COLONY BANKCORP INC
Form 10-Q
August 04, 2014

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 JUNE 30, 2014 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 INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER 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 x NO o

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 x NO o

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 o ACCELERATED FILER o

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

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

YES o NO x

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

CLASS	OUTSTANDING AT AUGUST 4, 2014
COMMON STOCK, $1 PAR VALUE	8,439,258

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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), not withstanding 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; (ii) 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.

· Restrictions or conditions imposed by our regulators on our operations.

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).

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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 – JUNE 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013 (AUDITED).

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED).

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013 AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED).

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (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 SIX MONTH PERIOD ENDED JUNE 30, 2014 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2014 AND DECEMBER 31, 2013
(DOLLARS IN THOUSANDS)

ASSETS	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	$21,867	$25,692
Federal Funds Sold	11,081	20,495
	32,948	46,187
Interest-Bearing Deposits	11,372	21,960
Investment Securities		
Available for Sale, at Fair Value	276,062	263,258
Held to Maturity, at Cost (Fair Value of $32 and $37, as of June 30, 2014 and December 31, 2013, Respectively)	32	37
	276,094	263,295
Federal Home Loan Bank Stock, at Cost	2,831	3,164
Loans	735,763	751,218
Allowance for Loan Losses	(10,470)	(11,806)
Unearned Interest and Fees	(354)	(360)
	724,939	739,052
Premises and Equipment	24,951	24,876
Other Real Estate (Net of Allowance of $2,688 and $3,986 as of June 30, 2014 and December 31, 2013, Respectively)	12,208	15,502
Other Intangible Assets	170	188
Other Assets	32,869	34,327
Total Assets	$1,118,382	$1,148,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$114,757	$115,261
Interest-Bearing	833,512	872,269
	948,269	987,530
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	40,000	40,000
	64,229	64,229
Other Liabilities	10,674	6,838
Stockholders' Equity		
Preferred Stock, Stated Value $1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	28,000	28,000

Common Stock, Par Value $1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of June 30, 2014 and December 31, 2013	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	35,594	33,445
Accumulated Other Comprehensive (Loss), Net of Tax Benefits	(5,968)	(9,075)
	95,210	89,954
Total Liabilities and Stockholders' Equity	$1,118,382	$1,148,551

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2014 AND 2013
AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest Income				
Loans, Including Fees	$9,956	$10,359	$19,645	$20,720
Federal Funds Sold	8	6	17	20
Deposits with Other Banks	10	5	23	16
Investment Securities				
U.S. Government Agencies	1,225	862	2,409	1,574
State, County and Municipal	23	31	51	64
Corporate Obligations and Asset-Backed Securities	-	14	-	28
Dividends on Other Investments	29	19	59	38
	11,251	11,296	22,204	22,460
Interest Expense				
Deposits	1,288	1,405	2,609	3,091
Borrowed Money	435	436	873	868
	1,723	1,841	3,482	3,959
Net Interest Income	9,528	9,455	18,722	18,501
Provision for Loan Losses	481	1,200	808	2,700
Net Interest Income After Provision for Loan Losses	9,047	8,255	17,914	15,801
Noninterest Income				
Service Charges on Deposits	1,071	1,147	2,138	2,248
Other Service Charges, Commissions and Fees	639	443	1,220	847
Mortgage Fee Income	114	141	181	260
Securities Gains (Losses)	1	6	1	(2)
Other	421	303	768	897
	2,246	2,040	4,308	4,250
Noninterest Expenses				
Salaries and Employee Benefits	4,305	4,149	8,717	8,318
Occupancy and Equipment	1,000	935	2,020	1,868
Other	2,986	3,655	6,420	6,945
	8,291	8,739	17,157	17,131
Income Before Income Taxes	3,002	1,556	5,065	2,920
Income Taxes	986	570	1,592	997
Net Income	2,016	986	3,473	1,923
Preferred Stock Dividends	681	375	1,324	745
Net Income Available to Common Stockholders	$1,335	$611	$2,149	$1,178

Net Income Per Share of Common Stock				
Basic	$0.16	$0.07	$0.25	$0.14
Diluted	$0.16	$0.07	$0.25	$0.14
Cash Dividends Declared Per Share of Common Stock	$0.00	$0.00	$0.00	$0.00
Weighted Average Basic Shares Outstanding	8,439,258	8,439,258	8,439,258	8,439,258
Weighted Average Diluted Shares Outstanding	8,439,258	8,439,258	8,439,258	8,439,258

