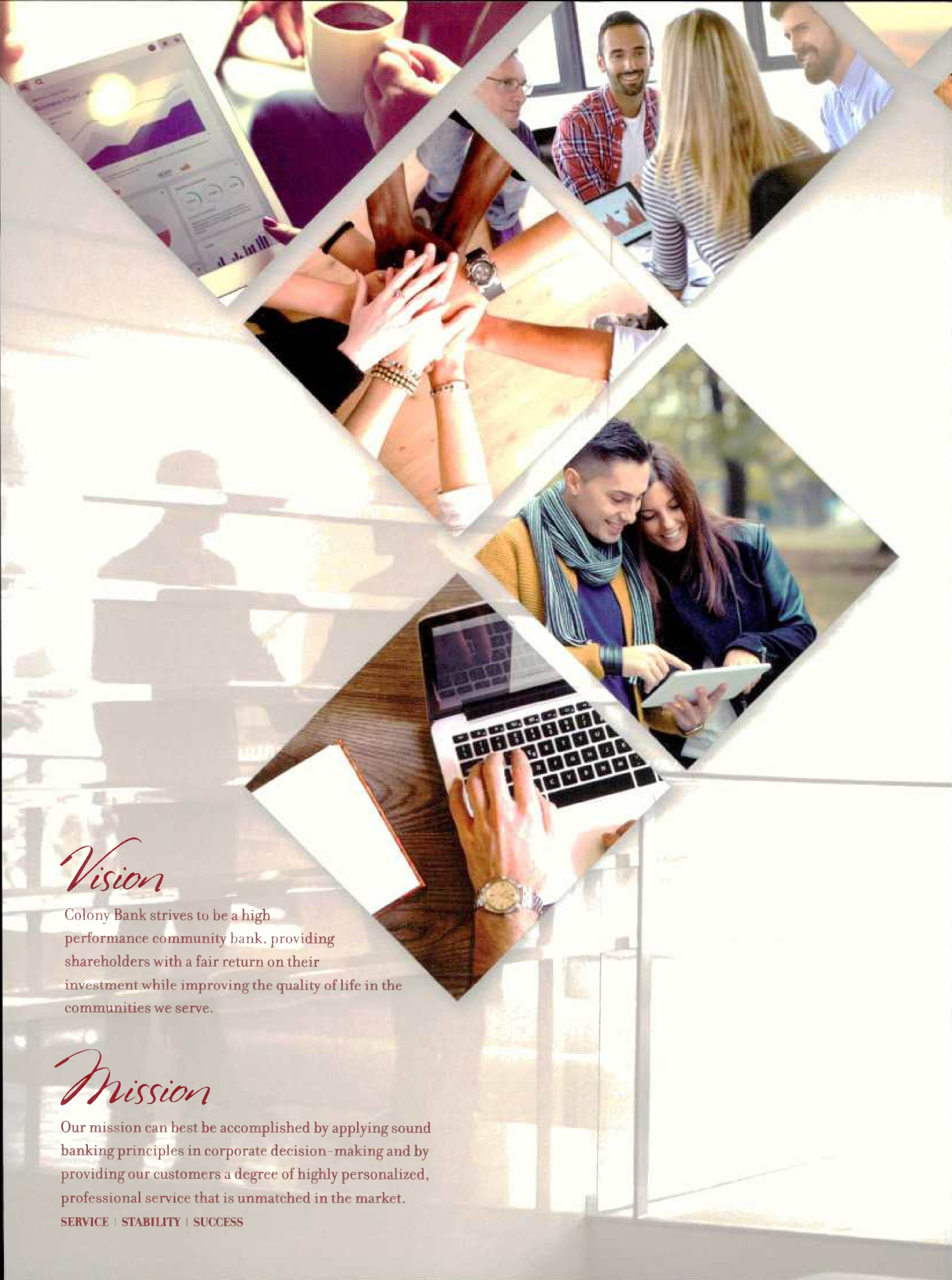
Turning Plans *into* Performance

2015 ANNUAL REPORT



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

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Dear Shareholders,

Colony Bankcorp, Inc. once again demonstrated a trend of improvement in profitability and credit quality while deleveraging the company. In general, we operated the company to improve earnings, liquidate problem assets, and pay down our TARP preferred stock which has a current after-tax cost of 9.0%. As we look forward to 2016, we are committed to the same strategy; however, given the improved financial condition of the company, we are also considering product and market expansion.

Currently we have three fixed asset initiatives underway. In Tifton, we are opening a new office in the historic downtown area while simultaneously closing the two smaller, leased offices we currently occupy. In Statesboro, we purchased and are renovating a space on the downtown square and will open a residential mortgage and commercial loan production office. In Savannah, we have purchased a building in the downtown historic district and are renovating the 100-year-old structure to house our downtown office. This will be our third office in the Savannah MSA, which has been demonstrating impressive growth trends which should only improve with the completion of the highly publicized port expansion.

During 2015 our net income available to shareholders increased 23.8% from $4,843,021 or $.57 per share to $5,997,687 or $.71 per share. Colony Bank's substandard assets to tier one capital plus loan loss reserve ratio improved slightly from 32.39% to 31.31% in spite of the $10,000,000 capital transfer from Colony Bank to the holding company, Colony Bankcorp, Inc. This $10,000,000 transfer enabled the holding company to partially redeem its TARP preferred stock, reducing the balance from $28,000,000 to $18,021,000. This reduction will lower the carrying cost of the TARP preferred stock by almost $900,000 in 2016 alone. The board and management are committed to further reducing and/or eliminating the TARP preferred stock through continued balance sheet management and consistent earnings.

The economic and interest rate environment was relatively stable throughout 2015, although beginning the year the consensus opinion seemed to be that the economy was gaining momentum and the Federal Reserve would be increasing its base rate several times. Actually, no increase materialized until December when the base rate was increased .25%, the first increase of any size in many years. At the beginning of 2016, consensus opinion once again called for a year of numerous rate increases because the Federal Reserve envisioned improving economic activity. Immediately after the new year, China's stock market incurred turmoil, the price of crude oil plummeted, the US markets retreated, and the US dollar strengthened. Each of these events, combined with 2016 being an election year, make projecting the coming economic/interest rate environment difficult. Frankly, a stable interest rate environment would be preferable as loan demand is moderate to stable, but a rising rate environment would be a positive if the economic prosperity the Federal Reserve is predicting comes to central and south Georgia.

The board, management and staff of Colony Bankcorp, Inc. strive constantly to develop strategic plans and to implement those plans to create performance in the marketplace. Thus, the title for this year's annual report, Turning Plans into Performance! We hope your plans for 2016 will result in the achievement of your goals, and we look forward to reporting to you another successful year for Colony Bankcorp, Inc.

Thank you for your continued support,

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

B. Gene Waldron
Chairman of the Board

Financial Summary

2015 KEY PERFORMANCE INDICATORS

Years Ended December 31, 2015 and 2014

Dollar amounts in thousands except per share data	2015	2014	Percent Change
Total Assets	$1,174,149	$1,146,898	2.38%
Total Deposits	$1,011,554	$979,303	3.29%
Loans (Net of Unearned Income)	$758,279	$745,733	1.68%
Net Income	$5,998	$4,843	23.85%
Per Share Data:			
Basic Earnings	$0.71	$0.57	24.56%
Common Book Value/Share	$9.18	$8.42	9.03%

KEY TRENDS

A Historical Comparative

Years Ending	2015	2014	2013	2012	2011
Net Income (in thousands)	$5,998	$4,843	$3,120	$1,206	$1,133
Return on Average Shareholders' Equity	5.90%	5.11%	3.34%	1.25%	1.20%
Diluted Earnings Per Share	$0.71	$0.57	$0.37	$0.14	$0.13

RETURN ON AVERAGE ASSETS	
2015	2014
0.52%	0.43%

NET INTEREST MARGIN	
2015	2014
3.52%	3.60%

West Market

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

Eddie Hoyle
EVP Regional
Executive Officer

East Market

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

Lee A. Northcutt
EVP Regional
Executive Officer

Board of Directors

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

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

Mark H. Massee
Vice Chairman
Colony Bankcorp, Inc.
President
Massee Builders, Inc.
Mayor of City of Fitzgerald
Fitzgerald, Georgia

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

Scott L. Downing
President
SDI Investments
Fitzgerald, Georgia

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

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

In Memory of Marion Massee, III

Mr. Massee always manifested a strong interest in the welfare of this banking organization, and in the betterment and general welfare of all people within the communities we serve.

Mr. Massee was instrumental in contributing to the growth of Colony Bank, as well as the development of Colony Bankcorp, Inc. Marion served as Chairman of Colony Bankcorp, Inc. from February 6, 1990 until April 23, 2002 and was a Founder of The Bank of Fitzgerald which was renamed Colony Bank in 2000. He also served as a Director Emeritus until he passed away on April 24, 2015. Marion's counsel and guidance will be greatly missed.

In Memory of Thomas "Tommy" Clay Hester

We celebrate the life and legacy of Mr. Hester, Market President of Colony Savannah from 2011, until his death on April 14, 2015. His contributions to our organization played a significant role in the success of the bank today and greatly influenced many employees and customers alike.

Mr. Hester's 45-year career in banking started with Savannah Bank in 1970 and grew to include other banks, such as Atlantic Bank, BankSouth of Savannah, First Liberty Bank, Coastal Bank and finally Colony Bank. He was deeply involved in the community serving on the Boards of many organizations, touching countless lives with kindness, loyalty and humor. He will be remembered with honor and respect as a valued member of the Colony Team.

IN *Memory*

McNair, McLemore, Middlebrooks & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS
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Telephone (478) 746-6277 • Facsimile (478) 743-6858
mmmcpa.com

March 10, 2016

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, 2015 and 2014 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, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colony Bankcorp, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2015 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, 2015 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

	2015	2014
Cash and Cash Equivalents		
Cash and Due from Banks	**$ 22,256,646**	$ 24,472,870
Federal Funds Sold	-	20,132,062
	22,256,646	44,604,932
Interest-Bearing Deposits	**38,615,299**	21,206,039
Investment Securities		
Available for Sale, at Fair Value	**296,149,299**	274,594,586
Held to Maturity, at Cost (Fair Value of $29,923 as of December 31, 2014)	-	29,796
	296,149,299	274,624,382
Federal Home Loan Bank Stock, at Cost	**2,730,500**	2,830,800
Loans	**758,635,595**	746,093,809
Allowance for Loan Losses	**(8,603,905)**	(8,802,316)
Unearned Interest and Fees	**(356,798)**	(361,374)
	749,674,892	736,930,119
Premises and Equipment	**26,453,530**	24,960,445
Other Real Estate (Net of Allowance of $1,582,101 and $3,319,644 in 2015 and 2014, Respectively)	**8,839,103**	10,401,832
Other Intangible Assets	**116,264**	152,012
Other Assets	**29,313,894**	31,187,420
Total Assets	**$1,174,149,427**	$1,146,897,981

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

	2015	2014
Deposits		
Noninterest-Bearing	**$ 133,886,271**	$ 128,339,763
Interest-Bearing	**877,667,965**	850,963,711
	1,011,554,236	979,303,474
Borrowed Money		
Subordinated Debentures	**24,229,000**	24,229,000
Other Borrowed Money	**40,000,000**	40,000,000
	64,229,000	64,229,000
Other Liabilities	2,909,569	4,338,195
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, Stated Value $1,000; Authorized 10,000,000 Shares, Issued 18,021 and 28,000 Shares as of December 31, 2015 and 2014	**18,021,000**	28,000,000
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of December 31, 2015 and 2014	**8,439,258**	8,439,258
Paid-In Capital	**29,145,094**	29,145,094
Retained Earnings	**44,285,621**	38,287,934
Accumulated Other Comprehensive Loss, Net of Tax	**(4,434,351)**	(4,844,974)
	95,456,622	99,027,312
Total Liabilities and Stockholders' Equity	**$1,174,149,427**	$1,146,897,981

