

COLONY BANKCORP INC
Form 10-Q
November 02, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR QUARTER ENDED SEPTEMBER 30, 2015 COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA 58-1492391
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER
INCORPORATION OR ORGANIZATION) IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES).

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER OR A SMALLER REPORTING COMPANY. SEE DEFINITIONS OF "ACCELERATED FILER", "LARGE ACCELERATED FILER" AND "SMALLER REPORTING COMPANY" IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER ACCELERATED FILER
NON-ACCELERATED FILER SMALLER REPORTING COMPANY
(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT).

YES NO

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

<u>CLASS</u>	<u>OUTSTANDING AT NOVEMBER 2, 2015</u>
COMMON STOCK, \$1 PAR VALUE	8,439,258

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I – Financial Information</u>	
Forward Looking Statement Disclosure	3
Item 1. Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3. Quantitative and Qualitative Disclosures About Market Risk	53
Item 4. Controls and Procedures	54
<u>PART II – Other Information</u>	
Item 1. Legal Proceedings	55
Item 1A. Risk Factors	55
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3. Defaults Upon Senior Securities	55
Item 4. (Removed and Reserved)	55
Item 5. Other Information	55
Item 6. Exhibits	56
Signatures	58

Forward Looking Statement Disclosure

Certain statements contained in this Quarterly 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:

Loss 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 subsidiary 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.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (SEC).

PART 1. FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY BANK, COLONY BANK

A. CONSOLIDATED BALANCE SHEETS – SEPTEMBER 30, 2015 (UNAUDITED) AND DECEMBER 31, 2014 (AUDITED).

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED).

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED).

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED).

THE CONSOLIDATED FINANCIAL STATEMENTS FURNISHED HAVE NOT BEEN AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, BUT REFLECT, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING SOLELY OF NORMAL RECURRING ADJUSTMENTS) NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS OF OPERATIONS FOR THE PERIODS PRESENTED.

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Part 1 (Continued)

Part 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY**CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2015 AND DECEMBER 31, 2014****(DOLLARS IN THOUSANDS)**

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 17,137	\$24,473
Federal Funds Sold	-	20,132
	17,137	44,605
Interest-Bearing Deposits	15,996	21,206
Investment Securities		
Available for Sale, at Fair Value	271,611	274,594
Held to Maturity, at Cost (Fair Value of \$28 and \$30, as of September 30, 2015 and December 31, 2014, Respectively)	28	30
	271,639	274,624
Federal Home Loan Bank Stock, at Cost	2,731	2,831
Loans		
Allowance for Loan Losses	(8,402)	(8,802)
Unearned Interest and Fees	(355)	(362)
	755,447	736,930
Premises and Equipment	24,460	24,960
Other Real Estate (Net of Allowance of \$2,926 and \$3,320 as of September 30, 2015 and December 31, 2014, Respectively)	10,998	10,402
Other Intangible Assets	125	152
Other Assets	28,787	31,188
Total Assets	\$ 1,127,320	\$ 1,146,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 125,793	\$128,340
Interest-Bearing	832,241	850,963
	958,034	979,303
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	40,000	40,000

	64,229	64,229
Other Liabilities	3,983	4,339
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000 a Share; Authorized 10,000,000 Shares, Issued 23,167 Shares and 28,000 as of September 30, 2015 and December 31, 2014, Respectively	23,167	28,000
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of September 30, 2015 and December 31, 2014	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	42,703	38,288
Accumulated Other Comprehensive (Loss), Net of Tax Benefits	(2,380)	(4,845)
	101,074	99,027
Total Liabilities and Stockholders' Equity	\$ 1,127,320	\$ 1,146,898

The accompanying notes are an integral part of these statements.

Part 1 (Continued)

Part 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(UNAUDITED)****(DOLLARS IN THOUSANDS)**

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest Income				
Loans, Including Fees	\$9,981	\$10,170	\$29,563	\$29,815
Federal Funds Sold	-	6	15	23
Deposits with Other Banks	17	9	58	32
U.S. Government Agencies	1,060	1,165	3,108	3,574
State, County and Municipal	28	24	78	75
Dividends on Other Investments	31	26	91	85
	11,117	11,400	32,913	33,604
Interest Expense				
Deposits	1,210	1,260	3,648	3,869
Borrowed Money	410	402	1,319	1,275
	1,620	1,662	4,967	5,144
Net Interest Income	9,497	9,738	27,946	28,460
Provision for Loan Losses	250	500	741	1,308
Net Interest Income After Provision for Loan Losses	9,247	9,238	27,205	27,152
Noninterest Income				
Service Charges on Deposits	1,133	1,250	3,184	3,433
Other Service Charges, Commissions and Fees	661	603	1,963	1,778
Mortgage Fee Income	138	130	385	311
Securities Gains (Losses)	9	-	12	1
Other	292	427	1,259	1,195
	2,233	2,410	6,803	6,718
Noninterest Expenses				
Salaries and Employee Benefits	4,395	4,432	13,270	13,149
Occupancy and Equipment	1,026	1,049	3,036	3,069

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other	2,914	3,053	8,635	9,473
	8,335	8,534	24,941	25,691
Income Before Income Taxes	3,145	3,114	9,067	8,179
Income Taxes	945	1,033	2,799	2,625
Net Income	2,200	2,081	6,268	5,554
Preferred Stock Dividends	594	697	1,854	2,021
Net Income Available to Common Stockholders	\$1,606	\$1,384	\$4,414	\$3,533
Net Income Per Share of Common Stock				
Basic	\$0.19	\$0.16	\$0.52	\$0.42
Diluted	\$0.19	\$0.16	\$0.52	\$0.42
Cash Dividends Declared Per Share of Common Stock	\$-	\$-	\$-	\$-
Weighted Average Basic Shares Outstanding	8,439,258	8,439,258	8,439,258	8,439,258
Weighted Average Diluted Shares Outstanding	8,466,285	8,439,258	8,449,057	8,439,258

The accompanying notes are an integral part of these statements.

Part 1 (Continued)

Part 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	September 30, 2014	September 30, 2014	September 30, 2014	September 30, 2014
Net Income	\$2,200	\$ 2,081	\$6,268	\$ 5,554
Other Comprehensive Income:				
Gains (Losses) on Securities Arising During the Year	2,497	(488)	3,747	4,220
Tax Effect	(849)	166	(1,274)	(1,435)
Realized (Losses) on Sale of AFS Securities	(9)	-	(12)	-
Tax Effect	3	-	4	-
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	1,642	(322)	2,465	2,785
Comprehensive Income	\$3,842	\$ 1,759	\$8,733	\$ 8,339

The accompanying notes are an integral part of these statements.

