

COLONY BANKCORP INC  
Form 10-Q  
November 06, 2009

---

---

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 2009

COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

58-1492391  
(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750  
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000  
REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

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

YES

NO

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

YES

NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NONACCELERATED FILER OR A SMALLER REPORTING COMPANY. SEE DEFINITIONS OF ACCELERATED FILER, LARGE ACCELERATED FILER AND SMALLER REPORTING

COMPANY IN RULE 12b-2 OF THE EXCHANGE ACT. (CHECK ONE)

LARGE ACCELERATED FILER

ACCELERATED FILER

NON ACCELERATED FILER

SMALLER REPORTING COMPANY

(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

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

YES

NO

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

CLASS  
COMMON STOCK, \$1 PAR VALUE

OUTSTANDING AT NOVEMBER 6, 2009  
7,229,163

---

---

---

## TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4. <u>Controls and Procedures</u>	57
PART II – Other Information	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
Item 3. <u>Defaults Upon Senior Securities</u>	58
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	58
Item 5. <u>Other Information</u>	58
Item 6. <u>Exhibits</u>	59
<u>Signatures</u>	61

Table of Contents

Forward Looking Statement Disclosure

Statements in this Quarterly 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,” “believe,” “anticipates,” “estimates,” “predicts,” “expects,” “projections,” “potential,” “continue,” or “wo 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 Quarterly 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 revenue, 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).

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

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

- A. CONSOLIDATED BALANCE SHEETS – SEPTEMBER 30, 2009 AND DECEMBER 31, 2008.
- B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008.
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008.
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008.

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

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2009 AND DECEMBER 31, 2008  
(DOLLARS IN THOUSANDS)

ASSETS	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 16,559	\$ 29,427
Federal Funds Sold	--	31
	16,559	29,458
Interest-Bearing Deposits	162	147
Investment Securities		
Available for Sale, at Fair Value	247,014	207,645
Held to Maturity, at Cost (Fair Value of \$62 and \$63, as of September 30, 2009 and December 31, 2008, Respectively)	60	60
	247,074	207,705
Federal Home Loan Bank Stock, at Cost	6,345	6,272
Loans	971,132	961,037
Allowance for Loan Losses	(21,359 )	(17,016 )
Unearned Interest and Fees	(144 )	(179 )
	949,629	943,842
Premises and Equipment	29,022	29,672
Other Real Estate	16,516	12,812
Goodwill	2,412	2,412
Other Intangible Assets	340	367
Other Assets	22,832	20,095
Total Assets	\$ 1,290,891	\$ 1,252,782
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Noninterest-Bearing	\$ 70,345	\$ 77,497
Interest-Bearing	945,069	929,495
	1,015,414	1,006,992
Borrowed Money		
Federal Funds Purchased	5,697	2,274
Securities Sold Under Agreements to Repurchase	45,232	40,000
Subordinated Debentures	24,229	24,229
Other Borrowed Money	91,000	91,000
	166,158	157,503
Other Liabilities	5,252	5,072
Commitments and Contingencies		
Stockholders' Equity		

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Preferred Stock, Par Value \$1,000 a Share, Authorized 10,000,000 Shares, Issued 28,000 Shares	27,321	--
Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,229,163 and 7,212,313 Shares as of September 30, 2009 and December 31, 2008, Respectively	7,229	7,212
Paid-In Capital	25,393	24,536
Retained Earnings	44,173	51,302
Restricted Stock - Unearned Compensation	(206 )	(211 )
Accumulated Other Comprehensive Income (Loss), Net of Tax	157	376
	104,067	83,215
Total Liabilities and Stockholders' Equity	\$ 1,290,891	\$ 1,252,782

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	9/30/2009	9/30/2008	9/30/2009	9/30/2008
<b>Interest Income</b>				
Loans, Including Fees	\$ 14,569	\$ 16,295	\$ 43,342	\$ 51,386
Federal Funds Sold	3	25	14	264
Deposits with Other Banks	--	7	--	27
<b>Investment Securities</b>				
U.S. Government Agencies	1,932	1,809	5,886	5,076
State, County and Municipal	59	92	207	322
Corporate Obligations and Asset-Backed Securities	74	113	287	292
Dividends on Other Investments	13	87	13	253
	16,650	18,428	49,749	57,620
<b>Interest Expense</b>				
Deposits	5,202	7,599	16,928	25,746
Federal Funds Purchased	222	241	658	293
Borrowed Money	922	1,103	2,860	3,448
	6,346	8,943	20,446	29,487
<b>Net Interest Income</b>				
Net Interest Income	10,304	9,485	29,303	28,133
Provision for Loan Losses	4,000	3,370	21,580	8,512
Net Interest Income After Provision for Loan Losses	6,304	6,115	7,723	19,621
<b>Noninterest Income</b>				
Service Charges on Deposits	1,125	1,233	3,155	3,571
Other Service Charges, Commissions and Fees	259	240	747	735
Mortgage Fee Income	137	168	368	511
Securities Gains	609	11	3,147	1,195
Other	210	128	889	1,173
	2,340	1,780	8,306	7,185
<b>Noninterest Expenses</b>				
Salaries and Employee Benefits	3,556	4,051	10,946	12,483
Occupancy and Equipment	1,132	1,098	3,182	3,166
Other	3,424	2,664	9,648	7,635
	8,112	7,813	23,776	23,284
<b>Income Before Income Taxes</b>				
Income Before Income Taxes	532	82	(7,747 )	3,522
Income Tax (Benefits) Expense	164	(112 )	(2,796 )	823
Net Income (Loss)	368	194	(4,951 )	2,699
Preferred Stock Dividends	350	--	1,015	--
Net Income (Loss) Available to Common Stockholders	\$ 18	\$ 194	\$(5,966 )	\$ 2,699



Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net Income (Loss) Per Share of Common Stock

Basic	\$ .00	\$ 0.03	\$ (0.83 )	\$ 0.38
Diluted	\$ .00	\$ 0.03	\$ (0.83 )	\$ 0.38
Cash Dividends Declared Per Share of Common Stock	\$ .00	\$ 0.10	\$ 0.15	\$ 0.29
Weighted Average Basic Shares Outstanding	7,217,006	7,201,580	7,209,852	7,197,016
Weighted Average Diluted Shares Outstanding	7,217,006	7,201,580	7,209,852	7,197,016

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	09/30/09	09/30/08	09/30/09	09/30/08
Net Income (Loss)	\$368	\$194	\$(4,951 )	\$2,699
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year	710	(541 )	1,858	(852 )
Reclassification Adjustment	( 402 )	( 8 )	(2,077 )	(789 )
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	308	(549 )	(219 )	(1,641 )
Comprehensive Income (Loss)	\$676	\$(355 )	\$(5,170 )	\$1,058

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$(4,951 )	\$2,699
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,561	1,526
Provision for Loan Losses	21,580	8,512
Securities Gains	(3,147 )	(1,195 )
Amortization and Accretion	2,743	552
Loss on Sale of Other Real Estate and Repossessions	386	62
Gain on Sale of Property/Equipment	(79 )	(11 )
Cash Surrender Value of Life Insurance	(124 )	(155 )
Other Prepaids, Deferrals and Accruals, Net	(2,115 )	(474 )
	15,854	11,516
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Federal Home Loan Bank Stock	(73 )	(785 )
Purchases of Investment Securities Available for Sale	(450,470 )	(116,756 )
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	42,945	45,203
Held to Maturity	5	7
Proceeds from Sale of Investment Securities Available for Sale	368,576	65,299
(Increase) Decrease in Interest-Bearing Deposits in Other Banks	(15 )	1,032
Net Loans to Customers	(39,008 )	(37,981 )
Purchase of Premises and Equipment	(953 )	(3,117 )
Other Real Estate and Repossessions	7,673	2,815
Proceeds from Sale of Premises and Equipment	122	12
Other Additions and Adjustments	(32 )	--
	(71,230 )	(44,271 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Noninterest-Bearing Customer Deposits	(7,152 )	(17,074 )
Increase (Decrease) in Interest-Bearing Customer Deposits	15,574	(23,776 )
Federal Funds Purchased	3,423	11,318
Securities Sold Under Agreements to Repurchase	5,232	20,000
Dividends Paid On Common Stock	(1,760 )	(2,091 )
Dividends Paid On Preferred Stock	(840 )	--
Proceeds from Other Borrowed Money	19,000	51,500
Principal Payments on Other Borrowed Money	(19,000 )	(34,100 )
Proceeds Allocated to Issuance of Preferred Stock	27,215	--
Proceeds Allocated to Warrants Issued	785	--

	42,477	5,777
Net Decrease in Cash and Cash Equivalents	(12,899 )	(26,978 )
Cash and Cash Equivalents at Beginning of Period	29,458	50,106
Cash and Cash Equivalents at End of Period	\$16,559	\$23,128

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The Company merged all of its operations into one sole subsidiary effective August 1, 2008. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank (which includes its wholly-owned subsidiary, Colony Mortgage Corp.), Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry. The Company has evaluated subsequent events for potential recognition and/or disclosure through November 6, 2009, the date the consolidated financial statements included in this quarterly input on Form 10-Q were issued.

All dollars in notes to consolidated financial statements are rounded to the nearest thousand.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in middle and south Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Chester, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Pitts, Quitman, Rochelle, Savannah, Soperton, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. Lending and investing activities are funded primarily by deposits gathered through its retail branch office network.

Use of Estimates

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

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

#### Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2009. Such reclassifications had no effect on previously reported stockholders' equity or net income.

#### Concentrations of Credit Risk

Lending is concentrated in commercial and real estate loans primarily to local borrowers. The Company has a high concentration of real estate loans that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. In management's opinion, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of real estate dependent problem loans. These loans are centered primarily in the Company's larger MSA

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2009.

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

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

Investment Securities

The Company classifies its investment securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All other securities not classified as trading or held to maturity are considered available for sale.

Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income, a component of stockholders' equity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses from sales of securities available for sale are computed using the specific identification method. This caption includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

Federal Home Loan Bank Stock

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

Loans

Loans that the Company has the ability and intent to hold for the foreseeable future or until maturity are recorded at their principal amount outstanding, net of unearned interest and fees. Loan origination fees, net of certain direct

origination costs, are deferred and amortized over the estimated terms of the loans using the straight-line method. Interest income on loans is recognized using the effective interest method.