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED JUNE 30, 2014 AND 2013
AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net Income	$2,016	$986	$3,473	$1,923
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year, Net of Tax Effect of $787, ($2,217), $1,601 and ($2,678), Respectively	1,527	(4,303)	3,107	(5,197)
Realized Gains on Sale of AFS Securities, Net of Tax Effect of $0, ($2), $0 and $1, Respectively	-	(4)	-	1
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	1,527	(4,307)	3,107	(5,196)
Comprehensive Income (Loss)	$3,543	$(3,321)	$6,580	$(3,273)

The accompanying notes are an integral part of these statements.
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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Six Months Ended	
	June 30, 2014	June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$3,473	$1,923
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	797	777
Provision for Loan Losses	808	2,700
Securities (Gains) Losses	(1)	2
Amortization and Accretion	628	1,673
(Gains) Losses on Sale of Other Real Estate and Repossessions	509	540
Provision for Losses on Other Real Estate	245	892
Increase in Cash Surrender Value of Life Insurance	(325)	(99)
Other Prepaids, Deferrals and Accruals, Net	2,641	2,489
	8,775	10,897
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(25,034)	(74,139)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	16,349	29,601
Held for Maturity	8	8
Proceeds from Sale of Investment Securities		
Available for Sale	-	36,217
Interest-Bearing Deposits in Other Banks	10,588	8,387
Net Loans to Customers	10,863	(6,107)
Purchase of Premises and Equipment	(871)	(896)
Proceeds from Sale of Other Real Estate and Repossessions	5,008	4,902
Proceeds from Sale of Federal Home Loan Bank Stock	333	200
Proceeds from Sale of Fixed Assets	3	-
	17,247	(1,827)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(504)	(12,488)
Interest-Bearing Customer Deposits	(38,757)	(23,859)
Proceeds from Other Borrowed Money	-	15,500
Principal Payments on Other Borrowed Money	-	(10,500)
	(39,261)	(31,347)
Net Decrease in Cash and Cash Equivalents	(13,239)	(22,277)
Cash and Cash Equivalents at Beginning of Period	46,187	49,246
Cash and Cash Equivalents at End of Period	$32,948	$26,969

The accompanying notes are an integral part of these statements.

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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.

The consolidated financial statements in this report are unaudited, except for the December 31, 2013 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 six months ended June 30, 2014, 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 2014. 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 June 30, 2014, approximately 88 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.

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(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.

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(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.

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(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 initial appraisal was performed.

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

Premises and Equipment

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

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

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

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

Intangible Assets

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

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(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 $14,265 and $13,940 as of June 30, 2014 and December 31, 2013, 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.

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Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Adoption of New Accounting Standards

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

(2) Investment Securities

Investment securities as of June 30, 2014 and December 31, 2013 are summarized as follows:

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	$ 281,758	$ 250	$ (9,286)	$ 272,722
State, County & Municipal	3,346	20	(26)	3,340
	$ 285,104	$ 270	$ (9,312)	$ 276,062
Securities Held to Maturity:				
State, County and Municipal	$ 32	$ --	$ --	$ 32

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	$ 273,029	$ 119	$ (13,800)	$ 259,348
State, County & Municipal	3,979	15	(84)	3,910
	$ 277,008	$ 134	$ (13,884)	$ 263,258
Securities Held to Maturity:				
State, County and Municipal	$ 37	$ --	$ --	$ 37

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Part I (Continued)
Item 1 (Continued)

(2) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of June 30, 2014, 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			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due In One Year or Less	$990	$995	$--	$ --
Due After One Year Through Five Years	735	744	32	32
Due After Five Years Through Ten Years	969	954	--	--
Due After Ten Years	652	647	--	--
	3,346	3,340	32	32
Mortgage-Backed Securities	281,758	272,722	--	--
	$285,104	$276,062	$32	$ 32

Proceeds from the sale of investments available for sale during the first six months of 2014 totaled $0 compared to $36,217 for the first six months of 2013. The sale of investments available for sale during the first six months of 2014 resulted in gross realized gains of $0 and losses of $0. The gain on securities held for maturity during the first six months of 2014 resulted in gross realized gains of $1. The sale of investments available for sale during the first six months of 2013 resulted in gross realized gains of $191 and losses of $(193).

