COLONY BANKCORP INC
Form 10-K
March 15, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2006

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

For the Transition Period from ______ to ______

Commission File Number 000-12436

COLONY BANKCORP, INC.

(Exact Name of Registrant Specified in its Charter)

Georgia	**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) **(Zip Code)**

(229) 426-6000

Issuer s Telephone Number, Including Area Code

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

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

COMMON STOCK, $1.00 PAR VALUE

(Title of Class)

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

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

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a nonaccelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer x Nonaccelerated Filer ¨

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

State the aggregate market value of the voting stock held by nonaffiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of June 30, 2006: $122,894,440 based on stock price of $22.34.

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: 7,204,925 shares of $1.00 par value common stock as of March 9, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

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

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Forward Looking Statement Disclosure

Statements in this Annual Report regarding future events or performance are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA) and are made pursuant to the safe harbors of the PSLRA. Actual results of Colony Bankcorp, Inc. (the Company) could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words could, may, will, should, plan, believes, anticipates, estimates, predicts, expects, projections, potent of similar import, constitute forward-looking statements, as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Annual Report as well as the following specific items:

General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;

Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company s most valued customers, defection of key employees or groups of employees, or other losses;

Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company s investment securities;

Changing business or regulatory conditions, or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;

Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenues, increase our costs or lead to disruptions in our business.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management s analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

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

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Part I

Item 1

Business

COLONY BANKCORP, INC.

Colony Bankcorp, Inc. (the Company or Colony) is a Georgia business corporation which was incorporated on November 8, 1982. The Company was organized for the purpose of operating as a bank holding company under the Federal Bank Holding Company Act of 1956, as amended, and the bank holding company laws of Georgia (Georgia Laws 1976, p. 168, et. seq.). On July 22, 1983, the Company, after obtaining the requisite regulatory approvals, acquired 100 percent of the issued and outstanding common stock of Colony Bank of Fitzgerald (formerly The Bank of Fitzgerald), Fitzgerald, Georgia, through the merger of the Bank with a subsidiary of the Company which was created for the purpose of organizing the Bank into a one-bank holding company. Since that time, Colony Bank of Fitzgerald has operated as a wholly-owned subsidiary of the Company.

On April 30, 1984, Colony, with the prior approval of the Federal Reserve Bank of Atlanta and the Georgia Department of Banking and Finance, acquired 100 percent of the issued and outstanding common stock of Colony Bank Wilcox (formerly Community Bank of Wilcox and Pitts Banking Company), Pitts, Wilcox County, Georgia. As part of that transaction, Colony issued an additional 17,872 shares of its $10.00 par value common stock, all of which was exchanged with the holders of shares of common stock of Pitts Banking Company for 100 percent of the 250 issued and outstanding shares of common stock of Pitts Banking Company. Since the date of acquisition, the Bank has operated as a wholly-owned subsidiary of the Company.

On November 1, 1984, after obtaining the requisite regulatory approvals, Colony acquired 100 percent of the issued and outstanding common stock of Colony Bank Ashburn (formerly Ashburn Bank), Ashburn, Turner County, Georgia, for a combination of cash and interest-bearing promissory notes. Since the date of acquisition, Colony Bank Ashburn has operated as a wholly-owned subsidiary of the Company.

On September 30, 1985, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of Colony Bank of Dodge County (formerly The Bank of Dodge County), Chester, Dodge County, Georgia. The stock was acquired in exchange for the issuance of 3,500 shares of common stock of Colony. Since the date of its acquisition, Colony Bank of Dodge County has operated as a wholly-owned subsidiary of the Company.

Effective July 31, 1991, the Company acquired all of the outstanding common stock of Colony Bank Worth (formerly Worth Federal Savings and Loan Association and Bank of Worth) in exchange for cash and 7,661 of the Company s common stock for an aggregate purchase price of approximately $718,000. Since the date of its acquisition, Colony Bank Worth has operated as a wholly-owned subsidiary of the Company.

On November 8, 1996, Colony organized Colony Management Services, Inc. to provide support services to each subsidiary. Services provided include loan and compliance review, internal audit and data processing.

On November 30, 1996, the Company acquired Broxton State Bank (name subsequently changed to Colony Bank Southeast) in a business combination accounted for as a pooling of interests. Broxton State Bank became a wholly-owned subsidiary of the Company through the exchange of 157,735 shares of the Company s common stock for all of the outstanding stock of Broxton State Bank.

Part I (Continued)

Item 1 (Continued)

On March 2, 2000, Colony Bank Ashburn purchased the capital stock of Georgia First Mortgage Company in a business combination accounted for as a purchase. The purchase price of $346,725 was the fair value of the net assets of Georgia First Mortgage at the date of purchase. Georgia First Mortgage is primarily engaged in residential real estate mortgage lending in the state of Georgia.

On March 26, 2002 and December 19, 2002, Colony formed Colony Bankcorp Statutory Trust I and Colony Bankcorp Statutory Trust II, respectively. Both were formed to establish special purpose entities to issue trust preferred securities.

On March 29, 2002, Colony purchased 100 percent of the outstanding voting stock of Quitman Bancorp, Inc., pursuant to which Quitman was merged with and into Colony with Colony Bankcorp, Inc. surviving the merger and Quitman s wholly-owned subsidiary, Quitman Federal Savings Bank (name subsequently changed to Colony Bank Quitman, FSB) becoming a wholly-owned subsidiary of Colony. The aggregate acquisition price was $7,446,163, which included cash and 367,093 shares of the Company s common stock.

On March 19, 2004, Colony Bank Ashburn purchased Flag Bank-Thomaston office in a business combination accounted for as a purchase. Since the date of acquisition, the Thomaston office has operated as a branch office of Colony Bank Ashburn.

On June 17, 2004, Colony formed Colony Bankcorp Statutory Trust III for the purpose of establishing a special purpose entity to issue trust preferred securities.

On April 13, 2006, Colony formed Colony Bankcorp Capital Trust I for the purpose of establishing a special purpose entity to issue trust preferred securities.

The Company conducts all of its operations through its bank subsidiaries. A brief description of each Bank s history and business operations is discussed below.

COLONY BANK OF FITZGERALD

History and Business of the Bank

Colony Bank of Fitzgerald is a state banking institution chartered under the laws of Georgia on November 10, 1975. Since opening on April 15, 1976, the Bank has continued a general banking business and presently serves its customers from four locations, the main office in Fitzgerald, Georgia at 302 South Main Street, a full-service branch located on Highway 129 South, a full-service branch at 1290 Houston Lake Road in Warner Robins, Georgia and a full-service branch at 200 Gunn Road in Centerville, Georgia.

The Bank operates a full-service banking business and engages in a broad range of commercial banking activities, including accepting customary types of demand and time deposits; making individual, consumer, commercial and installment loans; money transfers; safe deposit services; and making investments in United States Government and municipal securities. The Bank does not offer trust services other than acting as custodian of individual retirement accounts. The Bank s mortgage lending services are through Georgia First Mortgage.

The data processing work of the Bank is processed by Colony Management Services, Inc., a wholly-owned subsidiary of Colony Bankcorp, Inc.

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Item 1 (Continued)

Colony Bank of Fitzgerald acts as an agent for Visa Card and MasterCard through The Bankers Bank which allows merchants to accept Visa Card and MasterCard and deposit the charge tickets in their accounts with the Bank. The Bank also offers its customers a variety of checking and savings accounts.