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

	2015	2014	2013
Interest Income			
Loans, Including Fees	$39,716,269	$39,735,615	$41,350,195
Federal Funds Sold	14,561	32,100	39,199
Deposits with Other Banks	79,735	41,639	26,704
Investment Securities			
U.S. Government Agencies	4,235,207	4,737,878	3,516,978
State, County and Municipal	107,638	99,736	123,972
Corporate Obligations	-	-	47,275
Dividends on Other Investments	122,070	115,134	81,398
	44,275,480	44,762,102	45,185,721
Interest Expense			
Deposits	4,856,673	5,113,024	5,821,366
Federal Funds Purchased	26	19	116
Borrowed Money	1,712,548	1,685,744	1,675,164
	6,569,247	6,798,787	7,496,646
Net Interest Income	37,706,233	37,963,315	37,689,075
Provision for Loan Losses	865,500	1,308,000	4,485,000
Net Interest Income After Provision for Loan Losses	36,840,733	36,655,315	33,204,075
Noninterest Income			
Service Charges on Deposits	4,268,438	4,649,008	4,690,599
Other Service Charges, Commissions and Fees	2,627,157	2,387,589	1,725,271
Mortgage Fee Income	527,187	419,963	484,396
Securities Gains (Losses)	(11,466)	23,735	(363,804)
Gain on Sale of SBA Loans	-	-	635,190
Other	1,633,205	1,644,294	1,205,631
	9,044,521	9,124,589	8,377,283
Noninterest Expenses			
Salaries and Employee Benefits	17,589,631	17,507,926	16,691,972
Occupancy and Equipment	3,989,347	4,062,844	3,794,524
Directors' Fees	358,291	392,132	416,972
Legal and Professional Fees	737,731	785,683	721,322
Foreclosed Property	1,682,783	2,701,436	3,918,128
FDIC Assessment	899,302	965,898	1,321,981
Advertising	624,844	652,374	508,292
Software	992,593	925,489	852,475
Telephone	710,038	735,735	778,151
ATM/Card Processing	1,061,262	905,732	685,497
Other	5,078,932	5,344,743	4,928,135
	33,724,754	34,979,992	34,617,449
Income Before Income Taxes	12,160,500	10,799,912	6,963,909
Income Taxes	3,787,803	3,268,287	2,334,864
Net Income	8,372,697	7,531,625	4,629,045
Preferred Stock Dividends	2,375,010	2,688,604	1,508,761
Net Income Available to Common Stockholders	$ 5,997,687	$ 4,843,021	$ 3,120,284
Net Income Per Share of Common Stock	$ 0.71	$ 0.57	$ 0.37
Basic	$ 0.71	$ 0.57	$ 0.37
Diluted			
Cash Dividends Declared Per Share of Common Stock	$ 0.00	$ 0.00	$ 0.00
Weighted Average Shares Outstanding, Basic	8,439,258	8,439,258	8,439,258
Weighted Average Shares Outstanding, Diluted	8,458,461	8,439,258	8,439,258

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

	2015	2014	2013
Net Income	$ 8,372,697	$ 7,531,625	$ 4,629,045
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	610,689	6,432,906	(13,886,854)
Tax Effect	(207,634)	(2,187,189)	4,721,531
Realized Gains (Losses) on Sale of AFS Securities	**11,466**	(23,735)	(2,819)
Tax Effect	**(3,898)**	8,070	959
Impairment Loss on Securities	-	-	366,623
Tax Effect	-	-	(124,652)
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**410,623**	4,230,052	(8,925,212)
Comprehensive Income (Loss)	**$ 8,783,320**	$11,761,677	$(4,296,167)

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, 2015, 2014 AND 2013

	Preferred Shares Issued	Preferred Stock	Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	28,000	$27,827,053	8,439,258	$8,439,258	$29,145,094	$30,497,576	$(149,814)	$95,759,167
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(8,925,212)	(8,925,212)
Accretion of Fair Value of Warrant		172,947				(172,947)		-
Dividends on Preferred Shares						(1,508,761)		(1,508,761)
Net Income						4,629,045		4,629,045
Balance, December 31, 2013	28,000	28,000,000	8,439,258	8,439,258	29,145,094	33,444,913	(9,075,026)	89,954,239
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							4,230,052	4,230,052
Dividends on Preferred Shares						(2,688,604)		(2,688,604)
Net Income						7,531,625		7,531,625
Balance, December 31, 2014	28,000	28,000,000	8,439,258	8,439,258	29,145,094	38,287,934	(4,844,974)	99,027,312
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							410,623	410,623
Dividends on Preferred Shares						(2,375,010)		(2,375,010)
Redemption of Preferred Stock	(9,979)	(9,979,000)						(9,979,000)
Net Income						8,372,697		8,372,697
Balance, December 31, 2015	**18,021**	**$18,021,000**	**8,439,258**	**$8,439,258**	**$29,145,094**	**$44,285,621**	**$(4,434,351)**	**$95,456,622**

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

	2015	2014	2013
Cash Flows from Operating Activities			
Net Income	**$ 8,372,697**	$ 7,531,625	$ 4,629,045
Adjustments to Reconcile Net Income to Net			
Cash Provided from Operating Activities			
Depreciation	**1,657,229**	1,595,253	1,527,392
Amortization and Accretion	**1,797,152**	1,312,857	2,667,404
Provision for Loan Losses	**865,500**	1,308,000	4,485,000
Deferred Income Taxes	**625,436**	1,932,950	2,178,222
Securities (Gains) Losses	**11,466**	(23,735)	363,804
(Gain) Loss on Sale of Premises and Equipment	**11,047**	(12,489)	(677)
Loss on Sale of Other Real Estate and Repossessions	**600,663**	828,411	1,565,091
Provision for Losses on Other Real Estate	**453,148**	1,006,827	1,321,418
Increase in Cash Surrender Value of Life Insurance	**(299,010)**	(590,674)	(338,712)
Change In			
Interest Receivable	**(354,274)**	55,786	285,033
Prepaid Expenses	**278,637**	(64,633)	(168,060)
Interest Payable	**32,253**	(1,099,756)	385,285
Accrued Expenses and Accounts Payable	**(202,343)**	197,195	213,753
Other	**217,686**	788,958	(243,543)
	14,067,287	14,766,575	18,870,455
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	**(17,409,260)**	754,252	(164,950)
Purchase of Investment Securities			
Available for Sale	**(102,336,227)**	(56,201,891)	(132,419,073)
Proceeds from Sale of Investment Securities			
Available for Sale	**28,273,634**	13,620,956	72,672,795
Proceeds from Maturities, Calls and Paydowns			
of Investment Securities			
Available for Sale	**51,423,541**	36,440,646	48,330,382
Held to Maturity	**9,734**	12,968	11,623
Proceeds from Sale of Premises and Equipment	**28,608**	14,376	2,500
Net Loans to Customers	**(21,255,018)**	(3,156,342)	(19,959,948)
Purchase of Premises and Equipment	**(3,189,969)**	(1,681,115)	(1,489,579)
Proceeds from Sale of Other Real Estate and Repossessions	**8,154,596**	7,233,497	8,041,638
Proceeds from Sale of Federal Home Loan Bank Stock	**100,300**	333,100	200,400
Purchase of Bank-Owned Life Insurance	**-**	-	(10,000,000)
	(56,200,061)	(2,629,553)	(34,774,212)
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	**26,704,254**	(21,305,068)	16,550,430
Noninterest-Bearing Customer Deposits	**5,546,508**	13,079,062	(8,705,841)
Proceeds from Other Borrowed Money	**27,000,000**	-	21,500,000
Principal Payments on Other Borrowed Money	**(27,000,000)**	-	(16,500,000)
Dividends Paid on Preferred Stock	**(2,487,274)**	(5,492,749)	-
Redemption of Preferred Stock	**(9,979,000)**	-	-
	19,784,488	(13,718,755)	12,844,589
Net Increase (Decrease) in Cash and Cash Equivalents	**(22,348,286)**	(1,581,733)	(3,059,168)
Cash and Cash Equivalents, Beginning	**44,604,932**	46,186,665	49,245,833
Cash and Cash Equivalents, Ending	**$ 22,256,646**	$ 44,604,932	$ 46,186,665

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 and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements and note disclosures have been reclassified to conform to statement presentations selected for 2015. 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, 2015, approximately 86 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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

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

Investment Securities

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

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities (Continued)

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Loans Modified in a Troubled Debt Restructuring (TDR)

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

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The historical component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (1) changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio and terms of loans, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the organization's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and (9) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

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

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

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

The Company's federal and state income tax returns for tax years 2015, 2014, 2013 and 2012 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.

Bank-Owned Life Insurance

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of $14,829,861 and $14,530,851 as of December 31, 2015 and 2014, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Off-Balance Sheet Credit Related Financial Instruments

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

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Accounting Standards Update (ASU) 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* ASU 2015-05 provides guidance to customers as to whether a cloud computing arrangement (e.g., software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements) includes a software license and, based on that determination, whether such arrangement should be accounted for consistent with the acquisition of other software licenses or as a service contract. The amendments may be applied on either a prospective or retrospective basis and early adoption is permitted. ASU 2015-05 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* ASU 2015-01 eliminates the concept of extraordinary items from U.S. Generally Accepted Accounting Principles (GAAP) and the need for entities to evaluate whether transactions or events are both unusual in nature and infrequently occurring. However, the ASU does not affect the reporting and disclosure requirements for an event or transaction that is unusual in nature or that occurs infrequently. The amendments in Update 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company will adopt the requirements of ASU 2015- 01 upon its effective date of January 1, 2016, and does not anticipate it having a material impact on the Company's consolidated financial statements.

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

(1) Summary of Significant Accounting Policies (Continued)

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

ASU 2016-1, *"No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for the Company on January 1, 2018. The Company is currently evaluating the impact of the pending adoption of ASU 2016-1 on the 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:

	2015	2014
Cash on Hand and Cash Items	**$ 9,061,678**	$ 9,974,663
Noninterest-Bearing Deposits with Other Banks	**13,194,968**	14,498,207
	$22,256,646	$24,472,870

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Reserve balances totaled approximately $1,275,000 and $1,278,000 at December 31, 2015 and 2014, respectively.

(3) Investment Securities

Investment securities as of December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	**$297,778,875**	**$62,815**	**$(6,791,837)**	**$291,049,853**
State, County and Municipal	**5,089,137**	**30,542**	**(20,233)**	**5,099,446**
	$302,868,012	**$93,357**	**$(6,812,070)**	**$296,149,299**

The amortized cost and fair value of investment securities as of December 31, 2015, 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	
	Amortized Cost	Fair Value
Due in One Year or Less	$ 330,531	$ 331,818
Due After One Year Through Five Years	770,079	773,706
Due After Five Years Through Ten Years	2,492,993	2,517,901
Due After Ten Years	1,495,534	1,476,021
	5,089,137	5,099,446
Mortgage-Backed Securities	297,778,875	291,049,853
	$302,868,012	$296,149,299

Investment securities as of December 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$278,419,055	$155,902	$(7,511,288)	$271,063,669
State, County and Municipal	3,516,400	27,181	(12,664)	3,530,917
	$281,935,455	$183,083	$(7,523,952)	$274,594,586
Securities Held to Maturity				
State, County and Municipal	$ 29,796	$ 127	$ -	$ 29,923

(3) Investment Securities (Continued)

Proceeds from sales of investments available for sale were $28,273,634 in 2015, $13,620,956 in 2014, and $72,672,795 in 2013. Gross realized gains totaled $207,896 in 2015, $67,601 in 2014, and $442,124 in 2013. Gross realized losses totaled $196,316 in 2015, $45,666 in 2014, and $805,928 in 2013. In addition, gross realized losses of $23,046 in 2015 was due to a loss on a maturity for a held-to-maturity investment and gross realized gains of $1,800 in 2014 was due to a gain on a call for a held-to-maturity investment.

Investment securities having a carrying value totaling $133,754,087 and $135,531,563 as of December 31, 2015 and 2014, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014 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, 2015						
U.S. Government Agencies						
Mortgage-Backed	**$139,765,025**	**$ (1,270,011)**	**$139,720,125**	**$(5,521,826)**	**$279,485,150**	**$(6,791,837)**
State, County and Municipal	**1,034,613**	**(20,233)**	**-**	**-**	**1,034,613**	**(20,233)**
	$140,799,638	**$ (1,290,244)**	**$139,720,125**	**$(5,521,826)**	**$280,519,763**	**$(6,812,070)**
December 31, 2014						
U.S. Government Agencies						
Mortgage-Backed	$66,609,319	$ (396,896)	$183,645,552	$(7,114,392)	$250,254,871	$(7,511,288)
State, County and Municipal	-	-	1,379,547	(12,664)	1,379,547	(12,664)
	$66,609,319	$ (396,896)	$185,025,099	$(7,127,056)	$251,634,418	$(7,523,952)

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.

(3) Investment Securities (Continued)

At December 31, 2015, the debt securities with unrealized losses have depreciated 2.37 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company did own one asset-backed security at December 31, 2015 which was completely written off during prior years. This investment is comprised of one issuance of a trust preferred security and has no book value. 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, $366,623 was written off during the year ended December 31, 2013.

(4) Loans

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

	2015	2014
Commercial and Agricultural		
Commercial	**$ 47,781,689**	$ 50,960,265
Agricultural	**19,193,497**	16,689,444
Real Estate		
Commercial Construction	**40,106,633**	51,258,970
Residential Construction	**9,413,263**	11,220,683
Commercial	**346,262,033**	332,230,847
Residential	**197,002,419**	203,752,620
Farmland	**61,779,859**	49,950,984
Consumer and Other		
Consumer	**20,605,465**	22,820,314
Other	**16,490,737**	7,209,682
Total Loans	**$758,635,595**	$746,093,809

(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.