Part 1 (Continued)

Part 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014****(UNAUDITED)****(DOLLARS IN THOUSANDS)**

	Nine Months Ended	
	September	September
	30, 2015	30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$6,268	\$ 5,554
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,237	1,207
Provision for Loan Losses	741	1,308
Securities (Gains) Losses	(12)	(1)
Amortization and Accretion	1,391	979
(Gain) Losses on Sale of Other Real Estate and Repossessions	(61)	501
Provision for Losses on Other Real Estate	431	605
Increase in Cash Surrender Value of Life Insurance	(132)	(431)
Gain on Sale of Premises & Equipment	11	(12)
Other Prepaids, Deferrals and Accruals, Net	928	2,745
	10,802	12,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(63,715)	(34,062)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	40,840	27,072
Held for Maturity	5	8
Proceeds from Sale of Investment Securities Available for Sale	28,274	-
Interest-Bearing Deposits in Other Banks	5,210	11,278
Net Loans to Customers	(25,631)	1,864
Purchase of Premises and Equipment	(776)	(1,308)
Proceeds from Sale of Other Real Estate and Repossessions	5,404	6,321
Proceeds from Sale of Federal Home Loan Bank Stock	100	333
Proceeds from Sale of Premises and Equipment	29	14
	(10,260)	11,520
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(2,547)	870
Interest-Bearing Customer Deposits	(18,722)	(47,200)

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Dividends Paid for Preferred Stock	(1,908)	-
Redemption of Preferred Stock	(4,833)	-
Payments on Federal Home Loan Bank Advances	(27,000)	-
Proceeds from Federal Home Loan Bank Advances	27,000	-
	(28,010)	(46,330)
Net Decrease in Cash and Cash Equivalents	(27,468)	(22,355)
Cash and Cash Equivalents at Beginning of Period	44,605	46,187
Cash and Cash Equivalents at End of Period	\$17,137	\$ 23,832

The accompanying notes are an integral part of these statements.

Part 1 (Continued)

Part 2 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Presentation

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.

All dollars in notes to consolidated financial statements are rounded to the nearest thousand, except for per share amounts.

The consolidated financial statements in this report are unaudited, except for the December 31, 2014 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the nine months ended September 30, 2015, are not necessarily indicative of the results which may be expected for the entire year.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in 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 have been reclassified to conform to statement presentations selected for 2015. Such reclassifications had no effect on previously reported stockholders' equity or net income.

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 September 30, 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.

Part 1 (Continued)

Part 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

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 Colony 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 ratings are 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.

The Company evaluates each held to maturity and available for sale security in a loss position for other-than-temporary impairment (OTTI). In estimating other-than-temporary impairment losses, management

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Part 1 (Continued)

Part 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring (TDR)

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of 6 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 non-accrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

Allowance for Loan Losses

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

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

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an

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

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

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

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether or not to obtain an external third-party appraisal usually depends on the type of property being evaluated. External appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff.

Part 1 (Continued)

Part 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are “as is” or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals are not obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management’s knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the most recent 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	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 a valuation performed as of the consummation date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits.

Transfers of Financial Assets

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

Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, interest-bearing checking accounts, savings accounts, loans and certificates of deposit are reported net.

Advertising Costs

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

Part 1 (Continued)

Part 2 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

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

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at estimated fair value at the date of acquisition less the cost of disposal. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Routine holding costs and gains or losses upon disposition are included in other noninterest 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 \$14,663 and \$14,531 as of September 30, 2015 and December 31, 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 and are not reported in the consolidated statements of operations but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Off-Balance Sheet Credit Related Financial Instruments

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

Part 1 (Continued)

Part 2 (Continued)

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

In May 2014, the FASB issued an update ASU No. 2014-09, *Revenue from Contracts with Customers creating FASB Topic 606, Revenue from Contracts with Customers*. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update are effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

(2) Investment Securities

Investment securities as of September 30, 2015 and December 31, 2014 are summarized as follows:

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 271,010	\$ 485	\$ (4,115) \$267,380

State, County & Municipal	4,207	44	(20)	4,231
	\$ 275,217	\$ 529	\$ (4,135)	\$271,611

Securities Held to Maturity:

State, County and Municipal	\$ 28	\$ -	\$ -	\$ 28
-----------------------------	--------------	-------------	-------------	--------------

December 31, 2014

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 278,419	\$ 156	\$ (7,511) \$271,064
State, County & Municipal	3,516	27	(13) 3,530
	\$ 281,935	\$ 183	\$ (7,524) \$274,594
Securities Held to Maturity:				
State, County and Municipal	\$ 30	\$ -	\$ -	\$ 30

Part 1 (Continued)

Part 2 (Continued)

(2) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of September 30, 2015, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities		Held to Maturity	
	Available for Sale	Amortized Cost	Amortized Cost	Fair Value
Due In One Year or Less	\$331	\$333	\$28	\$28
Due After One Year Through Five Years	784	790	-	-
Due After Five Years Through Ten Years	1,595	1,624	-	-
Due After Ten Years	1,497	1,484	-	-
	\$4,207	\$4,231	\$28	\$28
Mortgage-Backed Securities	271,010	267,380	-	-
	\$275,217	\$271,611	\$28	\$28

Proceeds from the sale of investments available for sale during the first nine months of 2015 totaled \$28,274 compared to \$0 for the first nine months of 2014. The sale of investments available for sale during the first nine months of 2015 resulted in gross realized gains of \$208 and losses of \$196. The gross realized gain of \$1 for the first nine months of 2014 was due to a gain on a call for a held to maturity investment.

Investment securities having a carry value approximating \$124,704 and \$135,532 as of September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at September 30, 2015 and December 31, 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
September 30, 2015						
U.S. Government Agencies						
Mortgage-Backed	\$27,858	\$ (162)	\$142,938	\$ (3,953)	\$170,796	\$ (4,115)
State, County and Municipal	996	(20)	-	-	996	(20)
	\$28,854	\$ (182)	\$142,938	\$ (3,953)	\$171,792	\$ (4,135)
December 31, 2014						
U.S. Government Agencies						
Mortgage-Backed	\$66,609	\$ (397)	\$183,646	\$ (7,114)	\$250,255	\$ (7,511)
State, County and Municipal	-	-	1,379	(13)	1,379	(13)
	\$66,609	\$ (397)	\$185,025	\$ (7,127)	\$251,634	\$ (7,524)

Part 1 (Continued)

Part 2 (Continued)

(2) Investments (Continued)

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

At September 30, 2015, the debt securities with unrealized losses have depreciated 2.35 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.

(3) Loans

The following table presents the composition of loans segregated by class of loans, as of September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
Commercial and Agricultural		
Commercial	\$ 48,759	\$50,960
Agricultural	27,373	16,689
Real Estate		
Commercial Constuction	43,589	51,259
Residential Construction	10,465	11,221
Commercial	347,703	332,231

Residential	195,800	203,753
Farmland	61,551	49,951
Consumer and Other		
Consumer	20,958	22,820
Other	8,006	7,210
Total Loans	\$ 764,204	\$ 746,094

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

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

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

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

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.

The following table presents the loan portfolio by credit quality indicator (risk grade) as of September 30, 2015 and December 31, 2014. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

September 30, 2015

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	\$44,955	\$ 1,985	\$ 1,819	\$48,759
Agricultural	27,150	18	205	27,373
Real Estate				
Commercial Construction	38,819	1,135	3,635	43,589
Residential Construction	10,465	-	-	10,465
Commercial	330,711	6,529	10,463	347,703
Residential	175,906	8,764	11,130	195,800
Farmland	56,352	821	4,378	61,551
Consumer and Other				
Consumer	20,394	171	393	20,958
Other	7,979	27	-	8,006
Total Loans	\$712,731	\$ 19,450	\$ 32,023	\$764,204

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)**December 31, 2014**

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	\$46,230	\$ 2,905	\$ 1,825	\$50,960
Agricultural	16,504	27	158	16,689
Real Estate				
Commercial Construction	45,063	1,741	4,455	51,259
Residential Construction	11,221	-	-	11,221
Commercial	309,828	11,220	11,183	332,231
Residential	180,550	10,582	12,621	203,753
Farmland	47,548	415	1,988	49,951
Consumer and Other				
Consumer	22,115	249	456	22,820
Other	7,013	-	197	7,210
Total Loans	\$686,072	\$ 27,139	\$ 32,883	\$746,094

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.

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

become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due.