The Bank serves the residents of Fitzgerald and surrounding areas of Ben Hill County which has a population of approximately 18,000 people. Manufacturing facilities located in Ben Hill County employ many people and are the most significant part of the local economy. Ben Hill County also has a large agricultural industry producing timber and row crops. Major row crops are peanuts, tobacco, cotton and corn.

The Bank serves Houston County with the opening of its offices in Centerville and Warner Robins, Georgia. The Houston County market has an estimated population of 126,000. Robins Air Force base, located in Houston County, is a major employer in the area which has survived national base closure mandates and expanded in size in recent years.

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 203,113,676**	$ 185,403,798	$ 167,196,708
Total Deposits	**174,078,725**	155,593,897	139,034,653
Total Stockholders Equity	**16,465,138**	14,815,728	13,282,778
Net Income	**2,778,915**	2,464,452	1,757,213
Number of Issued and Outstanding Shares	**90,000**	90,000	90,000
Book Value Per Share	**$ 182.95**	$ 164.62	$ 147.59
Net Income Per Share	**30.88**	27.38	19.52

Banking Facilities

The Bank s main offices are housed in a building located in Fitzgerald, Georgia. The main offices, which are owned by the Bank, consist of approximately 13,000 square feet, three drive-in windows and an adjacent parking lot. Banking operations also are conducted from the southside branch which is located at South Dixie Highway, Fitzgerald, Georgia. This branch is owned by the Bank and has been in continuous operation since it opened in December 1977. The branch is a single story building with approximately 850 square feet and is operated with three drive-in windows.

In August 2002, the Bank moved from its temporary facilities (opened July 2001) in Warner Robins, Georgia to a new building located at 1290 Houston Lake Road. The 5,500 square foot building has four inside teller windows, four drive-in windows and an ATM machine.

In February 2006, the Bank opened its second office in the Houston County, Georgia market at 200 Gunn Road in Centerville, Georgia. The approximate 5,000 square foot building has four inside teller windows, four drive-in windows and an ATM machine.

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Part I (Continued)

Item 1 (Continued)

Competition

The banking business in Ben Hill County and Houston County is highly competitive. The Bank competes primarily with five other commercial banks and one credit union operating in Ben Hill County. In Houston County the Bank competes with nine commercial banks and four credit unions. Additionally, the Bank competes to a lesser extent with insurance companies and governmental agencies. The banking industry is also experiencing increasing competition for deposits from less traditional sources such as money market and mutual funds. The Bank also offers NOW accounts, individual retirement accounts, simplified pension plans, KEOGH plans and custodial accounts for minors.

Correspondents

As of December 31, 2006, the Bank had correspondent relationships with two other banks. The Bank s principal correspondent is The Bankers Bank located in Atlanta, Georgia. These correspondent banks provide certain services to the Bank such as investing its excess funds, processing checks and other items, buying and selling federal funds, handling money fund transfers and exchanges, shipping coins and currency, providing security and safekeeping of funds and other valuable items, handling loan participations and furnishing management investment advice on the Bank s securities portfolio. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

COLONY BANK ASHBURN

History and Business of the Bank

Colony Bank Ashburn was chartered as a state commercial bank in 1900 and currently operates under the Financial Institutions Code of Georgia. The Bank s deposits are insured up to $100,000 per account by the Federal Deposit Insurance Corporation. The Bank conducts business at the offices located at 515 East Washington and 416 East Washington in Ashburn, Turner County, Georgia, 137 Robert E. Lee Drive in Leesburg, Georgia, 2609 Ledo Road in Lee County, Georgia, 1031 24^{th} Ave., E. in Cordele, Georgia, 206 North Church Street in Thomaston, Georgia, 716 Philema Road in Albany, Georgia and 1581 Bradley Park Drive in Columbus, Georgia. The offices operate under the name Colony Bank. The Bank s business largely consists of (1) the acceptance of demand, savings and time deposits; (2) the making of loans to consumers, businesses and other institutions; (3) investment of excess funds and sale of federal funds, U.S. Government obligations and state, county and municipal bonds; and (4) internet online banking. The Bank s mortgage lending services are through Georgia First Mortgage and it does not offer trust services. It acts as an agent for Visa Card and MasterCard through The Bankers Bank.

The Bank serves Turner County, Georgia, which has a population of approximately 10,000 people. The Bank serves Crisp County with the opening of its branch in Cordele, Georgia. The Crisp County market has an estimated population of 32,000. The Bank serves Lee and Dougherty counties with the opening of offices in Albany and Leesburg, Georgia. The Albany/Leesburg MSA market has an estimated population of 160,000. The Bank serves Upson County with the opening of its branch in Thomaston, Georgia. The Upson County market has an estimated population of 28,000. The Bank serves Muscogee County with the opening of its office in Columbus, Georgia. The Columbus MSA market has an estimated population of 186,000.

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Part I (Continued)

Item 1 (Continued)

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 342,704,792**	$ 332,217,540	$ 321,026,478
Total Deposits	**299,891,433**	294,311,410	284,113,411
Total Stockholders Equity	**27,777,175**	27,017,259	26,146,996
Net Income	**2,593,841**	2,586,828	2,711,136
Number of Issued and Outstanding Shares	**50,000**	50,000	50,000
Book Value Per Share	**$ 555.54**	$ 540.35	$ 522.94
Net Income Per Share	**51.88**	51.74	54.22

Banking Facilities

The Bank s main office is located at 515 East Washington Street in Ashburn and consists of a building of approximately 13,000 square feet of office and banking space with an adjacent parking lot. A branch facility is located across the street from the main office and consists of a single story building with approximately 850 square feet and is operated with three drive-in windows and one automated teller machine.

The Bank has a Lee County office which opened in October 1998. This full-service facility, located within the city limits of Leesburg, consists of a two-story brick building of approximately 5,000 square feet and includes three drive-in lanes. In 2001, a second Lee County facility located at 2609 Ledo Road opened. The facility is a 5,500 square foot facility with four drive-in windows and five inside teller windows. The Bank has a third Lee/Dougherty County office which opened in March 2004. This full service facility located within the city limits of Albany consists of approximately 5,000 square feet, with four drive-in-lanes and one automated teller machine. As a result of the purchase of Georgia First Mortgage Company, the Bank has a mortgage lending office at 616 North Westover Blvd., Albany, Dougherty County, Georgia.

The Bank opened a branch office in Cordele, Crisp County, Georgia on October 4, 1999. The full-service branch facility consists of approximately 5,500 square feet, with four drive-in lanes and one automated teller machine.

In March 2004, the Bank acquired Flag Bank-Thomaston office in Thomaston, Upson County, Georgia. The full service branch facility consists of approximately 18,000 square feet, with four drive-in-lanes and one automated teller machine.

In September 2004, the Bank opened a loan production office in Columbus, Muscogee County, Georgia. The Bank opened a branch office in Columbus, Muscogee County, Georgia in June 2006 and relocated the loan production operation to the new office. The approximate 5,000 square foot facility has four drive-in windows, four inside teller windows and one automated teller machine.

All occupied premises, with the exception of Georgia First Mortgage located in Albany, are owned by the Bank.