2015	**Pass**	**Special Mention**	**Substandard**	**Total Loans**
Commercial and Agricultural				
Commercial	**$ 44,273,407**	**$ 1,927,198**	**$ 1,581,084**	**$ 47,781,689**
Agricultural	**18,970,328**	**17,843**	**205,326**	**19,193,497**
Real Estate				
Commercial Construction	**36,516,165**	**912,295**	**2,678,173**	**40,106,633**
Residential Construction	**9,413,263**	**-**	**-**	**9,413,263**
Commercial	**320,566,237**	**13,652,416**	**12,043,380**	**346,262,033**
Residential	**177,054,188**	**8,545,942**	**11,402,289**	**197,002,419**
Farmland	**56,798,365**	**929,814**	**4,051,680**	**61,779,859**
Consumer and Other				
Consumer	**20,037,996**	**156,739**	**410,730**	**20,605,465**
Other	**16,465,593**	**636**	**24,508**	**16,490,737**
Total Loans	**$700,095,542**	**$26,142,883**	**$ 32,397,170**	**$758,635,595**

2014	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	$ 46,230,110	$ 2,905,361	$ 1,824,794	$ 50,960,265
Agricultural	16,504,404	27,101	157,939	16,689,444
Real Estate				
Commercial Construction	45,063,306	1,740,488	4,455,176	51,258,970
Residential Construction	11,220,683	-	-	11,220,683
Commercial	309,828,039	11,220,166	11,182,642	332,230,847
Residential	180,549,640	10,582,704	12,620,276	203,752,620
Farmland	47,548,106	414,521	1,988,357	49,950,984
Consumer and Other				
Consumer	22,114,932	248,997	456,385	22,820,314
Other	7,012,405	-	197,277	7,209,682
Total Loans	$686,071,625	$27,139,338	$32,882,846	$746,093,809

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of $250,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

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

(4) Loans (Continued)

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

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

	Accruing Loans					
2015	**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	**$ 490,727**	**$ -**	**$ 490,727**	**$ 576,940**	**$ 46,714,022**	**$ 47,781,689**
Agricultural	**71,416**	**-**	**71,416**	**178,021**	**18,944,060**	**19,193,497**
Real Estate						
Commercial Construction	**90,163**	**-**	**90,163**	**1,642,666**	**38,373,804**	**40,106,633**
Residential Construction	**-**	**-**	**-**	**-**	**9,413,263**	**9,413,263**
Commercial	**6,031,257**	**-**	**6,031,257**	**7,564,691**	**332,666,085**	**346,262,033**
Residential	**3,682,509**	**-**	**3,682,509**	**3,163,571**	**190,156,339**	**197,002,419**
Farmland	**122,696**	**-**	**122,696**	**1,103,354**	**60,553,809**	**61,779,859**
Consumer and Other						
Consumer	**469,839**	**7,799**	**477,638**	**178,336**	**19,949,491**	**20,605,465**
Other	**636**	**-**	**636**	**100**	**16,490,001**	**16,490,737**
Total Loans	**$10,959,243**	**$7,799**	**$ 10,967,042**	**$14,407,679**	**$733,260,874**	**$758,635,595**
2014						
Commercial and Agricultural						
Commercial	$ 872,321	$ -	$ 872,321	$ 405,398	$ 49,682,546	$ 50,960,265
Agricultural	-	-	-	44,605	16,644,839	16,689,444
Real Estate						
Commercial Construction	141,850	-	141,850	3,251,290	47,865,830	51,258,970
Residential Construction	-	-	-	-	11,220,683	11,220,683
Commercial	2,309,114	-	2,309,114	5,325,047	324,596,686	332,230,847
Residential	5,782,701	-	5,782,701	7,461,507	190,508,412	203,752,620
Farmland	281,967	-	281,967	1,449,226	48,219,791	49,950,984
Consumer and Other						
Consumer	313,424	6,642	320,066	201,695	22,298,553	22,820,314
Other	-	-	-	195,497	7,014,185	7,209,682
Total Loans	$9,701,377	$6,642	$9,708,019	$18,334,265	$718,051,525	$746,093,809

(4) Loans (Continued)

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $418,400, $591,900, and $968,700 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

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

(4) Loans (Continued)

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

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

(4) Loans (Continued)

The following table details impaired loan data as of December 31, 2013:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 305,272	$ 305,272	$ -	$ 216,057	$ 24,494	$ 25,193
Agricultural	-	-	-	9,803	-	-
Commercial Construction	7,856,411	4,750,157	-	4,105,370	34,908	41,164
Commercial Real Estate	20,120,403	19,252,946	-	13,198,988	493,940	503,392
Residential Real Estate	7,836,718	6,361,592	-	4,564,666	224,439	209,330
Farmland	302,629	302,629	-	1,858,654	803	869
Consumer	313,194	307,456	-	252,944	18,469	21,109
Other	9,146	9,146	-	2,287	556	575
	36,743,773	31,289,198	-	24,208,769	797,609	801,632
With An Allowance Recorded						
Commercial	1,452,798	1,452,798	433,714	1,689,125	14,845	20,748
Agricultural	-	-	-	-	-	-
Commercial Construction	5,922,674	3,471,587	830,546	5,025,176	(159)	-
Commercial Real Estate	5,874,473	5,874,473	423,685	11,072,314	157,536	148,495
Residential Real Estate	1,949,301	1,849,301	526,005	3,661,706	25,739	24,414
Farmland	1,326,982	1,326,982	85,500	663,903	44,638	46,930
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	16,526,228	13,975,141	2,299,450	22,112,224	242,599	240,587
Total						
Commercial	1,758,070	1,758,070	433,714	1,905,182	39,339	45,941
Agricultural	-	-	-	9,803	-	-
Commercial Construction	13,779,085	8,221,744	830,546	9,130,546	34,749	41,164
Commercial Real Estate	25,994,876	25,127,419	423,685	24,271,302	651,476	651,887
Residential Real Estate	9,786,019	8,210,893	526,005	8,226,372	250,178	233,744
Farmland	1,629,611	1,629,611	85,500	2,522,557	45,441	47,799
Consumer	313,194	307,456	-	252,944	18,469	21,109
Other	9,146	9,146	-	2,287	556	575
	$53,270,001	$45,264,339	$2,299,450	$46,320,993	$1,040,208	$1,042,219

(4) **Loans (Continued)**

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

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

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

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

(4) Loans (Continued)

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2015. The following tables present the number of loan contracts restructured during the 12 months ended December 31, 2015, 2014 and 2013. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 12 months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due. A TDR may cease being classified as impaired if the loan is subsequently modified at market terms, has performed according to the modified terms for at least six months, and has not had any prior principal forgiveness on a cumulative basis.

Troubled Debt Restructurings

2015	**# of Contracts**	**Pre-Modification**	**Post-Modification**
Commercial Real Estate	**1**	**$ 513,868**	**$ 505,978**
Residential Real Estate	**2**	**1,106,345**	**1,035,590**
Total Loans	**3**	**$1,620,213**	**$1,541,568**
2014			
Farmland	1	$ 400,778	$ 400,778
Commercial Construction	1	349,976	349,976
Commercial Real Estate	1	1,771,395	1,775,407
Residential Real Estate	1	49,194	49,194
Total Loans	4	$2,571,343	$2,575,355
2013			
Commercial	1	$ 83,748	$ 81,277
Commercial Construction	2	228,633	225,959
Commercial Real Estate	1	225,852	225,852
Residential Real Estate	4	1,885,700	1,764,399
Total Loans	8	$2,423,933	$2,297,487

(4) Loans (Continued)

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

	2015		2014		2013	
	# of Contracts	**Recorded Investment**	**# of Contracts**	**Recorded Investment**	**# of Contracts**	**Recorded Investment**
Commercial	-	$ -	-	$ -	1	$ 81,277
Total Loans	-	$ -	-	$ -	1	$ 81,277

At December 31, 2015 and 2014, all restructured loans were performing as agreed. During 2013, restructured loans totaling $81,277 failed to continue to perform as agreed and were charged off in August 2013.

(5) Allowance for Loan Losses

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

	2015	2014	2013
Balance, Beginning of Year	**$8,802,316**	$ 11,805,986	$ 12,736,921
Provision for Loan Losses	**865,500**	1,308,000	4,485,000
Loans Charged Off	**(2,083,347)**	(5,104,491)	(6,227,716)
Recoveries of Loans Previously Charged Off	**1,019,436**	792,821	811,781
Balance, End of Year	**$8,603,905**	$ 8,802,316	$ 11,805,986

(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.

2015	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 497,561	$ (454,971)	$ 52,111	$760,663	$ 855,364
Agricultural	304,172	(5,000)	3,600	(99,681)	203,091
Real Estate					
Commercial Construction	1,222,695	(97,698)	485,834	(920,065)	690,766
Residential Construction	138,092	-	-	(118,202)	19,890
Commercial	3,664,777	(275,297)	270,003	191,044	3,850,527
Residential	2,425,327	(929,668)	109,626	385,070	1,990,355
Farmland	103,800	(40,000)	20,000	827,892	911,692
Consumer and Other					
Consumer	66,914	(255,062)	61,976	189,549	63,377
Other	378,978	(25,651)	16,286	(350,770)	18,843
	$8,802,316	$(2,083,347)	$1,019,436	$865,500	$8,603,905

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

(5) Allowance for Loan Losses (Continued)

2013	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 981,021	$ (120,690)	$ 55,829	$ 100,913	$ 1,017,073
Agricultural	296,175	(34,502)	6,200	26,013	293,886
Real Estate					
Commercial Construction	1,890,200	(2,071,162)	253,459	1,709,682	1,782,179
Residential Construction	138,092	-	-	-	138,092
Commercial	5,162,839	(2,872,408)	297,984	1,790,861	4,379,276
Residential	3,405,947	(706,242)	64,583	513,981	3,278,269
Farmland	290,526	(20,977)	21,762	20,183	311,494
Consumer and Other					
Consumer	227,774	(397,822)	93,520	319,781	243,253
Other	344,347	(3,913)	18,444	3,586	362,464
	$12,736,921	$(6,227,716)	$811,781	$4,485,000	$11,805,986

The loss history period used at December 31, 2015, 2014 and 2013 was based on the loss rate from the eight quarters ended September 30, 2015, 2014 and 2013, respectively.

The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics. Effective with the quarter ended June 30, 2015, the calculation of the amount needed in the Allowance for Loan Losses changed. Management determined that the segmentation method for the ASC 450-20 portion of the loan portfolio should be changed to bank call report categories. Prior to this change, the ASC 450-20 segmentation categorized loans by various non-owner occupied commercial real estate loan types and risk grades for the remainder of the ASC 450-20 portion of the portfolio. On the date of change, June 30, 2015, the change in methodology resulted in an increase to the calculated allowance for loan loss reserve of $1,621,424; however, no additional provisions were required to be recorded as a result of the change.

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

- Reducing the historical loss ratios by including loan loss recoveries in the calculation. Previously, management included only the loan charge-off amount and did not consider the effect of subsequent recoveries.

- Reducing the balance of those loans which are guaranteed by government agencies, such as SBA loans. Previously, the entire balance of such loans was considered in the calculation of the general reserves; however, beginning in 2014, only the nonguaranteed portion of these loans is subject to the loss calculation.

(5) Allowance for Loan Losses (Continued)

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

During the third quarter of 2013, management implemented a change to its methodology for calculating the allowance for loan losses. This change was intended to better reflect the current position of the loan portfolio. Prior to the third quarter, the allowance for loan loss calculation incorporated a qualitative factor related to improvements in credit administration. These improvements, which began in 2008, included organizational changes to credit administration, specifically related to managing past due loans, grading of loans, recognition of losses and underwriting of new loans. Primary among the organizational changes was the appointment of experienced lending officers to oversee the lending function, as well as the appointment of a chief credit officer. Management feels these organizational changes are now fully implemented, as evidenced by a lower charge-off rate and, therefore, the qualitative factor is no longer relevant. The removal of this qualitative factor did not result in a significant adjustment to the recorded allowance for loan loss balance.

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of $250,000 or more, regardless of the loans impairment classification. Effective March 31, 2013, management increased the dollar threshold of this review process from $50,000 to $250,000. The threshold change resulted in loans totaling $4.1 million at December 31, 2013 being removed from the individual impairment review process and being placed in the collective review process.

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is $11,155,813 and $9,356,253 as of December 31, 2015 and 2014, respectively. Specific allowance allocations were made for these loans totaling $276,731 and $747,982 as of December 31, 2015 and 2014, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the “Collectively Evaluated for Impairment” column of the following tables.

(5) Allowance for Loan Losses (Continued)

At December 31, 2015, impaired loans totaling $3,744,733 were below the $250,000 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. Likewise, at December 31, 2014 and 2013, impaired loans totaling $3,885,411 and $2,821,199, respectively, were below the $250,000 review threshold and were subject to the Bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables.