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of September 30, 2015 and December 31, 2014:

September 30, 2015

	Accruing Loans		Total			
	30-89 Days Past Due	90 Days or More Past Due	Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	\$ 659	\$ -	\$ 659	\$ 664	\$47,436	\$48,759
Agricultural	22	-	22	156	27,195	27,373
Real Estate						
Commercial Construction	478	-	478	2,479	40,632	43,589
Residential Construction	-	-	-	-	10,465	10,465
Commercial	2,689	-	2,689	5,242	339,772	347,703
Residential	2,299	-	2,299	3,434	190,067	195,800
Farmland	72	-	72	1,397	60,082	61,551
Consumer and Other						
Consumer	235	8	243	187	20,528	20,958
Other	26	-	26	-	7,980	8,006
Total Loans	\$6,480	\$ 8	\$ 6,488	\$ 13,559	\$744,157	\$764,204

December 31, 2014

Accruing Loans
Total
Accruing

	30-89 Days Past Due	90 Days or More Past Due	Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	\$872	\$ -	\$ 872	\$ 405	\$49,683	\$50,960
Agricultural	-	-	-	45	16,644	16,689
Real Estate						
Commercial Construction	142	-	142	3,251	47,866	51,259
Residential Construction	-	-	-	-	11,221	11,221
Commercial	2,309	-	2,309	5,325	324,597	332,231
Residential	5,783	-	5,783	7,462	190,508	203,753
Farmland	282	-	282	1,449	48,220	49,951
Consumer and Other						
Consumer	313	7	320	202	22,298	22,820
Other	-	-	-	195	7,015	7,210
Total Loans	\$9,701	\$ 7	\$ 9,708	\$ 18,334	\$718,052	\$746,094

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of September 30, 2015:

September 30, 2015

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 580	\$ 573	\$ -	\$ 562	\$ 16	\$ 19
Agricultural	174	156	-	158	(10)	10
Commercial Construction	7,726	2,736	-	3,191	17	17
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	14,412	14,412	-	15,533	412	418
Residential Real Estate	5,359	4,400	-	4,761	165	148
Farmland	1,398	1,397	-	1,419	1	2
Consumer	195	187	-	195	8	11
Other	-	-	-	65	-	-
	29,844	23,861	-	25,884	609	625
With An Allowance Recorded						
Commercial	91	91	91	92	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	78	78	14	97	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	6,941	6,282	243	5,912	132	123
Residential Real Estate	1,082	1,082	308	1,093	12	12
Farmland	390	390	57	392	16	16
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	8,582	7,923	713	7,586	160	151

Total

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Commercial	671	664	91	654	16	19
Agricultural	174	156	-	158	(10)	10
Commercial Construction	7,804	2,814	14	3,288	17	17
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	21,353	20,694	243	21,445	544	541
Residential Real Estate	6,441	5,482	308	5,854	177	160
Farmland	1,788	1,787	57	1,811	17	18
Consumer	195	187	-	195	8	11
Other	-	-	-	65	-	-
	\$ 38,426	\$ 31,784	\$ 713	\$ 33,470	\$ 769	\$ 776

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

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

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	\$ 308	\$ -	\$ 679	\$ 9	\$ 18
Agricultural	50	45	-	51	(6)) 3
Commercial Construction	9,573	3,464	-	3,376	13	13
Commercial Real Estate	17,130	16,228	-	18,350	462	474
Residential Real Estate	9,137	7,600	-	5,691	312	306
Farmland	1,451	1,449	-	949	(8)) 18
Consumer	202	202	-	212	14	16
Other	207	195	-	197	6	11
	38,060	29,491	-	29,505	802	859
With An Allowance Recorded						
Commercial	97	97	97	420	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	207	136	54	1,529	-	-
Commercial Real Estate	6,135	6,135	457	6,415	61	51
Residential Real Estate	2,073	2,065	414	1,829	84	87
Farmland	396	396	29	529	13	12
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	8,908	8,829	1,051	10,722	158	150
Total						
Commercial	407	405	97	1,099	9	18
Agricultural	50	45	-	51	(6)) 3

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Commercial Construction	9,780	3,600	54	4,905	13	13
Commercial Real Estate	23,265	22,363	457	24,765	523	525
Residential Real Estate	11,210	9,665	414	7,520	396	393
Farmland	1,847	1,845	29	1,478	5	30
Consumer	202	202	-	212	14	16
Other	207	195	-	197	6	11
	\$ 46,968	\$ 38,320	\$ 1,051	\$ 40,227	\$ 960	\$ 1,009

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of September 30, 2014:

September 30, 2014

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$ 394	\$ 394	\$ -	\$ 803	\$ 6	\$ 14
Agricultural	50	45	-	53	(4)	6
Commercial Construction	9,210	3,101	-	3,347	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	17,346	16,656	-	19,058	427	445
Residential Real Estate	4,729	3,953	-	5,054	150	142
Farmland	1,330	984	-	782	(19)	11
Consumer	181	173	-	215	7	10
Other	212	201	-	198	3	8
	33,452	25,507	-	29,510	572	638
With An Allowance Recorded						
Commercial	99	99	99	527	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	210	139	59	1,993	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	5,931	5,931	283	6,508	142	143
Residential Real Estate	4,106	3,349	605	1,751	66	70
Farmland	398	398	31	574	8	7
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	10,744	9,916	1,077	11,353	216	220
Total						

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Commercial	493	493	99	1,330	6	14
Agricultural	50	45	-	53	(4)	6
Commercial Construction	9,420	3,240	59	5,340	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	23,277	22,587	283	25,566	569	588
Residential Real Estate	8,835	7,302	605	6,805	216	212
Farmland	1,728	1,382	31	1,356	(11)	18
Consumer	181	173	-	215	7	10
Other	212	201	-	198	3	8
	\$ 44,196	\$ 35,423	\$ 1,077	\$ 40,863	\$ 788	\$ 858

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

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

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

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

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

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of September 30, 2015. The following tables present the number of loan contracts restructured during the three month and nine month period ended September 30, 2015 and 2014. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous twelve 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, and has performed according to the modified terms for at least six months, and there has not been any prior principal forgiveness on a cumulative basis.

Troubled Debt Restructurings	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	# of Pre-Modification Contracts		Post-Modification	# of Pre-Modification Contracts		Post-Modification
Residential Real Estate	1	\$ 226	\$ 139	2	\$ 1,106	\$ 1,036
Total Loans	1	\$ 226	\$ 139	2	\$ 1,106	\$ 1,036

Troubled Debt Restructurings	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	# of Pre-Modification Contracts		Post-Modification	# of Pre-Modification Contracts		Post-Modification
Commercial Real Estate	-	\$ -	\$ -	2	\$ 1,771	\$ 1,775
Residential Real Estate	-	-	-	1	49	49
Farmland	-	-	-	1	401	401
Total Loans	-	\$ -	\$ -	4	\$ 2,221	\$ 2,225

Part 1 (Continued)

Part 2 (Continued)

(3) Loans (Continued)

The company did not have any TDRs that subsequently defaulted for the three months and nine months ended September 30, 2015.

(4) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the nine month period ended September 30, 2015 and September 30, 2014. 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.

