million decrease in provision for loan losses and an increase of $1.29 million in net interest income. The impact of these items was partly offset by a $218 thousand decrease in noninterest income, an increase of $2.33 million in noninterest expense and an increase of $97 thousand in income tax expense.

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

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 78.84 percent of total revenue during 2012 and 77.86 percent during 2011.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit is currently 3.25 percent and has been for the past four years. The federal funds rate moved similar to prime rate with interest rates currently at 0.25 percent and has been for the past four years. We anticipate the Federal Reserve maintaining its current interest rate policy in 2013, which should benefit Colony's net interest margin.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. The Company's consolidated average balance sheets along with an analysis of taxable-equivalent net interest earnings are presented in the Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Rate/Volume Analysis

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

	Changes From 2011 to 2012 (a)			Changes From 2010 to 2011 (a)		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest Income						
Loans, Net-Taxable	**$ (2,406)**	**$ (133)**	**$ (2,539)**	$ (6,117)	$ (1,149)	$ (7,266)
Investment Securities						
Taxable	**(377)**	**(1,630)**	**(2,007)**	831	(581)	250
Tax-Exempt	**(2)**	**(14)**	**(16)**	46	(15)	31
Total Investment Securities	**(379)**	**(1,644)**	**(2,023)**	877	(596)	281
Interest-Bearing Deposits in Other Banks	**(4)**	**34**	**30**	(3)	28	25
Federal Funds Sold	**(15)**	**(1)**	**(16)**	15	5	20
Other Interest - Earning Assets	**(12)**	**9**	**(3)**	(3)	11	8
Total Interest Income	**(2,816)**	**(1,735)**	**(4,551)**	(5,231)	(1,701)	(6,932)
Interest Expense						
Interest-Bearing Demand and Savings Deposits	**253**	**(227)**	**26**	145	(549)	(404)
Time Deposits	**(1,762)**	**(2,477)**	**(4,239)**	(1,499)	(2,359)	(3,858)
Total Interest Expense On Deposits	**(1,509)**	**(2,704)**	**(4,213)**	(1,354)	(2,908)	(4,262)
Other Interest-Bearing Liabilities						
Federal Funds Purchased and Repurchase Agreements	**(338)**	**-**	**(338)**	(449)	385	(64)
Subordinated Debentures	**-**	**46**	**46**	-	(8)	(8)
Other Debt	**(1,175)**	**(110)**	**(1,285)**	(508)	125	(383)
Total Interest Expense	**(3,022)**	**(2,768)**	**(5,790)**	(2,311)	(2,406)	(4,717)
Net Interest Income (Loss)	**$ 206**	**$ 1,033**	**$ 1,239**	$ (2,920)	$ 705	$ (2,215)

(a) Changes in net interest income for the periods, based on either changes in average balances or changes in average rates for interest-earning assets and interest-bearing liabilities, are shown on this table. During each year there are numerous and simultaneous balance and rate changes; therefore, it is not possible to precisely allocate the changes between balances and rates. For the purpose of this table, changes that are not exclusively due to balance changes or rate changes have been attributed to rates.

Our financial performance is impacted by, among other factors, interest rate risk and credit risk. We do not utilize derivatives to mitigate our credit risk, relying instead on an extensive loan review process and our allowance for loan losses.

Interest rate risk is the change in value due to changes in interest rates. The Company is exposed only to U.S. dollar interest rate changes and, accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of its investment portfolio as held for trading. The Company does not engage in any hedging activity or utilize any derivatives. The Company has no exposure to foreign currency exchange rate risk, commodity price risk and other market risks. Interest rate risk is addressed by our Asset & Liability Management Committee (ALCO) which includes senior management representatives. The ALCO monitors interest rate risk by analyzing the potential impact to the net portfolio of equity value and net interest income from potential changes to interest rates and considers the impact of alternative strategies or changes in balance sheet structure.

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earnings assets and interest-bearing liabilities can influence the changes in net interest income. The timing of repriced assets and liabilities is Gap management and our Company has established its policy to maintain a Gap ratio in the one-year time horizon of .80 to 1.20.

Our exposure to interest rate risk is reviewed at least quarterly by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates. In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. The Company has engaged FTN Financial to run a quarterly asset/liability model for interest rate risk analysis. We are generally focusing our investment activities on securities with terms or average lives in the 2-5 year range.

The Company maintains about 16.8 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificates of deposit that mature within one year. This balance sheet composition allowed the Company to be relatively constant with its net interest margin until 2008. During 2007, interest rates decreased 100 basis points and this decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. While the Federal Reserve rates have remained unchanged since 2008, we have seen the net interest margin increase to 3.41 percent for 2012 compared to 3.11 percent for 2011 and to 3.12 percent for 2010. Given the Federal Reserve's aggressive posture during 2008 that ended the year with a range of 0 - 0.25 percent federal funds target rate and remained the same for all of 2012, we have seen our net interest margin reach a low of 3.23 percent for first quarter 2012 to a high of 3.56 percent for third quarter 2012.