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

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



Table of Contents

Part I (Continued)

Item 1 (Continued)

## (1) Summary of Significant Accounting Policies (Continued)

## Allowance for Loan Losses

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

## Premises and Equipment

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

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

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

Leasehold Improvements	5-20	Straight-Line
------------------------	------	---------------

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

#### Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. Impairment testing of goodwill is performed annually or more frequently if events or circumstances indicate possible impairment. No impairment has been identified as a result of the testing performed during 2009 or 2008.

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized by the

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets (Continued)

straight-line method over the average remaining life of the acquired customer deposits. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Transfers of Financial Assets

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

Statement of Cash Flows

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

Securities Sold Under Repurchase Agreements

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

Advertising Costs

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

Income Taxes

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

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

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

#### Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at the lower of cost or estimated market value at the date of acquisition. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Other Real Estate (Continued)

loan losses. Subsequent declines in value, routine holding costs and gains or losses upon disposition are included in other losses.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income. Accounting standards require the presentation in the financial statements of net income and all items of other comprehensive income as total comprehensive income.

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Newly revised standards on Business Combinations applies to all transactions and other events in which one entity obtains control over one or more other businesses. An acquirer, upon initially obtaining control of another entity, must recognize the assets, liabilities and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Acquirers must expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case. Pre-acquisition contingencies are to be recognized at fair value, unless it is a noncontractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of contingency accounting. The revised standards are expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

Revised standards for Noncontrolling Interest in Consolidated Financial Statements, establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. A noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, consolidated net income must be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Also required are disclosure, on the face of the consolidated statements of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. Requirements were effective for the Company on January 1, 2009 and did not have a significant impact on the Company's consolidated financial statements.

In April 2009, standards were issued to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The standards are effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 under certain circumstances. Implementation on June 15, 2009 did not have a significant impact on the Company's financial statements.

In April 2009, standards were issued for Recognition and Presentation of Other-Than-Temporary Impairments. These standards amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The existing recognition and measurement guidance related to other-than-temporary impairments of equity securities is not amended. Changes are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of the other-than-temporary impairment amendments on June 15, 2009 did not have a significant impact on the Company's financial statements.

In April 2009, new standards were issued providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard emphasizes that even if there has been a significant

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (1) Summary of Significant Accounting Policies (Continued)

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

decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The standard is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Adoption on June 15, 2009 did not have a significant impact on the Company's financial statements.

New requirements for subsequent events establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The standards define (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The effective date for the Corporation's financial statements is for periods ending after June 15, 2009. Implementation resulted in no significant impact on the Corporation's financial statements.

## (2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Cash on Hand and Cash Items	\$ 10,207	\$ 9,228
Noninterest-Bearing Deposits with Other Banks	6,352	20,199
	\$ 16,559	\$ 29,427

## 3) Investment Securities

Investment securities as of September 30, 2009 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	\$235,547	\$1,559	\$(504 )	\$236,602
State, County & Municipal	5,741	103	(19 )	5,825
Corporate Obligations	4,456	87	(361 )	4,182
Asset-Backed Securities	1,032	--	(627 )	405
	\$246,776	\$1,749	\$(1,511 )	\$247,014

Securities Held to Maturity:

State, County and Municipal

\$60

\$2

\$--

\$62

14

---



Table of Contents

Part I (Continued)

Item 1 (Continued)

## 3) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of September 30, 2009, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$101	102	--	--
Due After One Year Through Five Years	4,511	4,312	--	--
Due After Five Years Through Ten Years	3,564	3,738	\$60	\$62
Due After Ten Years	3,053	2,260	--	--
	11,229	10,412	60	62
Mortgage-Backed Securities	235,547	236,602	--	--
	\$246,776	\$247,014	\$60	\$62

Investment securities as of December 31, 2008 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$190,198	\$1,862	\$(310)	\$191,750
State, County & Municipal	9,227	44	(220)	9,051
Corporate Obligations	6,650	155	(629)	6,176
Asset-Backed Securities	1,000	--	(332)	668
	\$207,075	\$2,061	\$(1,491)	\$207,645
Securities Held to Maturity:				
State, County and Municipal	\$60	\$3	\$--	\$63

Proceeds from the sale of investments available for sale during first nine months of 2009 totaled \$368,576 compared to \$65,299 for the first nine months of 2008. The sale of investments available for sale during 2009 resulted in gross realized gains of \$3,205 and gross realized losses of \$58 and the sale of investments available for sale during 2008 resulted in gross realized gain of \$1,202 and losses of \$7.

Investment securities having a carry value approximating \$162,601 and \$145,647 as of September 30, 2009 and December 31, 2008, respectively, were pledged to secure public deposits and for other purposes.



Table of Contents

Part I (Continued)

Item 1 (Continued)

## 3) Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at September 30, 2009 and December 31, 2008 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2009						
U.S. Government Agencies						
Mortgage-Backed	\$69,433	\$(498 )	\$513	\$( 6 )	\$69,946	\$(504 )
State, County and Municipal	--	--	1,454	( 19 )	1,454	( 19 )
Corporate Obligations	850	(150 )	2,244	(211 )	3,094	(361 )
Asset-Backed Securities	405	(627 )	---	---	405	(627 )
	\$70,688	\$(1,275 )	\$4,211	\$(236 )	\$74,899	\$(1,511 )
December 31, 2008						
U.S. Government Agencies						
Mortgage-Backed	\$52,277	\$(267 )	\$708	\$(43 )	\$52,985	\$(310 )
State, County and Municipal	5,053	(212 )	92	( 8 )	5,145	(220 )
Corporate Obligations	5,021	(629 )	---	---	5,021	(629 )
Asset-Backed Securities	668	(332 )	---	---	668	(332 )
	\$63,019	\$(1,440 )	\$800	\$(51 )	\$63,819	\$(1,491 )

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

At September 30, 2009, the debt securities with unrealized losses have depreciated 1.98 percent from the Company's amortized cost basis. These securities are guaranteed by either U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

## (4) Loans

The composition of loans as of September 30, 2009 and December 31, 2008 was as follows:

	September 30, 2009	December 31, 2008
Commercial, Financial and Agricultural	\$ 94,555	\$ 86,379
Real Estate – Construction	131,233	160,374
Real Estate – Farmland	57,896	54,159
Real Estate – Other	628,802	600,654
Installment Loans to Individuals	40,320	44,163
All Other Loans	18,326	15,308
	\$ 971,132	\$ 961,037

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (4) Loans (Continued)

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled \$38,691 and \$35,124 as of September 30, 2009 and December 31, 2008, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$41 and \$250, respectively.

## (5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2009 and September 30, 2008 as follows:

	September 30, 2009	September 30, 2008
Balance, Beginning	\$ 17,016	\$ 15,513
Provision Charged to Operating Expenses	21,580	8,512
Loans Charged Off	(17,549 )	(6,534 )
Loan Recoveries	312	461
Balance, Ending	\$ 21,359	\$ 17,952

## (6) Premises and Equipment

Premises and equipment are comprised of the following as of September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Land	\$ 7,805	\$ 7,805
Building	23,626	23,461
Furniture, Fixtures and Equipment	14,099	13,530
Leasehold Improvements	995	990
Construction in Progress	211	127
	46,736	45,913
Accumulated Depreciation	(17,714 )	(16,241 )
	\$ 29,022	\$ 29,672

Depreciation charged to operations totaled \$1,561 and \$1,526 for September 30, 2009 and September 30, 2008, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$273 and \$282 for nine months ended September 30, 2009 and September 30, 2008, respectively.



Table of Contents

Part I (Continued)

Item 1 (Continued)

## (7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the nine months ended September 30, 2009 and September 30, 2008:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Goodwill		
Balance, Beginning	\$ 2,412	\$ 2,412
Goodwill Acquired	--	--
Balance, Ending	\$ 2,412	\$ 2,412
Net Core Deposit, Intangible		
Balance, Beginning	\$ 367	\$ 402
Amortization Expense	(27 )	(27 )
Balance, Ending	\$ 340	\$ 375

The following table reflects the expected amortization for the core deposit intangible at September 30, 2009:

2009	\$9
2010	36
2011	36
2012	36
2013 and thereafter	223
	\$340

## (8) Income Taxes

The Company records income taxes under accounting standards requiring an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

## (9) Fair Value Measurements

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

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

18

---



Table of Contents

Part I (Continued)

Item 1 (Continued)

## (9) Fair Value Measurements (Continued)

## Assets

## Securities

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

## Impaired loans

Fair value accounting principles also apply to loans measured for impairment including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Assets measured at fair value at September 30, 2009 are as follows:

	September 30, 2009	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring</b>				
<b>Securities Available for Sale</b>				
Mortgage-backed	\$236,602	\$---	\$236,602	\$---
State, County & Municipal	5,825	---	5,825	---
Corporate Obligations	4,182	---	3,332	850
Asset-Backed Securities	405	---	---	405
	\$247,014	\$---	\$245,759	\$ 1,255
<b>Nonrecurring</b>				
Impaired Loans	\$34,537	\$---	\$---	\$ 34,537

Liabilities

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

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2009.

19

---

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (9) Fair Value Measurements (Continued)

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Available for Sale Securities (In Thousands)
Balance, Beginning	\$ 1,427
Total Unrealized Gains (Losses) Included In Net Income	---
Other Comprehensive Income	(172 )
Purchases, Sales, Issuances and Settlements, Net	---
Transfers In and (Out) of Level 3	---
Balance, Ending	\$ 1,255

## (10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$284 and \$322 as of September 30, 2009 and December 31, 2008.

Components of interest-bearing deposits as of September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009	December 31, 2008
Interest-Bearing Demand	\$ 190,918	\$ 194,211
Savings	35,994	33,349
Time, \$100,000 and Over	355,177	333,498
Other Time	362,980	368,437
	\$ 945,069	\$ 929,495

At September 30, 2009 and December 31, 2008, the Company had brokered deposits of \$138,854 and \$131,958 respectively. Of the \$138,854 brokered deposits at September 30, 2009, \$28,835 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled \$110,019 at September 30, 2009. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$309,755 and \$301,151 as of September 30, 2009 and December 31, 2008, respectively.