September 30, 2015

	Beginning Balance	Charge- Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	\$ 497	\$ (257)	\$ 45	\$ 17	\$ 302
Agricultural	304	(5)	3	4	306
Real Estate					
Commercial Construction	1,223	(96)	282	282	1,691
Residential Construction	138	-	-	-	138
Commercial	3,665	(275)	138	296	3,824
Residential	2,425	(910)	95	85	1,695
Farmland	104	(40)	10	3	77
Consumer and Other					
Consumer	67	(167)	47	53	-
Other	379	(26)	15	1	369
	\$ 8,802	\$ (1,776)	\$ 635	\$ 741	\$ 8,402

Part 1 (Continued)

Part 2 (Continued)

(4) Allowance for Loan Losses (Continued)**September 30, 2014**

	Beginning Balance	Charge- Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	\$ 1,017	\$(453)	\$ 69	\$ 29	\$ 662
Agricultural	294	-	2	8	304
Real Estate					
Commercial Construction	1,782	(1,541)	302	499	1,042
Residential Construction	138	-	-	-	138
Commercial	4,379	(761)	109	522	4,249
Residential	3,278	(670)	27	150	2,785
Farmland	312	(234)	20	6	104
Consumer and Other					
Consumer	243	(274)	64	93	126
Other	363	-	14	1	378
	\$ 11,806	\$(3,933)	\$ 607	\$ 1,308	\$ 9,788

The loss history period used at September 30, 2015 was based on the loss rate from the eight quarters ended June 30, 2015.

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

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is \$14.03 million and \$12.7 million as of September 30, 2015 and 2014, respectively. Specific allowance allocations were made for these loans totaling \$1.3 million and \$1.1 million as of

September 30, 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.

At September 30, 2015, there were impaired loans totaling \$3.9 million below the \$250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the bank’s general loan loss reserve methodology and are included in the “Collectively Evaluated for Impairment” column of the following tables. Likewise, at September 30, 2014, impaired loans totaling \$4.41 million 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.

Part 1 (Continued)

Part 2 (Continued)

(4) Allowance for Loan Losses (Continued)

The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for September 30, 2015 and 2014:

September 30, 2015

	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	\$91	\$ 211	\$302	\$91	\$ 48,668	\$48,759
Agricultural	-	306	306	8	27,365	27,373
Real Estate						
Commercial Construction	14	1,677	1,691	2,694	40,895	43,589
Residential Construction	-	138	138	-	10,465	10,465
Commercial	243	3,581	3,824	20,049	327,654	347,703
Residential	308	1,387	1,695	3,380	192,420	195,800
Farmland	57	20	77	1,695	59,856	61,551
Consumer and Other						
Consumer	-	-	-	-	20,958	20,958
Other	-	369	369	-	8,006	8,006
Total End of Period Balance	\$713	\$ 7,689	\$8,402	\$27,917	\$ 736,287	\$764,204

September 30, 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						

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Commercial	\$99	\$ 563	\$662	\$100	\$ 46,381	\$46,481
Agricultural	-	304	304	-	23,017	23,017
Real Estate						
Commercial Construction	59	983	1,042	3,039	47,416	50,455
Residential Construction	-	138	138	-	9,700	9,700
Commercial	283	3,966	4,249	21,348	306,150	327,498
Residential	605	2,180	2,785	5,522	198,791	204,313
Farmland	31	73	104	1,009	49,392	50,401
Consumer and Other						
Consumer	-	126	126	-	23,448	23,448
Other	-	378	378	-	7,968	7,968
Total End of Period Balance	\$1,077	\$ 8,711	\$9,788	\$31,018	\$ 712,263	\$743,281

Part 1 (Continued)

Part 2 (Continued)

(5) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at September 30, 2015 and December 31, 2014 was \$10,998 and \$10,402, 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 for the nine months ended September 30, 2015 and the year ended December 31, 2014.

	Nine Months Ended September 30, 2015	Twelve Months Ended December 31, 2014
Balance, Beginning	\$ 10,402	\$ 15,502
Additions	6,290	3,853
Sales of OREO	(5,329)	(7,102)
Gains (Losses) on Sale	66	(844)
Provision for Losses	(431)	(1,007)
Balance, Ending	\$ 10,998	\$ 10,402

At September 30, 2015, the Company held \$1.35 million of residential real estate property as foreclosed property. Also at September 30, 2015, \$439 thousand of consumer mortgage loans collateralized by residential real estate property were in the process of foreclosure according to local requirements of the applicable jurisdictions.

(6) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$503 and \$511 as of September 30, 2015 and December 31, 2014.

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Components of interest-bearing deposits as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Interest-Bearing Demand	\$ 358,142	\$ 363,501
Savings	63,388	59,215
Time, \$100,000 and Over	207,988	210,503
Other Time	202,723	217,744
	\$ 832,241	\$ 850,963

At September 30, 2015 and December 31, 2014, the Company had brokered deposits of \$25,837 and \$26,298, respectively. All of these brokered deposits represent Certificate of Deposits 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 approximately \$143,772 and \$140,832 as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015 and December 31, 2014, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2015	December 31, 2014
One Year and Under	\$ 294,865	\$ 302,585
One to Three Years	91,595	98,219
Three Years and Over	24,251	27,443
	\$ 410,711	\$ 428,247

Part 1 (Continued)

Part 2 (Continued)

(7) Other Borrowed Money

Other borrowed money at September 30, 2015 and December 31, 2014 is summarized as follows:

	September 30, 2015	December 31, 2014
Federal Home Loan Bank Advances	\$ 40,000	\$ 40,000

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 September 30, 2015 the book value of those loans pledged was approximately \$104,494. At September 30, 2015 the Company had remaining credit availability from the FHLB of approximately \$130,570. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The aggregate stated maturities of other borrowed money at September 30, 2015 are as follows:

Year	Amount
2018	\$2,500
2019	8,000
2020	2,500
After 2020	\$27,000 40,000

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,500, none of which were outstanding at September 30, 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 September 30, 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.

In addition, at September 30, 2015, the Company had an available repurchase agreement line of credit with a third party totaling \$50,000. Use of this credit facility is subject to the underwriting and risk management policies of the third party in effect at the time of the request. Such policies may take into consideration current market conditions, the current financial condition of the Company and the ability of the Company to provide adequate securities as collateral for the transaction, among other factors.

(8) Preferred Stock and Warrants

At September 30, 2015, the Company had 23,167 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) issued and outstanding with private investors. After receiving regulatory approval, the Company redeemed 4,833 shares in August 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. On February 13, 2012, the Company announced the suspension of the dividends on Preferred Stock. 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 November 17, 2014, the Company reinstated dividend payments on the Preferred Stock and paid the dividends in arrears to current status.

Part 1 (Continued)

Part 2 (Continued)

(9) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3 Month Libor Rate	Added Points	Total Rate	Maturity	5 Year Call Option
Colony Bankcorp Statutory Trust III	6/17/2004	\$ 4,640	0.33425	2.68	3.01425	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	0.32660	1.50	1.82660	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	0.32660	1.65	1.97660	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	0.29680	1.40	1.69680	9/14/2037	9/14/2012

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

On February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities. Under the terms of the trust documents, the Company may defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. On November 17, 2014, the Company reinstated interest payments on the Trust Preferred Securities and paid the dividends in arrears to current status.

(10) Commitments and Contingencies

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

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

At September 30, 2015 and December 31, 2014 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September	December
	30,	31, 2014
	2015	
Loan Commitments	\$69,325	\$ 68,742
Letters of Credit	1,584	1,762

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.

Other Contractual Obligations. In July of 2015, the Company signed a contract for the construction of a new branch facility at an estimated cost of \$1.2 million. Construction is expected to be completed in late spring of 2016.

Part 1 (Continued)

Part 2 (Continued)

(11) 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 as Level 1.

Investment Securities – Fair values for investment securities are based on quoted market prices where available and is 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 approximate 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 – Fair value approximates carrying value due to the variable interest rates of the subordinated debentures. Subordinate 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.