Taxable-equivalent net interest income for 2012 increased by $1.24 million, or 3.52 percent, compared to 2011 while taxable-equivalent net interest income for 2011 decreased by $2.21 million, or 5.92 percent, compared to 2010. The average volume of earning assets during 2012 decreased $66.19 million compared to 2011 while over the same period the net interest margin increased to 3.41 from 3.11 percent. Improvement in the net interest margin in 2012 was primarily driven by reduction in the cost of funds and maintaining longer term investments. Similarly, the average volume of earning assets during 2011 decreased $66.69 million compared to 2010 while over the same period the net interest margin decreased to 3.11 from 3.12 percent. The decline in average earning assets in 2012 affected each category of assets, while the significant decrease was primarily in average loans and investment securities. Growth in average earning assets during 2011 and 2010 was primarily in fed funds sold and investment securities, while average loans outstanding decreased significantly. The slight reduction in the net interest margin in 2011 was primarily the result of the decrease in average earning assets and maintenance of a higher liquidity level.

The average volume of loans decreased $41.20 million in 2012 compared to 2011 and decreased $102.12 million in 2011 compared to 2010. The average yield on loans decreased 1 basis point in 2012 compared to 2011 and decreased 15 basis points in 2011 compared to 2010. The average volume of deposits decreased $31.03 million while other borrowings decreased $37.83 million in 2012 compared to 2011. The average volume of other borrowings decreased $30.42 million in 2011 compared to 2010 while average deposits decreased $33.54 million in 2011 compared to 2010. Interest-bearing deposits made up 125.76 percent of the decrease in average deposits in 2012 and 135.02 percent of the decrease in average deposits in 2011. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 89.5 percent in 2012, 90.6 percent in 2011 and 92.1 percent in 2010. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 39 basis points in 2012 compared to 2011 and decreasing the average cost of total deposits by 37 basis points in 2011 compared to 2010, and (ii) mitigating a portion of the impact of decreasing yields on earning assets on the Company's net interest income.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.27 percent in 2012 compared to 2.93 percent in 2011 and 2.94 percent in 2010. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in *Quantitative and Qualitative Disclosures About Interest Rate Sensitivity* included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled $6.79 million in 2012 compared to $8.25 million in 2011 and $13.35 million in 2010. 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:

	2012	2011	2010
Service Charges on Deposit Accounts	**$ 3,573**	$ 3,244	$ 3,597
Other Charges, Commissions and Fees	**1,515**	1,312	1,140
Other	**1,102**	1,259	1,335
Mortgage Fee Income	**400**	265	313
Securities Gains	**2,837**	2,924	2,617
SBA Premiums	**306**	947	1,005
	$ 9,733	$ 9,951	$ 10,007

Total noninterest income for 2012 decreased $218 thousand, or 2.19 percent, compared to 2011 while total noninterest income for 2011 decreased $56 thousand, or 0.56 percent, compared to 2010. The decrease in 2012 noninterest income compared to 2011 was primarily in SBA premiums while the decrease in 2011 noninterest income compared to 2010 was primarily in mortgage fee income, SBA premiums, and service charges on deposit accounts. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for 2012 increased $329 thousand, or 10.14 percent, compared to 2011. Service charges on deposit accounts for 2011 decreased $353 thousand, or 9.81 percent, compared to 2010. The increase in 2012 was primarily due to an increase in volume of consumer and business account overdraft fees.

Mortgage Fee Income. Mortgage fee income for 2012 increased $135 thousand, or 50.94 percent, compared to 2011 while mortgage fee income for 2011 decreased $48 thousand, or 15.34 percent, compared to 2010. The increase in 2012 was due to increased mortgage loan activity due to an initiative to increase mortgage lending opportunities given the low interest rate environment. The decrease in 2011 was primarily due to decreased mortgage loan activity with the housing and real estate downturn.

Security Gains. The Company realized gains from the sale of securities of $2.83 million for 2012 compared to $2.92 million for 2011 and $2.62 million in 2010.

All Other Noninterest Income. Other charges, commissions and fees, other income and SBA premiums for 2012 decreased $595 thousand, or 16.91 percent, compared to 2011. The decrease was primarily attributable to the decline in SBA premiums. In 2011 other charges, commissions and fees, other income and SBA premiums for 2011 increased $38 thousand, or 1.09 percent, compared to 2010. The increase was primarily attributable to increased ATM and bank debit card interchange fees for 2011 compared to 2010.

Noninterest Expense

The components of noninterest expense were as follows:

	2012	2011	2010
Salaries and Employee Benefits	**$ 15,565**	$ 14,633	$ 14,098
Occupancy and Equipment	**3,878**	3,998	4,422
Other	**15,936**	14,420	15,337
	$ 35,379	$ 33,051	$ 33,857

Total noninterest expense for 2012 increased $2.33 million, or 7.04 percent compared to 2011 while total noninterest expense decreased $806 thousand, or 2.38 percent compared to 2010. Growth in noninterest expense in 2012 was primarily in salaries and employee benefits and noninterest expense while the Company had a slight decrease in occupancy and equipment. Reduction in noninterest expense in 2011 was primarily in occupancy and equipment and other noninterest expense while the Company had a slight increase in salaries and employee benefits.