As of September 30, 2009 and December 31, 2008, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2009	December 31, 2008
One Year and Under	\$ 622,659	\$ 632,562
One to Three Years	91,701	62,929

Three Years and Over	3,797	6,444
	\$ 718,157	\$ 701,935

(11) Securities Sold Under Repurchase Agreements

The Company has securities sold under repurchase agreements in the amount of \$45,232 at September 30, 2009. Barclay's Master Repurchase Agreement originated on June 26, 2008 with the initial draw of \$20,000 on June 30, 2008. The Repurchase Agreement matures on June 30, 2011 and has a one-time call option on December 30, 2009. Interest payments are due quarterly at a fixed rate of 3.34 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

South Street Securities Master Repurchase Agreement originated on October 27, 2008 with the initial draw of \$20,000 on October 31, 2008 and the current draw of \$25,232 on September 2, 2009. The Repurchase Agreement is overnight borrowing at a floating interest rate. Interest payments are due monthly, and at September 30, 2009, the floating interest rate was 0.78 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (12) Other Borrowed Money

Other borrowed money at September 30, 2009 and December 31, 2008 is summarized as follows:

	September 30, 2009	December 31, 2008
Federal Home Loan Bank Advances	\$ 91,000	\$ 91,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2010 to 2019 and interest rates ranging from 0.36 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At September 30, 2009, the Company had available line of credit commitments totaling \$193,670, of which \$102,610 was available.

The aggregate stated maturities of other borrowed money at September 30, 2009 are as follows:

Year	Amount
2010	\$ 20,000
2011	--
2012	41,000
2013 and Thereafter	30,000
	\$ 91,000

The Company also has available federal funds lines of credit with various financial institutions totaling \$42,000, of which \$5,697 was outstanding at September 30, 2009.

## (13) Preferred Stock and Warrants

On January 9, 2009, Colony sold 28,000 shares of preferred stock with a warrant to purchase 500,000 shares of the Company's common stock, to the U.S. Treasury under the Treasury's Capital Purchase Program. The initial exercise price applicable to the warrant is \$8.40 per share of common stock for which the warrant may be exercised. The warrant may be exercised at any time on or before January 9, 2019. The proceeds from the sale of \$28 million were allocated between the preferred stock and the warrant based on their relative fair values at the time of the sale. Of the \$28 million in proceeds, \$27.22 million was allocated to the preferred stock and \$0.78 million was allocated to the warrant. The discount recorded on the preferred stock that resulted from allocating a portion of the proceeds to the warrant is being accreted directly to retained earnings over a 5 year period applying a level yield.

The preferred stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The preferred stock is redeemable at any time at \$1,000 per share plus any accrued and unpaid dividends with the consent of the Company's primary federal regulator.

## (14) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities

have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2009, the floating rate securities had a 2.97 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2009 the floating-rate securities had a 1.78 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

During the first quarter of 2007, the Company formed a fifth subsidiary whose sole purpose was to issue \$9,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2009, the floating-rate securities had a 1.93 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the first subsidiary formed in March 2002 as the Company exercised its option to call.

During the third quarter of 2007, the company formed a sixth subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30

Table of Contents

Part I (Continued)

Item 1 (Continued)

(14) Subordinated Debentures (Trust Preferred Securities) (Continued)

years and are redeemable after five years with certain exceptions. At September 30, 2009, the floating-rate securities had a 1.89 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the second subsidiary formed in December 2002 as the Company exercised its option to call.

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

(15) Restricted Stock – Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards was 64,701. To date, 77,052 split-adjusted shares have been issued under this plan and since the plan's inception, 12,351 shares have been forfeited; thus, there are not any shares available for restricted stock awards at September 30, 2009. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period.)

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and since the plan's inception 10,148 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 100,392 at September 30, 2009. During 2009, 18,850 shares of restricted stock have been issued and 2,000 shares have been forfeited. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(16) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The provision for the nine months ended September 30, 2009 was \$(19) compared to \$455 for the nine months ended September 30, 2008. The total provision for contributions to the plan was \$206 for 2008, \$584 for 2007, and \$663 for 2006.

(17) Commitments and Contingencies

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

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

At September 30, 2009 and December 31, 2008 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2009	December 31, 2008
Loan Commitments	\$64,422	\$ 73,610
Standby Letters of Credit	1,587	2,710

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not



Table of Contents

Part I (Continued)

Item 1 (Continued)

(17) Commitments and Contingencies (Continued)

necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

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

At September 30, 2009, a standby letter of credit in the amount of \$60 was issued by Federal Home Loan Bank of Atlanta on behalf of Colony Bank.

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

(18) Deferred Compensation Plan

Two of the Bank branches have deferred compensation plans covering directors choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Banks are committed to pay the directors deferred compensation over a specified number of years, beginning at age 65. In the event of a director's death before age 65, payments are made to the director's named beneficiary over a specified number of years, beginning on the first day of the month following the death of the director.

Liabilities accrued under the plans totaled \$1,073 and \$1,123 as of September 30, 2009 and December 31, 2008, respectively. Benefit payments under the contracts were \$155 and \$165 for the nine month period ended September 30, 2009 and September 30, 2008, respectively. Provisions charged to operations totaled \$89 and \$128 for the nine month period ended September 30, 2009 and September 30, 2008, respectively.

Fee income recognized with deferred compensation plans totaled \$124 and \$117 for nine month period ended September 30, 2009 and September 30, 2008, respectively.

(19) Fair Value of Financial Instruments

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

should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

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

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

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

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

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (19) Fair Value of Financial Instruments (Continued)

carrying amount is a reasonable estimate of fair value.

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

**Federal Funds Purchased** – The carrying value of federal funds purchased approximates fair value.

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

**Securities Sold Under Agreements to Repurchase and Other Borrowed Money** – The fair value of other borrowed money is calculated by discounting contractual cash flows using an estimated interest rate based on current rates available to the Company for debt of similar remaining maturities and collateral terms.

**Unrecognized Financial Instruments** – Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fees associated with these instruments are not material.

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

The carrying amount and estimated fair values of the Company's financial instruments as of September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in thousands)				
<b>Assets</b>				
Cash and Short-Term Investments	\$16,721	\$16,721	\$29,605	\$29,605
Investment Securities Available for Sale	247,014	247,014	207,645	207,645
Investment Securities Held to Maturity	60	62	60	63
Federal Home Loan Bank Stock	6,345	6,345	6,272	6,272
Loans, Net	949,629	974,912	943,841	959,613
<b>Liabilities</b>				
Deposits	1,015,414	1,018,210	1,006,991	1,009,967
Federal Funds Purchased	5,697	5,697	2,274	2,274
Subordinated Debentures	24,229	24,229	24,229	24,229
Securities Sold Under Agreements to Repurchase	45,232	45,907	40,000	40,756
Other Borrowed Money	91,000	91,843	91,000	94,067

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (19) Fair Value of Financial Instruments (Continued)

ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

## (20) Regulatory Capital Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2009, the company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The following table summarizes regulatory capital information as of September 30, 2009 and December 31, 2008 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2009						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 136,597	14.44	% \$ 75,655	8.00	% NA	NA
Colony Bank	133,920	14.19	75,511	8.00	\$ 94,389	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	124,658	13.18	37,827	4.00	NA	NA
Colony Bank	122,003	12.93	37,756	4.00	56,634	6.00
Tier 1 Capital to Average Assets						
Consolidated	124,658	9.64	51,726	4.00	NA	NA
Colony Bank	122,003	9.45	51,622	4.00	64,527	5.00



Table of Contents

Part I (Continued)

Item 1 (Continued)

## (20) Regulatory Capital Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 115,604	12.06	% \$ 76,684	8.00	% NA	NA
Colony Bank	114,545	11.97	76,547	8.00	\$ 95,684	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	103,560	10.80	38,342	4.00	NA	NA
Colony Bank	102,522	10.71	38,273	4.00	57,470	6.00
Tier 1 Capital to Average Assets						
Consolidated	103,560	8.39	49,380	4.00	NA	NA
Colony Bank	102,522	8.33	49,205	4.00	61,506	5.00

Table of Contents

Part I (Continued)

Item 1 (Continued)

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

The parent company's balance sheets as of September 30, 2009 and December 31, 2008 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)  
BALANCE SHEETS  
SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

ASSETS	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Cash	\$ 1,179	\$ 2
Premises and Equipment, Net	1,564	1,542
Investment in Subsidiaries, at Equity	125,469	105,506
Other	377	1,294
<b>Totals Assets</b>	<b>\$ 128,589</b>	<b>\$ 108,344</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Dividends Payable	175	\$ 703
Other	118	197
	293	900
<b>Subordinated Debt</b>	<b>24,229</b>	<b>24,229</b>
<b>Stockholders' Equity</b>		
Preferred Stock, Par Value \$1,000 a Share; Authorized 10,000,000Shares, Issued 28,000 Shares as of September 30, 2009	27,321	---
Common Stock, Par Value \$1 a Share; Authorized 20,000,000Shares, Issued 7,229,163 and 7,212,313 Shares as of September 30, 2009 and December 31, 2008, Respectively	7,229	7,212
Paid-In Capital	25,393	24,536
Retained Earnings	44,173	51,302
Restricted Stock - Unearned Compensation	(206 )	(211 )
Accumulated Other Comprehensive Loss, Net of Tax	157	376
	104,067	83,215
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 128,589</b>	<b>\$ 108,344</b>



Table of Contents

Part I (Continued)

Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)  
 STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008  
 (UNAUDITED)

	SEPTEMBER 30, 2009	SEPTEMBER 30, 2008
Income		
Dividends from Subsidiaries	\$ 2,167	\$ 3,779
Management Fees	114	--
Other	76	71
	2,357	3,850
Expenses		
Interest	531	951
Salaries and Employee Benefits	638	708
Other	622	1,036
	1,791	2,695
Income (Loss) Before Taxes and Equity in Undistributed Earnings of Subsidiaries		
	566	1,155
Income Tax (Benefits)	(530 )	(763 )
Income Before Equity in Undistributed Earnings of Subsidiaries		
	1,096	1,918
Equity in Undistributed Earnings of Subsidiaries	(6,047 )	781
Net Income (Loss)		
	(4,951 )	2,699
Preferred Stock Dividends		
	1,015	--
Net Income (Loss) Available to Common Shareholders		
	(5,966 )	2,699
Net Income (Loss)		
	(4,951 )	2,699
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During Year	1,858	(852 )
Reclassification Adjustment	(2,077 )	(789 )
Unrealized Losses in Securities		
	(219 )	(1,641 )
Comprehensive Income (Loss)		
	\$ (5,170 )	\$ 1,058