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Part I (Continued)

Item 1 (Continued)

Competition

The banking business is highly competitive. The Bank competes in Turner County primarily with Community National Bank which operates out of one facility in Ashburn, Georgia. The Bank competes with four commercial banks in Crisp County, eight in Lee County, eleven in Dougherty County, three in Upson County and ten in Muscogee County. The Bank also competes with other financial institutions, including credit unions and finance companies and, to a lesser extent, with insurance companies and certain governmental agencies. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

Colony Bank Ashburn has correspondent relationships with the following banks: The Bankers Bank in Atlanta, Georgia; SunTrust Bank, N.A. in Atlanta, Georgia; Colony Bank of Fitzgerald in Fitzgerald, Georgia; and the Federal Home Loan Bank in Atlanta, Georgia. The correspondent relationships facilitate the transactions of business by means of loans, letters of credit, acceptances, collections, exchange services and data processing. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

COLONY BANK WILCOX

History and Business of the Bank

The Bank was chartered on June 2, 1906 under the name Pitts Banking Company. The name of the Bank subsequently was changed to Community Bank of Wilcox on June 1, 1991 and then to Colony Bank Wilcox in 2000. The Bank currently operates under the Financial Institutions Code of Georgia. The Bank s deposits are insured up to $100,000 per account by the Federal Deposit Insurance Corporation. The Bank conducts business at locations in Pitts and Rochelle in Wilcox County, Georgia. The Bank s business consists of: (1) the acceptance of demand, savings and time deposits; (2) the making of loans to consumers, businesses and other institutions; (3) investment of excess funds and sale of federal funds, U.S. Government obligations and state, county and municipal bonds; and (4) certain other miscellaneous financial services usually handled for customers by commercial banks. The Bank s mortgage lending services are through Georgia First Mortgage and it does not offer trust services.

The Bank serves the residents of Wilcox County, Georgia, which has a population of approximately 8,500.

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 49,190,359**	$ 48,959,120	$ 51,540,509
Total Deposits	**41,757,568**	42,482,714	45,221,209
Total Stockholders Equity	**4,231,005**	4,327,857	4,191,620
Net Income	**766,236**	691,579	649,423
Number of Issued and Outstanding Shares	**250**	250	250
Book Value Per Share	**$ 16,924.02**	$ 17,311.43	$ 16,766.48
Net Income Per Share	**3,064.94**	2,766.32	2,597.69

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Part I (Continued)

Item 1 (Continued)

Banking Facilities

The Bank operates out of two locations at 105 South Eighth Street, Pitts, Georgia and at Highway 280, Rochelle, Georgia, both of which are in Wilcox County. The Pitts office consists of a building of approximately 2,200 square feet of usable office and banking space which it owns. The facility contains one drive-in window and three teller windows. The Rochelle office, which opened in August 1989, consists of a building of approximately 5,000 square feet of usable office and banking space, which is owned by the Company. The facility has three inside teller windows, three drive-in windows and one automated teller machine.

Competition

The banking business is highly competitive. The Bank competes in Wilcox County primarily with four commercial banks. In addition, the Bank competes with other financial institutions, including credit unions and finance companies and, to a lesser extent, insurance companies and certain governmental agencies. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

The Bank has correspondent relationships with the following banks: The Bankers Bank in Atlanta, Georgia; Federal Home Loan Bank, in Atlanta, Georgia; and SunTrust Bank, N.A., in Atlanta, Georgia. The correspondent relationships facilitate the transactions of business by means of loans, letters of credit, acceptances, collections, exchange services and data processing. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

COLONY BANK OF DODGE COUNTY

History and Business of the Bank

The Bank was chartered on June 14, 1966 under the name Bank of Chester. The name of the Bank subsequently was changed to The Bank of Dodge County on April 15, 1983 and then to Colony Bank of Dodge County in 2000. The Bank currently operates under the Financial Institutions Code of Georgia. The Bank s deposits are insured up to $100,000 per account by the Federal Deposit Insurance Corporation. The Bank s business consists of: (1) the acceptance of demand, savings and time deposits; (2) the making of loans to consumers, businesses and other institutions; (3) investment of excess funds in the sale of federal funds, U.S. Government obligations and state, county and municipal bonds; and (4) certain other miscellaneous financial services usually handled for customers by commercial banks. The Bank s mortgage lending services are through Georgia First Mortgage and it does not offer trust services.

The Bank serves the residents of Dodge County, Georgia, which has a population of approximately 19,000. The Bank serves Treutlen County, Georgia with the opening of its office in Soperton, Georgia. The Treutlen County market has an estimated population of 7,000.

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Part I (Continued)

Item 1 (Continued)

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 81,020,282**	$ 77,083,271	$ 71,491,904
Total Deposits	**72,720,715**	68,111,242	63,096,465
Total Stockholders Equity	**5,775,668**	5,555,685	5,201,826
Net Income	**1,122,422**	932,931	724,286
Number of Issued and Outstanding Shares	**1,750**	1,750	1,750
Book Value Per Share	**$ 3,300.38**	$ 3,174.68	$ 2,972.47
Net Income Per Share	**641.38**	533.10	413.88

Banking Facilities

The Bank s main office is located at 5510 Oak Street in Eastman, Dodge County, Georgia and consists of a building of approximately 11,000 square feet of office and banking space with an adjacent parking lot and is operated with three drive-in windows. The branch facility is located in Chester, Dodge County, Georgia and consists of a building with approximately 2,700 square feet of office and banking space and an adjacent parking lot. A second branch was opened during 2000 in Soperton, Treutlen County, Georgia at 310 Main Street. The branch has approximately 1,600 square feet of banking and office space with three walk-up teller units and two drive-in windows. The Bank owns all of the premises which it occupies.

Competition

The banking business is highly competitive. The Bank competes in the Dodge County area with two other banks. In addition, the Bank competes with other financial institutions, including credit unions and finance companies and, to a lesser extent, insurance companies and certain governmental agencies. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

The Bank has correspondent relationships with the following banks: The Bankers Bank in Atlanta, Georgia; The Federal Home Loan Bank in Atlanta, Georgia; and SunTrust Bank, N.A., in Atlanta, Georgia. The correspondent relationships facilitate the transactions of business by means of loans, letters of credit, acceptances, collections, exchange services and data processing. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

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COLONY BANK WORTH

Colony Bank Worth operated as a savings and loan stock association until it was acquired by the Company on July 31, 1991, at which time the association changed its name to Bank of Worth (subsequently named Colony Bank Worth) and became a state-chartered commercial bank. The Bank conducts business at its offices located at 601 North Main Street, Sylvester, Worth County, Georgia, 605 West Second Street and 1909 Highway 82 West, Tifton, Tift County, Georgia and 621 East By-Pass, NE, Moultrie, Colquitt County, Georgia. The Bank s business consists of: (1) the acceptance of demand, savings and time deposits; (2) the making of loans to consumers, businesses and other institutions; (3) investment of excess funds and sale of federal funds, U.S. Government obligations and state, county and municipal bonds; and (4) certain other miscellaneous financial services usually handled for customers by commercial banks. The Bank s deposits are insured up to $100,000 per account by the Federal Deposit Insurance Corporation. The Bank does not offer trust services. It acts as an agent for Visa Card and MasterCard through The Bankers Bank. The Bank s mortgage lending services are through Georgia First Mortgage.

The Bank serves the residents of Worth County, Georgia, which has a population of approximately 22,000. The Bank serves the residents of Tift County, Georgia with the opening of its two offices in Tifton, Georgia. The Tift County market has an estimated population of 40,000. The Bank serves the residents of Colquitt County, Georgia with the opening of its office in Moultrie, Georgia. The Colquitt County market has an estimated population of 42,000.