Investment securities having a carry value approximating $108,058 and $112,913 as of June 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at June 30, 2014 and December 31, 2013 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
June 30, 2014						
U.S. Government Agencies						
Mortgage-Backed	$49,357	$ (282)	$185,553	$ (9,004)	$234,910	$ (9,286)
State, County and Municipal	270	-	1,386	(26)	1,656	(26)
	$49,627	$ (282)	$186,939	$ (9,030)	$236,566	$ (9,312)
December 31, 2013						
U.S. Government Agencies						

Mortgage-Backed	$190,064	$ (9,441)	$63,194	$ (4,359)	$253,258	$ (13,800)
State, County and Municipal	1,647	(84)	-	-	1,647	(84)
	$191,711	$ (9,525)	$63,194	$ (4,359)	$254,905	$ (13,884)

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Part I (Continued)
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(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 June 30, 2014, the debt securities with unrealized losses have depreciated 3.79 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 June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
Commercial and Agricultural		
Commercial	$41,840	$48,107
Agricultural	18,568	10,666
Real Estate		
Commercial Construction	50,180	52,739
Residential Construction	10,875	6,549
Commercial	332,895	341,783
Residential	201,513	206,258
Farmland	49,175	47,035
Consumer and Other		
Consumer	23,548	25,676
Other	7,169	12,405
Total Loans	$735,763	$751,218

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:

(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 June 30, 2014 and December 31, 2013. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

June 30, 2014

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	$35,680	$2,966	$ 3,194	$41,840
Agricultural	18,394	5	169	18,568
Real Estate				
Commercial Construction	42,273	1,948	5,959	50,180
Residential Construction	10,774	101	-	10,875
Commercial	299,106	19,154	14,635	332,895
Residential	179,234	13,251	9,028	201,513
Farmland	47,602	426	1,147	49,175
Consumer and Other				

Consumer	22,766	225	557	23,548
Other	6,946	-	223	7,169
Total Loans	$662,775	$38,076	$ 34,912	$735,763

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Part I (Continued)
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(3) Loans (Continued)

December 31, 2013

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	$41,759	$2,770	$ 3,578	$48,107
Agricultural	10,638	17	11	10,666
Real Estate				
Commercial Construction	42,669	1,512	8,558	52,739
Residential Construction	6,341	208	--	6,549
Commercial	317,567	10,760	13,456	341,783
Residential	182,977	13,524	9,757	206,258
Farmland	44,777	507	1,751	47,035
Consumer and Other				
Consumer	24,609	320	747	25,676
Other	12,355	1	49	12,405
Total Loans	$683,692	$29,619	$ 37,907	$751,218

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.

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(3) Loans (Continued)

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of June 30, 2014 and December 31, 2013:

June 30, 2014

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	$717	$ -	$ 717	$ 1,515	$39,608	$41,840
Agricultural	73	-	73	64	18,431	18,568
Real Estate						
Commercial Construction	548	-	**548**	4,955	44,677	50,180
Residential Construction	263	-	263	-	10,612	10,875
Commercial	2,356	-	2,356	8,099	322,440	332,895
Residential	4,106	-	4,106	3,706	193,701	201,513
Farmland	491	-	491	615	48,069	49,175
Consumer and Other						
Consumer	411	11	422	222	22,904	23,548
Other	14	-	14	191	6,964	7,169
Total Loans	$8,979	$ 11	$ 8,990	$ 19,367	$707,406	$735,763

December 31, 2013

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	$581	$ -	$ 581	$ 1,646	$45,880	$48,107
Agricultural	81	-	81	-	10,585	10,666
Real Estate						
Commercial Construction	140	-	140	8,222	44,377	52,739
Residential Construction	-	-	-	-	6,549	6,549
Commercial	2,287	-	2,287	7,367	332,129	341,783
Residential	5,274	-	5,274	4,933	196,051	206,258

Farmland	351	-	351	1,630	45,054	47,035
Consumer and Other						
Consumer	454	4	458	307	24,911	25,676
Other	198	-	198	9	12,198	12,405
Total Loans	$9,366	$ 4	$ 9,370	$ 24,114	$717,734	$751,218

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

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

June 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	$ 1,728	$ 1,415	$ -	$ 1,007	$ 5	$ 13
Agricultural	70	64	-	57	(7)	3
Commercial Construction	5,894	2,586	-	3,470	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	21,215	19,831	-	20,258	264	283
Residential Real Estate	7,021	5,568	-	5,605	108	100
Farmland	1,016	1,015	-	681	4	7
Consumer	227	221	-	236	7	10
Other	191	191	-	197	4	5
	37,362	30,891	-	31,511	387	423
With An Allowance Recorded						
Commercial	101	102	102	741	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	4,171	2,369	1,082	2,920	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	7,485	7,485	772	6,797	138	140
Residential Real Estate	956	948	310	951	23	26
Farmland	-	-	-	662	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	12,713	10,904	2,266	12,071	161	166
Total						
Commercial	1,829	1,517	102	1,748	5	13
Agricultural	70	64	-	57	(7)	3
Commercial Construction	10,065	4,955	1,082	6,390	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	28,700	27,316	772	27,055	402	423
Residential Real Estate	7,977	6,516	310	6,556	131	126
Farmland	1,016	1,015	-	1,343	4	7
Consumer	227	221	-	236	7	10
Other	191	191	-	197	4	5