Part 1 (Continued)

Part 2 (Continued)

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

The carrying amount, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2015 and December 31, 2014 are as follows:

	Fair Value Measurements at September 30, 2015				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	\$33,133	\$ 33,133	\$33,133	\$-	\$-
Investment Securities Available for Sale	271,611	271,611	-	270,668	943
Investment Securities Held to Maturity	28	28	-	28	-
Federal Home Loan Bank Stock	2,731	2,731	2,731	-	-
Loans, Net	755,447	756,558	-	749,348	7,210
Bank-Owned Life Insurance	14,663	14,663	14,663	-	-
Liabilities					
Deposits	958,034	959,594	547,323	412,271	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	40,000	41,640	-	41,640	-

	Fair Value Measurements at December 31, 2014				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	\$65,811	\$ 65,811	\$65,811	\$-	\$-
Investment Securities Available for Sale	274,594	274,594	-	273,646	948

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

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.

Part 1 (Continued)

Part 2 (Continued)

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

Fair Value Measurements

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

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

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

Assets

Securities – Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to

the valuation, securities are classified within level 3 of the valuation hierarchy. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

Impaired Loans – Impaired loans are those 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.

Part 1 (Continued)

Part 2 (Continued)

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis – The following table presents the recorded amount of the Company’s assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2015 and December 31, 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 September 30 2015. 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 Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total Fair Value					
September 30, 2015						
Recurring						
Securities Available for Sale						
U.S. Government Agencies						
Mortgage-Backed	\$267,380	\$-	\$ 267,380			\$ -
State, County and Municipal	4,231	-	3,288			943
	\$271,611	\$-	\$ 270,668			\$ 943
Nonrecurring						
Impaired Loans	\$7,210	\$-	\$ -			\$ 7,210
Other Real Estate	\$4,974	\$-	\$ -			\$ 4,974

	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total Fair Value					
December 31, 2014						
Recurring						
Securities Available for Sale						
U.S. Government Agencies						
Mortgage-Backed	\$271,064	\$-	\$ 271,064		\$ -	
State, County and Municipal	3,530	-	2,582		948	
	\$274,594	\$-	\$ 273,646		\$ 948	
Nonrecurring						
Impaired Loans	\$7,778	\$-	\$ -		\$ 7,778	
Other Real Estate	\$6,128	\$-	\$ -		\$ 6,128	

Liabilities

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at September 30, 2015 and December 31, 2014. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

Part 1 (Continued)

Part 2 (Continued)

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

	September 30, 2015	Valuation Techniques	Unobservable Inputs	Range	Weighted Avg
Impaired Loans Real Estate					
Commercial Construction	\$ 64	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(15.60%) -	20.10 % 2.25 %
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% -	10.00 % 5.00 %
Residential Real Estate	774	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(15.00%) -	191.70 % 88.35 %
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% -	25.00 % 12.50 %
		Income Approach	Capitalization Rate		12.50 %
Commercial Real Estate	6,039	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(10.75%) -	19.48 % 4.37 %
			Management Adjustments for	0.00% -	30.00 % 15.00 %

		Age of Appraisals and/or Current Market Conditions		
		Income Approach	Capitalization Rate	11.00%
Farmland	333	Sales Comparison	Adjustment for Differences	(8.30%) - 252.50%
			Between the Comparable Sales	122.10%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 75.00% 42.50%
Other Real Estate Owned	4,974	Sales Comparison	Adjustment for Differences	(78.93%) - 42.90%
			Between the Comparable Sales	(18.02%)
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.33% - 69.36% 26.27%
		Income Approach	Discount Rate	13.75%
			Capitalization Rate	11.88%

Part 1 (Continued)

Part 2 (Continued)

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

	December 31, 2014	Valuation Techniques	Unobservable Inputs	Range Weighted Avg	
Real Estate Commercial Construction	\$ 82	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00%) - 8.05%	38.10%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 5.00%	10.00%
Residential Real Estate	1,651	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(2.30%) - 94.70%	191.70%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 5.00%	10.00%
		Income Approach	Capitalization Rate		13.75%
Commercial Real Estate	5,678	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% - 45.00%	90.00%

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

		Income Approach	Capitalization Rate		11.00%
Farmland	367	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	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(40.00%) -	45.00%
					2.50%
			Management Adjustment 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%

Part 1 (Continued)

Part 2 (Continued)

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

The table below 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 nine months ended September 30, 2015 and the twelve months ended December 31, 2014.

	Available for Sale Securities	
	September 30, 2015	December 31, 2014
Balance, Beginning	\$948	\$ 941
Transfers out of Level 3	-	-
Loss on OTTI Impairment Included in Noninterest Income	-	-
Unrealized Gains included in Other Comprehensive Income (Loss)	(5)	7
Balance, Ending	\$943	\$ 948

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There were no transfers of securities between levels for the nine months ended September 30, 2015 and the twelve months ended December 31, 2014.

The following table presents quantitative information about recurring level 3 fair value measurements as of September 30, 2015.

	Fair Value	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
State, County and Municipal	\$ 943	Discounted Cash Flow	Discount Rate	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.

(12) 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 common stockholders in the third quarter of 2009.

The Company is subject to various regulatory capital requirements administered by 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 classifications 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 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of September 30, 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 September 30, 2015, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. There is no threshold for well-capitalized status for bank holding companies. In the opinion of management, there have been no events or conditions occur since September 30, 2015, or since the most recent notification of capital adequacy from the regulators, which have changed the institution's category.

Part I (Continued)

Part 2 (Continued)

(12) Regulatory Capital Matters (Continued)

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 September 30, 2015 and December 31, 2014 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for September 30, 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.

	Actual Amount	Ratio	For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Ratio
			Amount	Ratio	Amount	Ratio	
As of September 30, 2015							
Total Capital to Risk-Weighted Assets							
Consolidated	\$ 135,304	17.01	% \$ 63,628	8.00	%	N/A	N/A
Colony Bank	130,450	16.43	63,536	8.00	\$	79,421	10.00 %
Tier I Capital to Risk-Weighted Assets							
Consolidated	126,904	15.96	47,721	6.00		N/A	N/A
Colony Bank	122,048	15.37	47,652	6.00		63,536	8.00
Common Equity Tier I Capital to Risk-Weighted Assets							
Consolidated	80,237	10.09	35,791	4.50		N/A	N/A
Colony Bank	122,048	15.37	35,739	4.50		51,623	6.50

Tier I Capital to
Average Assets
Consolidated
Colony Bank

126,904	11.14	45,571	4.00	N/A	N/A
122,048	10.73	45,496	4.00	56,870	5.00

Part I (Continued)

Part 2 (Continued)

(12) Regulatory Capital Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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 1 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 1 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

(13) 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 three month and nine month period ended September 30, 2015 and 2014:

	Three Months Ended September 30 2015		Nine Months Ended September 30 2015		
	2014	2015	2014	2015	
Numerator					
Net Income Available to Common Stockholders		\$1,606	\$1,384	\$4,414	\$3,533
Denominator					
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share		8,439	8,439	8,439	8,439
Dilutive Effect of Potential Common Stock					
Restricted Stock		-	-	-	-
Stock Warrants		27	-	10	-
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share		8,466	8,439	8,449	8,439
Earnings Per Share - Basic		\$0.19	\$0.16	\$0.52	\$0.42
Earnings Per Share - Diluted		\$0.19	\$0.16	\$0.52	\$0.42

Part I (Continued)

Part 2 (Continued)

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 Quarterly 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 subsidiary 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.