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	**2005**	**2004**
Total Assets	**$ 178,612,527**	$ 172,221,653	$ 158,577,134
Total Deposits	**160,719,979**	152,518,642	138,634,437
Total Stockholders Equity	**12,822,905**	11,895,191	10,803,709
Net Income	**1,978,512**	1,671,621	1,485,487
Number of Issued and Outstanding Shares	**95,790**	95,790	95,790
Book Value Per Share	**$ 133.86**	$ 124.18	$ 112.79
Net Income Per Share	**20.65**	17.45	15.51

Banking Facilities

The Bank s main office is housed in a building located in Sylvester, Georgia. The building, which is owned by the Bank, consists of approximately 13,000 square feet, a drive-in window and an adjacent parking lot. On June 15, 1998, the Bank opened a branch office at 605 West Second Street, Tifton, Georgia. The office is a single story building of approximately 2,300 square feet with one attached drive-in window. A second branch office opened in 2000 in Moultrie, Colquitt County, Georgia. This branch building of approximately 5,000 square feet includes three walk-up teller units and four drive-in windows. In August 2004, the Bank opened a second office in Tifton, Tift County, Georgia. The office is located at 1909 Highway 82 West and consists of approximately 2,800 square feet. The office has four drive-in windows and an ATM machine. All occupied offices, with the exception of the two Tifton locations, are owned by the Bank.

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Part I (Continued)

Item 1 (Continued)

Competition

The banking business in Worth County, Tift County and Colquitt County is highly competitive. The Bank competes primarily with three other commercial banks operating in Worth County, seven other commercial banks in Tift County and seven other commercial banks in Colquitt County. Additionally, the Bank competes with credit unions of employers located in the area and, to a lesser extent, insurance companies and governmental agencies. The banking industry is also experiencing increasing competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

As of December 31, 2006, the Bank had correspondent relationships with three other banks. The Bank s principal correspondent is The Bankers Bank located in Atlanta, Georgia. These correspondent banks provide certain services to the Bank such as investing its excess funds, processing checks and other items, buying and selling federal funds, handling money fund transfers and exchanges, shipping coins and currency, providing security and safekeeping of funds and other valuable items, handling loan participations and furnishing management investment advice on the Bank s securities portfolio. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

COLONY BANK SOUTHEAST

History and Business of the Bank

Colony Bank Southeast, formerly Broxton State Bank, was chartered under the laws of Georgia on August 4, 1966 and opened for business on September 1, 1966, having absorbed Citizens Bank, a private, unincorporated bank.

The Bank is a full-service bank offering a wide variety of banking services targeted at all sectors of the Bank s primary market area. The Bank offers customary types of demand, savings, time and individual retirement accounts; installment, commercial and real estate loans; home mortgages and personal lines-of-credit; Visa and Master Card services through its correspondent, The Bankers Bank; safe deposit and night depository services; cashier s checks, money orders, traveler s checks, wire transfers and various other services that can be tailored to the customer s needs. The Bank does not offer trust services at this time. The Bank s mortgage lending services are through Georgia First Mortgage. The Bank serves the residents of Coffee County, Georgia, which has a population of approximately 40,000.

In March 2004, the Bank opened a loan production office in Savannah, Chatham County, Georgia. The Bank renovated an approximately 7,000 square foot facility for a full service branch. The branch opened in September 2005. The Bank serves the residents of the Chatham County, Georgia MSA market which has a population of approximately 230,000.

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Item 1 (Continued)

A history of the Bank s financial position for fiscal years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 215,668,120**	$ 173,059,806	$ 119,709,062
Total Deposits	**188,267,151**	146,533,872	100,736,060
Total Stockholders Equity	**17,980,842**	13,640,842	9,553,380
Net Income	**1,793,773**	1,176,862	909,964
Number of Issued and Outstanding Shares	**50,730**	50,730	50,730
Book Value Per Share	**$ 354.44**	$ 268.89	$ 188.32
Net Income Per Share	**35.36**	23.20	17.94

Banking Facilities

The Bank operates one banking office located at 401 North Alabama Street, Broxton, Georgia which consists of approximately 5,000 square feet of space. The building has four alarm-equipped vaults, one for safe-deposit boxes and cash storage, one for night depository service and two for record storage. The building has two drive-in systems, one commercial drawer and one pneumatic tube system. Colony Bank Southeast opened a branch office in Douglas, Georgia on July 6, 1998. The two-story brick building located at 625 West Ward Street consists of approximately 8,300 square feet and provides four drive-in lanes for customer convenience. A second Douglas office was opened on September 8, 1999 and consists of approximately 1,200 square feet with three drive-in lanes and one automated teller machine. A loan production office was opened in Savannah, Chatham County, Georgia in March 2004. The Bank renovated an approximately 7,000 square foot facility for a full service branch in September 2005 with the loan production office moving its operation into the new office. All occupied premises are owned by the Bank, with the exception of the branch located at 1351 A SE Bowens Mill Road, Douglas. The Bank purchased real estate during 2006 for the future site of its second office in Savannah, Chatham County, Georgia. It is anticipated construction of its second office branch should begin during first quarter 2007.

Competition

The banking business in Coffee County is highly competitive. Colony Bank Southeast competes with nine other banks and one credit union in Douglas, Georgia. As a result of the opening of a branch office in Savannah, the Bank now competes with seventeen other banks in Chatham County. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

The Bank has correspondent relationships with the following banks: SunTrust Bank, Atlanta, Georgia; The Bankers Bank, Atlanta, Georgia; the Federal Home Loan Bank in Atlanta, Georgia and Columbus Bank & Trust, Columbus, Georgia. The correspondent relationships facilitate the transactions of business by means of loans, letters-of-credit, acceptances, collections, exchange services and data processing. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts.

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Item 1 (Continued)

COLONY BANK QUITMAN, FSB

History and Business of the Bank

Colony Bank Quitman, FSB was chartered as a federal savings association in 1936. The Bank operates under the oversight of the Office of Thrift Supervision. The Federal Deposit Insurance Corporation insures the Bank s deposits up to $100,000 per depositor. The Bank conducts business at offices located at 602 East Screven Street in Quitman, Brooks County, Georgia, 2910-N North Ashley Street, Valdosta, Lowndes County, Georgia and Highway 41-North Valdosta Road, Valdosta, Lowndes County, Georgia. The Bank s business largely consists of (1) the acceptance of demand, savings and time deposits; (2) the making of loans to consumers, businesses and other institutions; and (3) investment of excess funds through the sale of federal funds and purchase of U.S. government agency obligations and state, county and municipal bonds. The Bank is primarily a portfolio lender with a major focus on residential real estate lending. The Bank acts as an agent for Visa Card and Mastercard through The Bankers Bank. The Bank s mortgage lending services are through Georgia First Mortgage.

The Bank serves the residents of Brooks County, Georgia, which has a population of approximately 16,000. The Bank serves Lowndes County with the opening of its two branches in Valdosta, Georgia. The Lowndes County market has an estimated population of 95,000.