	Ending Allowance Balance			Ending Loan Balance		
2015	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
Commercial and Agricultural						
Commercial	$ 94,538	$ 760,826	$ 855,364	$ 122,928	$ 47,658,761	$ 47,781,689
Agricultural	-	203,091	203,091	8,445	19,185,052	19,193,497
Real Estate						
Commercial Construction	25,344	665,422	690,766	1,622,560	38,484,073	40,106,633
Residential Construction	-	19,890	19,890	-	9,413,263	9,413,263
Commercial	1,607,962	2,242,565	3,850,527	23,628,213	322,633,820	346,262,033
Residential	308,188	1,682,167	1,990,355	3,597,386	193,405,033	197,002,419
Farmland	37,386	874,306	911,692	1,402,939	60,376,920	61,779,859
Consumer and Other						
Consumer	-	63,377	63,377	-	20,605,465	20,605,465
Other	-	18,843	18,843	-	16,490,737	16,490,737
Total End of Year Balance	$2,073,418	$6,530,487	$8,603,905	$30,382,471	$728,253,124	$758,635,595

(5) Allowance for Loan Losses (Continued)

2014	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	$ 96,580	$ 400,981	$ 497,561	$ 96,580	$ 50,863,685	$ 50,960,265
Agricultural	-	304,172	304,172	-	16,689,444	16,689,444
Real Estate						
Commercial Construction	53,947	1,168,748	1,222,695	3,384,377	47,874,593	51,258,970
Residential Construction	-	138,092	138,092	-	11,220,683	11,220,683
Commercial	456,941	3,207,836	3,664,777	21,693,061	310,537,786	332,230,847
Residential	414,684	2,010,643	2,425,327	7,559,965	196,192,655	203,752,620
Farmland	28,962	74,838	103,800	1,700,793	48,250,191	49,950,984
Consumer and Other						
Consumer	-	66,914	66,914	-	22,820,314	22,820,314
Other	-	378,978	378,978	-	7,209,682	7,209,682
Total End of Year Balance	$1,051,114	$7,751,202	$8,802,316	$34,434,776	$711,659,033	$746,093,809

2013	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	$ 433,714	$ 583,359	$ 1,017,073	$ 1,542,058	$ 46,565,390	$ 48,107,448
Agricultural	-	293,886	293,886	-	10,665,938	10,665,938
Real Estate						
Commercial Construction	830,546	951,633	1,782,179	7,971,298	44,767,485	52,738,783
Residential Construction	-	138,092	138,092	-	6,549,260	6,549,260
Commercial	423,685	3,955,591	4,379,276	24,757,942	317,025,596	341,783,538
Residential	526,005	2,752,264	3,278,269	6,545,490	199,712,437	206,257,927
Farmland	85,500	225,994	311,494	1,617,206	45,417,220	47,034,426
Consumer and Other						
Consumer	-	243,253	243,253	-	25,675,560	25,675,560
Other	-	362,464	362,464	9,146	12,396,436	12,405,582
Total End of Year Balance	$2,299,450	$9,506,536	$11,805,986	$42,443,140	$708,775,322	$751,218,462

(6) Premises and Equipment

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

	2015	2014
Land	**$ 9,696,723**	$ 8,270,678
Building	**23,927,467**	23,894,943
Furniture, Fixtures and Equipment	**12,154,375**	12,243,988
Leasehold Improvements	**993,618**	990,626
Construction in Progress	**1,170,050**	14,090
	47,942,233	45,414,325
Accumulated Depreciation	**(21,488,703)**	(20,453,880)
	$ 26,453,530	$ 24,960,445

Depreciation charged to operations totaled $1,657,229 in 2015, $1,595,253 in 2014 and $1,527,392 in 2013.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $560,000 for 2015, $613,000 for 2014 and $490,000 for 2013.

Future minimum rental payments as of December 31, 2015 are as follows:

Year Ending December 31	**Amount**
2016	$ 91,703
2017	38,500
	$130,203

(7) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at December 31, 2015, 2014 and 2013 was $8,839,103, $10,401,832 and $15,502,462, 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 2015, 2014 and 2013 as of December 31:

	2015	2014	2013
Balance, Beginning of Year	**$10,401,832**	$15,502,462	$15,940,693
Additions	**7,536,165**	3,852,848	10,251,006
Sales of OREO	**(8,054,675)**	(7,102,136)	(7,804,080)
Loss on Sale	**(591,071)**	(844,515)	(1,563,739)
Provision for Losses	**(453,148)**	(1,006,827)	(1,321,418)
Balance, End of Year	**$ 8,839,103**	$10,401,832	$15,502,462

At December 31, 2015, the Company held $1,033,000 of residential real estate property as foreclosed property. Also at December 31, 2015, $159,372 of consumer mortgage loans collateralized by residential real estate property was in the process of foreclosure according to local requirements of the applicable jurisdictions.

(8) Other Intangible Assets

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

	Core Deposit Intangible	Accumulated Amortization	Net Core Deposit Intangible
Core Deposit Intangible			
Balance, December 31, 2013	$1,056,693	$(868,932)	$187,761
Amortization Expense	-	(35,749)	(35,749)
Balance, December 31, 2014	1,056,693	(904,681)	152,012
Amortization Expense	-	(35,748)	(35,748)
Balance, December 31, 2015	**$1,056,693**	**$(940,429)**	**$116,264**

Amortization expense related to the core deposit intangible was $35,748, $35,749 and $35,749 for the years ended December 31, 2015, 2014 and 2013. Amortizations expense will continue at an annual rate of approximately $35,749 through the first quarter of 2019, at which point the core deposit will be fully amortized.

(9) Income Taxes

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

	2015	2014	2013
Current Federal Expense	**$3,162,367**	$1,335,337	$ 156,642
Deferred Federal Expense	**625,436**	1,932,950	2,178,222
Federal Income Tax Expense	**3,787,803**	3,268,287	2,334,864
Current State Income Tax Expense	**-**	-	-
Federal and State Income Tax Expense	**$3,787,803**	$3,268,287	$2,334,864

The federal income tax expense of $3,787,803 in 2015, $3,268,287 in 2014 and $2,334,864 in 2013 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:

	2015	2014	2013
Statutory Federal Income Taxes	**$4,134,570**	$3,671,971	$2,367,729
Tax-Exempt Interest	**(83,903)**	(74,138)	(104,307)
Premiums on Officers' Life Insurance	**(232,988)**	(186,712)	(111,749)
Meal and Entertainment Disallowance	**21,600**	14,044	15,319
Other	**(51,476)**	(156,878)	167,872
Actual Federal Income Taxes	**$3,787,803**	$3,268,287	$2,334,864

(9) Income Taxes (Continued)

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

	2015	2014
Deferred Tax Assets		
Allowance for Loan Losses	**$2,925,328**	$2,992,787
Other Real Estate	**537,914**	1,178,278
Deferred Compensation	**308,128**	287,365
Investments	**340,000**	340,000
Goodwill	**212,190**	256,714
Other	**418,165**	427,924
	4,741,725	5,483,068
Deferred Tax Liabilities		
Premises and Equipment	**(1,183,309)**	(1,299,216)
Other	**(4,185)**	(4,185)
	(1,187,494)	(1,303,401)
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	**2,284,362**	2,495,896
Net Deferred Tax Assets	**$5,838,593**	$6,675,563

The deferred tax assets are included in Other Assets in the consolidated balance sheets. As discussed in Note 1, certain positions taken in the Company's tax returns may be subject to challenge by the taxing authorities. An analysis of activity related to unrecognized taxes as of December 31 follows.

	2015	2014	2013
Balance, Beginning	**$ -**	$ 42,327	$ 38,676
Positions Taken During the Current Year	-	-	7,247
Reductions Resulting from Lapse of Statutes of Limitation	-	42,327	(3,596)
Balance, Ending	**$ -**	$ -	$ 42,327

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

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $272,110 and $511,387 as of December 31, 2015 and 2014, respectively.

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

	2015	2014
Interest-Bearing Demand	**$412,959,430**	$363,501,727
Savings	**64,976,174**	59,215,257
Time, $100,000 and Over	**202,800,899**	210,502,901
Other Time	**196,931,462**	217,743,826
	$877,667,965	$850,963,711

At December 31, 2015 and December 31, 2014, the Company had brokered deposits of $25,576,524 and $26,298,267, respectively. All of these brokered deposits represent Certificate of Deposit Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000 was $141,900,102 and $140,832,026 as of December 31, 2015 and December 31, 2014, respectively. The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $250,000 was $31,755,483 and $35,750,272 as of December 31, 2015 and December 31, 2014, respectively.

As of December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

Year	**Amount**
2016	$287,422,547
2017	55,668,788
2018	32,350,483
2019	10,102,321
2020 and Thereafter	14,188,222
	$399,732,361

(11) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	2015	2014
Federal Home Loan Bank Advances	**$40,000,000**	$ 40,000,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2018 to 2022 and interest rates ranging from 1.47 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, 2015, the book value of those loans pledged is $100,412,458. At December 31, 2015, the Company had remaining credit availability from the FHLB of $128,817,500. 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)

The aggregate stated maturities of other borrowed money at December 31, 2015 are as follows:

Year	Amount
2018	$ 2,500,000
2019	8,000,000
2020	-
2021 and Thereafter	29,500,000
	$40,000,000

At December 31, 2015, $13,000,000 of FHLB advances are subject to fixed rates of interest, while the remaining $27,000,000 is subject to floating interest rates which will convert to fixed rates of interests in the next few years.

The Company also has available federal funds lines of credit with various financial institutions totaling $43,500,000, of which there were none outstanding at December 31, 2015.

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, 2015, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

(12) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3-Month Libor Rate	Added Points	Total Interest Rate	Maturity	5-Year Call Option
		(In Thousands)					
Colony Bankcorp Statutory Trust III	6/17/2004	$4,640	0.52575	2.68	3.20575	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	0.60670	1.50	2.10670	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	0.60310	1.65	2.25310	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	0.32190	1.40	1.72190	9/14/2037	9/14/2012

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

The Trust Preferred Securities pay interest quarterly.

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

(13) Preferred Stock

The Company had 18,021 shares and 28,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) issued and outstanding with private investors as of December 31, 2015 and 2014, respectively. The Company redeemed 9,979 shares of Preferred Stock at $1,000 per share during 2015. The Company also had a warrant (the Warrant) to purchase up to 500,000 shares of the Company's common stock outstanding with private investors. Both the Preferred Stock and the Warrant originated in 2009 through transactions with the United States Department of the Treasury and were subsequently sold to the public through an auction process during 2013.

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

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

(14) Employee Benefit Plan

The Company offers a defined contribution 401(k) Profit Sharing Plan (the Plan) which covers substantially all employees who meet certain age and service requirements. The Plan allows employees to make voluntary pre-tax salary deferrals to the Plan. The Company, at its discretion, may elect to make an annual contribution to the Plan equal to a percentage of each participating employee's salary. Such discretionary contributions must be approved by the Company's board of directors. Employees are fully vested in the Company contributions after six years of service. In 2015 and 2014, the Company made total contributions of $385,453 and $401,497 to the Plan. The Company made no discretionary contributions in 2013.

(15) 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.

(15) Commitments and Contingencies (Continued)

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2015	2014
Commitments to Extend Credit	**$67,889,000**	$68,742,000
Standby Letters of Credit	**1,588,212**	1,762,000

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.

(16) Deferred Compensation Plan

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

Liabilities accrued under the plans totaled $906,259 and $845,192 as of December 31, 2015 and 2014, respectively. Benefit payments under the contracts were $131,652 in 2015 and $112,605 in 2014. Provisions charged to operations totaled $196,869 in 2015, $69,653 in 2014 and $75,777 in 2013.

The Company has purchased life insurance policies on the plans' participants and uses the cash flow from these policies to partially fund the plan. Fee income recognized with these plans totaled $174,675 in 2015, $167,911 in 2014 and $164,073 in 2013. In addition death benefits recognized as income totaled $137,058 in 2015.