Part I (Continued)

Part 2 (Continued)

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 following discussion sets forth management's discussion and analysis of our consolidated financial condition as of September 30, 2015, and the consolidated results of operations for the nine months ended September 30, 2015. This discussion should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2015. Readers should also carefully review all other disclosures we file from time to time with the SEC.

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

Allowance for Loan Losses – The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for loan losses quarterly based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic,

industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, collateral values, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

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

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2015 and 2014, and results of operations for each of the nine months in the periods ended September 30, 2015 and 2014. 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.

Part I (Continued)

Part 2 (Continued)

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income available to shareholders totaled \$1.61 million, or \$0.19 diluted per common share, in three months ended September 30, 2015 compared to net income available to shareholders of \$1.38 million, or \$0.18 diluted per common share, in three months ended September 30, 2014. Net income available to shareholders totaled \$4.41 million, or \$0.52 diluted per common share, in nine months ended September 30, 2015 compared to net income available to shareholders of \$3.53 million, or \$0.42 diluted per common share, in nine months ended September 30, 2014.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2015	2014	\$ Variance	% Variance	2015	2014	\$ Variance	% Variance
Taxable-equivalent net interest income	\$9,540	\$9,768	\$ (228)	(2.33)%	\$28,039	\$28,547	\$ (508)	(1.78)%
Taxable-equivalent adjustment	43	30	13	43.33	93	87	6	6.90

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net interest income	9,497	9,738	(241)	(2.47)	27,946	28,460	(514)	(1.81)
Provision for loan losses	250	500	(250)	(50.00)	741	1,308	(567)	(43.35)
Noninterest income	2,233	2,410	(177)	(7.34)	6,803	6,718	85	1.27
Noninterest expense	8,335	8,534	(199)	(2.33)	24,941	25,691	(750)	(2.92)
Income before income taxes	\$3,145	\$3,114	\$ 31	1.00	\$9,067	\$8,179	\$ 888	10.86
Income Taxes	945	1,033	(88)	(8.52)	2,799	2,625	174	6.63
Net income	\$2,200	\$2,081	\$ 119	5.72	\$6,268	\$5,554	\$ 714	12.86
Preferred stock dividends	594	697	(103)	(14.78)	1,854	2,021	(167)	(8.26)
Net income available to common shareholders	\$1,606	\$1,384	\$ 222	16.04 %	\$4,414	\$3,533	\$ 881	24.94 %
Net income available to common shareholders:								
Basic	\$0.19	\$0.18	\$ 0.01	5.56 %	\$0.52	\$0.42	\$ 0.10	23.81 %
Diluted	\$0.19	\$0.18	\$ 0.01	5.56 %	\$0.52	\$0.42	\$ 0.10	23.81 %
Return on average assets	0.57 %	0.49 %	0.08 %	16.33 %	0.51 %	0.42 %	0.09 %	21.43 %
Return on average common equity	6.28 %	5.78 %	0.50 %	8.65 %	5.77 %	5.02 %	0.75 %	14.94 %

Net income from operations for three months ended September 30, 2015 increased \$119 thousand, or 5.72 percent, compared to the same period in 2014. The increase was primarily the result of a decrease of \$250 thousand in provision for loan losses, a decrease of \$88 thousand in income taxes and a decrease of \$199 thousand in noninterest expense. This was offset by a decrease of \$241 thousand in net interest income and a decrease of \$177 thousand in noninterest income.

Part I (Continued)

Part 2 (Continued)

Net income from operations for nine months ended September 30, 2015 increased \$714 thousand, or 12.86 percent, compared to the same period in 2014. The increase was primarily the result of an increase of \$85 thousand in noninterest income, a decrease of \$750 thousand in noninterest expense and a decrease of \$567 thousand in provision for loan losses. This was offset by a decrease of \$514 thousand in net interest income and an increase of \$174 thousand in income taxes.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 80.42 percent of total revenue for nine months ended September 30, 2015 and 80.90 percent for the same period a year ago.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit is currently 3.25 percent and has been for the past three years. The federal funds rate moved similar to prime rate with interest rates currently at 0.25 percent and has been for the past three years. As expected, the Federal Reserve interest rates remained flat the first three quarters of 2015, though we expect a potential increase in 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 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.

Part I (Continued)

Part 2 (Continued)

Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from September 30, 2014 to September 30, 2015 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.

(\$ in thousands)	Changes from September 30, 2014 to September 30, 2015		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$580	\$(820)	\$(240)
Investment Securities			
Taxable	(91)	(360)	(451)
Tax-exempt	(18)	-	(18)
Total Investment Securities	(109)	(360)	(469)
Interest-Bearing Deposits in other Banks	26	-	26
Federal Funds Sold	(7)	(1)	(8)
Other Interest - Earning Assets	(5)	11	6
Total Interest Income	485	(1,170)	(685)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	90	(25)	65
Time Deposits	(183)	(103)	(286)
Subordinated Debentures	-	58	58
Other Borrowed Money	-	(14)	(14)
Total Interest Expense	(93)	(84)	(177)
Net Interest Income	\$578	\$(1,086)	\$(508)

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

Our financial performance is impacted by, among other factors, interest rate risk and credit risk. We do not utilize derivatives to mitigate our interest rate or 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. This 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 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 earning 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 0.80 to 1.20.

Part I (Continued)

Part 2 (Continued)

Our exposure to interest rate risk is reviewed on a quarterly basis 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. We are generally focusing our investment activities on securities with terms or average lives in the 2-5 year range.

The Company maintains about 16 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 certificate of deposits that mature within one year. The net interest margin decreased to 3.48 percent for nine months ended September 30, 2015 compared to 3.60 percent for the same period a year ago. We anticipate the net interest margin remaining relatively flat for 2015.

Taxable-equivalent net interest income for nine months ended September 30, 2015 decreased \$508 thousand, or 1.78 percent compared to the same period a year ago. The average volume of earning assets during nine months ended September 30, 2015 increased \$16.19 million compared to the same period a year ago. Growth in average earning assets during 2015 was primarily in loans and interest bearing deposits.

The average volume of loans increased \$14.37 million for the nine months ended September 30, 2015 compared to the same period a year ago. The average yield on loans decreased 14 basis points for the nine months ended September 30, 2015 compared to the same period a year ago. The average volume of investment securities decreased \$7.67 million for the nine months ended September 30, 2015 compared to the same year ago period, while the average yield on investment securities decreased 18 basis points for the same period comparison. The average volume of deposits increased \$15.97 million for the nine months ended September 30, 2015 compared to the same period a year ago, with interest-bearing deposits increasing \$5.08 million for the nine months ended September 30, 2015. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 86.90 percent for the nine months ended September 30, 2015 compared to 87.82 percent in the same period a year ago. This deposit mix, combined with a general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 4 basis points in nine months ended September 30, 2015 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.37 percent in nine months ended September 30, 2015 compared to 3.49 percent in the same period a year ago. 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 Market Risk 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 \$741 thousand in the nine months ended September 30, 2015 compared to \$1.31 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Part I (Continued)

Part 2 (Continued)

Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	2015	2014	\$ Variance	% Variance	2015	2014	\$ Variance	% Variance
Service Charges on Deposit Accounts	\$1,133	\$1,250	\$ (117)	(9.36)%	\$3,184	\$3,433	\$ (249)	(7.25)%
Other Charges, Commissions and Fees	661	603	58	9.62	1,963	1,778	185	10.40
Mortgage Fee Income	138	130	8	6.15	385	311	74	23.79
Securities Gains (Losses)	9	-	9	-	12	1	11	11.00
Other	292	427	(135)	(31.62)	1,259	1,195	64	5.36
Total	\$2,233	\$2,410	\$ (177)	(7.34)%	\$6,803	\$6,718	\$ 85	1.27 %

Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. The decrease in service charges on deposit accounts is primarily attributable to the decrease in NSF Fees by \$229 in 2015 compared to the same year ago period.