	$ 50,075	$ 41,795	$ 2,266	$ 43,582	$ 548	$ 589

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

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

December 31, 2013	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 305	$ 305	$ -	$ 216	$ 24	$ 25
Agricultural	-	-	-	10	-	-
Commercial Construction	7,856	4,750	-	4,106	35	41
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	20,121	19,253	-	13,199	494	504
Residential Real Estate	7,837	6,362	-	4,564	224	209
Farmland	303	303	-	1,859	1	1
Consumer	313	307	-	253	18	21
Other	9	9	-	2	1	1
	36,744	31,289	-	24,209	797	802
With An Allowance Recorded						
Commercial	1,453	1,453	434	1,689	15	21
Agricultural	-	-	-	-	-	-
Commercial Construction	5,923	3,472	830	5,025	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	5,874	5,874	424	11,072	157	148
Residential Real Estate	1,949	1,849	526	3,662	26	24
Farmland	1,327	1,327	85	664	45	47
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	16,526	13,975	2,299	22,112	243	240
Total						
Commercial	1,758	1,758	434	1,905	39	46
Agricultural	-	-	-	10	-	-
Commercial Construction	13,779	8,222	830	9,131	35	41
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	25,995	25,127	424	24,271	651	652
Residential Real Estate	9,786	8,211	526	8,226	250	233
Farmland	1,630	1,630	85	2,523	46	48
Consumer	313	307	-	253	18	21
Other	9	9	-	2	1	1

	$ 53,270	$ 45,264	$ 2,299	$ 46,321	$ 1,040	$ 1,042

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of June 30, 2013:

June 30, 2013

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 174	$ 172	$ -	$ 147	$ 4	$ 6
Agricultural	-	-	-	20	-	-
Commercial Construction	3,969	1,699	-	3,330	12	12
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	10,879	10,148	-	12,740	112	133
Residential Real Estate	4,327	3,685	-	3,033	62	67
Farmland	2,307	2,307	-	2,427	1	1
Consumer	217	206	-	212	4	6
Other	-	-	-	-	-	-
	21,873	18,217	-	21,909	195	225
With An Allowance Recorded						
Commercial	2,374	2,374	551	1,919	22	30
Agricultural	-	-	-	-	-	-
Commercial Construction	11,017	8,467	1,580	6,578	6	9
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	13,436	13,436	1,080	11,677	240	234
Residential Real Estate	4,791	4,078	982	4,997	40	37
Farmland	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	31,618	28,355	4,193	25,171	308	310
Total						
Commercial	2,548	2,546	551	2,066	26	36
Agricultural	-	-	-	20	-	-
Commercial Construction	14,986	10,166	1,580	9,908	18	21
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	24,315	23,584	1,080	24,417	352	367
Residential Real Estate	9,118	7,763	982	8,030	102	104
Farmland	2,307	2,307	-	2,427	1	1
Consumer	217	206	-	212	4	6
Other	-	-	-	-	-	-

$ 53,491	$ 46,572	$ 4,193	$ 47,080	$ 503	$ 535

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(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 June 30, 2014. The following tables present the number of loan contracts restructured during the three month and six month period ended June 30, 2014 and 2013. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 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.

Troubled Debt Restructurings	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	# of Contracts	Pre-Modification	Post-Modification	# of Contracts	Pre-Modification	Post-Modification
Commercial Real Estate	-	$ -	$ -	2	$ 1,771	$ 1,775
Residential Real Estate	1	49	49	1	49	49
Farmland	1	401	401	1	401	401
Total Loans	2	$ 450	$ 450	4	$ 2,221	$ 2,225

Troubled Debt Restructurings	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
		Pre-Modification	Post-Modification		Pre-Modification	Post-Modification

	# of Contracts			# of Contracts		
Commercial	-	$ -	$ -	1	$ 84	$ 81
Commercial Construction	2	229	226	2	229	226
Commercial Real Estate	1	226	226	1	226	226
Residential Real Estate	-	-	-	2	1,024	1,001
Total Loans	3	$ 455	$ 452	6	$ 1,563	$ 1,534

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(3) Loans (Continued)

The company did not have any TDRs that subsequently defaulted for the three months and six months ended June 30, 2014 and 2013.

(4) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the six month period ended June 30, 2014 and June 30, 2013. 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.