Table of Contents

Part I (Continued)

Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)  
STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008  
(UNAUDITED)

	2009	2008
Cash Flows from Operating Activities		
Net Income (Loss)	\$(4,951 )	\$2,699
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided from Operating Activities		
Depreciation and Amortization	219	215
Equity in Undistributed Earnings of Subsidiary	6,047	(781 )
Other	63	844
	1,378	2,977
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(25,500 )	(1,500 )
Purchases of Premises and Equipment	(100 )	(156 )
	(25,600 )	(1,656 )
Cash Flows from Financing Activities		
Dividends Paid Preferred Stock	(840 )	---
Dividends Paid Common Stock	(1,761 )	(2,091 )
Proceeds Allocated to Issuance of Preferred Stock	27,215	---
Proceeds Allocated to Warrants Issued	785	---
	25,399	(2,091 )
Net Increase (Decrease) in Cash	1,177	(770 )
Cash, Beginning	2	973
Cash, Ending	\$1,179	\$203

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (22) Earnings Per Share

Basic and diluted earnings per share are computed and presented hereafter. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the three months and nine months ended September 30, 2009 and 2008, respectively, under the requirements of accounting standards:

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
<b>Basic EPS</b>						
Income (Loss) Available to Common Stockholders	\$ 18	7,217	\$0.00	\$ 194	7,202	\$0.03
<b>Dilutive Effect of Potential Common Stock Restricted Stock</b>						
		0			0	
<b>Diluted EPS</b>						
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 18	7,217	\$0.00	\$ 194	7,202	\$0.03
<b>September 30, 2009</b>						
	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
<b>Basic EPS</b>						
Income (Loss) Available to Common Stockholders	\$(5,966 )	7,210	\$(0.83 )	\$2,699	7,197	\$0.38
<b>Dilutive Effect of Potential Common Stock</b>						

Restricted Stock		0		0
<b>Diluted EPS</b>				
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$(5,966 )	7,210	\$(0.83 )	\$2,699 7,197 \$0.38

30

---

Table of Contents

Part I (Continued)

Item 2 (Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

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

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

- Greater than expected costs or difficulties related to the integration of new lines of business.
- The Company's success at managing the risks involved in the foregoing items.

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

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

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

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

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



associated with the commercial and consumer levels and the estimated impact of the current economic environment.

Goodwill and Other Intangibles – The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value. 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.

Table of Contents

Part I (Continued)

Item 2 (Continued)

## Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2009 and 2008, and results of operations for each of the three months and nine months in the periods ended September 30, 2009 and 2008. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

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

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

## Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income available to shareholders totaled \$0.02 million, or \$0.00 diluted per common share, in three months ended September 30, 2009 compared to net income available to shareholders of \$0.19 million, or \$0.03 diluted per common share, in three months ended September 30, 2008. Net loss available to shareholders totaled \$(5.97) million, or \$(0.83) diluted per common share, in nine months ended September 30, 2009 compared to net income available to shareholder of \$2.70 million, or \$0.38 diluted per common share, in nine months ended September 30, 2008.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Taxable-equivalent net interest income	\$10,373	\$9,578	\$29,519	\$28,396
Taxable-equivalent adjustment	69	93	216	263
Net interest income	10,304	9,485	29,303	28,133
Provision for possible loan losses	4,000	3,370	21,580	8,512
Noninterest income	2,340	1,780	8,306	7,185
Noninterest expense	8,112	7,813	23,776	23,284
Income (loss) before income taxes	532	82	(7,747 )	3,522
Income taxes	164	(112 )	(2,796 )	823

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net income (loss)	\$368	\$194	\$(4,951 )	\$2,699
Preferred stock dividends	350	---	1,015	---
Net income (loss) available to common shareholders	\$18	\$194	\$(5,966 )	\$2,699
Net income (loss) available to common shareholders:				
Basic	\$0.00	\$0.03	\$(0.83 )	\$0.38
Diluted	\$0.00	\$0.03	\$(0.83 )	\$0.38
Return on average assets	0.01	% 0.06	% (0.62 )%	0.30 %
Return on average common equity	0.07	% 0.93	% (7.42 )%	4.24 %

33

---

Table of Contents

Part I (Continued)

Item 2 (Continued)

Net income from operations for three months ended September 30, 2009 increased \$0.17 million, or 89.69 percent, compared to the same period in 2008. The increase was primarily the result of an increase of \$0.82 million in net interest income and an increase of \$0.56 million in noninterest income. This was offset by an increase of \$0.63 million in provision for possible loan loss, an increase of \$0.30 million in noninterest expense, and an increase of \$0.28 million in income taxes.

Net income for nine months ended September 30, 2009 decreased \$7.65 million, or 283.44 percent, compared to the same period a year ago. The decrease was primarily the result of an increase of \$13.07 million in provision for possible loan loss and an increase of \$0.49 in noninterest expense. This was offset by an increase of \$1.17 million in net interest income, an increase of \$1.12 million in noninterest income, and a decrease of \$3.62 million in income taxes.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 77.91 percent of total revenue for nine months ended September 30, 2009 and 79.66 percent for the same period a year ago.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit has ranged from 3.25 percent to 7.75 percent during 2007 to 2009. At year end 2007, the prime rate was 7.25 percent and with the 400 basis point reduction during 2008 the prime rate at September 30, 2009 is currently at 3.25 percent. The federal funds rate moved similar to prime rate with interest rates ranging from .25 percent to 4.75 percent during 2007 to 2009. At year end 2007, the federal funds rate was 4.25 percent and with the 400 basis point reduction during 2008 the federal funds rate at September 30, 2009 is currently at 0.25 percent. We anticipate the Federal Reserve tightening interest rate policy in 2010, which should improve Colony's net interest margin.

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

## Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from September 30, 2008 to September 30, 2009 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

(\$ in thousands)	Changes from September 30, 2008 to September 30, 2009 (1)		
	Volume	Rate	Total
<b>Interest Income</b>			
Loans, Net-taxable	\$523	\$( 8,561 )	\$(8,038 )
<b>Investment Securities</b>			
Taxable	2,854	(2,063 )	791
Tax-exempt	(162 )	9	(153 )
Total Investment Securities	2,692	(2,054 )	638
Interest-Bearing Deposits in other Banks	(20 )	6	(14 )
Federal Funds Sold	(110 )	(140 )	(250 )
Other Interest - Earning Assets	16	(269 )	(253 )
Total Interest Income	3,101	(11,018 )	(7,917 )
<b>Interest Expense</b>			
Interest-Bearing Demand and Savings Deposits	186	(1,431 )	(1,245 )
Time Deposits	540	(8,113 )	(7,573 )
Federal Funds Purchased and Repurchase Agreements	723	(358 )	365
Subordinated Debentures	---	(420 )	(420 )
Other Borrowed Money	245	(413 )	(168 )
Total Interest Expense	1,694	(10,735 )	(9,041 )
Net Interest Income	\$ 1,407	\$( 283 )	\$ 1,124

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

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

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earning assets and interest-bearing liabilities can influence the changes in net interest income. The timing of repriced assets and liabilities is Gap management and our Company has established its policy to maintain a Gap ratio in the one-year time horizon of 0.80 to 1.20.

Our exposure to interest rate risk is reviewed on at least a semiannual basis by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates, in order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. We are generally focusing our investment activities on securities with terms or average lives in the 2-7 year range.

The Company maintains about 33 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin until 2008. During 2006 interest rates increased 100 basis points and during 2007 interest rates decreased 100 basis points. The 100 basis point decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. Net interest margin decreased to 3.24 percent for nine months ended September 30, 2009 compared to 3.34 percent for the same period a year ago. Given the Federal Reserve's aggressive posture during 2008 that ended the year with a range of 0 – 0.25 percent federal funds target rate, we have seen our net interest margin reach a low of 3.06 percent for first quarter 2009 to a high of 3.38 percent for third quarter 2009.

Taxable-equivalent net interest income for nine months ended September 30, 2009 increased \$1.12 million, or 3.96 percent compared to the same period a year ago. The fluctuation between the comparable periods resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during nine months ended September 30, 2009 increased almost \$79.4 million compared to the same period a year ago while over the same period the net interest margin decreased by 10 basis points from 3.34 percent to 3.24 percent. Growth in average earning assets during 2009 and 2008 was primarily in loans and investment securities. The decrease in the net interest margin in 2009 was primarily the result of the Federal Reserve reducing interest rates along with sluggish loan activity. The Company realized an increase in net interest margin for third quarter 2009 of 3.38 percent compared to second quarter 2009 net interest margin of 3.28 percent.

The average volume of loans increased \$9.7 million in nine months ended September 30, 2009 compared to the same period a year ago. The average yield on loans decreased 119 basis points in nine months ended September 30, 2009 compared to the same period a year ago. Funding for this growth was primarily provided by other borrowed money and reduction in Federal funds sold. The average volume of deposits increased \$26.8 million in nine months ended September 30, 2009 compared to the same period a year ago, with interest-bearing deposits increasing \$31.9 million in nine months ended September 30, 2009. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 93.1 percent in nine months ended September 30, 2009 compared to 92.4 percent in the same period a year ago. This deposit mix, combined with a general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 126 basis points in nine months ended September 30, 2009 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.01 percent in nine months ended September 30, 2009 compared to 2.98 percent in the same period a year ago. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the

competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

#### Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled \$21.58 million in nine months ended September 30, 2009 compared to \$8.51 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.