(17) Supplemental Cash Flow Information

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

	2015	2014	2013
Interest Expense	$ 6,536,994	$7,898,543	$ 7,111,361
Income Taxes	$ 4,738,000	$ 113,000	$ 173,883

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

	2015	2014	2013
Acquisitions of Real Estate Through Loan Foreclosures	$ 7,536,165	$ 3,852,848	$ 10,251,006
Change in Unrealized Gain (Loss) on AFS Investment Securities	$ 622,155	$ 6,409,171	$(13,523,050)

(18) Related Party Transactions

The following table reflects the activity and aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company. All such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectibility. A summary of activity of related party loans is shown below:

	2015	2014
Balance, Beginning	**$ 3,233,949**	$ 4,064,588
New Loans	**4,900,932**	6,406,713
Repayments	**(6,065,098)**	(7,237,352)
Transactions Due to Changes in Directors	**(253,174)**	-
Balance, Ending	**$ 1,816,609**	$ 3,233,949

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

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

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

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

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

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

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

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

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

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

(19) 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:

2015	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
		(in Thousands)			
Assets					
Cash and Short-Term Investments	$ 60,872	$ 60,872	$ 60,872	$ -	$ -
Investment Securities Available for Sale	296,149	296,149	-	295,219	930
Federal Home Loan Bank Stock	2,731	2,731	2,731	-	-
Loans, Net	749,675	750,412	-	741,867	8,545
Bank-Owned Life Insurance	14,830	14,830	14,830	-	-
Liabilities					
Deposits	1,011,554	1,013,111	611,822	401,289	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	40,000	40,421	-	40,421	-
2014					
Assets					
Cash and Short-Term Investments	$ 65,811	$ 65,811	$ 65,811	$ -	$ -
Investment Securities Available for Sale	274,595	274,595	-	273,647	948
Investment Securities Held to Maturity	30	30	-	30	-
Federal Home Loan Bank Stock	2,831	2,831	2,831	-	-
Loans, Net	736,930	738,948	-	731,170	7,778
Bank-Owned Life Insurance	14,531	14,531	14,531	-	-
Liabilities					
Deposits	979,303	980,874	551,057	429,817	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	40,000	41,962	-	41,962	-

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.

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

Fair Value Measurements

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

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

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

Assets

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

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

Fair Value Measurements (Continued)

Assets (Continued)

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

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

(19) 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 and Nonrecurring Basis - The following table presents the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2015 and 2014, 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, 2014. 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		
2015	**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	**$291,049,853**	**$ -**	**$291,049,853**	**$ -**
State, County and Municipal	**5,099,446**	**-**	**4,169,135**	**930,311**
	$296,149,299	**$ -**	**$295,218,988**	**$ 930,311**
Nonrecurring				
Impaired Loans	**$ 8,544,993**	**$ -**	**$ -**	**$ 8,544,993**
Other Real Estate	**$ 2,535,884**	**$ -**	**$ -**	**$ 2,535,884**
2014				
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$271,063,669	$ -	$271,063,669	$ -
State, County and Municipal	3,530,917	-	2,582,527	948,390
	$274,594,586	$ -	$273,646,196	$ 948,390
Nonrecurring				
Impaired Loans	$ 7,778,279	$ -	$ -	$ 7,778,279
Other Real Estate	$ 6,128,365	$ -	$ -	$ 6,128,365

Liabilities

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

(19) 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 tables present quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2015 and 2014. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

	December 31, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Commercial	$ 28,390	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(31.77)% - 34.00% (1.12%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% (5.00%)
		Income Approach	Capitalization Rate	11.00%
Real Estate Commercial Construction	51,300	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(5.00)% - 99.00% (47.00%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% (5.00%)
Residential Real Estate	767,179	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00)% - 10.80% (5.60)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% (12.50%)
Commercial Real Estate	7,347,541	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(31.77)% - 34.00% (1.12%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% (5.00%)
		Income Approach	Capitalization Rate	10.25%
Farmland	350,583	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(27.00)% - 15.00% (6.00)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 75.00% (42.50%)
Other Real Estate Owned	2,535,884	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(50.80)% - 142.90% (46.05%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	15.53% - 72.75% (43.37%)
		Income Approach	Discount Rate	12.50%

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

Fair Value Measurements (Continued)

Fair Value Measurements using Significant Unobservable Inputs (Level 3) (Continued)

	December 31, 2014	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired Loans				
Commercial Construction	$ 82,422	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00)% - 38.10% (8.05%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% (5.00%)
Residential Real Estate	1,650,474	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(2.30)% - 191.70% (94.70%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% (5.00%)
		Income Approach	Capitalization Rate	13.75%
Commercial Real Estate	5,678,297	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00% - 0.00% (0.00%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 90.00% (45.00%)
		Income Approach	Capitalization Rate	11.00%
Farmland	367,086	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(8.30)% - 252.50% (122.10%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 50.00% (30.00%)
Other Real Estate Owned	6,128,365	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(40.00)% - 45.00% (2.50%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.33% - 69.36% (31.88%)
		Income Approach	Discount Rate	9.00%
			Capitalization Rate	10.00%

(19) 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, 2015, 2014 and 2013:

	Available for Sale Securities		
	2015	2014	2013
Balance, Beginning	**$ 948,390**	$ 941,265	$ 1,138,238
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	(41,908)
Securities Purchased During the Year	-	-	-
Securities Called During the Year	-	-	-
Loss on OTTI Impairment Included in Noninterest Income	-	-	(366,623)
Unrealized Gains(Losses) Included in Other Comprehensive Income	**(18,079)**	7,125	211,558
Balance, Ending	**$ 930,311**	$ 948,390	$ 941,265

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, 2013, the Company had transfers out of level 3 and into level 2. The transfers out of level 3 were the result of increased market activity for these types of securities, as well as more current credit ratings on these securities. There were no transfers of securities between level 1 and level 2 for the years ended December 31, 2015, 2014 or 2013.

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2015 and 2014:

December 31, 2015	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
State, County and Municipal	**$ 930,311**	Discounted Cash Flow	Discount Rate or Yield	N/A*
December 31, 2014				
State, County and Municipal	$ 948,390	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.

(20) Regulatory Capital Matters

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. As of December 31, 2015, the interim final Basel III rules (Basel III) require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2015, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

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

The following table summarizes regulatory capital information as of December 31, 2015 and December 31, 2014 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2015 were calculated in accordance with the Basel III rules, whereas the December 31, 2014 regulatory ratios were calculated in accordance with the Basel I rules.

(20) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of December 31, 2015 and 2014 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, 2015			(In Thousands)			
Total Capital to Risk-Weighted Assets						
Consolidated	**$131,948**	**16.60%**	**$63,602**	**8.00%**	**N/A**	**N/A**
Colony Bank	**126,939**	**15.99**	**63,500**	**8.00**	**$79,375**	**10.00%**
Tier I Capital to Risk-Weighted Assets						
Consolidated	**123,344**	**15.51**	**47,702**	**6.00**	**N/A**	**N/A**
Colony Bank	**118,335**	**14.91**	**47,625**	**6.00**	**63,500**	**8.00**
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	**81,823**	**10.29**	**35,776**	**4.50**	**N/A**	**N/A**
Colony Bank	**118,335**	**14.91**	**35,719**	**4.50**	**51,594**	**6.50**
Tier I Capital to Average Assets						
Consolidated	**123,344**	**10.69**	**46,149**	**4.00**	**N/A**	**N/A**
Colony Bank	**118,335**	**10.27**	**46,074**	**4.00**	**57,592**	**5.00**
As of December 31, 2014						
Total Capital to Risk-Weighted Assets						
Consolidated	$136,022	17.95%	$ 60,639	8.00%	N/A	N/A
Colony Bank	127,833	16.89	60,542	8.00	$75,678	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	127,220	16.78	30,320	4.00	N/A	N/A
Colony Bank	119,031	15.73	30,271	4.00	45,407	6.00
Tier I Capital to Average Assets						
Consolidated	127,220	11.18	45,509	4.00	N/A	N/A
Colony Bank	119,031	10.50	45,364	4.00	56,705	5.00

In 2015, the Bank obtained approval of its regulators and paid a $10,000,000 dividend to the Company. The dividend was utilized to redeem 9,979 shares of Preferred Stock. Effective October 22, 2014, the Board Resolution (BR) the Bank had been operating under was lifted. The BR required that, prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators. In November 2014, the Bank paid a $12,000,000 dividend to the Company. This dividend was utilized to bring the interest payments of the Trust Preferred Securities and the dividend payments of the Preferred Stock to a current status and to fund holding company operations for the coming year.

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

The parent company's balance sheets as of December 31, 2015 and 2014 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

	2015	2014
Cash	$ 4,100,860	$ 5,750,652
Premises and Equipment, Net	1,134,524	1,199,639
Investment in Subsidiary, at Equity	114,677,455	115,066,948
Other	170,801	1,708,380
Total Assets	$120,083,640	$123,725,619

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015	2014
Liabilities		
Dividends Payable	$ 202,736	$ 315,000
Other	195,282	154,307
	398,018	469,307
Subordinated Debt	24,229,000	24,229,000
Stockholders' Equity		
Preferred Stock, Stated Value $1,000; Authorized 10,000,000 Shares, Issued 18,021 and 28,000 Shares as of December 31, 2015 and 2014	18,021,000	28,000,000
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of December 31, 2015 and 2014	8,439,258	8,439,258
Paid-In Capital	29,145,094	29,145,094
Retained Earnings	44,285,621	38,287,934
Accumulated Other Comprehensive Loss, Net of Tax	(4,434,351)	(4,844,974)
	95,456,622	99,027,312
Total Liabilities and Stockholders' Equity	$120,083,640	$123,725,619

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

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

	2015	2014	2013
Income			
Dividends from Subsidiary	**$10,015,147**	$12,015,572	$ 1,515,549
Management Fees	**581,334**	581,334	581,334
Other	**112,876**	100,269	96,953
	$10,709,357	$12,697,175	2,193,836
Expenses			
Interest	**503,286**	517,381	516,641
Amortization	**-**	938	2,250
Salaries and Employee Benefits	**811,150**	782,152	748,149
Other	**666,872**	538,847	543,139
	1,981,308	1,839,318	1,810,179
Income Before Taxes and Equity in Undistributed Earnings of Subsidiary	**8,728,049**	10,857,857	383,657
Income Tax Benefits	**444,764**	396,738	406,518
Income Before Equity in Undistributed Earnings of Subsidiary	**9,172,813**	11,254,595	790,175
Dividends Received in Excess of Earnings of Subsidiary	**(800,116)**	(3,722,970)	-
Equity in Undistributed Earnings of Subsidiary	**-**	-	3,838,870
Net Income	**8,372,697**	7,531,625	4,629,045
Preferred Stock Dividends	**2,375,010**	2,688,604	1,508,761
Net Income Available to Common Stockholders	**$ 5,997,687**	$4,843,021	$ 3,120,284

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

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

	2015	2014	2013
Net Income	**$8,372,697**	$ 7,531,625	$ 4,629,045
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	**610,689**	6,432,906	(13,886,854)
Tax Effect	**(207,634)**	(2,187,189)	4,721,531
Realized Gains (Losses) on Sale of AFS Securities	**11,466**	(23,735)	(2,819)
Tax Effect	**(3,898)**	8,070	959
Impairment Loss on Securities	-	-	366,623
Tax Effect	-	-	(124,652)
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**410,623**	4,230,052	(8,925,212)
Comprehensive Income (Loss)	**$8,783,320**	$11,761,677	$(4,296,167)

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

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

	2015	2014	2013
Cash Flows from Operating Activities			
Net Income	**$8,372,697**	$ 7,531,625	$ 4,629,045
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	**73,999**	75,347	80,711
Equity in Undistributed Earnings of Subsidiary	**800,116**	3,722,970	(3,838,870)
Change in Interest Payable	**23,072**	(1,069,695)	516,641
Other	**1,555,482**	(437,115)	(390,962)
	10,825,366	9,823,132	996,565
Cash Flows from Investing Activities			
Purchases of Premises and Equipment	**(8,884)**	(2,020)	(68,708)
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	**(2,487,274)**	(5,492,749)	-
Redemption of Preferred Stock	**(9,979,000)**	-	-
	(12,466,274)	(5,492,749)	-
Increase (Decrease) in Cash	**(1,649,792)**	4,328,363	927,857
Cash, Beginning	**5,750,652**	1,422,289	494,432
Cash, Ending	**$4,100,860**	$ 5,750,652	$ 1,422,289

(22) Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income after preferred stock dividends. The following table presents earnings per share for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Numerator			
Net Income Available to Common Stockholders	$ 5,997,687	$ 4,843,021	$ 3,120,284
Denominator			
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	**8,439,258**	8,439,258	8,439,258
Dilutive Effect of Potential Common Stock			
Restricted Stock	**-**	-	-
Stock Warrants	**19,203**	-	-
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	**8,458,461**	8,439,258	8,439,258
Earnings Per Share - Basic	**$ 0.71**	$ 0.57	$ 0.37
Earnings Per Share - Diluted	**$ 0.71**	$ 0.57	$ 0.37

For the years ended December 31, 2014 and 2013, respectively, the Company has excluded 500,000 shares of common stock equivalents because the strike price of the common stock equivalents would cause them to have an anti-dilutive effect.

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

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

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

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

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

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

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

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

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

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

The Company

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2015 and 2014, and results of operations for each of the years in the three-year period ended December 31, 2015. 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 interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average interest-earning assets. Net income available to common shareholders totaled \$6.00 million, or \$0.71 per diluted common share in 2015, compared to \$4.84 million, or \$0.57 per diluted common share in 2014 and to \$3.12 million, or \$0.37 per diluted common share in 2013.