Salaries and Employee Benefits. Salaries and employee benefits expense for 2012 increased $932 thousand, or 6.37 percent, compared to 2011. This increase is primarily attributable to an increase in headcount related to increased regulatory compliance demands. Salaries and employee benefits expense for 2011 increased $535 thousand, or 3.80 percent, compared to 2010.

Occupancy and Equipment. Net occupancy expense for 2012 decreased $120 thousand compared to 2011, or a decrease of 3.00 percent. Net occupancy expense for 2011 decreased $424 thousand compared to 2010, or a decrease of 9.59 percent. The decrease in occupancy expense in 2011 is primarily due to a reduction in depreciation expense of $351 thousand from 2010.

All Other Noninterest Expense. All other noninterest expense for 2012 increased $1.52 million, or 10.51 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees decreased to $1.50 million for 2012 compared to $1.83 million for 2011, or a decrease of $331 thousand, legal and professional fees decreased to $1.1 million for 2012 in comparison to $1.2 million for 2011, or a decrease of $101 thousand, foreclosed property and repossession expense increased to $5.6 million in 2012 compared to $4.0 million in 2011, or an increase of $1.57 million, and advertising decreased to $423 thousand in 2012 compared to $508 thousand in 2011, or a decrease of $86 thousand. All other noninterest expense for 2011 decreased $917 thousand, or 5.98 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees decreased to $1.83 million for 2011 compared to $1.87 million for 2010, or a decrease of $38 thousand; foreclosed property and repossession expense decreased to $4.0 million for 2011 compared to $4.9 million for 2010, or a decrease of $898 thousand, legal and professional fees decreased to $1.2 million for 2011 in comparison to $1.4 million for 2010, or a decrease of $183 thousand, and advertising decreased to $568 thousand in 2011 compared to $743 thousand, or 4.59 percent.

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 $1.14 billion in 2012 compared to 1.21 billion in 2011 and $1.27 billion in 2010.

	2012		2011		2010	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	**$ 101,896**	**8.9%**	$ 93,903	7.8%	$ 82,160	6.5%
Interest-Bearing	**867,794**	**76.1**	906,816	75.2	952,095	75.0
Federal Funds Purchased						
and Repurchase Agreements	**-**	**-**	9,851	0.8	26,070	2.0
Subordinated Debentures						
and Other Borrowed Money	**67,974**	**6.0**	95,949	8.0	110,149	8.7
Other Noninterest-Bearing						
Liabilities	**5,609**	**0.5**	4,635	0.4	4,681	0.4
Equity Capital	**96,541**	**8.5**	94,737	7.8	94,452	7.4
Total	**$ 1,139,814**	**100.0%**	$ 1,205,891	100.0%	$ 1,269,607	100.0%
Uses of Funds:						
Loans	**$ 706,091**	**62.0%**	$ 742,482	61.6%	$ 834,739	65.8%
Investment Securities	**284,261**	**24.9**	300,293	24.9	267,015	21.0
Federal Funds Sold	**38,877**	**3.4**	44,667	3.7	38,809	3.1
Interest-Bearing Deposits	**17,046**	**1.5**	18,715	1.5	21,911	1.7
Other Interest-Earning Assets	**4,277**	**0.4**	5,781	0.5	6,297	0.5
Other Noninterest-Earning Assets	**89,262**	**7.8**	93,953	7.8	100,836	7.9
Total	**$ 1,139,814**	**100.0%**	$ 1,205,891	100.0%	$ 1,269,607	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 89.5 percent of total average deposits in 2012 compared to 90.62 percent in 2011 and 92.06 percent in 2010.

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 increased in 2012 as total loans were $747.1 million at December 31, 2012, up 4.3 percent, compared to loans of $716.3 million at December 31, 2011, while total loans at December 31, 2011 were down 11.9 percent, compared to loans of $813.3 million at December 31, 2010. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included below. The majority of funds provided by deposits have been invested in loans.

Loans

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

	2012	2011	2010	2009	2008
Commercial, Financial and Agricultural	**$ 61,895**	$ 57,408	$ 63,772	$ 80,984	$ 86,379
Real Estate					
Construction	**59,660**	62,076	76,682	113,117	160,374
Mortgage, Farmland	**49,057**	48,225	52,778	54,965	54,159
Mortgage, Other	**538,231**	508,919	570,350	626,993	600,653
Consumer	**29,778**	30,449	33,564	38,383	44,163
Other	**8,429**	9,244	16,104	16,950	15,308
	747,050	716,321	813,250	931,392	961,036
Unearned Interest and Fees	**(234)**	(57)	(61)	(140)	(179)
Allowance for Loan Losses	**(12,737)**	(15,650)	(28,280)	(31,401)	(17,016)
Loans	**$ 734,079**	$ 700,614	$ 784,909	$ 899,851	$ 943,841

The following table presents total loans as of December 31, 2012 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	$ 362,748
After One Year through Three Years	297,333
After Three Years through Five Years	44,758
Over Five Years	42,211
	$ 747,050

Overview. Loans totaled $747.1 million at December 31, 2012, up 4.3 percent from December 31, 2011 loans of $716.3 million. The majority of the Company's loan portfolio is comprised of the real estate loans-mortgage other, real estate construction and commercial financial and agricultural loans. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 72.05 percent and 71.04 percent of total loans, real estate construction made up 7.99 percent and 8.67 percent while commercial financial and agricultural loans made up 8.29 percent and 8.01 percent of total loans at December 31, 2012 and December 31, 2011, respectively. Real estate loans-mortgage other include both commercial and consumer balances.