Mortgage Fee Income. The volume of mortgage loans has shown a slight increase in 2015 compared to the same period in 2014 which contributed to a slight increase in mortgage fee income.

Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	2015	2014	\$ Variance	% Variance	2015	2014	\$ Variance	% Variance
Salaries and Employee Benefits	\$4,395	\$4,432	\$ (37)	(0.83)%	\$13,270	\$13,149	\$ 121	0.92 %
Occupancy and Equipment	1,026	1,049	(23)	(2.19)	3,036	3,069	(33)	(1.08)
Other	2,914	3,053	(139)	(4.55)	8,635	9,473	(838)	(8.85)
Total	\$8,335	\$8,534	\$ (199)	(2.33)%	\$24,941	\$25,691	\$ (750)	(2.92)%

These items and the changes in the various components of noninterest expense are discussed in more detail below.

Other. Significant amounts impacting the comparable periods was primarily attributed to foreclosed property costs which decreased by \$946 thousand from \$1.83 million in 2014 compared to \$881 thousand in 2015.

Part I (Continued)

Part 2 (Continued)

Loans

The following table presents the composition of the Company's loan portfolio as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014	\$ Variance	% Variance
Commercial and Agricultural				
Commercial	\$ 48,759	\$ 50,960	\$ (2,201)	(4.32)%
Agricultural	27,373	16,689	10,684	64.02
Real Estate				
Commercial Construction	43,589	51,259	(7,670)	(14.96)
Residential Construction	10,465	11,221	(756)	(6.74)
Commercial	347,703	332,231	15,472	4.66
Residential	195,800	203,753	(7,953)	(3.90)
Farmland	61,551	49,951	11,600	23.22
Consumer and Other				
Consumer	20,958	22,820	(1,862)	(8.16)
Other	8,006	7,210	796	11.04
Gross Loans	764,204	746,094	18,110	2.43
Unearned Interest and Fees	(355)	(362)	7	1.93
Allowance for Loan Losses	(8,402)	(8,802)	400	4.54
Net Loans	\$ 755,447	\$ 736,930	\$ 18,517	2.51 %

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

Commercial purpose, commercial real estate, and industrial loans are underwritten similar to other loans throughout the company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and

geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. The Company also utilizes information provided by third-party agencies to provide additional insight and guidance about economic conditions and trends affecting the markets it serves.

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

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by bank. 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 that helps minimize risk. Additionally, consumer trends and outlook reports are reviewed by management on a regular basis.

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

Part I (Continued)

Part 2 (Continued)

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.

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 September 30, 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.

Nonperforming Assets and Potential Problem Loans

Nonperforming assets and accruing past due loans as of September 30, 2015, December 31, 2014 and September 30, 2014 were as follows:

	September 30, 2015	December 31, 2014	September 30, 2014
Loans Accounted for on Nonaccrual	\$ 13,559	\$ 18,334	\$ 13,171
Loans Accruing Past Due 90 Days or More	8	7	7
Other Real Estate Foreclosed	10,998	10,402	10,833
Total Nonperforming Assets	\$ 24,565	\$ 28,743	\$ 24,011
Nonperforming Assets by Segment			
Construction and Land Development	\$ 8,016	\$ 9,655	\$ 10,442
1-4 Family Residential	4,781	8,237	4,761
Multifamily Residential	--	173	392
Nonfarm Residential	9,355	8,375	6,513

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Farmland	1,397		1,449		984	
Commercial and Consumer	1,016		854		919	
Total Nonperforming Assets	\$ 24,565		\$ 28,743		\$ 24,011	
Nonperforming Assets as a Percentage of:						
Total Loans and Foreclosed Assets	3.17	%	3.80	%	3.18	%
Total Assets	2.18	%	2.51	%	2.15	%
Nonperforming Loans as a Percentage of:						
Total Loans	1.78	%	2.46	%	1.77	%
Supplemental Data:						
Trouble Debt Restructured Loans In Compliance with Modified Terms	\$ 17,891		\$ 19,229		\$ 20,076	
Trouble Debt Restructured Loans						
Past Due 30-89 Days	335		757		2,176	
Accruing Past Due Loans:						
30-89 Days Past Due	\$ 6,480		\$ 9,701		\$ 12,559	
90 or More Days Past Due	8		7		7	
Total Accruing Past Due Loans	\$ 6,488		\$ 9,708		\$ 12,566	
Allowance for Loan Losses	\$ 8,402		\$ 8,802		\$ 9,788	
ALLL as a Percentage of:						
Total Loans	1.10	%	1.18	%	1.32	%
Nonperforming Loans	61.93	%	47.99	%	74.28	%

Part I (Continued)

Part 2 (Continued)

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at September 30, 2015 decreased 14.54 percent from December 31, 2014.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability 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 non-accrual status whether or not the loan is 90 days or more past due. For consumer loans, collectability and loss are generally determined before the loan reaches 90 days past due. Accordingly, losses on consumer loans are recorded at the time they are determined. Consumer loans that are 90 days or more past due are generally either in liquidation/payment status or bankruptcy awaiting confirmation of a plan. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest.

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

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

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may

be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics. Effective with the quarter ended June 30, 2015, the calculation of the amount needed in the Allowance for Loan and Lease 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. The change to call code segmentation and the redistribution of historic loss rates to the new segmentation average loan balances resulted in an increase in the calculated reserve required for ASC 450-20 loans. The increase was \$1,621,424 for June 30, 2015; however, no additional provision or adjustment was required to the balance sheet.

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.

Part I (Continued)

Part 2 (Continued)

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.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the nine month periods ended September 30, 2015 and September 30, 2014.

(\$ in thousands)	September 30, 2015		September 30, 2014	
	Average Amount	Average Rate (1)	Average Amount	Average Rate (1)

Noninterest-Bearing Demand

Deposits	\$127,692			\$116,804		
Interest-Bearing Demand and Savings Deposits	425,649	0.35	%	391,551	0.35	%
Time Deposits	421,353	0.80	%	450,373	0.84	%
Total Deposits	\$974,694	0.50	%	\$958,728	0.54	%

(1) Average rate is an annualized rate.

Average deposits increased \$15.97 million to \$974.69 million at September 30, 2015 from \$958.73 million at September 30, 2014. The increase included an increase of \$10.89 million, or 9.32 percent in noninterest-bearing demand deposits while, at the same time, interest-bearing demand and savings deposits increased \$34.10 million, or 8.71 percent and time deposits decreased \$29.02 million, or 6.44 percent. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 13.10 percent for nine months ended September 30, 2015 compared to 12.18 percent for nine months ended September 30, 2014. The general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 4 basis points in nine months ended September 30, 2015 compared to the same period a year ago; and (ii) mitigating a portion of the impact of decreasing yields on earning assets.

Off-Balance-Sheet Arrangements, Commitments, Guarantees

In the ordinary course of business, the Company enters into off-balance sheet financial instruments which are not reflected in the consolidated financial statements. These instruments include commitments to extend credit, standby letters of credit, performance letters of credit, guarantees and liability for assets held in trust. Such financial instruments are recorded in the financial statements when funds are disbursed or the instruments become payable. The Company uses the same credit policies for these off-balance sheet financial instruments as they do for instruments that are recorded in the consolidated financial statements.