June 30, 2014

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 1,017	$ (373)	$ 58	$ 18	$720
Agricultural	294	-	1	5	300
Real Estate					
Commercial Construction	1,782	(470)	254	308	1,874
Residential Construction	138	-	-	-	138
Commercial	4,379	(753)	43	323	3,992
Residential	3,278	(585)	25	92	2,810
Farmland	312	(234)	-	4	82
Consumer and Other					
Consumer	243	(173)	51	57	178
Other	363	-	12	1	376
	$ 11,806	$ (2,588)	$ 444	$ 808	$10,470

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(4) Allowance for Loan Losses (Continued)

June 30, 2013

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 981	$ (45)	$ 38	$ 43	$ 1,017
Agricultural	296	(27)	4	26	299
Real Estate					
Commercial Construction	1,890	(791)	120	756	1,975
Residential Construction	138	-	-	-	138
Commercial	5,163	(1,425)	85	1,361	5,184
Residential	3,406	(279)	18	267	3,412
Farmland	291	(21)	16	20	306
Consumer and Other					
Consumer	228	(233)	55	223	273
Other	344	(4)	9	4	353
	$ 12,737	$ (2,825)	$ 345	$ 2,700	$ 12,957

The loss history period used at June 30, 2014 was based on the loss rate from the eight quarters ended March 31, 2014.

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

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

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 $9.0 million and $8.2 million as of June 30, 2014 and 2013, respectively. Specific allowance allocations were made for these loans totaling $630 thousand and $615 thousand as of June 30, 2014 and 2013, 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 June 30, 2014, there were impaired loans totaling $3.93 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 June 30, 2013, impaired loans totaling $2.17 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 I (Continued)
Item 1 (Continued)

(4) Allowance for Loan Losses (Continued)

The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for June 30, 2014 and 2013:

June 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						
Commercial	$102	$ 618	$720	$1,068	$ 40,772	$41,840
Agricultural	-	300	300	-	18,568	18,568
Real Estate						
Commercial Construction	1,082	792	1,874	4,812	45,368	50,180
Residential Construction	-	138	138	-	10,875	10,875
Commercial	772	3,220	3,992	26,204	306,691	332,895
Residential	310	2,500	2,810	4,815	196,698	201,513
Farmland	-	82	82	963	48,212	49,175
Consumer and Other						
Consumer	-	178	178	-	23,548	23,548
Other	-	376	376	-	7,169	7,169
Total End of Period Balance	$2,266	$ 8,204	$10,470	$37,862	$ 697,901	$735,763

June 30, 2013

	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	$551	$ 466	$1,017	$2,388	$ 48,770	$51,158
Agricultural	-	299	299	-	14,177	14,177
Real Estate						
Commercial Construction	1,580	395	1,975	10,007	42,692	52,699
Residential Construction	-	138	138	-	8,189	8,189
Commercial	1,080	4,104	5,184	23,144	302,173	325,317
Residential	982	2,430	3,412	6,591	201,971	208,562
Farmland	-	306	306	2,277	47,521	49,798

Consumer and Other						
Consumer	-	273	273	-	27,439	27,439
Other	-	353	353	-	6,804	6,804
Total End of Period Balance	$4,193	$ 8,764	$12,957	$44,407	$ 699,736	$744,143

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(5) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at June 30, 2014 and December 31, 2013 was $12,208 and $15,502, 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 six months ended June 30, 2014 and the year ended December 31, 2013.

	Six Months Ended June 30, 2014	Twelve Months Ended December 31, 2013
Balance, Beginning	$15,502	$15,941
Additions	2,369	10,251
Sales of OREO	(4,905)	(7,804)
Gain (Loss) on Sale	(513)	(1,564)
Provision for Losses	(245)	(1,322)
Balance, Ending	$12,208	$15,502

(6) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $404 and $401 as of June 30, 2014 and December 31, 2013.

Components of interest-bearing deposits as of June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
Interest-Bearing Demand	$326,651	$357,291
Savings	58,699	54,095
Time, $100,000 and Over	218,176	220,673
Other Time	229,986	240,210
	$833,512	$872,269

At June 30, 2014 and December 31, 2013, the Company had brokered deposits of $26,151 and $26,580, 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 $146,804 and $143,389 as of June 30, 2014 and December 31, 2013, respectively.

As of June 30, 2014 and December 31, 2013, the scheduled maturities of certificates of deposits are as follows:

Maturity

	June 30, 2014	December 31, 2013
One Year and Under	$323,798	$322,971
One to Three Years	97,158	106,946
Three Years and Over	27,206	30,966
	$448,162	$460,883

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(7) Other Borrowed Money

Other borrowed money at June 30, 2014 and December 31, 2013 is summarized as follows:

	June 30, 2014	December 31, 2013
Federal Home Loan Bank Advances	$40,000	$ 40,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2017 to 2020 and interest rates ranging from 0.48 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 June 30, 2014 the book value of those loans pledged was approximately $94,676. At June 30, 2014 the Company had remaining credit availability from the FHLB of approximately $130,770. 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 June 30, 2014 are as follows:

Year	Amount
2017	$9,000
2018	20,500
2019	8,000
2020	2,500
	$40,000

The Company also has available federal funds lines of credit with various financial institutions totaling $43,000, none of which were outstanding at June 30, 2014.