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

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

The Company extends loans to builders and developers that are secured by non-owner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

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

The Company 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, Financial and Agricultural. Commercial, financial and agricultural loans at December 31, 2012 increased 7.82 percent from December 31, 2011 to $61.90 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Industry Concentrations. As of December 31, 2012 and December 31, 2011, there were no concentrations of loans within any single industry in excess of 10 percent of total loans, as segregated by Standard Industrial Classification code ("SIC code"). The SIC code is a federally designed standard industrial numbering system used by the Company to categorize loans by the borrower's type of business.

Collateral Concentrations. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2012, approximately 86.60 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The downturn of the housing and real estate market that began in 2007 resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in the last several 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.

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, 2012 and December 31, 2011.

	December 31, 2012			December 31, 2011		
		Period End Balances			Period End Balances	
	Number of Relationships	**Committed**	**Outstanding**	Number of Relationships	Committed	Outstanding
Large Credit Relationships:						
$10 million and greater	**1**	**$10,276**	**$10,276**	1	$11,811	$11,811
$5 million to $9.9 million	**13**	**88,248**	**72,179**	5	31,363	31,363

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, 2012. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Due in One Year or Less	**After One, but Within Three Years**	**After Three, but Within Five Years**	**After Five Years**	**Total**
Loans with fixed interest rates	$244,450	$295,346	$42,668	$39,413	$621,877
Loans with floating interest rates	118,298	1,987	2,090	2,798	125,173
Total	$362,748	$297,333	$44,758	$42,211	$747,050

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

Nonperforming Assets and Potential Problem Loans

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

	2012	2011	2010	2009	2008
Loans Accounted for on Nonaccrual	**$29,851**	$38,822	$28,902	$33,535	$35,124
Loans Past Due 90 Days or More	**4**	15	19	31	250
Other Real Estate Foreclosed	**15,941**	20,445	20,208	19,705	12,812
Securities Accounted for on Nonaccrual	**366**	426	132	132	---
Total Nonperforming Assets	**$46,162**	$59,708	$49,261	$53,403	$48,186
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	**6.05%**	8.10%	5.91%	5.62%	4.95%
Total Assets	**4.05%**	4.99%	3.86%	4.09%	3.85%
Supplemental Data:					
Trouble Debt Restructured Loans In Compliance with Modified Terms	**$24,870**	$29,839	$26,556	$9,269	$ ---
Trouble Debt Restructured Loans Past Due 30-89 Days	**1,377**	611	1,048	459	---
Accruing Past Due Loans:					
30-89 Days Past Due	**14,911**	7,161	19,740	25,547	18,675
90 or More Days Past Due	**4**	15	19	31	250
Total Accruing Past Due Loans	**$14,915**	$ 7,176	$19,759	$25,578	$18,925

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2012 decreased 22.69 percent from December 31, 2011.

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

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

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

Allowance for Loan Losses

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

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

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment. In addition, the Company has also segmented its' real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the Company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During first quarter 2012, management refined the Company's methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL) which is defined in the notes to the financial statements. The effect of these changes on the ALLL resulted in a reduction in the ALLL estimate of $2,154,639. Management believes the adjustments made will result in a better estimation of losses incurred in the portfolio.

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

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

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

	2012		2011		2010		2009		2008	
	Reserve	**%***	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	**$ 1,277**	**8%**	$ 1,368	8%	$ 5,113	8%	$ 4,710	9%	$ 4,254	9%
Real Estate - Construction	**2,028**	**8**	3,261	9	4,646	9	7,850	12	2,808	17
Real Estate - Farmland	**291**	**7**	365	7	944	7	942	6	681	6
Real Estate - Other	**8,569**	**72**	10,143	71	13,972	70	13,816	67	5,955	62
Loans to Individuals	**228**	**4**	205	4	3,074	4	2,826	4	2,467	4
All other loans	**344**	**1**	308	1	531	2	1,257	2	851	2
Total	**$12,737**	**100%**	$15,650	100%	$28,280	100%	$31,401	100%	$17,016	100%

