

COLONY BANKCORP INC
Form 10-Q
November 07, 2008

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, 2008

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 T NO F

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 F

ACCELERATED FILER T

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	OUTSTANDING AT NOVEMBER 7, 2008
COMMON STOCK, \$1 PAR VALUE	7,212,613

TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
<u>Item 1.</u>	4
<u>Item 2.</u>	28
<u>Item 3.</u>	49
<u>Item 4.</u>	52
PART II – Other Information	
<u>Item 1.</u>	53
<u>Item 1A.</u>	53
<u>Item 2.</u>	53
<u>Item 3.</u>	53
<u>Item 4.</u>	53
<u>Item 5.</u>	53
<u>Item 6.</u>	53
<u>Signatures</u>	55

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 words of 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, 2008 AND DECEMBER 31, 2007.
- B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007.
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007.
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007.

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, 2008 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of Contents

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(DOLLARS IN THOUSANDS)

ASSETS	September 30, 2008 (Unaudited)	December 31, 2007
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 22,929	\$ 28,369
Federal Funds Sold	199	21,737
	23,128	50,106
Interest-Bearing Deposits	435	1,467
Investment Securities		
Available for Sale, at Fair Value	171,863	167,123
Held to Maturity, at Cost (Fair Value of \$67 and \$72, as of September 30, 2008 and December 31, 2007, Respectively)	65	68
	171,928	167,191
Federal Home Loan Bank Stock, at Cost	6,317	5,533
Loans	970,682	945,279
Allowance for Loan Losses	(17,952)	(15,513)
Unearned Interest and Fees	(226)	(301)
	952,504	929,465
Premises and Equipment	29,399	27,809
Other Real Estate	4,756	1,332
Goodwill	2,412	2,412
Other Intangible Assets	375	402
Other Assets	24,076	23,059
Total Assets	\$ 1,215,330	\$ 1,208,776
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 69,038	\$ 86,112
Interest-Bearing	908,714	932,490
	977,752	1,018,602
Borrowed Money		
Federal Funds Purchased	12,664	1,346
Securities Sold Under Agreements to Repurchase	20,000	---
Subordinated Debentures	24,229	24,229
Other Borrowed Money	91,000	73,600
	147,893	99,175
Other Liabilities	6,879	7,256
Commitments and Contingencies		
Stockholders' Equity		
	7,214	7,201

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares,
 Issued 7,213,813 and 7,200,913 Shares as of September 30, 2008 and
 December 31, 2007, Respectively

Paid-In Capital	24,561	24,420
Retained Earnings	52,675	52,087
Restricted Stock - Unearned Compensation	(275)	(237)
Accumulated Other Comprehensive Loss, Net of Tax	(1,369)	272
	82,806	83,743
Total Liabilities and Stockholders' Equity	\$ 1,215,330	\$ 1,208,776

The accompanying notes are an integral part of these statements.

Table of Contents

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	9/30/2008	9/30/2007	9/30/2008	9/30/2007
Interest Income				
Loans, Including Fees	\$ 16,295	\$ 20,735	\$ 51,386	\$ 60,923
Federal Funds Sold	25	237	264	1,204
Deposits with Other Banks	7	36	27	111
Investment Securities				
U.S. Government Agencies	1,809	1,632	5,076	4,749
State, County and Municipal	92	136	322	407
Corporate Obligations and Asset-Backed Securities	113	79	292	205
Dividends on Other Investments	87	76	253	225
	18,428	22,931	57,620	67,824
Interest Expense				
Deposits	7,599	10,853	25,746	32,133
Federal Funds Purchased	241	13	293	50
Borrowed Money	1,103	1,272	3,448	3,572
	8,943	12,138	29,487	35,755
Net Interest Income				
Net Interest Income	9,485	10,793	28,133	32,069
Provision for Loan Losses	3,370	850	8,512	2,678
Net Interest Income After Provision for Loan Losses	6,115	9,943	19,621	29,391
Noninterest Income				
Service Charges on Deposits	1,233	1,224	3,571	3,556
Other Service Charges, Commissions and Fees	240	218	735	703
Mortgage Fee Income	168	225	511	763
Securities Gains (Losses)	11	(2)	1,195	184
Other	128	181	1,173	806
	1,780	1,846	7,185	6,012
Noninterest Expenses				
Salaries and Employee Benefits	4,051	4,464	12,483	13,693
Occupancy and Equipment	1,098	1,025	3,166	3,036
Other	2,664	2,267	7,635	6,901
	7,813	7,756	23,284	23,630
Income Before Income Taxes				
Income Before Income Taxes	82	4,033	3,522	11,773
Income Taxes (Benefits)	(112)	1,414	823	3,978
Net Income	\$ 194	\$ 2,619	\$ 2,699	\$ 7,795
Net Income Per Share of Common Stock				
Basic	\$ 0.03	\$ 0.36	\$ 0.38	\$ 1.08
Diluted	\$ 0.03	\$ 0.36	\$ 0.38	\$ 1.08