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 June 30, 2014, 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 June 30, 2014, 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 June 30, 2014, the Company had 28,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) issued and outstanding with private investors. 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 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. At June 30, 2014 there were accumulated dividends in arrears of $4.44 million including accrued interest.

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(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	$ 4,500	0.23210	2.68	2.91210	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,000	0.23410	1.50	1.73410	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,000	0.23410	1.65	1.88410	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,000	0.22485	1.40	1.62485	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. The regularly scheduled interest payments will continue to be accrued for payment in the future and reported as an expense in the current period. At June 30, 2014, accrued but unpaid interest expense totaled $1.3 million.

(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 June 30, 2014 and December 31, 2013 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	June 30, 2014	December 31, 2013
Loan Commitments	$77,025	$ 65,688
Letters of Credit	1,416	1,411

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.

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(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. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable Instruments. If a comparable is not available, the investment securities are classified as level 3.

Federal Home Loan Bank Stock – The fair value of Federal Home Loan Bank stock approximates carrying value.

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

Bank-Owned Life Insurance – The carrying value of bank-owned life insurance policies approximate fair value.

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

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

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

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(11) Fair Value of Financial Instruments and Fair Value Measurements (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 June 30, 2014 and December 31, 2013 are as follows:

	Fair Value Measurements at June 30, 2014				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	$44,320	$44,320	$44,320	$-	$-
Investment Securities Available for Sale	276,062	276,062	-	275,104	958
Investment Securities Held to Maturity	32	32	-	32	-
Federal Home Loan Bank Stock	2,831	2,831	2,831	-	-
Loans, Net	724,939	726,105	-	717,467	8,638
Bank-Owned Life Insurance	14,265	14,265	14,265	-	-
Liabilities					
Deposits	948,269	949,776	500,107	449,669	-
Subordinated Debentures	24,229	24,229	24,229	-	-
Other Borrowed Money	40,000	42,314	-	42,314	-

	Fair Value Measurements at December 31, 2013				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and Short-Term Investments	$68,147	$68,147	$68,147	$-	$-
Investment Securities Available for Sale	263,258	263,258	-	262,317	941
Investment Securities Held to Maturity	37	37	-	37	-
Federal Home Loan Bank Stock	3,164	3,164	3,164	-	-
Loans, Net	739,052	741,112	-	729,436	11,676
Bank-Owned Life Insurance	10,165	10,165	10,165	-	-
Liabilities					
Deposits	987,530	989,101	526,646	462,455	-
Subordinated Debentures	24,229	24,229	24,229	-	-
Other Borrowed Money	40,000	42,074	-	42,074	-

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 I (Continued)
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(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 theassumptions 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.

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 June 30, 2014 and December 31, 2013, 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 June 30, 2014. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

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

June 30, 2014	Total Fair Value	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)
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$272,722	$-	$272,722	$ -
State, County and Municipal	3,340	-	2,382	958
	$276,062	$-	$275,104	$ 958
Nonrecurring				
Impaired Loans	$8,638	$-	$-	$ 8,638
Other Real Estate	$4,778	$-	$-	$ 4,778

December 31, 2013	Total Fair Value	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)
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$259,348	$-	$259,348	$ -
State, County and Municipal	3,910	-	2,969	941
	$263,258	$-	$262,317	$ 941

Nonrecurring				
Impaired Loans	$11,676	$-	$-	$ 11,676
Other Real Estate	$7,020	$-	$-	$ 7,020

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 June 30, 2014 and December 31, 2013. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

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

	June 30, 2014	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired Loans				
Real Estate				
Commercial Construction	$1,287	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.00%) - 24.00% 1.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Residential Real Estate	638	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(2.30%) - 10.20% 3.95%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% 12.50%
Commercial Real Estate	6,713	Sales Comparison	Management Adjustments for Age of Appraisals and/or Current Market Conditions	(30.00%) - 20.00% (5.00%)
			Management Adjustment for Age of Appraisals and/or Current Market Conditions	0.00% - 40.00% 20.00%
		Income Approach	Capitalization Rate	11.00%
Other Real Estate Owned	4,778	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(955.90%) - 208.20% (373.85%)
			Management Adjustment for Age of Appraisals and/or Current Market Conditions	0.33% - 69.36% 31.61%