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

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

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

	2012	2011	2010	2009	2008
Allowance for Loan Losses at Beginning of Year	**$15,650**	$28,280	$31,401	$17,016	$15,513
Charge-Offs					
Commercial, Financial and Agricultural	**656**	1,297	725	768	1,680
Real Estate	**9,618**	21,215	15,309	27,545	9,190
Consumer	**169**	223	549	908	994
All Other	**11**	115	1,040	272	103
	10,454	22,850	17,623	29,493	11,967
Recoveries					
Commercial, Financial and Agricultural	**140**	582	82	73	73
Real Estate	**494**	1,235	774	156	285
Consumer	**82**	145	246	191	155
All Other	**40**	8	50	13	19
	756	1,970	1,152	433	532
Net Charge-Offs	**9,698**	20,880	16,471	29,060	11,435
Provision for Loans Losses	**6,785**	8,250	13,350	43,445	12,938
Allowance for Loan Losses at End of Year	**$12,737**	$15,650	$28,280	$31,401	$17,016
Ratio of Net Charge-Offs to Average Loans	**1.34%**	2.74%	1.90%	3.02%	1.19%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses decreased $1.47 million from $8.25 million in 2011 to $6.79 million in 2012. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at year end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during 2012 was the reduction in the net charge-offs in 2012 to $9.70 million from $20.88 million in 2011. 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.

The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans and commercial loans.

Provisions continue to be higher than normal primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets decreased to 6.05 percent at December 31, 2012 compared to 8.10 percent at December 31, 2011. Total nonperforming assets at December 31, 2012 were $46.2 million, of which $23.9 million were construction, land development and other land loans; $2.4 million were farmland properties; $7.2 million were 1-4 family residential properties; $0.6 million were multifamily properties; $10.4 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling $1.7 million were commercial and consumer loans. Total nonperforming assets at December 31, 2011 were $59.7 million, of which $35.5 million were construction, land development and other land loans; $4.6 million were 1-4 family residential properties; $0.7 million were multifamily properties; $15.3 million were nonfarm nonresidential properties; $0.7 million were farmland properties; and the remainder of nonperforming assets totaling $2.9 million were commercial and consumer loans. All of the classified loans greater than $50 thousand, including the nonperforming loans, are reviewed each quarter for impairment. The allowance for loan losses of $12.7 million at December 31, 2012 was 1.70 percent of total loans which compares to $15.6 million at December 31, 2011, or 2.18 percent of total loans and to $28.3 million at December 31, 2010, or 3.48 percent. Unusually high levels of loan loss provision have been required over the past few years as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 4.00 percent, 5.42 percent, and 3.56 percent, respectively as of December 31, 2012, December 31, 2011 and December 31, 2010, the Company's allowance for loan losses as a percentage of nonperforming loans was 42.66 percent, 40.29 percent, and 97.78 percent, respectively as of December 31, 2012, December 31, 2011 and December 31, 2010. We continue to identify new problem loans, though at a slower pace than the previous year.

While the allowance for loan losses decreased from $15.65 million, or 2.18 percent of total loans at December 31, 2011 to $12.74 million, or 1.71 percent of total loans at December 31, 2012, the Company also reflected a decrease in nonperforming loans from $38.84 million at December 31, 2011 to $29.86 million at December 31, 2012. When a loan is performing, it is accounted for under the Company's general loan loss reserve methodology. Once the loan becomes impaired, it is removed from the pool of loans covered by the general reserve and reviewed individually for exposure. In cases where the individual review reveals no exposure, no reserve is recorded for that loan. If, however, the individual review of the loan does indicate some exposure, management often charges off this exposure, rather than recording a specific reserve. In these instances, a loan which becomes nonperforming could actually reduce the allowance for loan losses. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are $50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive a contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades. In addition, the Company has also segmented its real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the Company's charge-offs during the past four years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy.

In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on individual loan reviews throughout the year and an environmental analysis at quarter end.

As part of our monitoring and evaluation of collateral values for nonperforming and problem loans in determining adequate allowance for loan losses, regional credit officers along with lending officers submit monthly problem loan reports for loans greater than $50 thousand in which impairment is identified. This process typically determines collateral shortfall based upon local market real estate value estimates should the collateral be liquidated. Once the loan is deemed uncollectible, it is transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department gets a current appraisal on the property in order to record a fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate. Trends the past several quarters reflect a decrease in collateral values from two to three years ago on improved properties of fifteen to twenty five percent and on land development and land loans of thirty to fifty percent. The significant reduction in collateral values on nonperforming assets has resulted in charge-offs particularly during 2012.

The allowance for loan losses is $2.91 million less than the prior year end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level. Restructuring of some substandard and non-performing loans during 2012 has resulted in significant charge-offs, but a strategy deemed prudent in bringing resolution with these credits and a return to performing status in the future. Management believes the level of the allowance for loan losses was adequate as of December 31, 2012. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2012, 2011 and 2010.