A history of the Bank s financial position for calendar years ended 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total Assets	**$ 141,038,931**	$ 126,149,879	$ 109,087,356
Total Deposits	**108,487,649**	95,069,270	83,914,582
Total Stockholder s Equity	**10,898,134**	10,162,924	9,503,693
Net Income	**1,423,846**	1,388,222	1,278,613
Numbers of Issued and Outstanding Shares	**100,000**	100,000	100,000
Book Value Per Share	**$ 108.98**	$ 101.63	$ 95.04
Net Income Per Share	**14.24**	13.88	12.79

Banking Facilities

The Bank s main office is located at 602 East Screven Street in Quitman and consists of a building of approximately 6,720 square feet of office and banking space. The building has additional expansion room upstairs. The attached drive-through facility consists of three drive-through lanes plus an automated teller machine lane. The building has four inside teller windows. In March 2003, the Bank opened its first branch. The new facility, located at 2190-N North Ashley Street in Valdosta, Georgia, is a 2,200 square foot building with two drive-through lanes, three inside teller windows and a walk-up automated teller machine. The Bank owns the Quitman location and leases the Valdosta location. The Bank opened a second office in Valdosta, Lowndes County, Georgia that consists of approximately 5,000 square feet. The new office opened in May 2005 with three drive-through lanes plus an automated teller machine lane.

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Competition

The banking business is highly competitive. In Brooks County, the Bank competes with four banks. In Lowndes County, the Bank competes with thirteen banks, two savings and loan association and six federal credit unions. The Bank also competes to a lesser extent with finance companies, insurance companies and certain governmental agencies. The banking industry is also experiencing increased competition for deposits from less traditional sources such as money market and mutual funds.

Correspondents

Colony Bank Quitman, FSB has correspondent relationships with the following banks: The Bankers Bank in Atlanta, Georgia; Colony Bank of Fitzgerald in Fitzgerald, Georgia; Compass Bank in Birmingham, Alabama; and the Federal Home Loan Bank in Atlanta, Georgia. The correspondent relationships facilitate the transactions of business by means of loans, collections, investment services, exchange services and data processing. As compensation for these services, the Bank maintains balances with its correspondents in noninterest-bearing accounts and pays some service charges.

EMPLOYEES

As of December 31, 2006, Colony Bankcorp, Inc. and its subsidiaries employed 351 full-time employees and 28 part-time employees. Colony considers its relationship with its employees to be excellent.

The subsidiary banks have noncontributory profit-sharing plans covering all employees subject to certain minimum age and service requirements. All Banks made contributions for all eligible employees in 2006. In addition, Colony Bankcorp, Inc. and its subsidiaries maintain a comprehensive employee benefit program providing, among other benefits, hospitalization, major medical insurance and life insurance. Management considers these benefits to be competitive with those offered by other financial institutions in south Georgia. Colony s employees are not represented by any collective bargaining group.

SUPERVISION AND REGULATION

BANK HOLDING COMPANY REGULATION

General

Colony is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (BHCA). As a bank holding company registered with the Federal Reserve under the BHCA and the Georgia Department of Banking and Finance (the Georgia Department) under the Financial Institutions Code of Georgia, it is subject to supervision, examination and reporting by the Federal Reserve and the Georgia Department. Its activities are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, or engaging in any other activity that the Federal Reserve determines to be so closely related to banking, or managing or controlling banks, as to be a proper incident to these activities.

Colony is required to file with the Federal Reserve and the Georgia Department periodic reports and any additional information as they may require. The Federal Reserve and Georgia Department will also regularly examine the Company. The Federal Deposit Insurance Corporation and Georgia Department also examine the Banks, while the Office of Thrift Supervision examines the Thrift Bank.

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Item 1 (Continued)

Activity Limitations

The BHCA requires prior Federal Reserve approval for, among other things:

- the acquisition by a bank holding company of direct or indirect ownership or control of more than 5 percent of the voting shares or substantially all of the assets of any bank, or
- a merger or consolidation of a bank holding company with another bank holding company.

Similar requirements are imposed by the Georgia Department.

A bank holding company may acquire direct or indirect ownership or control of voting shares of any company that is engaged directly or indirectly in banking, or managing or controlling banks, or performing services for its authorized subsidiaries. A bank holding company may also engage in or acquire an interest in a company that engages in activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities. The Federal Reserve normally requires some form of notice or application to engage in or acquire companies engaged in such activities. Under the BHCA, Colony will generally be prohibited from engaging in or acquiring direct or indirect control of more than 5 percent of the voting shares of any company engaged in activities other than those referred to above.

The BHCA permits a bank holding company located in one state to lawfully acquire a bank located in any other state, subject to deposit percentage, aging requirements and other restrictions. The Riegle-Neal Interstate Banking and Branching Efficiency Act also generally provides that national and state chartered banks may, subject to applicable state law, branch interstate through acquisitions of banks in other states.

In November 1999, Congress enacted the Gramm-Leach-Bliley Act, which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the Gramm-Leach-Bliley Act, bank holding companies that are well capitalized, well managed and meet other conditions can elect to become financial holding companies. As financial holding companies, they and their subsidiaries are permitted to acquire or engage in activities that were not previously allowed bank holding companies, such as insurance underwriting, securities underwriting and distribution, travel agency activities, broad insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the Federal Reserve, but the Gramm-Leach-Bliley Act applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. While Colony has not elected to become a financial holding company in order to exercise the broader activity powers provided by the Gramm-Leach-Bliley Act, it may elect to do so in the future.

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Item 1 (Continued)

Limitations on Acquisitions of Bank Holding Companies

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

Source of Financial Strength

Federal Reserve policy requires a bank holding company to act as a source of financial strength and to take measures to preserve and protect bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted, In addition, if a bank holding company has more than one bank or thrift subsidiary, each of the bank holding company s subsidiary depository institutions is responsible for any losses to the FDIC as a result of an affiliated depository institution s failure. As a result, a bank holding company may be required to loan money to its subsidiaries in the form of capital notes or other instruments that qualify as capital of the subsidiary bank under regulatory rules. However, any loans from the bank holding company to those subsidiary banks will likely be unsecured and subordinated to that of bank s depositors and perhaps to other creditors of that bank.

BANK REGULATION

General

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

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Item 1 (Continued)

Transactions with Affiliates and Insiders

The Company is a legal entity separate and distinct from the Banks. Various legal limitations restrict the Banks from lending or otherwise supplying funds to the Company and other nonbank subsidiaries of the Company, all of which are deemed to be affiliates of the Banks for the purposes of these restrictions. The Company and the Banks are subject to Section 23A of the Federal Reserve Act. Section 23A defines covered transactions, which include extensions of credit, and limits a bank s covered transactions with any affiliate to 10 percent of such bank s capital and surplus and with all affiliates to 20 percent of such bank s capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their subsidiaries are prohibited from purchasing low-quality assets from the bank s affiliates. Finally, Section 23 A requires that all of a bank s extensions of credit to an affiliate be appropriately secured by acceptable collateral, generally United States government or agency securities. The Company and the Banks are also subject to Section 23B of the Federal Reserve Act, which generally limits covered and other transactions between a bank and its affiliates to terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the bank as prevailing at the time for transactions with unaffiliated companies.

Dividends

The Company is a legal entity separate and distinct from the Banks. The principal source of the Company s cash flow, including cash flow to pay dividends to its stockholders, is dividends that the Banks pay to it. Statutory and regulatory limitations apply to the Banks payment of dividends to the Company as well as to the Company s payment of dividends to its stockholders.

A variety of federal and state laws and regulations affect the ability of the Banks and the Company to pay dividends. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. The federal banking agencies may prevent the payment of a dividend if they determine that the payment would be unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. In addition, regulations promulgated by the Georgia Department limit the Bank s payment of dividends.