Table of Contents

Part I (Continued)

Item 2 (Continued)

## Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Service Charges on Deposit Accounts	\$1,125	\$1,233	\$3,155	\$3,571
Other Charges, Commissions and Fees	259	240	747	735
Other	210	128	889	1,173
Mortgage Fee Income	137	168	368	511
Securities Gains	609	11	3,147	1,195
<b>Total</b>	<b>\$2,340</b>	<b>\$1,780</b>	<b>\$8,306</b>	<b>\$7,185</b>

Total noninterest income for three months ended September 30, 2009 increased \$0.56 million, or 31.46 percent compared to the same period a year ago. Total noninterest income for nine months ended September 30, 2009 increased \$1.12 million, or 15.60 percent, compared to the same year ago period. Growth in noninterest income was primarily in securities gains. Changes in these items and the other components of noninterest income are discussed in more detail below.

**Service Charges on Deposit Accounts.** Service charges on deposit accounts for three months ended September 30, 2009 decreased \$108 thousand, or 8.76 percent, compared to the same period a year ago. Service charges on deposit accounts for the nine months ended September 30, 2009 decreased \$416 thousand, or 11.65 percent, compared to the same year ago period.

**Mortgage Fee Income.** Mortgage fee income for three months ended September 30, 2009 decreased \$31 thousand, or 18.45 percent, compared to the same period year ago. Mortgage fee income for nine months ended September 30, 2009 decreased \$143 thousand, or 27.98 percent, compared to the same year ago period. The company anticipates fee income to continue to show a decrease over the previous year due to the current mortgage market and slowing economy.

**All Other Noninterest Income.** Other charges, commissions and fees and other income for three months ended September 30, 2009 was \$469 thousand compared to \$368 thousand in the same year ago period, or an increase of 27.45 percent. Other charges, commissions and fees, and other income for nine months ended September 30, 2009 was \$1.64 million compared to \$1.91 million in the same year ago period, or a decrease of 14.26 percent. The significant decrease in 2009 was a net result of the \$670 thousand gain realized from the Company's unwinding of its position in \$19 million FHLB advances during the second quarter of 2008. The decrease was offset by an increase in deferred ATM fee of \$222 thousand for 2009.

**Securities Gains.** The Company realized gains from the sale of securities of \$609 thousand in three months ended September 30, 2009 compared to \$11 thousand in the same year ago period and realized gains from the sale of securities of \$3.2 million in nine months ended September 30, 2009 compared to \$1.2 million in the same year ago period.

## Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Salaries and Employee Benefits	\$3,556	\$4,051	\$10,946	\$12,483
Occupancy and Equipment	1,132	1,098	3,182	3,166
Other	3,424	2,664	9,648	7,635
<b>Total</b>	<b>\$8,112</b>	<b>\$7,813</b>	<b>\$23,776</b>	<b>\$23,284</b>

37

---

Table of Contents

Part I (Continued)

Item 2 (Continued)

Total noninterest expense for three months ended September 30, 2009 increased \$299 thousand, or 3.83 percent, compared to the same period a year ago. Total noninterest expense for nine months ended September 30, 2009 increased \$492 thousand, or 2.11 percent, compared to the same period a year ago. These items and the changes in the various components of noninterest expense are discussed in more detail below.

**Salaries and Employee Benefits.** Salaries and employee benefits expense for three months ended September 30, 2009 decreased \$495 thousand, or 12.22 percent, compared to the same period a year ago. Salaries and employee benefits expense for the nine months ended September 30, 2009 decreased \$1,537 thousand, or 12.31 percent, compared to the same year ago period. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition in both periods. Restructuring due to consolidation efforts initiated during 2008 also reduced salaries and benefits.

**Occupancy and Equipment.** Occupancy and equipment expense has remained relatively flat in both periods with an increase of \$34 thousand for three months ended September 30, 2009 compared to the same year ago period and an increase of \$16 thousand for nine months ended September 30, 2009 compared to the same year ago period.

**All Other Non-Interest Expense.** All other noninterest expense for three months ended September 30, 2009 increased \$760 thousand, or 28.53 percent compared to the same year ago period. All other noninterest expense for nine months ended September 30, 2009 increased \$2,013 thousand, or 26.37 percent compared to the same year ago period. Significant increases impacting the comparable periods include the FDIC insurance assessment and repossession/foreclosure expenses. For the nine months ended September 30, 2009, FDIC insurance assessments increased to \$2,208 thousand from \$50 thousand in the same year ago period, or an increase of 4,316 percent and credit related foreclosure and repossession expenses increased to \$932 thousand from \$52 thousand in the same year ago period, or an increase of 1,692 percent. FDIC insurance premiums for the entire banking industry have been adjusted up by the FDIC to maintain the FDIC reserve at adequate levels, while the Company has experienced a significant increase in credit related expenses due to the elevation of non-performing assets.

**Sources and Uses of Funds**

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1.282 billion in nine months ended September 30, 2009 compared to \$1.194 billion in nine months ended September 30, 2008.

Sources of Funds:	Nine Months Ended					
	2009		September 30,			
			2008			
Deposits:						
Noninterest-Bearing	\$69,601	5.43	%	\$74,749	6.26	%
Interest-Bearing	941,655	73.43		909,744	76.18	
Federal Funds Purchased and Repo Agreements	42,341	3.30		12,207	1.02	
Long-term Debt and Other Borrowings	115,229	8.99		107,091	8.97	
Other Noninterest-Bearing Liabilities	6,321	0.49		5,494	0.46	
Equity Capital	107,249	8.36		84,967	7.11	
Total	\$1,282,396	100.00	%	\$1,194,252	100.00	%

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Uses of Funds:

Loans	\$945,128	73.70	%	\$936,483	78.41	%
Securities	236,298	18.43		160,671	13.45	
Federal Funds Sold	7,322	0.57		12,518	1.05	
Interest-Bearing Deposits in Other Banks	408	0.03		1,529	0.13	
Other Interest-Earning Assets	6,322	0.49		5,951	0.50	
Other Noninterest-Earning Assets	86,918	6.78		77,100	6.46	
Total	\$1,282,396	100.00	%	\$1,194,252	100.00	%

38

---

Table of Contents

Part I (Continued)

Item 2 (Continued)

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 93.12 percent of total average deposits in nine months ended September 30, 2009 compared to 92.41 percent in the same period a year ago.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Total loans were \$971 million at September 30, 2009, up 1.05 percent, compared to loans of \$961 million at December 31, 2008. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included elsewhere in this discussion. The majority of funds provided by deposit growth have been invested in loans.

## Loans

The following table presents the composition of the Company's loan portfolio as of September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Commercial, Financial and Agricultural	\$ 94,555	\$ 86,379
Real Estate		
Construction	131,233	160,374
Mortgage, Farmland	57,896	54,159
Mortgage, Other	628,802	600,654
Consumer	40,320	44,163
Other	18,326	15,308
	971,132	961,037
Unearned Interest and Fees	(144 )	(179 )
Allowance for Loan Losses	(21,359 )	(17,016 )
Loans	\$ 949,629	\$ 943,842

The following table presents total loans as of September 30, 2009 according to maturity distribution and/or repricing opportunity on adjustable rate loans:

Maturity and  
Repricing (\$ in  
Opportunity Thousands)

One Year or Less	\$ 584,536
After One Year through Three Years	320,249
After Three Years through Five Years	55,808
Over Five Years	10,539
	\$ 971,132

Overview. Loans totaled \$971.1 million at September 30, 2009, up 1.05 percent from December 31, 2008 loans of \$961 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial, financial and agricultural. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 64.75 percent and 62.5 percent of total loans, real estate construction made up 13.51 percent and 16.69 percent, while commercial, financial, and agricultural based loans made up 9.74 percent and 8.99 percent of total loans at September 30, 2009 and December 31, 2008, respectively.

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

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

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

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

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at September 30, 2009 increased 9.47 percent from December 31, 2008 to \$94.6 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Collateral Concentrations. Lending is concentrated in commercial and real estate loans primarily to local borrowers. The Company has a high concentration of real estate loans; however, these loans are well collateralized and, in management's opinion, do not pose an adverse credit risk. In addition, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrower's ability to honor their contracts is dependent upon the viability of the real estate economic sector.

Large Credit Relationships. Colony is currently in eighteen counties in middle and south Georgia which include metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Senior Credit Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at period end.

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

September 30, 2009

December 31, 2008

	Number of Relationships	Period End Balances		Number of Relationships	Period End Balances	
		Committed	Outstanding		Committed	Outstanding
Large Credit Relationships:						
\$10 million and greater	2	\$28,700	\$27,981	2	\$27,605	\$21,345
\$5 million to \$9.9 million	7	\$46,662	\$45,724	12	\$74,679	\$71,215

40

---



Table of Contents

Part I (Continued)

Item 2 (Continued)

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at September 30, 2009. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with fixed interest rates	\$273,204	\$315,599	\$55,745	\$10,212	\$654,760
Loans with floating interest rates	311,332	4,650	63	327	316,372
Total	\$584,536	\$320,249	\$55,808	\$10,539	\$971,132

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

## Non-Performing Assets and Potential Problem Loans

Non-performing assets and accruing past due loans as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009	December 31, 2008
Loans accounted for on nonaccrual	\$ 38,691	\$ 35,124
Loans past due 90 days or more	41	250
Loans restructured	1,064	--
Other real estate foreclosed	16,516	12,812
Total non-performing assets	\$ 56,312	\$ 48,186
Non-performing assets as a percentage of:		
Total loans and foreclosed assets	5.70	% 4.95
Total assets	4.36	% 3.85
Accruing past due loans:		
30-89 days past due	\$ 14,547	\$ 18,675
90 or more days past due	41	250
Total accruing past due loans	\$ 14,588	\$ 18,925

Non-performing assets include non-accrual loans, loans past due 90 days or more, restructured loans and foreclosed real estate. Non-performing assets at September 30, 2009 increased 16.86 percent from December 31, 2008.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by

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

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications

Table of Contents

Part I (Continued)

Item 2 (Continued)

and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to maintaining the properties.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The allowance for loan losses includes allowance allocations calculated in accordance with current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. The company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics.

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment.

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

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

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

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

specific amounts or loan categories in which the charge-offs may ultimately occur. The following table shows a comparison of the allocation of the reserve for loan losses for the periods indicated.