	2012	2011	2010
Obligations of States and Political Subdivisions	**$ 4,046**	$ 7,630	$ 3,305
Corporate Obligations	**1,105**	2,114	1,986
Asset-Backed Securities	**132**	132	132
Investment Securities	**5,283**	9,876	5,423
Mortgage-Backed Securities	**263,059**	294,061	298,463
Total Investment Securities and Mortgage-Backed Securities	**$268,342**	$303,937	$303,886

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2012. (Mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions and Corporate Obligations reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	$ 35,639	(0.97)%	$ 112,374	1.39%	$ 73,161	1.64%	$ 41,885	1.89%
Obligations of State and Political Subdivisions	827	3.69	1,788	2.71	1,431	3.71	-	-
Corporate Obligations	-	-	1,105	4.48	-	-	-	-
Asset-Backed Securities	-	-	-	-	-	-	132	-
Total Investment Portfolio	$ 36,466	(0.87)%	$ 115,267	1.44%	$ 74,592	1.68%	$ 42,017	1.87%

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

At December 31, 2012, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 1.82 percent in 2012 compared to 2.39 percent in 2011 and 2.59 percent in 2010. The decrease in the average yield from 2011 to 2012 and from 2010 to 2011 primarily resulted from the turnover of the securities portfolio resulting in the investment of new funds at lower rates.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2012, 2011 and 2010.

	2012		2011		2010	
	Average Amount	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	**$101,896**		$ 93,903		$ 82,160	
Interest-Bearing Demand and Savings	**329,984**	**0.38%**	273,783	0.45%	251,537	0.65%
Time Deposits	**537,810**	**1.39%**	633,033	1.85%	700,558	2.22%
Total Deposits	**$969,690**	**0.90%**	$1,000,719	1.29%	$1,034,255	1.66%

The following table presents the maturities of the Company's other time deposits as of December 31, 2012.

	Other Time Deposits $100,000 or Greater	Other Time Deposits Less Than $100,000	Total
Months to Maturity			
3 or Less	$ 50,559	$ 80,838	$131,397
Over 3 through 12	110,971	146,116	257,087
Over 12 Months	49,715	54,711	104,426
	$211,245	$281,665	$492,910

Average deposits decreased $31.03 million in 2012 compared to 2011 and decreased $33.54 million in 2011 compared to 2010. The decrease in 2012 included $95.22 million, or 15.04 percent in time deposits while, at the same time, noninterest bearing deposits increased $7.99 million, or 8.51 percent and interest-bearing demand and savings deposits increased $56.20 million, or 20.53 percent. The decrease in 2011 included $67.53 million, or 9.6 percent in time deposits while, at the same time, noninterest bearing deposits increased $11.74 million, or 14.29 percent and interest-bearing demand and savings deposits increased $22.25 million, or 8.84 percent. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 10.51 in 2012, 9.4 percent in 2011 and 7.9 percent in 2010. The general decrease in market rates in 2012 had the effect of (i) decreasing the average cost of interest-bearing deposits by 42 basis points in 2012 compared to 2011 and (ii) mitigating a portion of the impact of decreasing yields on earning assets in the Company's net interest income in 2012. The general decrease in market rates in 2011 had the effect of (i) decreasing the average cost of interest-bearing deposits by 38 basis points in 2011 compared to 2010 and (ii) mitigating a portion of the impact of decreasing yields on earning assets in the Company's net interest income in 2011.

Total average interest-bearing deposits decreased $39.0 million, or 4.3 percent in 2012 compared to 2011 and decreased $45.3 million, or 4.8 percent in 2011 compared to 2010. The decrease in average deposits in 2012 compared to 2011 was time deposit accounts.

The Company supplements deposit sources with brokered deposits. As of December 31, 2012, the Company had $28.2 million, or 2.88 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additional information is provided in the Footnote 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, 2012. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual Obligations:					
Subordinated Debentures	$ -	$ -	$ -	$24,229	$24,229
Federal Home Loan Bank Advances	-	-	9,000	26,000	35,000
Operating Leases	132	94	84	-	310
Deposits with Stated Maturity Dates	388,484	87,464	16,931	31	492,910
	388,616	87,558	26,015	50,260	552,449
Other Commitments:					
Loan Commitments	64,147	-	-	-	64,147
Standby Letters of Credit	1,141	-	-	-	1,141
	65,288	-	-	-	65,288
Total Contractual Obligations and Other Commitments	$453,904	$87,558	$26,015	$50,260	$617,737

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.

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

Loan commitments outstanding at December 31, 2012 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, 2012 are included in the preceding table.

Capital and Liquidity

At December 31, 2012, shareholders' equity totaled $95.8 million compared to $96.6 million at December 31, 2011. In addition to net income of $2.6 million, other significant changes in shareholders' equity during 2012 included $1.4 million of dividends declared on preferred stock. The accumulated other comprehensive income component of shareholders' equity totaled $(150) thousand at December 31, 2012 compared to $1.9 million at December 31, 2011. 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, 2012 was 15.22 percent and total Tier 1 and 2 risk-based capital was 16.47 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of December 31, 2012 was 10.22 percent, which exceeds the required ratio standard of 4 percent.

For 2012, average capital was $96.5 million, representing 8.47 percent of average assets for the year. This compares to 7.86 percent for 2011.

The Company did not pay any common stock dividends in 2012 or 2011. The Company suspended dividend payments beginning in the third quarter of 2009.