Mortgage Banking Regulation

Georgia First Mortgage is licensed and regulated as a mortgage banker by the Georgia Department. It is also qualified as a Fannie Mae and Freddie Mac seller/servicer and must meet the requirements of such corporations and of the various private parties with which it conducts business, including warehouse lenders and those private entities to which it sells mortgage loans.

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Item 1 (Continued)

Enforcement Policies and Actions

Federal law gives the Federal Reserve and FDIC substantial powers to enforce compliance with laws, rules and regulations. Banks or individuals may be ordered to cease and desist from violations of law or other unsafe or unsound practices. The agencies have the power to impose civil money penalties against individuals or institutions of up to $1,000,000 per day for certain egregious violations. Persons who are affiliated with depository institutions can be removed from any office held in that institution and banned from participating in the affairs of any financial institution. The banking regulators have not hesitated to use the enforcement authorities provided in federal law.

Capital Regulations

The federal bank regulatory authorities have adopted capital guidelines for banks and bank holding companies. In general, the authorities measure the amount of capital an institution holds against its assets. There are three major capital tests: (i) the Total Capital ratio (the total of Tier 1 Capital and Tier 2 Capital measured against risk-adjusted assets), (ii) the Tier 1 Capital ratio (Tier 1 Capital measured against risk-adjusted assets) and (iii) the leverage ratio (Tier 1 Capital measured against average (i.e., nonrisk-weighted) assets).

Tier 1 Capital consists of common equity, retained earnings and a limited amount of qualifying preferred stock, less goodwill and core deposit intangibles. Tier 2 Capital consists of nonqualifying preferred stock, qualifying subordinated, perpetual and/or mandatory convertible debt, term subordinated debt and intermediate term preferred stock and up to 45 percent of the pretax unrealized holding gains on available-for-sale equity securities with readily determinable market values that are prudently valued, and a limited amount of any loan loss allowance.

In measuring the adequacy of capital, assets are generally weighted for risk. Certain assets, such as cash and U.S. government securities, have a zero risk weighting. Others, such as commercial and consumer loans, have a 100 percent risk weighting. Risk weightings are also assigned for off-balance sheet items such as loan commitments. The various are multiplied by the appropriate risk-weighting to determine risk- adjusted assets for the capital calculations. For the leverage ratio mentioned above, average assets are not risk-weighted.

The federal banking agencies must take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. There are five tiers for financial institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under these regulations, a bank will be:

well capitalized if it has a Total Capital ratio of 10 percent or greater, a Tier 1 Capital ratio of 6 percent or greater, a leverage ratio of 5 percent or better or 4 percent in certain circumstances and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure;

adequately capitalized if it has a Total Capital ratio of 8 percent or greater, a Tier 1 Capital ratio of 4 percent or greater, and a leverage ratio of 4 percent or greater or 3 percent in certain circumstances and is not well capitalized;

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Item 1 (Continued)

- undercapitalized if it has a Total Capital ratio of less that 8 percent, a Tier 1 Capital ratio of less that 4 percent or 3 percent in certain circumstances;

- significantly undercapitalized if it has a Total Capital ratio of less than 6 percent or a Tier 1 Capital ratio of less than 3 percent, or a leverage ratio of less than 3 percent; or

- critically undercapitalized if its tangible equity is equal to or less than 2 percent of average quarterly assets.

Federal law generally prohibits a depository institution from making any capital distribution, including the payment of a dividend or paying any management fee to its holding company if the depository institution would be undercapitalized as a result. Undercapitalized depository institutions may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit a capital restoration plan for approval. For a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of 5 percent of the depository institution s total assets at the time it became undercapitalized, and the amount necessary to bring the institution into compliance with applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. If the controlling holding company fails to fulfill its obligations under this law and files, or has filed against it, a petition under the federal Bankruptcy Code, the FDIC claim related to the holding company s obligations would be entitled to a priority in such bankruptcy proceeding over third party creditors of the bank holding company.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

At December 31, 2006, the Company exceeded the minimum Tier 1, risk-based and leverage ratios and qualified as well capitalized under current Federal Reserve Board criteria. The following table sets forth certain capital information for the Company as of December 31, 2006. Consider the following brief summary rather than the preceeding and the table. As of December 31, 2006, Colony had Tier 1 Capital and Total Capital of approximately 10.24 percent and 11.50 percent, respectively, of risk-weighted assets. As of December 31, 2006, Colony had a leverage ratio of Tier 1 Capital to total average assets of approximately 8.17 percent.

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	December 31, 2006	
	Amount	**Percent**
Leverage Ratio		
Actual	$ 98,235	8.17%
Well-Capitalized Requirement	60,109	5.00
Minimum Required (1)	48,087	4.00
Risk Based Capital:		
Tier 1 Capital		
Actual	98,235	10.24
Well-Capitalized Requirement	57,532	6.00
Minimum Required (1)	38,355	4.00
Total Capital		
Actual	110,304	11.50
Well-Capitalized Requirement	95,887	10.00
Minimum Required (1)	76,710	8.00

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

The guidelines also provide that institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Higher capital may be required in individual cases, depending upon a bank or bank holding company s risk profile. All bank holding companies and banks are expected to hold capital commensurate with the level and nature of their risks, including the volume and severity of their problem loans. Lastly, the Federal Reserve s guidelines indicate that the Federal Reserve will continue to consider a Tangible Tier 1 Leverage Ratio, calculated by deducting all intangibles, in evaluating proposals for expansion or new activity.

FDIC Insurance Assessments

The Banks deposits are insured by the FDIC and thus the Banks are subject to FDIC deposit insurance assessments. The FDIC utilizes a risk-based insurance premium scheme to determine the assessment rates for insured depository institutions. Each financial institution is assigned to one of three capital groups: well capitalized, adequately, capitalized or undercapitalized.

Each financial institution is further assigned to one of three subgroups within a capital group, on the basis of supervisory evaluations by the institution s primary federal and, if applicable, state regulators and other information relevant to the institution s financial condition and the risk posed to the insurance fund. The actual assessment rate applicable to a particular institution will, therefore, depend in part upon the risk assessment classification assigned to the institution by the FDIC. The FDIC is presently considering whether to charge deposit insurance premiums based upon management weaknesses and whether the Banks underwriting practices, concentrations of risk and growth are undisciplined or outside industry norms.

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The deposit insurance assessment rates currently range from five basis points on deposits (for a financial institution in the highest category) to 43 basis points on deposits (for an institution in the lowest category). In addition, the FDIC collects The Financing Corporation (FICO) deposit assessments on assessable deposits at the same rate. FICO assessments are set quarterly, and in 2006 ranged from 1.32 to 1.24 basis points. The FICO assessment rate for the Banks for the first quarter of 2007 is 1.22 basis points of assessable deposits.

Community Reinvestment Act

The Banks are subject to the provisions of the Community Reinvestment Act of 1977, as amended (the CRA), and the federal banking agencies related regulations. Under the CRA, all banks and thrifts have a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA requires a depository institution s primary federal regulator, in connection with its examination of the institution or its evaluation of certain regulatory applications, to assess the institution s record in assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods. The regulatory agency s assessment of the institution s record is made available to the public.

Current CRA regulations rate institutions based on their actual performance in meeting community credit needs. The Banks received a satisfactory rating on their most recent examinations in 2006.