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Cash Dividends Declared Per Share of Common Stock	\$ 0.10	\$ 0.09	\$ 0.29	\$ 0.27
Weighted Average Basic Shares Outstanding	7,201,580	7,193,603	7,197,016	7,187,586
Weighted Average Diluted Shares Outstanding	7,201,580	7,202,424	7,197,016	7,198,270

The accompanying notes are an integral part of these statements.

6

Table of Contents

COLONY BANKCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	09/30/08	09/30/07	09/30/08	09/30/07
Net Income	\$ 194	\$ 2,619	\$ 2,699	\$ 7,795
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year	(541)	1,040	(852)	633
Reclassification Adjustment	(8)	2	(789)	(121)
Change in Net Unrealized Losses on Securities Available for Sale, Net Reclassification Adjustment and Tax Effect	(549)	1,042	(1,641)	512
Comprehensive Income (Loss)	\$ (355)	\$ 3,661	\$ 1,058	\$ 8,307

The accompanying notes are an integral part of these statements.

Table of Contents

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 2,699	\$ 7,795
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,526	1,391
Provision for Loan Losses	8,512	2,678
Securities Gains	(1,195)	(184)
Amortization and Accretion	552	428
Loss on Sale of Other Real Estate and Repossessions	62	53
Gain on Sale of Equipment	(11)	(6)
Decrease (Increase) in Cash Surrender Value of Life Insurance	(155)	20
Other Prepaids, Deferrals and Accruals, Net	(474)	(692)
	11,516	11,483
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	(785)	(446)
Purchases of Investment Securities Available for Sale	(116,756)	(39,256)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	45,203	16,786
Held to Maturity	7	8
Proceeds from Sale of Investment Securities		
Available for Sale	65,299	16,985
(Increase) Decrease in Interest-Bearing Deposits in Other Banks	1,032	(542)
Net Loans to Customers	(37,981)	(29,526)
Purchase of Premises and Equipment	(3,117)	(1,730)
Other Real Estate and Repossessions	2,815	2,209
Proceeds from Sale of Premises and Equipment	12	258
Investment in Statutory Trust	---	(434)
Liquidation of Statutory Trust	---	279
	(44,271)	(35,409)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(17,074)	(3,178)
Interest-Bearing Customer Deposits	(23,776)	(20,513)
Increase (Decrease) in Federal Funds Purchased	11,318	(594)
Securities Sold Under Agreements to Repurchase	20,000	---
Dividends Paid	(2,091)	(1,890)
Proceeds from Other Borrowed Money	51,500	41,100
Principal Payments on Other Borrowed Money	(34,100)	(29,000)
Proceeds from Issuance of Subordinated Debentures	---	14,434
Principal Payments on Subordinated Debentures	---	(9,279)
	5,777	(8,920)

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net Increase (Decrease) in Cash and Cash Equivalents	(26,978)	(32,846)
Cash and Cash Equivalents at Beginning of Period	50,106	72,380
Cash and Cash Equivalents at End of Period	\$ 23,128	\$ 39,534

The accompanying notes are an integral part of these statements.

8

Table of Contents

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
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 operating 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.

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.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2008. 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 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 our larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in our larger MSA markets has resulted in increased loan loss provisions in 2008.

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.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Accounting Policies

The accounting and reporting policies of Colony Bankcorp, Inc. and its subsidiary are in accordance with accounting principles generally accepted and conform to general practices within the banking industry. The significant accounting policies followed by Colony and the methods of applying those policies are summarized hereafter.

Investment Securities

Investment securities are recorded under Statement of Financial Accounting Standards (SFAS) No. 115, whereby the Company classifies its 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 SFAS No. 115; accordingly, the provisions of SFAS No. 115 are not applicable to this investment. 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.

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.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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.