Part I (Continued)

Part 2 (Continued)

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses. Loan commitments outstanding at September 30, 2015 are included in the table in Footnote 10 of the Consolidated Financial Statements.

Capital and Liquidity

At September 30, 2015, stockholders' equity totaled \$101.07 million compared to \$99.03 million at December 31, 2014. In addition to net income of \$6.27 million, other significant changes in stockholders' equity during nine months ended September 30, 2015 included \$1.85 million of preferred stock dividends declared. The Company redeemed \$4.83 million of the Preferred Stock. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$(2.38) million at September 30, 2015 compared to \$(4.85) 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 and trust preferred securities less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses.

Using the capital requirements presently in effect, the Tier 1 ratio as of September 30, 2015 was 15.96 percent and total Tier 1 and 2 risk-based capital was 17.01 percent. Both of these measures compare favorably with the regulatory minimum to be adequately capitalized of 6 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of September 30, 2015 was 11.14 percent, which exceeds the required ratio standard of 4 percent.

The Company suspended cash dividends on its common stock beginning in the third quarter of 2009 and has not reinstated dividend payments. The Company paid dividends of \$1.85 million on preferred stock for the period ending September 30, 2015. The Company declared dividends of \$2.02 million on preferred stock for the period ending September 30, 2014. In August 2015, the Company received regulatory approval to redeem 4,833 shares of Preferred

Stock. On November 17, 2014 the Company reinstated dividend payments on the Preferred Stock and paid the 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. 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. 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 September 30, 2015, the Company held \$271.61 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2014, the available for sale bond portfolio totaled \$274.6 million. Only marketable investment grade bonds are purchased. Although a good portion of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 79.8 percent as of September 30, 2015 and 76.2 percent at 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 September 30, 2015 and December 31, 2014 were 76.6 percent and 73.2 percent, respectively.

Part I (Continued)

Part 2 (Continued)

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 September 30, 2015 and December 31, 2014, Colony had \$208.0 million and \$210.5 million in certificates of deposit of \$100,000 or more. These larger deposits represented 21.7 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 September 30, 2015, the Company had \$25.8 million, or 2.70 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. These deposits obtained from listing services are often referred to as wholesale or internet CDs. As of September 30, 2015, the Company had \$27.3 million, or 2.85 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.

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

Liability liquidity is provided by access to funding sources which include core deposits. Should the need arise, the Company also maintains relationships with the Federal Home Loan Bank, Federal Reserve Bank, three 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.

Return on Assets and Stockholders' Equity

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

	Three Months Ended September 30 2015		Nine Months Ended September 30 2014	
	2015	2014	2015	2014
Return on Average Assets (1)	0.57 %	0.49 %	0.51 %	0.42 %
Return on Average Total Equity (1)	6.28 %	5.78 %	5.77 %	5.02 %
Average Total Equity to Average Assets	9.01 %	8.56 %	8.90 %	8.32 %

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

Part I (Continued)

Item 3

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

AVERAGE BALANCE SHEETS	Nine Months Ended			Nine Months Ended		
	September 30, 2015			September 30, 2014		
(\$ in thousands)	Average	Income/	Yields/	Average	Income/	Yields/
	Balances	Expense	Rates	Balances	Expense	Rates
Assets						
Interest-Earning Assets						
Loans, Net of Unearned Interest and fees						
Taxable (1)	\$754,235	\$29,632	5.24 %	\$739,864	\$29,872	5.38 %
Investment Securities						
Taxable	275,790	3,139	1.52 %	282,947	3,590	1.69 %
Tax-Exempt (2)	2,008	71	4.71 %	2,519	89	4.71 %
Total Investment Securities	277,798	3,210	1.54 %	285,466	3,679	1.72 %
Interest-Bearing Deposits	30,044	58	0.26 %	16,605	32	0.26 %
Federal Funds Sold	8,096	15	0.25 %	11,880	23	0.26 %
Interest-Bearing Other Assets	2,762	91	4.39 %	2,931	85	3.87 %
Total Interest-Earning Assets	\$1,072,935	\$33,006	4.10 %	\$1,056,746	\$33,691	4.25 %
Non-interest-Earning Assets						
Cash and Cash Equivalents	14,047			19,107		
Allowance for Loan Losses	(8,626)			(11,295)		
Other Assets	67,355			62,067		
Total Noninterest-Earning Assets	72,776			69,879		
Total Assets	\$1,145,711			\$1,126,625		
Liabilities and Stockholders' Equity						
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Interest-Bearing Demand and Savings	\$425,649	\$1,105	0.35 %	\$391,551	\$1,040	0.35 %
Other Time	421,353	2,543	0.80 %	450,373	2,829	0.84 %
Total Interest-Bearing Deposits	847,002	3,648	0.57 %	841,924	3,869	0.61 %
Other Interest-Bearing Liabilities						
Other Borrowed Money	40,000	946	3.15 %	40,000	888	2.96 %
Subordinated Debentures	24,229	373	2.05 %	24,229	387	2.13 %
Total Other Interest-Bearing Liabilities	64,229	1,319	2.74 %	64,229	1,275	2.65 %
Total Interest-Bearing Liabilities	\$911,231	\$4,967	0.73 %	\$906,153	\$5,144	0.76 %
Noninterest-Bearing Liabilities and						
Stockholders' Equity						
Demand Deposits	127,692			116,804		
Other Liabilities	4,877			9,895		
Stockholders' Equity	101,911			93,773		

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Total Noninterest-Bearing Liabilities and Stockholders' Equity	234,480		220,472
Total Liabilities and Stockholders' Equity	\$1,145,711		\$1,126,625
Interest Rate Spread		3.37 %	3.49 %
Net Interest Income	\$28,039		\$28,547
Net Interest Margin		3.48 %	3.60 %

The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is (1) recognized and recorded on the cash basis. Taxable equivalent adjustments totaling \$69 and \$57 for nine month periods ended September 30, 2015 and 2014, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling \$24 and \$30 for nine month periods ended September 30, 2015 and 2014, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Part I (Continued)

Item 4

CONTROLS AND PROCEDURES

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

During the quarter ended September 30, 2015, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

N/A

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – (REMOVED AND RESERVED)

None

ITEM 5 – OTHER INFORMATION

None

55

Part II (Continued)

Item 6

ITEM 6 – EXHIBITS

3.1 Articles of Incorporation, As Amended

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

3.2 Bylaws, as Amended

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

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

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

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

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

4.1 Instruments Defining the Rights of Security Holders

-incorporated herein by reference to page 1 of the Company's Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 27, 2004, filed with the Securities and Exchange Commission on March 3, 2004 (File No. 000-12436).

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

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

4.3 Form of Series A Preferred Stock Certificate

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

10.1 Deferred Compensation Plan and Sample Director Agreement

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

10.2 Profit-Sharing Plan Dated January 1, 1979

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

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

Part II (Continued)

Item 6 (Continued)

10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

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

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

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

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

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

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

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

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

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

31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of Sarbanes – Oxley Act of 2002

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

99.1 Retention Agreements for Corporate Officers, Edward P. Loomis, Jr., Terry L. Hester, Henry F. Brown, Jr., M. Eddie Hoyle, Jr. and Lee A. Northcutt

-filed as Exhibit 99.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-12436), filed with Securities and Exchange Commission on May 4, 2015 and incorporated herein by reference.

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Colony Bankcorp, Inc.

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

Date: November 2, 2015

/s/ Terry L. Hester
Terry L. Hester,
Executive Vice President and Chief
Financial Officer

Date: November 2, 2015