The Company declared dividends of $1,435 and $1,400 on preferred stock during 2012 and 2011, respectively. The Company deferred all dividend payments declared in 2012 on its preferred stock, as well as all interest payments on its TRUPS in order to preserve cash at the holding company level. The Company had no preferred stock until January 2009 when shares were issued to U.S. Treasury.

The Company, primarily through the actions of its subsidiary 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, 2012, the available for sale bond portfolio totaled $268.3 million. At December 31, 2011, the Company held $303.9 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 76.3 percent as of December 31, 2012 and 71.6 percent at December 31, 2011. 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, 2012 and December 31, 2011 were 73.6 percent and 66.9 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2012 and December 31, 2011, the Bank had $211 million and $248 million, respectively, in certificates of deposit of $100,000 or more. These larger deposits represented 21.6 percent and 24.8 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

The Company supplemented deposit sources with brokered deposits. As of December 31, 2012, the Company had $28.2 million, or 2.88 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the bank uses external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. As of December 31, 2012, the Company had $33.6 million, or 3.43 percent of total deposits, in external wholesale or internet network deposits.

To plan for contingent sources of funding not satisfied by both local and out-of-market deposit balances, Colony and its 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, maturities and cash flow from securities held to maturity, and federal funds sold and securities purchased under resale agreements.

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

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

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

Impact of Inflation and Changing Prices

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

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Quantitative and Qualitative Disclosures About Market Risk
AVERAGE BALANCE SHEETS

	2012			2011			2010		
	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)	**$ 721,872**	**$ 42,054**	**5.83%**	$ 763,067	$ 44,593	5.84%	$ 865,184	$ 51,859	5.99%
Investment Securities									
Taxable	**280,959**	**5,005**	**1.78**	296,948	7,012	2.36	264,494	6,762	2.56
Tax-Exempt (2)	**3,302**	**155**	**4.69**	3,345	171	5.11	2,521	140	5.55
Total Investment Securities	**284,261**	**5,160**	**1.82**	300,293	7,183	2.39	267,015	6,902	2.59
Interest-Bearing Deposits	**17,046**	**77**	**0.45**	18,715	47	0.25	21,911	22	0.10
Federal Funds Sold	**38,877**	**99**	**0.25**	44,667	115	0.26	38,809	95	0.25
Other Interest-Earning Assets	**4,277**	**43**	**1.01**	5,781	46	0.80	6,297	38	0.60
Total Interest-Earning Assets	**1,066,333**	**47,433**	**4.45**	1,132,523	51,984	4.59	1,199,216	58,916	4.92
Noninterest-Earning Assets									
Cash	**18,474**			19,057			19,347		
Allowance for Loan Losses	**(15,781)**			(20,585)			(30,445)		
Other Assets	**70,788**			74,896			81,489		
Total Noninterest-Earning Assets	**73,481**			73,368			70,391		
Total Assets	**$ 1,139,814**			$ 1,205,891			$ 1,269,607		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	**$ 329,984**	**$ 1,258**	**0.38%**	$ 273,783	$ 1,232	0.45%	$ 251,537	$ 1,636	0.65%
Other Time	**537,810**	**7,479**	**1.39**	633,033	11,718	1.85	700,558	15,576	2.22
Total Interest-Bearing Deposits	**867,794**	**8,737**	**1.01**	906,816	12,950	1.43	952,095	17,212	1.81
Other Interest-Bearing Liabilities									
Other Borrowed Money	**43,745**	**1,725**	**3.94**	71,720	3,010	4.20	85,920	3,074	3.58
Subordinated Debentures	**24,229**	**554**	**2.29**	24,229	508	2.10	24,229	516	2.13
Federal Funds Purchased and Repurchase Agreements	**-**	**-**	**-**	9,851	338	3.43	26,070	721	2.77
Total Other Interest-Bearing Liabilities	**67,974**	**2,279**	**3.35**	105,800	3,856	3.64	136,219	4,311	3.17
Total Interest-Bearing Liabilities	**935,768**	**11,016**	**1.18**	1,012,616	16,806	1.66	1,088,314	21,523	1.98
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	**101,896**			93,903			82,160		
Other Liabilities	**5,609**			4,635			4,681		
Stockholders' Equity	**96,541**			94,737			94,452		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	**204,046**			193,275			181,293		
Total Liabilities and Stockholders' Equity	**$ 1,139,814**			$ 1,205,891			$ 1,269,607		
Interest Rate Spread			**3.27%**			2.93%			2.94%
Net Interest Income		**$ 36,417**			$ 35,178			$ 37,393	
Net Interest Margin			**3.41%**			3.11%			3.12%

(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 $91, $133 and $130 for 2012, 2011 and 2010 respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.