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

	2015	2014	$ Variance	% Variance	2014	2013	$ Variance	% Variance
Taxable-equivalent net interest income	$ 37,838	$ 38,080	$ (242)	(0.64)%	$ 38,080	$ 37,859	$ 221	0.58%
Taxable-equivalent adjustment	132	117	15	12.82	117	170	(53)	(31.18)
Net interest income	37,706	37,963	(257)	(0.68)	37,963	37,689	274	0.73
Provision for loan losses	866	1,308	(442)	(33.79)	1,308	4,485	(3,177)	(70.84)
Noninterest income	9,045	9,125	(80)	(0.88)	9,125	8,377	748	8.93
Noninterest expense	33,724	34,980	(1,256)	(3.59)	34,980	34,617	363	1.05
Income before income taxes	$ 12,161	$ 10,800	$ 1,361	12.60	$ 10,800	$ 6,964	$ 3,836	55.08
Income Taxes	3,788	3,268	520	15.91	3,268	2,335	933	39.96
Net income	$ 8,373	$ 7,532	$ 841	11.17	$ 7,532	$ 4,629	$ 2,903	62.71%
Preferred stock dividends	$ 2,375	$ 2,689	$ (314)	(11.68)	$ 2,689	$ 1,509	$ 1,180	78.20%
Net income available to common shareholders	$ 5,998	$ 4,843	$ 1,155	23.85%	$ 4,843	$ 3,120	$ 1,723	55.22%
Net income available to common shareholders:								
Basic	$ 0.71	$ 0.57	$ 0.14	24.56%	$ 0.57	$ 0.37	$ 0.20	54.05%
Diluted	$ 0.71	$ 0.57	$ 0.14	24.56%	$ 0.57	$ 0.37	$ 0.20	54.05%
Return on average assets (1)	0.52%	0.43%	0.09%	20.93%	0.43%	0.28%	0.15%	53.57%
Return on average common equity (1)	5.90%	5.11%	0.79%	15.46%	5.11%	3.34%	1.77%	52.99%

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

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 80.65 percent of total revenue during 2015, 80.62 percent during 2014 and 81.82 percent during 2013.

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

The 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 3.50 percent. The rate increased 25 basis points in fourth quarter of 2015 for the first time in several years. The federal funds rate moves similar to prime rate with interest rates currently at 0.50 percent. We anticipate the Federal Reserves interest rate to remain flat most of 2016.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of interest-earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. The Company's consolidated average balance sheets along with an analysis of taxable-equivalent net interest earnings are presented in the 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 2014 to 2015 (a)			Changes From 2013 to 2014 (a)		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans, Net-Taxable	$ 831	$ (831)	$ -	$ (175)	$ (1,484)	$ (1,659)
Investment Securities						
Taxable	(89)	(396)	(485)	122	1,044	1,166
Tax-Exempt	(12)	(3)	(15)	(22)	(4)	(26)
Total Investment Securities	(101)	(399)	(500)	100	1,040	1,140
Interest-Bearing Deposits in Other Banks	35	3	38	18	(3)	15
Federal Funds Sold	(16)	(1)	(17)	(6)	(1)	(7)
Other Interest - Earning Assets	(6)	13	7	(9)	43	34
Total Interest Income	743	(1,215)	(472)	(72)	(405)	(477)
Interest Expense						
Interest-Bearing Demand and Savings Deposits	126	(29)	97	100	(37)	63
Time Deposits	(240)	(113)	(353)	(263)	(508)	(771)
Total Interest Expense On Deposits	(114)	(142)	(256)	(163)	(545)	(708)
Other Interest-Bearing Liabilities						
Subordinated Debentures	-	(15)	(15)	-	1	1
Other Debt	-	41	41	(9)	18	9
Total Interest Expense	(114)	(116)	(230)	(172)	(526)	(698)
Net Interest Income (Loss)	$ 857	$ (1,099)	$ (242)	$ 100	$ 121	$ 221

(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.

The Company maintains about 18 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. The Federal Reserve rates have remained flat since 2008 until the increase in the fourth quarter of 2015. We have seen the net interest margin change to 3.52 percent for 2015, compared to 3.60 percent for 2014 and 3.61 percent for 2013. We have seen our net interest margin reach a low of 3.43 percent for first quarter 2015 to a high of 3.63 percent for fourth quarter 2015.

Taxable-equivalent net interest income for 2015 decreased by $242 thousand, or 0.64 percent, compared to 2014 while taxable-equivalent net interest income for 2014 increased by $221 thousand, or 0.58 percent, compared to 2013. The average volume of interest-earning assets during 2015 increased $16.95 million compared to 2014 while over the same period the net interest margin dropped to 3.52 percent from 3.60 percent. The average volume of interest-earning assets during 2014 increased $9.42 million compared to 2013 while over the same period the net interest margin decreased to 3.60 percent from 3.61 percent. The change in the net interest margin in 2015 and 2014 was primarily driven by reduction in the cost of funds and a higher level of low yielding assets. The increase in average interest-earning assets in 2015 was in loans and interest-bearing deposits. The increase in average interest-earning assets in 2014 was in securities and interest-bearing deposits.

The average volume of loans increased $15.47 million in 2015 compared to 2014, and decreased $3.14 million in 2014 compared to 2013. The average yield on loans decreased 11 basis points in 2015 compared to 2014 and decreased 20 basis points in 2014 compared to 2013. The average volume of deposits increased $17.29 million in 2015 compared to 2014. The average volume of deposits increased $5.75 million while other borrowings decreased $331 thousand in 2014 compared to 2013. Demand deposits made up $10.09 million of the increase in average deposits in 2015 and demand deposits made up $5.79 million of the increase in average deposits in 2014.

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 86.8 in 2015, 87.6 percent in 2014 and 88.2 percent in 2013. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 3 basis points in 2015 compared to 2014 and decreasing the average cost of total deposits by 8 basis points in 2014 compared to 2013, and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets on the Company's net interest income.

The Company's net interest spread, which represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities, was 3.41 percent in 2015 compared to 3.49 percent in 2014 and 3.50 percent in 2013. 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 $866 thousand in 2015 compared to $1.31 million in 2014 and $4.49 million in 2013. 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:

	2015	2014	**$ Variance**	**% Variance**	2014	2013	**$ Variance**	**% Variance**
Service Charges on Deposit Accounts	**$ 4,269**	$ 4,649	**$ (380)**	**(8.17)%**	$ 4,649	$ 4,691	$ (42)	(0.90)%
Other Charges, Commissions and Fees	**2,627**	2,388	**239**	**10.01**	2,388	1,725	663	38.43
Mortgage Fee Income	**527**	420	**107**	**25.48**	420	484	(64)	(13.22)
Securities Gains (Losses)	**(11)**	24	**(35)**	**(145.83)**	24	(364)	388	106.59
Gain on Sale of SBA Loans	-	-	-	-	-	635	(635)	(100.00)
Other	**1,633**	1,644	**(11)**	**(0.67)**	1,644	1,206	438	36.32
Total	**$ 9,045**	$ 9,125	**$ (80)**	**(0.88)%**	$ 9,125	$ 8,377	$ 748	8.93%

Other Charges, Commissions and Fees. Significant amounts impacting the comparable periods was primarily attributed to ATM and debit card interchange fees which increased $251 thousand in 2015 compared to 2014 and $701 thousand in 2014 compared to 2013.

Mortgage Fee Income. The increase in mortgage fee income in 2015 compared to the same period in 2014 is due to a slight increase in the volume of mortgage loans. The volume of mortgage loans has been sluggish in 2014 compared to the same period in 2013 which contributed to a slight decrease in mortgage fee income.

Securities Gains (Losses). The decrease in 2015 is attributable to the loss on sale of securities compared to 2014 with a gain on sale of securities.

Other. The Bank did not have any significant changes for 2015 compared to 2014. Significant amounts impacting the comparable periods was primarily attributed to the income for bank owned life insurance which increased $217 thousand in 2014 compared to 2013.

Noninterest Expense

The components of noninterest expense were as follows:

	2015	2014	$ Variance	% Variance	2014	2013	$ Variance	% Variance
Salaries and Employee Benefits	**$ 17,590**	$ 17,508	**$ 82**	**0.47%**	$ 17,508	$ 16,692	$ 816	4.89%
Occupancy and Equipment	**3,989**	4,063	**(74)**	**(1.82)**	4,063	3,795	268	7.06
Directors' Fees	**358**	392	**(34)**	**(8.67)**	392	417	(25)	(6.00)
Legal and Professional Fees	**738**	786	**(48)**	**(6.11)**	786	721	65	9.02
Foreclosed Property	**1,683**	2,701	**(1,018)**	**(37.69)**	2,701	3,918	(1,217)	(31.06)
FDIC Assessment	**899**	966	**(67)**	**(6.94)**	966	1,322	(356)	(26.93)
Advertising	**625**	652	**(27)**	**(4.14)**	652	508	144	28.35
Software	**993**	925	**68**	**7.35**	925	853	72	8.44
Telephone	**710**	736	**(26)**	**(3.53)**	736	778	(42)	(5.40)
ATM/Card Processing	1,061	906	**155**	**17.11**	906	685	221	32.26
Other	5,078	5,345	**(267)**	**(5.00)**	5,345	4,928	417	8.46
Total	$ 33,724	$ 34,980	**$ (1,256)**	**(3.59)%**	$ 34,980	$ 34,617	$ 363	1.05%

Salaries and Employee Benefits. Salary and employee benefits remained flat in 2015, while the increase in 2014 is primarily attributable to the Company reinstating their contribution to the profit sharing plan in the amount of $401,497 and the remainder of the increase is due to merit pay increases.

Foreclosed Property. The decrease in foreclosed property and repossession expense for 2015 and 2014 is primarily attributable to the decrease in the volume of OREO.

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 $1.15 billion in 2015 compared to $1.13 billion in 2014 and $1.12 billion in 2013.

	2015		2014		2013	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	$ 128,541	11.2%	$ 118,452	10.5%	$ 112,667	10.1%
Interest-Bearing	847,811	73.9%	840,608	74.5%	840,646	75.2%
Federal Funds Purchased and Repurchase Agreements	3	- %	2	- %	34	- %
Subordinated Debentures and Other Borrowed Money	64,229	5.6%	64,229	5.7%	64,528	5.8%
Other Noninterest-Bearing Liabilities	4,690	0.4%	10,010	0.9%	6,838	0.6%
Equity Capital	101,710	8.9%	94,751	8.4%	93,358	8.3%
Total	$ 1,146,984	100.0%	$ 1,128,052	100.0%	$ 1,118,071	100.0%
Uses of Funds:						
Loans (Net of Allowance)	$ 748,366	65.3%	$ 730,643	64.8%	$ 731,280	65.4%
Investment Securities	278,978	24.3%	284,474	25.2%	275,689	24.7%
Federal Funds Sold	6,056	0.5%	12,551	1.1%	14,969	1.3%
Interest-Bearing Deposits	29,815	2.6%	16,193	1.4%	9,625	0.9%
Other Interest-Earning Assets	2,754	0.2%	2,906	0.3%	3,275	0.3%
Other Noninterest-Earning Assets	81,015	7.1%	81,285	7.2%	83,233	7.4%
Total	$ 1,146,984	100.0%	$ 1,128,052	100.0%	$ 1,118,071	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 86.8 percent of total average deposits in 2015 compared to 87.6 percent 2014 and 88.2 percent in 2013.

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 2015 as total loans were $758.6 million at December 31, 2015, up 1.68 percent, compared to loans of $746.1 million at December 31, 2014, while total loans at December 31, 2014, were down 0.68 percent, compared to loans of $751.2 million at December 31, 2013. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" on the following page. The majority of funds provided by deposits have been invested in loans.

Loans

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

	2015	2014	2013	2012	2011
Commercial and Agricultural					
Commercial	**$ 47,782**	$ 50,960	$ 48,107	$ 55,684	$ 48,986
Agricultural	**19,193**	16,689	10,666	6,211	8,422
Real Estate					
Commercial Construction	**40,107**	51,259	52,739	53,808	58,546
Residential Construction	**9,413**	11,221	6,549	5,852	3,530
Commercial	**346,262**	332,231	341,783	334,386	315,281
Residential	**197,002**	203,753	206,258	203,845	193,638
Farmland	**61,780**	49,951	47,034	49,057	48,225
Consumer and Other					
Consumer	**20,605**	22,820	25,676	29,778	30,449
Other	**16,492**	7,210	12,406	8,429	9,244
	758,636	746,094	751,218	747,050	716,321
Unearned Interest and Fees	**(357)**	(362)	(360)	(234)	(57)
Allowances for Loan Losses	**(8,604)**	(8,802)	(11,806)	(12,737)	(15,650)
Loans	**$ 749,675**	$ 736,930	$ 739,052	$ 734,079	$ 700,614

The following table presents total loans as of December 31, 2015 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	$ 290,353
After One Year through Three Years	257,129
After Three Years through Five Years	150,904
Over Five Years	60,250
	$ 758,636

Overview. Loans totaled $758.6 million at December 31, 2015, up 1.68 percent from December 31, 2014 loans of $746.1 million. The majority of the Company's loan portfolio is comprised of the real estate loans. Commercial and residential real estate which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 71.61 percent and 71.84 percent of total loans, real estate construction loans made up 6.53 percent and 8.37 percent while commercial and agricultural loans made up 8.83 percent and 9.07 percent of total loans at December 31, 2015 and December 31, 2014, respectively.