Consumer Regulations

Interest and other charges collected or contracted for by the Banks are subject to state usury laws and certain federal laws concerning interest rates. The Banks loan operations are also subject to federal laws and regulations applicable to credit transactions, such as those:

- Governing disclosures of credit terms to consumer borrowers;
- Requiring financial institutions provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Governing the use and provision of information to credit reporting agencies; and
- Governing the manner in which consumer debts may be collected by collection agencies.

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Part I (Continued)

Item 1 (Continued)

The deposit operations of the Banks are also subject to laws and regulations that:

- Impose a duty to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records; and
- Govern automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Fiscal and Monetary Policy

Banking is a business that depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank s earnings. Thus, Colony s earnings and growth and that of the Banks will be subject to the influence of economic conditions, generally both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve and the reserve requirements on deposits.

The monetary policies of the Federal Reserve historically have had a significant effect on the operating results of commercial banks and mortgage banking operations and will continue to do so in the future. The Company cannot predict the conditions in the national and international economies and money markets, the actions and changes in policy by monetary and fiscal authorities or their effect on the Banks.

Anti-Terrorism Legislation

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and know your customer standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps to:

- conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each owner; and
- ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

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The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

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

In addition, the USA PATRIOT Act authorizes the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

Item 1A

Risk Factors

The following are certain risks that management believes are specific to our business. This should not be viewed as an all inclusive list or in any particular order.

Future loan losses may exceed our allowance for loan losses

We are subject to credit risk, which is the risk of losing principal or interest due to borrowers failure to repay loans in accordance with their terms. A downturn in the economy or the real estate market in our market areas or a rapid change in interest rates could have a negative effect on collateral values and borrowers ability to repay. This deterioration in economic conditions could result in losses to the Bank in excess of loan loss allowances. To the extent loans are not paid timely by borrowers, the loans are placed on nonaccrual, thereby reducing interest income. To the extent loan charge-offs exceed our financial models, increased amounts charged to the provision for loan losses would reduce income.

Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are key drivers of our net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in financial instrument maturities. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth particularly in construction lending, an important factor in the Company s revenue growth over the years. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. See Quantitative and Qualitative Disclosures about Market Risk.

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Part I (Continued)

Item 1A (Continued)

Slower than anticipated growth in new branches and new product and service offerings could result in reduced net income

We have placed a strategic emphasis on expanding our branch network and product offerings. Executing this strategy carries risks of slower than anticipated growth both in new branches and new products. New branches and products require a significant investment of both financial and personnel resources. Lower than expected loan and deposit growth in new investments can decrease anticipated revenues and net income generated by those investments, and opening new branches and introducing new products could result in more additional expenses than anticipated and divert resources from current core operations.

The financial services industry is very competitive

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, larger banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other nonbank businesses. Many of these competitors have substantially greater resources than us. For a more complete discussion of our competitive environment, see Business Competition in Item 1 above. If we are unable to compete effectively, we will lose market share, and income from deposits, loans and other products may be reduced.

Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income.

Item 1B

Unresolved Staff Comments

None.

Item 2

Properties

The principal properties of the Registrant consist of the properties of the Banks. For a description of the properties of the Banks, see Item 1 Business of the Company and Subsidiary Banks included elsewhere in this Annual Report.

Item 3

Legal Proceedings

The Company and its subsidiaries may become parties to various legal proceedings arising from the normal course of business. As of December 31, 2006, there are no material pending legal proceedings to which Colony or its subsidiaries are a party or of which any of its property is the subject.

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Item 4

Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Registrant s stockholders during the fourth quarter of 2006.

Part II

Item 5

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

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

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

				Dividends
Year Ended December 31, 2006	**High**	**Low**	**Close**	**Per Share**
Fourth Quarter	**$ 20.52**	**$ 17.25**	**$ 17.70**	**$ 0.085**
Third Quarter	**22.07**	**19.04**	**20.90**	**0.083**
Second Quarter	**22.63**	**17.10**	**22.34**	**0.080**
First Quarter	**27.55**	**21.05**	**22.04**	**0.078**
Year Ended December 31, 2005				
Fourth Quarter	27.02	22.00	24.98	0.075
Third Quarter	32.16	24.00	27.06	0.072
Second Quarter	34.00	24.76	30.04	0.070
First Quarter	27.07	24.00	24.84	0.068

Prices adjusted to reflect 5-for-4 stock split effective May 15, 2005.

The Registrant paid cash dividends on its common stock of $2,336,865 or $0.325 per share and $2,058,286 or $0.285 per share in 2006 and 2005, respectively.

As of December 31, 2006, the Company had approximately 1,996 stockholders of record. There were no sales of unregistered securities of the Company in 2006.

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Performance Graph

The graph presented below compares the cumulative total stockholder return on Colony Bankcorp, Inc. s common stock to the cumulative total return of the NASDAQ Composite and the SNL Southeast Bank Index for the five fiscal years, which commenced January 1, 2002 and ended December 31, 2006. The cumulative total stockholder return assumes the investment of $100 in Colony Bankcorp, Inc. s common stock and in each index on December 31, 2001 and assumes reinvestment of dividends. The NASDAQ Composite Index is a publicly available measure of over 3,000 companies including NASDAQ domestic and international based common type stocks listed on the The Nasdaq Stock Market. The SNL Southeast Bank Index is a compilation of the total stockholder return of all publicly-traded bank holding companies headquartered in the Southeastern United States.

Comparison of Five-Year Cumulative Total Stockholder Return

			Period Ending			
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Colony Bankcorp, Inc.	100.00	121.68	195.10	332.55	308.63	222.30
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL Southeast Bank Index	100.00	110.46	138.72	164.50	168.39	197.45

Source: SNL Financial LC

Issuer Purchase of Equity Securities

The Company purchased no shares of the Company s common stock during the quarter ended December 31, 2006.

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Selected Financial Data

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data					
Total Assets	**$ 1,213,504**	$ 1,108,338	$ 997,591	$ 868,606	$ 781,535
Total Loans	**941,772**	858,815	778,643	654,177	571,816
Total Deposits	**1,042,446**	944,365	850,329	732,318	664,594
Investment Securities	**149,307**	124,326	112,593	110,408	90,407
Federal Home Loan Bank Stock	**5,087**	5,034	4,479	3,000	2,837
Stockholders Equity	**76,611**	68,128	61,763	55,976	51,428
Selected Income Statement Data					
Interest Income	**83,280**	63,634	51,930	46,418	45,592
Interest Expense	**41,392**	26,480	18,383	18,414	21,997
Net Interest Income	**41,888**	37,154	33,547	28,004	23,595
Provision for Loan Losses	**3,987**	3,444	3,469	4,060	2,820
Other Income	**7,350**	6,152	6,424	7,128	6,622
Other Expense	**29,882**	26,076	24,271	20,864	18,804
Income Before Tax	**15,369**	13,786	12,231	10,208	8,593
Income Tax Expense	**5,217**	4,809	4,162	3,392	2,841
Net Income	**$ 10,152**	$ 8,977	$ 8,069	$ 6,816	$ 5,752
Weighted Average Shares Outstanding (1)	**7,177**	7,168	7,131	7,127	6,994
Shares Outstanding (1)	**7,190**	7,181	7,172	7,160	7,145
Intangible Assets	**$ 2,851**	$ 2,932	$ 3,047	$ 691	$ 847
Dividends Paid	**2,337**	2,058	1,808	1,555	1,258
Average Assets	**1,160,718**	1,034,777	938,283	816,666	707,631
Average Stockholders Equity	**71,993**	65,146	59,037	53,843	47,910
Net Charge-Offs	**2,760**	2,694	1,973	2,908	2,067
Reserve for Loan Losses	**11,989**	10,762	10,012	8,516	7,364
OREO	**970**	2,170	1,127	2,724	1,357
Nonperforming Loans	**8,078**	8,593	8,809	7,492	7,871
Nonperforming Assets	**9,048**	10,763	9,936	10,216	9,228
Average Interest-Earning Assets	**1,097,716**	979,966	887,331	774,984	669,724
Noninterest-Bearing Deposits	**77,336**	78,778	68,169	64,044	51,533