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Item 1 (Continued)

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

	December 31, 2013	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired Loans				
Commercial	$ 1,019	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00% - 15.00% 7.50%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 50.00% 30.00%
Real Estate				
Commercial Construction	2,641	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(16.00%) - 28.00% 6.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
		Income Approach	Capitalization Rate	8.50%
Residential Real Estate	1,323	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00% - 46.00% 23.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% 12.50%
Commercial Real Estate	5,451	Sales Comparison	Adjustment for differences Between the comparable Sales	(27.20%) - 216.80% 94.80%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	25.00% - 90.00% 57.50%
		Income Approach	Capitalization Rate	11.00%
Farmland	1,242	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(55.00%) - 388.00% 166.50
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 35.00% 22.50%
Other Real Estate Owned	7,020	Sales Comparison	Adjustment for Differences	(10.00%) - 319.10%

	Between the Comparable Sales	154.55%
	Management Adjustment for Age of Appraisals and/or Current Market Conditions	0.36% - 87.81% 29.99%
Income Approach	Discount Rate	10.00%

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(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 six months ended June 30, 2014 and the twelve months ended December 31, 2013.

	Available for Sale Securities	
	June 30, 2014	December 31, 2013
Balance, Beginning	$941	$ 1,138
Transfers out of Level 3	-	(42)
Loss on OTTI Impairment Included in Noninterest Income	-	(367)
Unrealized Gains included in Other Comprehensive Income (Loss)	17	212
Balance, Ending	$958	$ 941

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. As of December 31, 2013, the Company transferred certain state, county and municipal securities out of level 3 and into level 2. The transfers out of level 3 were the result of increased market activity for these types of securities, as well as more current credit ratings on these securities. There were no transfers of securities between levels for the six months ended June 30, 2014.

The following table presents quantitative information about recurring level 3 fair value measurements as of June 30, 2014.

	Fair Value	Valuation Techniques	Unobservable Inputs	Range Weighted Avg	
State, County and Municipal	$ 958	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, in the third quarter of 2009, the Company suspended the payment of dividends to common shareholders. At June 30, 2014, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

The Company is subject to various regulatory capital requirements administered by 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.

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(12) Regulatory Capital Matters (Continued)

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. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of June 30, 2014, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The following table summarizes regulatory capital information as of June 30, 2014 and December 31, 2013 on a consolidated basis and for the subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2014						
Total Capital to Risk-Weighted Assets						
Consolidated	$131,523	17.69%	$59,480	8.00%	NA	NA
Colony Bank	134,676	18.15	59,350	8.00	$74,187	10.00%
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	122,215	16.44	29,740	4.00	NA	NA
Colony Bank	125,388	16.90	29,675	4.00	44,512	6.00
Tier 1 Capital to Average Assets						
Consolidated	122,215	10.80	45,274	4.00	NA	NA
Colony Bank	125,388	11.10	45,183	4.00	56,479	5.00

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Total Capital to Risk-Weighted Assets						
Consolidated	$129,569	17.06%	$60,791	8.00%	NA	NA
Colony Bank	131,024	17.29	60,638	8.00	$75,797	10.00%

Tier 1 Capital to Risk-Weighted Assets						
Consolidated	120,048	15.81	30,396	4.00	NA	NA
Colony Bank	121,521	16.03	30,319	4.00	45,478	6.00
Tier 1 Capital to Average Assets						
Consolidated	120,048	10.57	45,419	4.00	NA	NA
Colony Bank	121,521	10.72	45,333	4.00	56,666	5.00

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(12) Regulatory Capital Matters (Continued)

At June 30, 2014, the Bank continued to be subject to a board resolution (BR) which requires, among other things, that the Bank maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10% during the life of the BR. The BR also requires that, prior to declaring or paying any cash dividend to the Company, the Bank must obtain written consent of its regulators.

Basel III Capital Rules

In July 2013, the Federal Reserve Board released its final rules which will implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. These rules become effective January 1, 2015 for community banks and will increase both the quality and quantity of capital held by banks. The final rule implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Consistent with the international Basel framework, the final rule includes a new minimum ratio of common equity Tier I capital to risk-weighted assets of 4.5 percent and a common equity Tier I capital conservation buffer of 2.5 percent of risk-weighted assets. The conservation buffer will be phased in from 2016 through 2019. In addition, the final rule raises the minimum ratio of Tier I capital to risk-weighted assets from 4 percent to 6 percent and includes a minimum leverage ratio of 4 percent for all banking organizations.