	September 30, 2009			December 31, 2008		
	Reserve	%	*	Reserve	%	*
Commercial, Financial and Agricultural	\$3,203	10	%	\$4,254	9	%
Real Estate – Construction	6,407	13	%	2,808	17	%
Real Estate – Farmland	640	6	%	681	6	%
Real Estate – Other	8,331	65	%	5,955	62	%
Loans to Individuals	1,923	4	%	2,467	4	%
All Other Loans	855	2	%	851	2	%
Total	\$21,359	100	%	\$17,016	100	%

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

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

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

(\$ in thousands)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008		
Allowance for Loan Losses at Beginning of Quarter	\$ 18,375	\$ 17,466		
<b>Charge-Off</b>				
Commercial, Financial and Agricultural	24	682		
Real Estate – Construction & Land Development	74	1,357		
Real Estate – Residential	769	522		
Real Estate – Nonfarm Residential	41	27		
Consumer	188	455		
All Other	32	33		
	1,128	3,076		
<b>Recoveries</b>				
Commercial, Financial and Agricultural	39	7		
Real Estate – Construction & Land Development	6	--		
Real Estate – Residential	9	8		
Real Estate – Nonfarm Residential	1	140		
Consumer	55	37		
All Other	2	--		
	112	192		
Net Charge-Offs	1,016	2,884		
Provision for Loan Losses	4,000	3,370		
Allowance for Loan Losses at End of Quarter	\$ 21,359	\$ 17,952		
Ratio of Net Charge-Offs to Average Loans	0.11	%	0.30	%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased \$0.63 million from \$3.37 million in three months ended September 30, 2008 to \$4.0 million in three months ended September 30, 2009. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at quarter-end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include

portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during the third quarter was the provision of \$4.0 million. Charge-offs consisted of one multifamily residential property loan totaling \$0.28 million and one 1-4 family residential loan totaling \$0.29 million. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans. The large charge-offs were attributable to significant declines in collateral value based upon current real estate values. Charge-offs for third quarter 2008 totaled \$2.88 million, of which several small loans totaling \$1.06 million were construction, land development and other loans. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans and commercial loans.

Provisions were higher in 2009 compared to 2008 primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 5.70 percent at September 30, 2009 compared to 4.74 percent at June 30, 2009 and 4.95 percent at December 31, 2008. Total nonperforming assets at September 30, 2009 were \$56.3 million, of which \$28.7 million were construction,

Table of Contents

Part I (Continued)

Item 2 (Continued)

land development and other land loans; \$5.4 million were 1-4 family residential properties; \$4.1 million were multifamily residential properties; \$14.6 million were nonfarm nonresidential properties; \$1.4 million were farmland properties; and the remainder of nonperforming assets totaling \$2.1 million were commercial and consumer loans. All of the classified loans greater than \$50 thousand, including the nonperforming loans, are reviewed throughout the quarter for impairment review. Total nonperforming assets at September 30, 2008 were \$34.4 million, of which \$20.20 million were construction, land development and other land loans; \$0.69 million were farmland; \$4.85 million were 1-4 family residential properties; \$3.47 million were multifamily properties; \$4.08 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling \$1.13 million were commercial and consumer loans. The allowance for loan losses of \$21.36 million at September 30, 2009 was 2.20 percent of total loans which compares to \$18.38 million at June 30, 2009, or 1.91 percent of total loans and to \$17.02 million at December 31, 2008, or 1.77 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 4.10 percent, 3.45 percent, 4.17 percent, and 3.68 percent, respectively as of September 30, 2009, June 30, 2009, March 31, 2009 and December 31, 2008, the Company's allowance for loan losses as a percentage of nonperforming loans was 53.67 percent, 55.31 percent, 47.29 percent, and 48.10 percent, respectively as of September 30, 2009, June 30, 2009, March 31, 2009 and December 31, 2008. We continued to identify new problem loans during third quarter 2009, though at a slower pace than in previous quarters.

While the allowance for loan losses increased from \$18.38 million, or 1.91 percent of total loans at June 30, 2009 to \$21.36 million, or 2.20 percent of total loans at September 30, 2009, the Company also reflected an increase in nonperforming loans from \$33.2 million at June 30, 2009 to \$39.8 million at September 30, 2009. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are \$50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive any contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades in conjunction with average portfolio life. In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on reviews throughout the quarter and an environmental analysis at quarter-end.

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

Net charge-offs in three months ended September 30, 2009 decreased \$1,868 thousand compared to the same period a year ago. Net charge-offs of 0.11 percent for third quarter 2009 annualizes to 0.44 percent. Net charge-offs were

fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly in 2008 primarily from the write-down of nonperforming credits to appraised values. We anticipate an elevated amount of charge-offs in 2009 as problem credits run through the collection process to resolution.

The allowance for loan losses is \$2.98 million more than the prior quarter end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level, management believes the level of the allowance for loan losses was adequate as of September 30, 2009. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.



Table of Contents

Part I (Continued)

Item 2 (Continued)

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

(\$ in thousands)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008		
Allowance for Loan Losses at Beginning of Period	\$ 17,016	\$ 15,513		
<b>Charge-Off</b>				
Commercial, Financial and Agricultural	310	1,344		
Real Estate – Construction & Land Development	7,880	3,074		
Real Estate - Farmland	43	--		
Real Estate – Residential	4,627	1,286		
Real Estate – Nonfarm Residential	3,978	60		
Consumer	461	685		
All Other	250	85		
	17,549	6,534		
<b>Recoveries</b>				
Commercial, Financial and Agricultural	54	66		
Real Estate – Construction & Land Development	33	7		
Real Estate – Residential	55	119		
Real Estate – Nonfarm Residential	4	145		
Consumer	161	105		
All Other	5	19		
	312	461		
<b>Net Charge-Offs</b>	17,237	6,073		
<b>Provision for Loan Losses</b>	21,580	8,512		
Allowance for Loan Losses at End of Period	\$ 21,359	\$ 17,952		
<b>Ratio of Net Charge-Offs to Average Loans</b>	1.79	%	0.64	%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased \$13.07 million from \$8.51 million in nine months ended September 30, 2008 to \$21.58 million in nine months ended September 30, 2009. Of significance to changes in the allowance for loan losses during nine months 2009 was net charge-offs of \$17.2 million. Charge-offs largely consisted of five construction and land development loans totaling \$6.3 million; two 1-4 family residence property of \$0.76 million; three multifamily residential property loans totaling \$2.78 million; and one nonfarm nonresidential loan totaling \$2.87 million. The remainder of the charge-offs were made up of several small loans most of which were real estate dependent loans. All of the large charge-offs were attributable to significant declines in collateral value based upon current real estate values.

Net charge-offs in nine months ended September 30, 2009 increased \$11,164 thousand compared to the same period a year ago. Net charge-offs of 1.79 percent year to date 2009 that annualizes to 2.39 percent. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly in 2008 primarily from the write-down of non-performing credits to appraised values. We anticipate an elevated amount of charge-offs in 2009 as problem credits run through the collection process to resolution.

Management believes the level of the allowance for loan losses was adequate as of September 30, 2009. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Table of Contents

Part I (Continued)

Item 2 (Continued)

## Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of September 30, 2009 and December 31, 2008.

(\$ in thousands)	September 30, 2009	December 31, 2008
State, County and Municipal	\$ 5,885	\$ 9,110
Corporate Obligations	4,182	6,176
Asset-Backed Securities	405	668
Investment Securities	10,472	15,954
Mortgage-Backed Securities	236,602	191,750
Total Investment Securities and Mortgage Backed Securities	\$ 247,074	\$ 207,704

The following table represents maturities and weighted-average yields of investment securities held by the Company as of September 30, 2009. (Mortgage backed securities are based on the average life at the projected speed, while Agencies, State and Political subdivisions and Corporates reflect anticipated calls being exercised.)

	Within 1 Year		After 5 Years But Within 10 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	\$ 4,865	3.65 %	\$ 134,937	3.22 %	\$ 81,333	3.35 %	\$ 15,467	4.12 %
State, County, and Municipal	3,020	4.09	417	4.57	2,448	3.73	---	---
Corporate Obligations	---	---	2,244	5.41	1,088	5.67	850	4.12
Asset-Backed Securities	---	---	---	---	---	---	405	6.33
Total Investment Portfolio	\$ 7,885	3.82 %	\$ 137,598	3.26 %	\$ 84,869	3.39 %	\$ 16,722	4.25 %

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

At September 30, 2009, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 3.66 percent in nine months ended September 30, 2009 compared to 4.85 percent in the same period a year ago. The decrease in the average yield over the comparable periods primarily resulted from reinvestment of proceeds from the sale of mortgage-backed securities into lower yielding securities and the lower yield on securities as the Federal Reserve lowered interest rates during 2008.

Table of Contents

Part I (Continued)

Item 2 (Continued)

## Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the three month periods ended September 30, 2009 and September 30, 2008.

(\$ in thousands)	September 30, 2009		September 30, 2008	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	\$69,601		\$74,749	
Interest-Bearing Demand and Savings Deposits	237,260	0.75 %	221,395	1.56 %
Time Deposits	704,395	2.95 %	688,349	4.49 %
<b>Total Deposits</b>	<b>\$1,011,256</b>	<b>2.23 %</b>	<b>\$984,493</b>	<b>3.49 %</b>

The following table presents the maturities of the Company's time deposits as of September 30, 2009.

(\$ in thousands)	Time Deposits	Time Deposits	Total
	\$100,000 or Greater	Less Than \$100,000	
Months to Maturity			
3 or Less	\$114,039	\$98,162	\$212,201
Over 3 through 12 Months	195,716	214,742	410,458
Over 12 Months through 36 Months	44,524	47,178	91,702
Over 36 Months	898	2,898	3,796
	<b>\$355,177</b>	<b>\$362,980</b>	<b>\$718,157</b>

Average deposits increased \$26.76 million to \$1,011 million at September 30, 2009 from \$984 million at September 30, 2008. The increase included a decrease of \$5.2 million, or 6.89 percent, related to noninterest-bearing deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 6.89 percent for nine months ended September 30, 2009 compared to 7.59 percent for nine months ended September 30, 2008. The general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 126 basis points in nine months ended September 30, 2009 compared to the same period a year ago; and (ii) mitigating a portion of the impact of decreasing yields on earning assets.