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Transfers of Financial Assets

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

Statement of Cash Flows

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

Advertising Costs

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

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 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. SFAS No. 130, Reporting Comprehensive Income, requires the presentation in the financial statements of net income and all items of other comprehensive income as total comprehensive income.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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

SFAS No. 141, Business Combinations (Revised 2007). SFAS No. 141R replaces SFAS No. 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141R requires an acquirer, upon initially obtaining control of another entity, to 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 required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141R, the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. 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 SFAS No. 5, Accounting for Contingencies. SFAS No. 141R is expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Before the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. The adoption of this standard January 1, 2008 did not have a material effect on the financial position, results of operations or disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply

complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. The adoption of this standard January 1, 2008 did not have an effect on the Company's financial position, results of operations or disclosures.

SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51. SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that 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, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires 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. SFAS No. 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's consolidated financial statements.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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

Emerging Issues Task Force (EITF) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. EITF No. 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Under EITF No. 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. The adoption of this standard January 1, 2008 did not have an effect on the Company's financial position, results of operations or disclosures.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The hierarchical guidance provided by SFAS 162 did not have a 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, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Cash on Hand and Cash Items	\$ 9,506	\$ 8,527
Noninterest-Bearing Deposits with Other Banks	13,423	19,842
	\$ 22,929	\$ 28,369

As of September 30, 2008, the Banks had required deposit reserves of approximately \$6,924 with the Federal Reserve that was satisfied with cash on hand.

(3) Investment Securities

Investment securities as of September 30, 2008 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 155,938	\$ 387	\$ (1,245)	\$ 155,080
Other	650	---	---	650
State, County & Municipal	9,730	19	(281)	9,468

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Corporate Obligations	6,619	41	(651)	6,009
Asset-Backed Securities	1,000	---	(344)	656
	\$ 173,937	\$ 447	\$ (2,521)	\$ 171,863

Securities Held to Maturity:

State, County and Municipal	\$ 65	\$ 2	\$ ---	\$ 67
-----------------------------	-------	------	--------	-------

The amortized cost and fair value of investment securities as of September 30, 2008, 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.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(3) Investment Securities (Continued)

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 3,977	\$ 3,937		
Due After One Year Through Five Years	5,590	5,285		
Due After Five Years Through Ten Years	4,787	4,713	\$ 65	\$ 67
Due After Ten Years	3,645	2,848	--	--
	17,999	16,783	65	67
Mortgage Backed Securities	155,938	155,080	--	--
	\$ 173,937	\$ 171,863	\$ 65	\$ 67

Investment securities as of December 31, 2007 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 109,024	\$ 758	\$ (459)	\$ 109,323
Other	36,818	314	(36)	37,096
State, County & Municipal	14,178	33	(296)	13,915
Corporate Obligations	5,689	105	(7)	5,787
Asset-Backed Securities	1,000	---	---	1,000
Marketable Equity Securities	2	---	---	2
	\$ 166,711	\$ 1,210	\$ (798)	\$ 167,123
Securities Held to Maturity:				
State, County and Municipal	\$ 68	\$ 4	\$ ---	\$ 72

Proceeds from the sale of investments available for sale during first nine months of 2008 totaled \$65,299 compared to \$16,985 for the first nine months of 2007. The sale of investments available for sale during 2008 resulted in gross realized gains of \$1,202 and gross unrealized losses of \$7, while the sale of investments available for sale during 2007 resulted in gross realized gains of \$214 and losses of \$30.

Investment securities having a carry value approximating \$94,149 and \$89,145 as of September 30, 2008 and December 31, 2007, respectively, were pledged to secure public deposits and for other purposes.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(3) Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at September 30, 2008 and December 31, 2007 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, 2008						
U.S. Government Agencies						
Mortgage Backed	\$ 109,843	\$ (1,224)	\$ 850	\$ (21)	\$ 110,693	\$ (1,245)
State, County and Municipal	4,593	(281)	---	---	4,593	(281)
Corporate Obligations	4,968	(651)	---	---	4,968	(651)
Asset-Backed Securities	656	(344)	---	---	656	(344)
	\$ 120,060	\$ (2,500)	\$ 850	\$ (21)	\$ 120,910	\$ (2,521)
December 31, 2007						
U.S. Government Agencies						
Mortgage Backed	\$ 13,721	\$ (56)	\$ 30,761	\$ (403)	\$ 44,482	\$ (459)
Other	---	---	14,101	(36)	14,101	(36)
State, County and Municipal	6,918	(255)	3,115	(41)	10,033	(296)
Corporate Obligations	---	---	995	(7)	995	(7)
Marketable Equity Securities	2	---	---	---	2	---
	\$ 20,641	\$ (311)	\$ 48,972	\$ (487)	\$ 69,613	\$ (798)

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, 2008, the debt securities with unrealized losses have depreciated 2.04 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 type 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, 2008 and December 31, 2007 was as follows:

	September 30, 2008	December 31, 2007
Commercial, Financial and Agricultural	\$ 90,105	\$ 52,323
Real Estate – Construction	164,092	211,484
Real Estate – Farmland	58,254	42,439
Real Estate – Other	593,564	544,655
Installment Loans to Individuals	44,012	72,350
All Other Loans	20,655	22,028
	\$ 970,682	\$ 945,279

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 \$29,667 and \$14,956 as of September 30, 2008 and December 31, 2007, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$20 and \$60, respectively.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2008 and September 30, 2007 as follows:

	September 30, 2008	September 30, 2007
Balance, Beginning	\$ 15,513	\$ 11,989
Provision Charged to Operating Expenses	8,512	2,678
Loans Charged Off	(6,534)	(1,971)
Loan Recoveries	461	1,125
Balance, Ending	\$ 17,952	\$ 13,821

(6) Premises and Equipment

Premises and equipment are comprised of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Land	\$ 7,805	\$ 7,799
Building	20,939	20,901
Furniture, Fixtures and Equipment	13,303	12,641
Leasehold Improvements	994	994
Construction in Progress	2,348	448
	45,389	42,783
Accumulated Depreciation	(15,990)	(14,974)
	\$ 29,399	\$ 27,809

Depreciation charged to operations totaled \$1,526 and \$1,391 for September 30, 2008 and September 30, 2007, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$282 and \$273 for nine months ended September 30, 2008 and September 30, 2007, respectively.

(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, 2008 and September 30, 2007:

Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
---	---

Goodwill

Balance, Beginning	\$	2,412	\$	2,412
Goodwill Acquired		---		---
Balance, Ending	\$	2,412	\$	2,412

Net Core Deposit, Intangible

Balance, Beginning	\$	402	\$	439
Amortization Expense		(27)		(28)
Balance, Ending	\$	375	\$	411

Table of ContentsPart I (Continued)
Item 1 (Continued)

(7) Goodwill and Intangible Assets (Continued)

The following table reflects the expected amortization for the core deposit intangible at September 30, 2008:

2008	\$ 9
2009	36
2010	36
2011	36
2012 and thereafter	258
	\$ 375

(8) Income Taxes

The Company records income taxes under SFAS No. 109, Accounting for Income Taxes, which requires 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

SFAS No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement 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:

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, included 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.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(9) Fair Value Measurements (Continued)

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, 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 on a Recurring Basis

The table below presents the recorded amount of the Company's assets measured at fair value on a recurring basis as of September 30, 2008 aggregated by the level in the fair value hierarchy within which those measurements fall.

	September 30, 2008	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)
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$ 155,080	\$ ---	\$ 155,080	\$ ---
Other	650	---	650	---
State, County & Municipal	9,468	---	9,468	---
Corporate Obligations	6,009	---	5,310	699
Asset-Backed Securities	656	---	---	656
	\$ 171,863	\$ ---	\$ 170,508	\$ 1,355

Liabilities

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

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$409 and \$574 as of September 30, 2008 and December 31, 2007.

Components of interest-bearing deposits as of September 30, 2008 and December 31, 2007 are as follows:

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

	September 30, 2008	December 31, 2007
Interest-Bearing Demand	\$ 180,505	\$ 190,304
Savings	33,757	31,588
Time, \$100,000 and Over	318,467	347,219
Other Time	375,985	363,379
	\$ 908,714	\$ 932,490

At September 30, 2008 and December 31, 2007, the Company had brokered deposits of \$115,202 and \$54,737 respectively. Of the \$115,202 brokered deposits at September 30, 2008, \$13,379 represented 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 \$101,823 at September 30, 2008. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$287,529 and \$310,971 as of September 30, 2008 and December 31, 2007, respectively.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(10) Deposits (Continued)

As of September 30, 2008 and December 31, 2007, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2008	December 31, 2007
One Year and Under	\$ 625,698	\$ 632,936
One to Three Years	61,141	42,977
Three Years and Over	7,613	34,685
	\$ 694,452	\$ 710,598

(11) Other Borrowed Money

Other borrowed money at September 30, 2008 and December 31, 2007 is summarized as follows:

	September 30, 2008	December 31, 2007
Federal Home Loan Bank Advances	\$ 91,000	\$ 73,500
Silverton Note Payable	---	100
Barclay's Master Repurchase Agreement	20,000	---
	\$ 111,000	\$ 73,600

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2009 to 2019 and interest rates ranging from 2.29 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, 2008, the Company had available line of credit commitments totaling \$100,587, of which \$9,587 was available.