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

Commercial purpose, commercial real estate, and agricultural loans are underwritten similarly to how other loans are underwritten throughout the Company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. In addition, the Company restricts total loans to $10 million per borrower, subject to exception, approval by the Director Loan Committee. This diversity helps reduce the company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans monthly based on collateral, geography, and risk grade criteria. The Company also utilizes information provided by third-party agencies to provide additional insight and guidance about economic conditions and trends affecting the markets it serves.

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

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

The Company utilizes an independent third party company for loan review and validation of the credit risk program on an ongoing quarterly basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial and Agricultural. Commercial and agricultural loans at December 31, 2015 decreased 1.0 percent to $67.0 million from December 31, 2014 at $67.6 million. The Company's commercial and agricultural loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Real Estate. Commercial and residential construction loans decreased by $12.96 million, or 20.74 percent, at December 31, 2015 to $49.52 million from $62.48 million at December 31, 2014. This decrease is due to completion of construction and the new loans transferring to the commercial real estate category. Therefore, commercial real estate increased $14.03 million, or 4.22 percent, at December 31, 2015 to $346.26 million from $332.23 million at December 31, 2014.

Other. Other loans at December 31, 2015 increased 128.74 percent to $16.49 million from $7.21 million at December 31, 2014. This increase is attributable to a new $10 million loan acquired in 2015.

Industry Concentrations. As of December 31, 2015 and December 31, 2014, there were no concentrations of loans within any single industry in excess of 10 percent of total loans, as segregated by Standard Industrial Classification code ("SIC code"). The SIC code is a federally designed standard industrial numbering system used by the Company to categorize loans by the borrower's type of business. The Company has established industry-specific guidelines with respect to maximum loans permitted for each industry with which the Company does business.

Collateral Concentrations. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2015, approximately 86 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. 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, 2015 and December 31, 2014.

	December 31, 2015			December 31, 2014		
		Period End Balances			Period End Balances	
	Number of Relationships	**Committed**	**Outstanding**	Number of Relationships	Committed	Outstanding
Large Credit Relationships:						
$5 million to $9.9 million	**16**	**$ 108,432**	**$ 99,126**	14	$ 93,931	$ 86,305

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, 2015. 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	$ 202,561	$ 245,237	$ 116,964	$ 58,622	$ 623,384
Loans with floating interest rates	87,792	11,892	33,940	1,628	135,252
Total	$ 290,353	$ 257,129	$ 150,904	$ 60,250	$ 758,636

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:

	2015	2014	2013	2012	2011
Loans Accounted for on Nonaccrual	**$ 14,408**	$18,334	$24,114	$29,851	$38,822
Loans Accruing Past Due 90 Days or More	**8**	7	4	4	15
Other Real Estate Foreclosed	**8,839**	10,402	15,502	15,941	20,445
Securities Accounted for on Nonaccrual	**-**	-	-	366	426
Total Nonperforming Assets	**$ 23,255**	$28,743	$39,620	$46,162	$59,708
Nonperforming Assets by Segment					
Construction and Land Development	**7,106**	9,655	17,323	23,832	35,467
1-4 Family Residential	**4,197**	8,237	5,926	7,153	4,589
Multifamily Residential	**-**	173	335	627	744
Nonfarm Residential	**9,908**	8,375	12,441	10,421	15,353
Farmland	**1,103**	1,449	1,629	2,413	676
Commercial and Consumer	**941**	854	1,966	1,716	2,879
Total Nonperforming Assets	**$ 23,255**	$28,743	$39,620	$46,162	$59,708
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	**3.03%**	3.80%	5.17%	6.05%	8.10%
Total Assets	**1.98%**	2.51%	3.45%	4.05%	4.99%
Nonperforming Loans as a Percentage of:					
Total Loans	**1.90%**	2.46%	3.21%	4.00%	5.42%
Supplemental Data:					
Trouble Debt Restructured Loans In Compliance with Modified Terms	**$ 19,375**	$19,229	$20,715	$24,870	$29,839
Trouble Debt Restructured Loans Past Due 30-89 Days	**344**	757	435	1,377	611
Accruing Past Due Loans:					
30-89 Days Past Due	**10,959**	9,701	9,366	14,911	7,161
90 or More Days Past Due	**8**	7	4	4	15
Total Accruing Past Due Loans	**$ 10,967**	$9,708	$ 9,370	$ 14,915	$ 7,176
Allowance for Loan Losses	**$ 8,604**	$8,802	$ 11,806	$ 12,737	$ 15,650
ALLL as a Percentage of:					
Total Loans	**1.13%**	1.18%	1.57%	1.70%	2.18%
Nonperforming Loans	**59.68%**	47.99%	48.95%	42.66%	40.30%

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2015 decreased 19.09 percent from December 31, 2014.

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

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

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

Allowance for Loan Losses

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

The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics. Effective with the quarter ended June 30, 2015, the calculation of the amount needed in the Allowance for Loan Losses changed. Management determined that the segmentation method for the ASC 450-20 portion of the loan portfolio should be changed to bank call report categories. Prior to this change, the ASC 450-20 segmentation categorized loans by various non-owner occupied commercial real estate loan types and risk grades for the remainder of the ASC 450-20 portion of the portfolio. On the date of change, June 30, 2015, the change in methodology resulted in an increase to the calculated allowance for loan loss reserve of $1,621,424; however, no additional provisions were required to be recorded as a result of the change.

The allowances established for probable losses on specific loans are the result of management's quarterly review of substandard loans with an outstanding balance of $250,000 or more. This review process usually involves regional credit officers along with local lending officers reviewing the loans for impairment. Specific valuation allowances are determined after considering the borrower's financial condition, collateral deficiencies, and economic conditions affecting the borrower's industry, among other things. In the case of collateral dependent loans, collateral shortfall is most often based upon local market real estate value estimates. This review process is performed at the subsidiary bank level and is reviewed at the parent Company level.

Once the loan becomes impaired, it is removed from the pool of loans covered by the general reserve and reviewed individually for exposure as described above. In cases where the individual review reveals no exposure, no reserve is recorded for that loan, either through an individual reserve or through a general reserve. If, however, the individual review of the loan does indicate some exposure, management often charges off this exposure, rather than recording a specific reserve. In these instances, a loan which becomes nonperforming could actually reduce the allowance for loan losses. Those loans deemed uncollectible are transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department obtains a current appraisal on the property in order to record the fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate.

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

Management evaluates the adequacy of the allowance for each of these components on a quarterly basis. Peer comparisons, industry comparisons, and regulatory guidelines are also used in the determination of the general valuation allowance. Loans identified as losses by management, internal loan review, and/or bank examiners are charged off. Additional information about the Company's allowance for loan losses is provided in the Notes to the Consolidated Financial Statements for Allowance for Loan Losses.

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

	2015		2014		2013		2012		2011	
	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial and Agricultural										
Commercial	$ 855	6%	$ 497	7%	1,017	6%	981	7%	1,071	7%
Agricultural	203	3%	304	2%	294	2%	296	1%	297	1%
Real Estate										
Commercial Construction	691	5%	1,223	7%	1,782	7%	1,890	7%	3,123	8%
Residential Construction	20	1%	138	1%	138	1%	138	1%	138	1%
Commercial	3,851	46%	3,665	45%	4,380	46%	5,163	45%	6,448	44%
Residential	1,990	26%	2,425	27%	3,278	27%	3,406	27%	3,695	27%
Farmland	912	8%	104	7%	312	6%	291	7%	365	7%
Consumer and Other										
Consumer	63	3%	67	3%	243	3%	228	4%	205	4%
Other	19	2%	379	1%	362	2%	344	1%	308	1%
	$ 8,604	100%	$ 8,802	100%	$ 11,806	100%	$ 12,737	100%	$ 15,650	100%

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

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

	2015	2014	2013	2012	2011
Allowance for Loan Losses at Beginning of Year	**$ 8,802**	$ 11,806	$12,737	$15,650	$28,280
Charge-Offs					
Commercial	**455**	625	121	653	842
Agricultural	**5**	-	34	3	455
Commercial Construction	**98**	1,543	2,071	4,106	6,957
Residential Construction	**-**	-	-	-	1
Commercial	**275**	1,327	2,873	4,326	12,492
Residential	**930**	1,034	706	961	1,705
Farmland	**40**	233	21	225	60
Consumer	**255**	342	398	169	223
Other	**25**	-	4	11	115
	2,083	5,104	6,228	10,454	22,850
Recoveries					
Commercial	**52**	76	56	140	128
Agricultural	**3**	3	6	-	454
Commercial Construction	**486**	485	253	209	557
Residential Construction	**-**	-	-	-	-
Commercial	**270**	90	298	233	528
Residential	**110**	31	65	47	149
Farmland	**20**	20	22	5	1
Consumer	**62**	72	94	82	145
Other	**16**	15	18	40	8
	1,019	792	812	756	1,970
Net Charge-Offs	**1,064**	4,312	5,416	9,698	20,880
Provision for Loans Losses	**866**	1,308	4,485	6,785	8,250
Allowance for Loan Losses at End of Year	**$ 8,604**	$ 8,802	$11,806	$12,737	$15,650
Ratio of Net Charge-Offs to Average Loans	**0.14%**	0.58%	0.73%	1.34%	2.74%

The allowance for loan losses decreased from $8.80 million, or 1.18 percent of total loans at December 31, 2014 to $8.60 million, or 1.13 percent of total loans at December 31, 2015. This decrease is consistent with the decrease in the Company's level of nonperforming loans from $18.34 million at December 31, 2014 to $14.42 million at December 31, 2015. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. Significant changes in the allowance during 2015 was the reduction in the net charge-offs in 2015 to $1.06 million from $4.31 million in 2014, or a reduction of $3.25 million. Significant changes in the allowance during 2014 was the reduction in the provision for loan losses in 2014 to $1.31 million from $4.49 million in 2013. The Company believes that collection efforts have reduced impaired loans and the reduction in net charge-offs runs parallel with the improvement in the substandard assets. As we begin to see stabilization in the economy and the housing and real estate market, we expect continued improvement in our substandard assets, including net charge-offs. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2015, 2014 and 2013.

	2015	2014	2013
Obligations of States and Political Subdivisions	$ 5,099	$ 3,560	$ 3,947
Mortgage-Backed Securities	291,050	271,064	259,348
Total Investment Securities and Mortgage-Backed Securities	$296,149	$274,624	$263,295

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2015. (Mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	$ 4,831	(0.46)%	$227,139	1.65%	$ 57,457	2.25%	$ 1,623	3.07%
Obligations of State and Political Subdivisions	332	3.67	2,311	2.47	2,218	2.47	238	4.03
Total Investment Portfolio	$ 5,163	(0.19)%	$229,450	1.66%	$ 59,675	2.26%	$ 1,861	3.20%

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. The Company has 100 percent of its portfolio classified as available for sale.

At December 31, 2015, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's stockholders' equity.

The average yield of the securities portfolio was 1.57 percent in 2015 compared to 1.71 percent in 2014 and 1.36 percent in 2013. The decrease in the average yield from 2014 to 2015 was primarily attributed to the adjustment in amortization resulting from the acceleration of prepayment speeds. The increase in the average yield from 2013 to 2014 was primarily attributed to the adjustment in amortization resulting from the deceleration of prepayment speeds.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2015, 2014 and 2013.

	2015		2014		2013	
	Average Amount	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	**$ 128,541**		$ 118,452		$ 112,667	
Interest-Bearing Demand and Savings	**430,731**	**0.35%**	394,615	0.35%	366,974	0.36%
Time Deposits	**417,080**	**0.81%**	445,993	0.83%	473,672	0.95%
Total Deposits	**$ 976,352**	**0.50%**	$ 959,060	0.53%	$ 953,313	0.61%

The following table presents the maturities of the Company's time deposits as of December 31, 2015.

	Time Deposits $100,000 or Greater	**Time Deposits Less Than $100,000**	**Total**
Months to Maturity			
3 or Less	**$ 40,318**	**$ 47,891**	**$ 88,209**
Over 3 through 6	**29,983**	**34,779**	**64,762**
Over 6 through 12	**71,599**	**62,852**	**134,451**
Over 12 Months	**60,901**	**51,409**	**112,310**
	$ 202,801	**$ 196,931**	**$ 399,732**

Average deposits increased $17.29 million in 2015 compared to 2014 and increased $5.75 million in 2014 compared to 2013. The increase in 2015 included $36.12 million, or 9.15 percent in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $10.09 million, or 8.52 percent and time deposits decreased $28.91 million, or 6.48 percent. The increase in 2014 included $27.64 million, or 7.53 percent in interest-bearing demand and savings deposits while, at the same time, noninterest bearing deposits increased $5.79 million, or 5.13 percent and time deposits decreased $27.68 million, or 5.84 percent. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 13.17 percent in 2015, 12.35 percent in 2014 and 11.82 percent in 2013. The general decrease in market rates in 2015 had the effect of (i) decreasing the average cost of interest-bearing deposits by 3 basis points in 2015 compared to 2014 and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets in the Company's net interest income in 2015. The general decrease in market rates in 2014 had the effect of (i) decreasing the average cost of interest-bearing deposits by 8 basis points in 2014 compared to 2013 and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets in the Company's net interest income in 2014.