(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 six month period ended June 30, 2014 and 2013:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Numerator				
Net Income Available to Common Stockholders	$1,335	$611	$2,149	$1,178
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	-	-	-	-
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	8,439	8,439	8,439	8,439

Earnings Per Share - Basic	$0.16	$0.07	$0.25	$0.14
Earnings Per Share - Diluted	$0.16	$0.07	$0.25	$0.14

For the six months ended June 30, 2014 and 2013, respectively, the Company has excluded 500 shares of common stock equivalents because the strike price of the common stock equivalents would cause them to have an anti-dilutive effect.

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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), not withstanding 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.

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

· Restrictions or conditions imposed by our regulators on our operations.

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 June 30, 2014, and the consolidated results of operations for the six months ended June 30, 2014. 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 14, 2014. 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, subjective or complete.

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

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

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company’s financial condition as of June 30, 2014 and 2013, and results of operations for each of the six months in the periods ended June 30, 2014 and 2013. 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.

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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 $1.34 million, or $0.16 diluted per common share, in three months ended June 30, 2014 compared to net income available to shareholders of $611 thousand, or $0.07 diluted per common share, in three months ended June 30, 2013. Net income available to shareholders totaled $2.15 million, or $0.25 diluted per common share, in six months ended June 30, 2014 compared to net income available to shareholders of $1.18 million, or $0.14 diluted per common share, in six months ended June 30, 2013.

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

	Three Months Ended June 30 2014	2013	$ Variance	% Variance	Six Months Ended June 30 2014	2013	$ Variance	% Variance
Taxable-equivalent net interest income	$9,555	$9,496	$59	0.62 %	$18,779	$18,581	$198	1.07 %
Taxable-equivalent adjustment	27	41	(14)	(34.15)	57	80	(23)	(28.75)
Net interest income	9,528	9,455	73	0.77	18,722	18,501	221	1.19
Provision for loan losses	481	1,200	(719)	(59.92)	808	2,700	(1,892)	(70.07)
Noninterest income	2,246	2,040	206	10.10	4,308	4,250	58	1.36
Noninterest expense	8,291	8,739	(448)	(5.13)	17,157	17,131	26	0.15
Income before income taxes	$3,002	$1,556	$1,446	92.93	$5,065	$2,920	$2,145	73.46
Income Taxes	986	570	416	72.98	1,592	997	595	59.68
Net income	$2,016	$986	$1,030	104.46	$3,473	$1,923	$1,550	80.60
Preferred stock dividends	681	375	306	81.60	1,324	745	579	77.72
	$1,335	$611	$724	118.49 %	$2,149	$1,178	$971	82.43 %

Net income available to common shareholders																
Net income available to common shareholders:																
Basic	$0.16		$0.07		$0.09		128.57	%	$0.25		$0.14		$0.11		78.57	%
Diluted	$0.16		$0.07		$0.09		128.57	%	$0.25		$0.14		$0.11		78.57	%
Return on average assets	0.47	%	0.22	%	0.25	%	113.64	%	0.38	%	0.21	%	0.17	%	80.95	%
Return on average common equity	5.69	%	2.56	%	3.13	%	122.27	%	4.63	%	2.47	%	2.16	%	87.45	%

Net income from operations for three months ended June 30, 2014 increased $1.03 million, or 104.46 percent, compared to the same period in 2013. The increase was primarily the result of an increase of $73 thousand in net interest income, a decrease of $719 thousand in provision for loan losses, an increase of $206 thousand in noninterest income and a decrease of $448 thousand in noninterest expense. This was offset by an increase of $416 thousand in income taxes.

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Net income from operations for six months ended June 30, 2014 increased $1.55 million, or 80.60 percent, compared to the same period in 2013. The increase was primarily the result of an increase of $221 thousand in net interest income, an increase of $58 thousand in noninterest income, and a decrease of $1.89 million in provision for loan losses. This was offset by an increase of $26 thousand in noninterest expense and an increase of $595 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 81.29 percent of total revenue for six months ended June 30, 2014 and 81.32 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. We anticipate the Federal Reserve maintaining its current interest rate policy in 2014, which should benefit Colony's net interest margin.

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

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Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from June 30, 2013 to June 30, 2014 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

	Changes from June 30, 2013 to June 30, 2014		
($ in thousands)	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	$58	$(1,155)	$(1,097)
Investment Securities			
Taxable	43	755	798
Tax-exempt	(2)	(3)	(5)
Total Investment Securities	41	752	793
Interest-Bearing Deposits in other Banks	9	(2)	7
Federal Funds Sold	(3)	-	(3)
Other Interest - Earning Assets	(4)	25	21
Total Interest Income	101	(380)	(279)
Interest Expense			