Total average interest-bearing deposits increased \$31.9 million, or 3.51 percent in nine months ended September 30, 2009 compared to the same period a year ago. The increase in average deposits at September 30, 2009 compared to September 30, 2008 was primarily in interest bearing demand accounts and time deposits. With the current interest rate environment, it appears that many customers continue to maintain time deposit accounts, with the prevalent investment period continuing to be short term time deposits.

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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of September 30, 2009. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

47

---

Table of Contents

Part I (Continued)

Item 2 (Continued)

	Payments Due by Period				
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
Contractual obligations:					
Subordinated debentures	\$----	\$----	\$----	\$24,229	\$24,229
Federal Funds purchased and repurchase agreements	30,929	20,000	----	----	50,929
Federal Home Loan Bank advances	20,000	41,000	----	30,000	91,000
Operating leases	129	252	127	----	508
Deposits with stated maturity dates	622,659	91,701	3,653	144	718,157
	673,717	152,953	3,780	54,373	884,823
Other commitments:					
Loan commitments	64,422	----	----	----	64,422
Standby letters of credit	1,587	----	----	----	1,587
Standby letter of credit issued by Federal Home Loan Bank for Bank	60	----	----	----	60
	66,069	----	----	----	66,069
<b>Total contractual obligations and Other commitments</b>	<b>\$739,786</b>	<b>\$152,953</b>	<b>\$3,780</b>	<b>\$54,373</b>	<b>\$950,892</b>

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

**Loan Commitments.** The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses. Loan commitments outstanding at September 30, 2009 are included in the table above.

**Standby Letters of Credit.** Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at September 30, 2009

are included in the table above.

#### Capital and Liquidity

At September 30, 2009, stockholders' equity totaled \$104.1 million compared to \$83.2 million at December 31, 2008. In addition to net loss of \$5.0 million, other significant changes in stockholders' equity during nine months ended September 30, 2009 included \$2.1 million of dividends declared and an increase of \$0.14 million resulting from the amortization of the stock grant plan. The Company increased stockholders' equity by \$28 million through the sale of preferred stock and warrants to U.S. Treasury Department during first quarter 2009. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$157 thousand at September 30, 2009 compared to \$376 thousand at December 31, 2008. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses and gain on marketable equity securities.



Table of Contents

Part I (Continued)

Item 2 (Continued)

Using the capital requirements presently in effect, the Tier 1 ratio as of September 30, 2009 was 13.18 percent and total Tier 1 and 2 risk-based capital was 14.44 percent. Both of these measures compare favorably with the regulatory minimum to be adequately capitalized of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of September 30, 2009 was 9.64 percent, which exceeds the required ratio standard of 4 percent.

For nine months ended September 30, 2009, average capital was \$107 million, representing 8.36 percent of average assets for the year. This compares to 7.11 percent for nine months ended September 30, 2008 and 7.0 percent for calendar year 2008.

The Company declared cash dividends of \$0.15 per common share during the first three quarters of 2009, and cash dividends of \$0.29 per common share during the first three quarters of 2008, respectively.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of September 30 2009, the Company held \$247.0 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2008, the available for sale bond portfolio totaled \$207.6 million. Only marketable investment grade bonds are purchased. Although most of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 95.6 percent as of September 30, 2009 and 95.4 percent at December 31, 2008. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at September 30, 2009 and December 31, 2008 were 83.9 percent and 84.3 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small business with comprehensive banking relationships and limited volatility. At September 30, 2009 and December 31, 2008, Colony had \$355.2 million and \$333.5 million in certificates of deposit of \$100,000 or more. These larger deposits represented 34.98 percent and 33.12 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

Local market deposit sources proved insufficient to fund the strong loan growth trends at Colony over the past several years. The Company supplemented deposit sources with brokered deposits. As of September 30, 2009, the Company had \$138.9 million, or 13.67 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, Colony uses external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

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

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

Liability liquidity is provided by access to funding sources which include core deposits. Should the need arise; the Company also maintains relationships with the Federal Home Loan Bank and several correspondent banks that can provide funds on short notice. Since Colony is a holding company and does not conduct operations, its primary sources of liquidity are dividends up streamed from its subsidiary bank and borrowings from outside sources.

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

#### Impact of Inflation and Changing Prices

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

#### Regulatory and Economic Policies

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

policies of the Federal Reserve Board have a material effect on the earnings of the Company.

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

#### Recently Issued Accounting Pronouncements

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

Table of Contents

Part I (Continued)

Item 2 (Continued)

## Return on Assets and Stockholders' Equity

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Return on Assets (1)	0.01	% 0.06	% (0.62)	% 0.30
Return on Equity (1)	0.07	% 0.93	% (7.42)	% 4.24
Dividend Payout	NM (2)	333.33	% NM (2)	76.32
Avg. Equity to Avg. Assets	8.01	% 6.94	% 8.36	% 7.11
Dividends Declared	\$0.00	\$0.10	\$0.15	\$0.29

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

(2) Not meaningful due to net loss recorded.

## Future Outlook

During 2008, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country. We anticipate 2009 to be a difficult and challenging period as we work toward resolution of problem assets.

Also during 2008, Colony made significant strides to reduce our operating leverage by seeking a more efficient structure and more consistent products and services throughout the company. We successfully completed the consolidation of our seven banking subsidiaries into the single banking company – Colony Bank. The momentum created by this strategic move will allow Colony to improve future profitability while better positioning the company to take advantage of future growth opportunities. In response to the elevated risk of residential real estate and land development loans, management has extensively reviewed our loan portfolio with a particular emphasis on our residential and land development real estate exposure. Senior management with experience in problem loan workouts have been identified and assigned responsibility to oversee the workout and resolution of problem loans. The Company will continue to closely monitor our real estate dependent loans throughout the company and focus on asset quality during this economic downturn. Focus during 2009 will be directed toward addressing and bringing resolution to problem assets.

On January 9, 2009, Colony consummated the sale of \$28,000,000 in preferred stock and related warrants to the U.S. Treasury Department in the U.S. Treasury Capital Program (“CPP”). Colony elected to participate to take advantage of the likely one-time opportunity to receive a very low-cost source of capital. Colony’s participation in the CPP strengthens its current well-capitalized position and increases liquidity. Colony management believes maintenance of capital at elevated levels during the current challenging economic environment is desirable. In the spirit of the program Colony anticipates using this capital to expand its business through extension of credit to worthy borrowers, to purchase mortgage-backed securities pooled and issued by Freddie Mac, Fannie Mae, and Ginnie Mae to enhance

the housing market and to reduce brokered deposits on our books. Utilization of these funds during third quarter 2009 were new and renewed loan originations totaling \$156 million, of which \$64 million represented new loan extensions either funded or committed.

## BUSINESS

### General

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 (formerly Colony Bank of Fitzgerald and 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

Table of Contents

Part I (Continued)

Item 2 (Continued)

company. Since that time, Colony Bank has operated as a wholly-owned subsidiary of the Company. Our business is conducted primarily through our wholly-owned subsidiary, which provides a broad range of banking services to its retail and commercial customers. The company headquarters are located at 115 South Grant Street, Fitzgerald, Georgia 31750, its telephone number is 229-426-6000 and its Internet address is <http://www.colonybank.com>. We operate twenty-eight domestic banking offices and one mortgage company office and at September 30, 2009, we had approximately \$1.30 billion in total assets, \$949.63 million in total loans, \$1.02 billion in total deposits and \$104.1 million in stockholder's equity. Deposits are insured, up to applicable limits, by the Federal Deposit Insurance Corporation.

The Parent Company

Because Colony Bankcorp, Inc. is a bank holding company, its principal operations are conducted through its subsidiary bank, Colony Bank (the "Bank"). It has 100 percent ownership of its subsidiary and maintains systems of financial, operational and administrative controls that permit centralized evaluation of the operations of the subsidiary bank in selected functional areas including operations, accounting, marketing, investment management, purchasing, human resources, computer services, auditing, compliance and credit review. As a bank holding company, we perform certain stockholder and investor relations functions.

Colony Bank – Banking Services

Our principal subsidiary is the Bank. The Bank, headquartered in Fitzgerald, Georgia, offers traditional banking products and services to commercial and consumer customers in our markets. Our product line includes, among other things, loans to small and medium-sized businesses, residential and commercial construction and land development loans, commercial real estate loans, commercial loans, agri-business and production loans, residential mortgage loans, home equity loans, consumer loans and a variety of demand, savings and time deposit products. We also offer internet banking services, electronic bill payment services, safe deposit box rentals, telephone banking, credit and debit card services, remote depository products and access to a network of ATMs to our customers. Colony Bank conducts a general full service commercial, consumer and mortgage banking business through twenty-nine offices located in the middle and south Georgia cities of Fitzgerald, Warner Robins, Centerville, Ashburn, Leesburg, Cordele, Albany, Thomaston, Columbus, Sylvester, Tifton, Moultrie, Douglas, Broxton, Savannah, Eastman, Chester, Soperton, Rochelle, Pitts, Quitman and Valdosta, Georgia.

For additional discussion of our loan portfolio and deposit accounts, see "Management's Discussion of Financial Condition and Results of Operations – Loans and Deposits."

Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed Colony Bankcorp Statutory Trust III for the sole purpose of issuing \$4,500,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Market. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the second quarter of 2006, the Company formed Colony Bankcorp Capital Trust I for the sole purpose of issuing \$5,000,000 in Trust Preferred Securities through a pool sponsored by SunTrust Bank Capital Markets. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the first quarter of 2007, the Company formed Colony Bankcorp Capital Trust II for the sole purpose of issuing \$9,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management,

LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on March 26, 2002 through Colony Bankcorp Statutory Trust I.

During the third quarter of 2007, the Company formed Colony Bankcorp Capital Trust III for the sole purpose of issuing \$5,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on December 19, 2002 through Colony Bankcorp Statutory Trust II.