Total average interest-bearing deposits increased $7.20 million, or 0.86 percent in 2015 compared to 2014 and decreased $38 thousand, or 0.01 percent in 2014 compared to 2013. This increase was primarily attributable to the increase in interest-bearing demand and savings accounts in 2015. While in 2014, the decrease was primarily attributable to the decrease in time deposit accounts.

The Company supplements deposit sources with brokered deposits. As of December 31, 2015, the Company had $25.6 million, or 2.53 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additional information is provided in the Notes to Consolidated Financial Statements for Deposits.

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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of December 31, 2015. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements. The off-balance-sheet arrangements for loan commitments consist of approximately $8 million in 1-4 residential home equity and construction loans, $3 million in commercial real estate construction loans, $18 million in commercial/industrial loans and $38 million in the overdraft privilege program.

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual Obligations:					
Subordinated Debentures	$ -	$ -	$ -	$ 24,229	$ 24,229
Federal Home Loan Bank Advances	-	2,500	10,500	27,000	40,000
Operating Leases	92	38	-	-	130
Deposits with Stated Maturity Dates	287,423	88,019	23,574	716	399,732
	287,515	90,557	34,074	51,945	464,091
Other Commitments:					
Loan Commitments	67,889	-	-	-	67,889
Standby Letters of Credit	1,588	-	-	-	1,588
	69,477	-	-	-	69,477
Total Contractual Obligations and Other Commitments	$ 356,992	$ 90,557	$ 34,074	$ 51,945	$ 533,568

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 loan losses. Loan commitments outstanding at December 31, 2015 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, 2015 are included in the preceding table.

Capital and Liquidity

At December 31, 2015, shareholders' equity totaled $95.46 million compared to $99.03 million at December 31, 2014. In addition to net income of $8.37 million, other significant changes in shareholders' equity during 2015 included $2.37 million of dividends declared on preferred stock and $9.98 million redemption of preferred stock. The accumulated other comprehensive loss component of stockholders' equity totaled $(4.43) million at December 31, 2015 compared to $(4.84) million at December 31, 2014. 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, 2015 was 15.51 percent and total Tier 1 and 2 risk-based capital was 16.60 percent. Both of these measures compare favorably with the regulatory minimum of 6 percent for Tier 1 and 8 percent for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2015 was 10.29, which exceeds the regulatory minimum of 4.50 percent. The Company's Tier 1 leverage ratio as of December 31, 2015 was 10.69 percent, which exceeds the required ratio standard of 4 percent.

For 2015, average capital was $101.7 million, representing 8.87 percent of average assets for the year. This compares to 8.40 percent for 2014.

For 2015, the Company did not have any material commitments for capital expenditures.

The Company did not pay any common stock dividends in 2015 or 2014. The Company suspended common stock dividend payments beginning in the third quarter of 2009 for capital retention purposes.

The Company declared dividends of $2,375 and $2,689 on preferred stock during 2015 and 2014, respectively. On November 17, 2014 the Company reinstated dividend payments on the Preferred Stock and paid $5.5 million of accumulated dividends in arrears to the holders of the Preferred Stock. Additional information is provided in the Notes to the Consolidated Financial Statements for Preferred Stock.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2015, the available for sale bond portfolio totaled $296.2 million. At December 31, 2014, the available for sale bond portfolio totaled $274.6 million. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 75.0 percent as of December 31, 2015 and 76.2 percent as of December 31, 2014. 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, 2015 and December 31, 2014 were 72.1 percent and 73.2 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, 2015 and December 31, 2014, the Bank had $203 million and $211 million, respectively, in certificates of deposit of $100,000 or more. These larger deposits represented 20.1 percent and 21.5 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, 2015, the Company had $25.6 million, or 2.53 percent of total deposits, in CDARS. Additional information is provided in the Notes to the Consolidated Financial Statements regarding these brokered deposits. Additionally, the Company uses external deposit listing services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. The deposits obtained from listing services are often referred to as wholesale or Internet CDs. As of December 31, 2015, the Company had $27.2 million, or 2.69 percent of total deposits, in internet certificates of deposit obtained through deposit listing services.

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

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

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

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

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

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

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs, though given recent economic conditions, the Company has not experienced any material effects of inflation during the last three fiscal years. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in

the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed in the next section.

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Quantitative and Qualitative Disclosures About Market Risk
AVERAGE BALANCE SHEETS

	2015			2014			2013		
	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)	**$756,953**	**$39,814**	**5.26%**	$741,484	$39,814	5.37%	$744,627	$41,473	5.57%
Investment Securities									
Taxable	**276,807**	**4,278**	**1.55**	282,056	4,763	1.69	272,818	3,597	1.32
Tax-Exempt (2)	**2,171**	**98**	**4.51**	2,418	113	4.67	2,871	139	4.84
Total Investment Securities	**278,978**	**4,376**	**1.57**	284,474	4,876	1.71	275,689	3,736	1.36
Interest-Bearing Deposits	**29,815**	**80**	**0.27**	16,193	42	0.26	9,625	27	0.28
Federal Funds Sold	**6,056**	**15**	**0.25**	12,551	32	0.25	14,969	39	0.26
Other Interest-Earning Assets	**2,754**	**122**	**4.43**	2,906	115	3.96	3,275	81	2.47
Total Interest-Earning Assets	**1,074,556**	**44,407**	**4.13**	1,057,608	44,879	4.24	1,048,185	45,356	4.33
Noninterest-Earning Assets									
Cash	**19,049**			9,698			19,401		
Allowance for Loan Losses	**(8,587)**			(10,841)			(13,347)		
Other Assets	**61,966**			71,587			63,832		
Total Noninterest-Earning Assets	**72,428**			70,444			69,886		
Total Assets	**$1,146,984**			$1,128,052			$1,118,071		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	**$430,731**	**$1,495**	**0.35%**	$394,615	$1,398	0.35%	$366,974	$1,335	0.36%
Other Time	**417,080**	**3,362**	**0.81**	445,993	3,715	0.83	473,672	4,486	0.95
Total Interest-Bearing Deposits	**847,811**	**4,857**	**0.57**	840,608	5,113	0.61	840,646	5,821	0.69
Other Interest-Bearing Liabilities									
Other Borrowed Money	**40,000**	**1,209**	**3.02**	40,000	1,168	2.92	40,299	1,159	2.88
Subordinated Debentures	**24,229**	**503**	**2.08**	24,229	518	2.14	24,229	517	2.13
Federal Funds Purchased and Repurchase Agreements	**3**	**-**	**-**	2	-	-	34	-	-
Total Other Interest-Bearing Liabilities	**64,232**	**1,712**	**2.67**	64,231	1,686	2.62	64,562	1,676	2.6
Total Interest-Bearing Liabilities	**912,043**	**6,569**	**0.72**	904,839	6,799	0.75	905,208	7,497	0.83
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	**128,541**			118,452			112,667		
Other Liabilities	**4,690**			10,010			6,838		
Stockholders' Equity	**101,710**			94,751			93,358		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	**234,941**			223,213			212,863		
Total Liabilities and Stockholders' Equity	**$1,146,984**			$1,128,052			$1,118,071		
Interest Rate Spread			**3.41%**			3.49%			3.50%
Net Interest Income		**$37,838**			$38,080			$37,859	
Net Interest Margin			**3.52%**			3.60%			3.61%

(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 $99, $79 and $123 for 2015, 2014 and 2013, respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.

(2) Taxable-equivalent adjustments totaling $33, $38 and $47 for 2015, 2014 and 2013 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

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

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

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

Our exposure to interest rate risk is reviewed at least quarterly by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates. In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. The Company has engaged FTN Financial to run a quarterly asset/liability model for interest rate risk analysis. We are generally focusing our investment activities on securities with terms or average lives in the 3 ½ - 5 ½ year range.

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2015. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	**4 to 12 Months**	**1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
INTEREST-EARNING ASSETS:						
Interest-Bearing Deposits	$ 38,615	$ -	$ 38,615	$ -	$ -	$ 38,615
Investment Securities	-	1,695	1,695	225,241	69,213	296,149
Loans, Net of Unearned Income	177,355	112,820	290,175	407,854	60,250	758,279
Other Interest- Earning Assets	2,731	-	2,731	-	-	2,731
Total Interest-Earning Assets	$218,701	$114,515	$ 333,216	$633,095	$129,463	$1,095,774
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand Deposits (1)	412,959	-	412,959	-	-	412,959
Savings (1)	64,976	-	64,976	-	-	64,976
Time Deposits	88,209	199,213	287,422	111,594	716	399,732
Other Borrowings	-	-	-	13,000	27,000	40,000
Subordinated Debentures	24,229	-	24,229	-	-	24,229
Total Interest-Bearing Liabilities	590,373	199,213	789,586	124,594	27,716	941,896
Interest Rate-Sensitivity Gap	(371,672)	(84,698)	(456,370)	508,501	101,747	$ 153,878
Cumulative Interest-Sensitivity Gap	$(371,672)	$(456,370)	$(456,370)	$ 52,131	$153,878	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(33.92)%	(7.73)%	(41.65)%	46.41%	9.29%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(33.92)%	(41.65)%	(41.65)%	4.76%	14.04%	

(1) Interest-bearing Demand and Savings Accounts 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 $456.4 million, or 41.65 percent of total interest-earning assets at December 31, 2015. In theory, this would indicate that at December 31, 2015, $456.4 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to decline, the gap would indicate a resulting increase in net interest margin. However, changes in the mix of interest-earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

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

The Company has established its one year gap to be 80 percent to 120 percent. The most recent analysis as of December 31, 2015 indicates a one year gap of 95 percent. The analysis reflects slight net interest margin compression in both a declining and increasing interest rate environment. Given that interest rates have basically "bottomed-out" with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2016. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

The Company utilizes FTN Financial Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established policies for rate shock per basis point (bp) for earnings at risk for net interest income and for equity at risk. The following table shows the policy limits with the rate shock for earnings at risk and equity at risk as of December 31, 2015.

	Rate Shock	Policy Limit	Immediate Shock (-) decrease bp	Immediate Shock (+) increase bp
Net Interest Income – Earnings at Risk	+/- 100 bp	+/- 10%	-0.98%	0.23%
	+/- 200 bp	+/- 15%	-7.47%	-0.27%
	+/- 300 bp	+/- 20%	-9.98%	-1.26%
	+/- 400 bp	+/- 25%	-11.96%	-2.55%
Equity at Risk	+/- 100 bp	+/- 10%	-7.47%	8.85%
	+/- 200 bp	+/- 20%	-24.66%	13.64%
	+/- 300 bp	+/- 30%	-27.76%	16.28%
	+/- 400 bp	+/- 40%	-28.27%	24.02%

Return on Assets and Stockholder's Equity

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

	Years Ended December 31		
	2015	2014	2013
Return on Average Assets(1)	**0.52%**	0.43%	0.28%
Return on Average Equity(1)	**5.90%**	5.11%	3.34%
Equity to Assets	**8.13%**	8.63%	7.83%
Common Stock Dividends Declared	**$0.00**	$0.00	$0.00

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

Future Outlook

During the recent financial crisis, the financial industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and developments throughout the county. While much has been accomplished in addressing problem assets the past several years, there is still work to be done in bringing our problem assets to an acceptable level. A focus in 2016 will be directed toward further reduction of problem assets.

As we look forward to 2016 we are committed to improving earnings, reducing problem assets and redeeming TARP preferred stock. Given the improved condition of the company we are also considering product and market expansion. We currently have three initiatives for market expansion in 2016. We are opening a new office in Tifton, while simultaneously closing two smaller leased offices that we currently occupy. In Statesboro, we are renovating space to open a residential mortgage and commercial loan production office. In Savannah, we are renovating a 100 year old structure to house our downtown office. This will be our third office in the Savannah market which has been demonstrating impressive growth trends. Also to be more efficient with our operations, we will be closing two offices in smaller rural markets.

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

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

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

COLONY BANKCORP, INC.
SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS:

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229-426-6000

ANNUAL MEETING

Tuesday, May 24, 2016 at 2:00 p.m.
Colony Bankcorp, Inc.
115 South Grant Street
Fitzgerald, Georgia 31750

INDEPENDENT AUDITORS:

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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:

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