(2) Taxable-equivalent adjustments totaling $53, $58 and $48 for 2012, 2011 and 2010 respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Colony Bankcorp, Inc. and Subsidiaries
Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2012. 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
EARNING ASSETS:						
Interest-Bearing Deposits	$ 21,795	$ -	$ 21,795	$ -	$ -	$21,795
Federal Funds Sold	20,002	-	20,002	-	-	20,002
Investment Securities	126	-	126	132,553	135,663	268,342
Loans, Net of Unearned Income	219,181	143,450	362,631	341,974	42,211	746,816
Other Interest- Earning Assets	3,364	-	3,364	-	-	3,364
Total Interest-Earning Assets	264,468	143,450	407,918	474,527	177,874	1,060,319
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand Deposits (1)	314,031	-	314,031	-	-	314,031
Savings (1)	48,778	-	48,778	-	-	48,778
Time Deposits	131,397	257,087	388,484	104,395	31	492,910
Other Borrowings (2)	-	-	-	9,000	26,000	35,000
Subordinated Debentures	24,229	-	24,229	-	-	24,229
Total Interest-Bearing Liabilities	518,435	257,087	775,522	113,395	26,031	914,948
Interest Rate-Sensitivity Gap	(253,967)	(113,637)	(367,604)	361,132	151,843	$145,371
Cumulative Interest-Sensitivity Gap	$(253,967)	$(367,604)	$(367,604)	$ (6,472)	$145,371	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(23.95)%	(10.72)%	(34.67)%	34.06%	14.32%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(23.95)%	(34.67)%	(34.67)%	(0.61)%	13.71%	

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

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

The foregoing table indicates that we had a one year negative gap of $368 million, or 34.67 percent of total interest-earning assets at December 31, 2012. In theory, this would indicate that at December 31, 2012, $368 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to decline, the gap would indicate a resulting increase in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

Gap analysis has certain limitations. Measuring the volume of repricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products; dynamic changes such as increasing prepay speeds as interest rates decrease, basis risk, or the benefit of non-rate funding sources. The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move slowly and usually incorporate only a fraction of the change in rates. Products categorized as nonrate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. 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 utilizes FTN Financial Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent percentage change. The most recent analysis as of December 31, 2012 indicates that net interest income would deteriorate 21 percent with a 200 basis point decrease and would improve 3.6 percent with a 200 basis point increase. Though slightly outside policy, the increased exposure to declining rates is mitigated by the low likelihood of a further decline of 200 basis points from the current rate levels. The Company has established equity at risk in a +/- 200 basis point rate shock to be no more than a twenty percent percentage change. The most recent analysis as of December 31, 2012 indicates that net economic value of equity percentage change would decrease 9 percent with a 200 basis point increase and would decrease 6 percent with a 200 basis point decrease. The Company has established its one year gap to be 80 percent to 120 percent. The most recent analysis as of December 31, 2012 indicates a one year gap of 71 percent. The analysis reflects net interest margin compression in a declining interest rate environment. Given that interest rates have basically "bottomed-out" with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2013. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

Return on Assets and Stockholder's Equity

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

	Years Ended December 31		
	2012	2011	2010
Return on Average Assets(1)	**0.11%**	0.09%	(0.07)%
Return on Average Equity(1)	**1.25%**	1.20%	(0.98)%
Equity to Assets	**8.40%**	8.08%	7.29%
Dividends Declared	**$0.00**	$0.00	$0.00

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

Future Outlook

During the past four years, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country. Focus during 2012 and again in 2013 will be directed toward addressing and bringing resolution to problem assets.

In response to the elevated risk of residential real estate and land development loans, management has extensively reviewed our loan portfolio with a particular emphasis on our residential and land development real estate exposure. Senior management with experience in problem loan workouts have been identified and assigned responsibility to oversee the workout and resolution of problem loans. The Company will continue to closely monitor our real estate dependent loans throughout the Company and focus on asset quality during this economic downturn.

Revenue enhancement initiatives to improve core non-interest income should be realized during 2013. These initiatives include formalized overdraft privilege program and new product lines and services.

Business

Regulatory Action

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

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

The Bank has also agreed to have and maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 leverage capital to total assets of 8% and total risk-based capital to total risk-weighted assets of 10%. At December 31, 2012, the Bank's capital ratios were 10.31% and 16.61%, respectively.

Market Makers For Colony Bankcorp, Inc. Common Stock
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Sam Haskell, Vice President
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866-378-3763

Raymond James/Morgan Keegan & Co.
Steve Hollister, Media Relations
Tampa, Florida
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Fig-Partners, LLC
Eric Lawless, Vice President
Atlanta, Georgia
866-344-2657

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

COLONY BANKCORP, INC. SHAREHOLDER INFORMATION

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

ANNUAL MEETING
Tuesday, May 28, 2013 at 2:00 p.m.
Colony Bankcorp, Inc.
115 South Grant Street
Fitzgerald, Georgia 31750

INDEPENDENT AUDITORS:
McNair, McLemore, Middlebrooks & Co., LLC
P.O. Box One
Macon, Georgia 31202

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

American Stock Transfer & Trust Company
Shareholder Services
59 Maiden Lane, Plaza Level
New York, New York 10038
800-937-5449

Member FDIC EQUAL HOUSING LENDER

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