#### Corporate Restructuring and Business Combinations

On April 30, 1984, after acquiring the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding stock of Colony Bank Wilcox (formerly Community Bank of Wilcox and Pitts Banking Company), Pitts, Wilcox County, Georgia. As part of the 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



Table of Contents

Part I (Continued)

Item 2 (Continued)

shares of common stock of Pitts Banking Company. Since the date of acquisition, Colony Bank Wilcox operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On November 1, 1984, after obtaining the requisite regulatory approvals, the Company 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 operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

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 acquisition, Colony Bank of Dodge County operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On July 31, 1991, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of colony Bank Worth, (formerly Worth Federal Savings and Loan Association and Bank of Worth), Sylvester, Worth County, Georgia. The stock was acquired in exchange for cash and the issuance of 7,661 shares of common stock of Colony for an aggregate purchase price of approximately \$718,000. Since the date of acquisition, Colony Bank Worth operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

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. Colony Management Services, Inc. operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On November 30, 1996, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding common stock of Colony Bank Southeast (formerly Broxton State Bank), Broxton, Coffee County, Georgia 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. Since the date of acquisition, Colony Bank Southeast operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

On March 2, 2000, Colony Bank Ashburn purchased the capital stock of Colony Mortgage Corp (formerly 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 Company at the date of purchase. Colony Mortgage Corp is primarily engaged in residential real estate mortgage lending in the state of Georgia. Colony Mortgage Corp operates as a subsidiary of Colony Bank effective with the August 1, 2008 merger.

On March 29, 2002, after obtaining the requisite regulatory approvals, the Company acquired 100 percent of the issued and outstanding stock of Colony Bank Quitman, FSB, (formerly Quitman Federal Saving Bank), Quitman, Brooks County, Georgia. Quitman Federal Savings Bank became a wholly-owned subsidiary of the Company through the exchange of 367,093 shares of the Company's common stock and cash for an aggregate acquisition price of \$7,446,163. Since the date of acquisition, Colony Bank Quitman, FSB operated as a wholly-owned subsidiary of the Company until it was merged into Colony Bank effective August 1, 2008.

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 operated as an office of Colony Bank Ashburn until August 1, 2008 when it became an office of Colony Bank.

On August 1, 2008, the Company effected a merger of its seven banking subsidiaries and its one nonbank subsidiary into one surviving bank subsidiary, Colony Bank (formerly Colony Bank of Fitzgerald).

On April 2, 1998, the Company was listed on Nasdaq National Market. The Company's common stock trades on the Nasdaq Stock Market under the symbol "CBAN". The Company presently has approximately 2,054 shareholders as of September 30, 2009. "The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

Table of Contents

Part I (Continued)

Item 3

## Item 3 - Quantitative and Qualitative Disclosures About Market Risk

## AVERAGE BALANCE

## SHEETS

(\$ in thousands)	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
Assets						
Interest-Earning Assets						
Loans, Net of Unearned						
Interest and fees						
Taxable (1)	\$ 963,737	\$ 43,456	6.01 %	\$ 954,045	\$ 51,494	7.20 %
Investment Securities						
Taxable	229,465	6,182	3.59 %	150,017	5,391	4.79 %
Tax-Exempt (2)	6,833	300	5.85 %	10,654	453	5.67 %
Total Investment						
Securities	236,298	6,482	3.66 %	160,671	5,844	4.85 %
Interest-Bearing Deposits	408	13	4.25 %	1,529	27	2.35 %
Federal Funds Sold	7,322	14	0.25 %	12,518	264	2.81 %
Interest-Bearing Other						
Assets	6,322	--	--	5,951	253	5.67 %
Total Interest-Earning						
Assets	1,214,087	\$ 49,965	5.49 %	1,134,714	\$ 57,882	6.80 %
Non-interest-Earning						
Assets						
Cash and Cash						
Equivalents	21,684			20,496		
Allowance for Loan						
Losses	(18,609 )			(16,256 )		
Other Assets						
	65,234			55,298		
Total						
Noninterest-Earning						
Assets	68,309			59,538		
Total Assets						
	\$ 1,282,396			\$ 1,194,252		
Liabilities and						
Stockholders' Equity						
Interest-Bearing						
Liabilities						
Interest-Bearing Deposits						
Interest-Bearing Demand						
and Savings	\$ 237,260	\$ 1,340	0.75 %	\$ 221,395	\$ 2,585	1.56 %
Other Time	704,395	15,588	2.95 %	688,349	23,161	4.49 %
Total Interest-Bearing						
Deposits	941,655	16,928	2.40 %	909,744	25,746	3.77 %
Other Interest-Bearing						
Liabilities						
Other Borrowed Money	91,000	2,329	3.41 %	82,862	2,497	4.02 %
Subordinated Debentures	24,229	531	2.92 %	24,229	951	5.23 %

Federal Funds Purchased and Repurchase Agreements	42,341	658	2.07 %	12,207	293	3.20 %
Total Other Interest-Bearing Liabilities	157,570	3,518	2.98 %	119,298	3,741	4.18 %
Total Interest-Bearing Liabilities	1,099,225	\$ 20,446	2.48 %	1,029,042	\$ 29,487	3.82 %
Noninterest-Bearing Liabilities and Stockholders' Equity						
Demand Deposits	69,601			74,749		
Other Liabilities	6,321			5,494		
Stockholders' Equity	107,249			84,967		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	183,171			165,210		
Total Liabilities and Stockholders' Equity	\$ 1,282,396			\$ 1,194,252		
Interest Rate Spread			3.01 %			2.98 %
Net Interest Income		\$ 29,519			\$ 28,395	
Net Interest Margin			3.24 %			3.34 %

(1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling \$114 and \$108 for nine month periods ended September 30, 2009 and 2008, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling \$102 and \$154 for nine month periods ended September 30, 2009 and 2008, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Table of Contents

Part I (Continued)

Item 3 (Continued)

Colony Bankcorp, Inc. and Subsidiary  
Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at September 30, 2009. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					Total
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	
(\$ in Thousands)						
<b>EARNING ASSETS:</b>						
<b>Interest-Bearing</b>						
Deposits	\$ 162	\$ ---	\$ 162	\$ ---	---	\$ 162
Federal Funds Sold	---	---	---	---	---	---
Investment Securities	850	2,401	3,251	124,447	119,376	247,074
Loans, Net of Unearned Income	405,836	178,700	584,536	375,913	10,539	970,988
Other Interest-Bearing Assets	6,345	---	6,345	---	---	6,345
<b>Total Interest-Earning Assets</b>	<b>413,193</b>	<b>181,101</b>	<b>594,294</b>	<b>500,360</b>	<b>129,915</b>	<b>1,224,569</b>
<b>INTEREST-BEARING LIABILITIES:</b>						
<b>Interest-Bearing Demand</b>						
Deposits (1)	190,917	---	190,917	---	---	190,917
Savings (1)	35,994	---	35,994	---	---	35,994
Time Deposits	212,201	410,458	622,659	95,354	144	718,157
Other Borrowings (2)	19,000	1,000	20,000	41,000	30,000	91,000
Subordinated Debentures	24,229	---	24,229	---	---	24,229
Federal Funds Purchased	5,697	---	5,697	---	---	5,697
Repurchase Agreements	25,232	---	25,232	20,000	---	45,232
<b>Total Interest-Bearing Liabilities</b>	<b>513,270</b>	<b>411,458</b>	<b>924,728</b>	<b>156,354</b>	<b>30,144</b>	<b>1,111,226</b>
<b>Interest Rate-Sensitivity Gap</b>	<b>(100,077)</b>	<b>(230,357)</b>	<b>(330,434)</b>	<b>344,006</b>	<b>99,771</b>	<b>113,343</b>

C u m u l a t i v e					
Interest-Sensitivity Gap	(100,077)	(330,434)	(330,434)	13,572	113,343
Interest Rate-Sensivitiy Gap as a Percentage of Interest-Earning Assets	(8.17 )%	(18.81 )%	(26.98 )%	28.09 %	8.15 %
Cumulative Interest Rate-Sensitivity as as a Percentage of Interest-Earning Assets	(8.17 )%	(26.98 )%	(26.98 )%	1.11 %	9.26 %

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

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

Table of Contents

Part I (Continued)

Item 3 (Continued)

The foregoing table indicates that we had a one year negative gap of (\$330) million, or (26.98) percent of total assets at September 30, 2009. In theory, this would indicate that at September 30, 2009, \$330 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to increase, the gap would indicate a resulting decrease in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

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

The Company utilizes FTN Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net-interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent decline. The most recent analysis as of June 30, 2009 indicates that net interest income would deteriorate 16.02 percent with a 200 basis point decrease and would improve 9.03 percent with a 200 basis point increase. The increased exposure to declining rates is mitigated by the low likelihood of a further decline of 200 basis points from the current rate levels. The Company has established equity at risk in a +/- 200 basis points rate shock to be no more than a twenty percent decline. The most recent analysis as of June 30, 2009 indicates that net economic value of equity percentage change would decrease 12.29 percent with a 200 basis point decrease and would decrease 0.35 percent with a 200 basis point increase. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of June 30, 2009 indicates a one year gap of 0.87 percent. The analysis suggests net interest margin compression in a declining interest rate environment. Given that interest rates have basically "bottomed-out" with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2009. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing brokered certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

Table of Contents

Part I (Continued)

Item 4

CONTROLS AND PROCEDURES

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

During the quarter ended September 30, 2009, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

57

---



Table of Contents

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

During the period covered by this report, there have been no material changes from risk factors as previously disclosed in the registrant’s Form 10-K filed on March 13, 2009 in response to Item 1A to Part I of Form 10-K.

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

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (ANNUAL MEETING)

None

ITEM 5 – OTHER INFORMATION

None

58

---

Table of Contents

Part I (Continued)

Item 6

ITEM 6 – EXHIBITS

3.1 Articles of Incorporation

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

3.2 Bylaws, as Amended

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

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

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

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

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

4.1 Instruments Defining the Rights of Security Holders

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

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

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

4.3 Form of Series A Preferred Stock Certificate

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

10.1 Deferred Compensation Plan and Sample Director Agreement

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

10.2 Profit-Sharing Plan Dated January 1, 1979

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

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

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

59

---

Table of Contents

Part I (Continued)

Item 6

10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

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

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

10.6 Letter Agreement, Dated January 9, 2009, Including Securities Purchase Agreement – Standard Terms

Incorporated by Reference Therein, Between the Company and the United States Department of the Treasury

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

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

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

11.1 Statement of Computation of Earnings Per Share

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

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

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

Table of Contents

SIGNATURES

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

Date: November 6, 2009

/s/ Al D. Ross  
Al D. Ross,  
President and Chief Executive Officer

Date: November 6, 2009

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