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	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in Thousands, except per share data)				
Per Share Data: (1)					
Net Income (Diluted)	**$ 1.41**	$ 1.25	$ 1.13	$ 0.95	$ 0.82
Book Value	**10.66**	9.49	8.61	7.82	7.20
Tangible Book Value	**10.26**	9.08	8.19	7.72	7.08
Dividends	**0.325**	0.285	0.252	0.217	0.176
Profitability Ratios:					
Net Income to Average Assets	**0.87%**	0.87%	0.86%	0.83%	0.81%
Net Income to Average Stockholders Equity	**14.10**	13.78	13.67	12.66	12.01
Net Interest Margin	**3.84**	3.81	3.81	3.65	3.57
Loan Quality Ratios:					
Net Charge-Offs to Total Loans	**0.29**	0.31	0.25	0.44	0.36
Reserve for Loan Losses to Total Loans and OREO	**1.27**	1.25	1.28	1.30	1.29
Nonperforming Assets to Total Loans and OREO	**0.96**	1.25	1.27	1.56	1.61
Reserve for Loan Losses to Nonperforming Loans	**148.42**	125.24	113.66	113.67	93.56
Reserve for Loan Losses to Total Nonperforming Assets	**132.50**	99.99	100.76	83.36	79.80
Liquidity Ratios:					
Loans to Total Deposits	**90.34**	90.94	91.57	89.33	86.04
Loans to Average Earning Assets	**85.79**	87.64	87.75	84.41	85.38
Noninterest-Bearing Deposits to Total Deposits	**7.42**	8.34	8.02	8.75	7.75
Capital Adequacy Ratios:					
Common Stockholders Equity to Total Assets	**6.31**	6.15	6.19	6.45	6.58
Total Stockholders Equity to Total Assets	**6.31**	6.15	6.19	6.45	6.58
Dividend Payout Ratio	**23.05**	22.80	22.30	22.84	21.46

(1) All per share data adjusted to reflect 5-for-4 stock split effective May 15, 2005.

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Item 7

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

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

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

Acquisitions and integration of acquired businesses.

The ability to increase market share and control expenses.

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

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

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

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

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

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

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

The Company

Colony Bankcorp, Inc. (Colony) is a bank holding company headquartered in Fitzgerald, Georgia that provides, through its wholly-owned subsidiaries (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, 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.

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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.

Goodwill and Other Intangibles The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required by SFAS No. 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis require management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

Overview

The following discussion and analysis presents the more significant factors affecting the Company s financial condition as of December 31, 2006 and 2005, and results of operations for each of the years in the three year period ended December 31, 2006. 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. All of the acquisitions during the reported periods were accounted for as purchase transactions, and as such, their related results of operations are included from the date of acquisition.

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.

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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 totaled $10.15 million, or $1.41 diluted per common share in 2006 compared to $8.98 million, or $1.25 diluted per common share in 2005 and $8.07 million, or $1.13 diluted per common share in 2004.

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

	2006	2005	2004
Taxable Equivalent Net Interest Income	**$ 42,158**	$ 37,381	$ 33,809
Taxable-Equivalent Adjustment	**270**	227	262
Net Interest Income	**41,888**	37,154	33,547
Provision for Possible Loan Losses	**3,987**	3,444	3,469
Noninterest Income	**7,350**	6,152	6,424
Noninterest Expense	**29,882**	26,076	24,271
Income Before Income Taxes	**15,369**	13,786	12,231
Income Taxes	**5,217**	4,809	4,162
Net Income	**$ 10,152**	$ 8,977	$ 8,069
Basic per Common Share:			
Net Income	**$ 1.41**	$ 1.25	$ 1.13
Diluted per Common Share:			
Net Income	**$ 1.41**	$ 1.25	$ 1.13
Return on Average Assets:			
Net Income	**0.87%**	0.87%	0.86%
Return on Average Equity:			
Net Income	**14.10%**	13.78%	13.67%

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Income from operations for 2006 increased $1.18 million, or 13.09 percent, compared to 2005. The increase was primarily the result of a $4.74 million increase in net interest income and an increase of $1.20 million in noninterest income. The impact of these items was partly offset by a $3.81 million increase in noninterest expense, an increase of $0.54 million in provision for loan losses and an increase of $0.41 in income tax expense. Income from operations for 2005 increased $0.91 million, or 11.25 percent, compared to 2004. The increase was primarily the result of a $3.61 million increase in net interest income and a $0.03 million decrease in provision for loan losses. The impact of these items was partly offset by a $1.81 million increase in noninterest expense, a decrease of $0.27 million in noninterest income and a $0.65 million increase in income tax expense.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company s largest source of revenue, representing 46.22 percent of total revenue during 2006 and 53.24 percent during 2005.

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, began 2001 at 9.50 percent and decreased 475 basis points during 2001 to end the year at 4.75 percent. During 2002, the prime rate decreased 50 basis points to end the year at 4.25 percent. During 2003, the prime rate decreased 25 basis points to end the year at 4.00 percent. During 2004, the prime rate increased 125 basis points to end the year at 5.25 percent. During 2005, the prime rate increased 200 basis points to end the year at 7.25 percent. During 2006, the prime rate increased 100 basis points to end the year at 8.25 percent. The federal funds rate moved similar to prime rate with interest rates of 1.75 percent, 1.25 percent, 1.00 percent, 2.25 percent, 4.25 percent, and 5.25 percent respectively, as of year-end 2001, 2002, 2003, 2004, 2005 and 2006. It is anticipated that the Federal Reserve will maintain a neutral stance the first half of 2007 and begin reducing rates during the last half of 2007.

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 year to year for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

	Changes From 2005 to 2006 (a)			**Changes From 2004 to 2005 (a)**		
($ in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income						
Loans, Net-Taxable	**$ 6,633**	**$ 10,156**	**$ 16,789**	$ 5,511	$ 5,281	$ 10,792
Investment Securities						
Taxable	**680**	**1,208**	**1,888**	179	(163)	16
Tax-Exempt	**75**	**19**	**94**	(107)	42	(65)
Total Investment Securities	**755**	**1,227**	**1,982**	72	(121)	(49)
Interest-Bearing Deposits in Other Banks	**(1)**	**48**	**47**	(44)	55	11
Federal Funds Sold	**86**	**683**	**769**	96	751	847
Other Interest-Earning Assets	**11**	**91**	**102**	55	13	68
Total Interest Income	**7,484**	**12,205**	**19,689**	5,690	5,979	11,669
Interest-Expense						
Interest-Bearing Demand and Savings Deposits	**108**	**1,257**	**1,365**	59	529	588
Time Deposits	**3,258**	**9,397**	**12,655**	3,293	3,535	6,828
Total Interest Expense On Deposits	**3,366**	**10,654**	**14,020**	3,352	4,064	7,416
Other Interest-Bearing Liabilities						
Federal Funds Purchased	**4**	**9**	**13**	2		