Silverton Bank Note Payable originated on March 5, 2008 as a line of credit with funds available of \$1,000 at a rate of The Wall Street Prime minus 0.75 percent. Interest payments are due monthly with the entire balance due March 5, 2009. The debt is secured by all furniture, fixtures, equipment and software of Colony Management Services. Colony Bankcorp, Inc.

guarantees the debt. This note was paid off in September 2008.

Barclay's Master Repurchase Agreement originated on June 30, 2008. The Repurchase Agreement matures on June 30, 2011 and has a one-time call option on December 30, 2009. Interest is due quarterly at a fixed rate of 3.34 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

The aggregate stated maturities of other borrowed money at September 30, 2008 are as follows:

Year	Amount
2008	\$ ---
2009	19,000
2010	1,000
2011	20,000
2012 and Thereafter	71,000

\$ 111,000

The Company also has available federal funds lines of credit with various financial institutions totaling \$54,000, of which \$12,664 was outstanding at September 30, 2008. During third quarter 2008, the Company secured another master repurchase line of credit agreement for \$80,000, of which no monies had been drawn as of September 30, 2008.

(12) 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, 2008, the floating rate securities had a 5.50 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

20

Table of Contents

Part I (Continued)
Item 1 (Continued)

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

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, 2008 the floating-rate securities had a 5.26 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, 2008, the floating-rate securities had a 5.41 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 years and are redeemable after five years with certain exceptions. At September 30, 2008, the floating-rate securities had a 4.20 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.

(13) 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, remaining shares which may be subject to restricted stock awards are none at September 30, 2008. 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, 34,406 shares have been issued under this plan and since the plan's inception 7,848 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 116,942 at September 30, 2008. 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).

(14) 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, 2008 was \$455 compared to \$583 for the nine months ended September 30, 2007. The total provision for contributions to the plan was \$584 for 2007, \$663 for 2006 and \$558 for 2005.

(15) Commitments and Contingencies

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

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

Table of ContentsPart I (Continued)
Item 1 (Continued)

(15) Commitments and Contingencies (Continued)

At September 30, 2008 and December 31, 2007 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2008	December 31, 2007
Loan Commitments	\$ 85,091	\$ 93,105
Standby Letters of Credit	2,696	3,814

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

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

Legal Contingencies. In the ordinary course of business, there are various legal proceedings pending against Colony and its 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.

(16) Deferred Compensation Plan

Colony Bank, wholly-owned subsidiary has deferred compensation plans covering certain directors choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Bank is 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 \$1,119 and \$1,159 as of September 30, 2008 and December 31, 2007, respectively. Benefit payments under the contracts were \$165 and \$140 for the nine month period ended September 30, 2008 and September 30, 2007, respectively. Provisions charged to operations totaled \$128 and \$205 for the nine month period ended September 30, 2008 and September 30, 2007, respectively.

Fee income recognized with deferred compensation plans totaled \$117 and \$104 for nine month period ended September 30, 2008 and September 30, 2007, respectively.

(17) 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.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(17) Regulatory Capital Matter (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2008, 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, 2008.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2008						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 116,997	12.15%	\$ 77,031	8.00%	NA	NA
Colony Bank	116,075	12.08	76,902	8.00	\$ 96,128	10.00%
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	\$ 104,888	10.89%	\$ 38,515	4.00%	NA	NA
Colony Bank	103,986	10.82	38,451	4.00	57,677	6.00%
Tier 1 Capital to Average Assets						
Consolidated	\$ 104,888	8.70%	\$ 48,240	4.00%	NA	NA
Colony Bank	103,986	8.64	48,135	4.00	\$ 60,169	5.00%

Table of ContentsPart I (Continued)
Item 1 (Continued)

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

The parent company's balance sheets as of September 30, 2008 and December 31, 2007 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

ASSETS	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Cash	\$ 203	\$ 973
Premises and Equipment, Net	1,328	1,236
Investment in Subsidiaries, at Equity	105,963	105,323
Other	425	1,491
Totals Assets	\$ 107,919	\$ 109,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	\$ 703	\$ 684
Other	181	367
Subordinated Debt	884	1,051
	24,229	24,229
Stockholders' Equity		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,213,813 and 7,200,913 Shares as of September 30, 2008 and December 31, 2007, Respectively	7,214	7,201
Paid-In Capital	24,561	24,420
Retained Earnings	52,675	52,087
Restricted Stock - Unearned Compensation	(275)	(237)
Accumulated Other Comprehensive Loss, Net of Tax	(1,369)	272
	82,806	83,743
Total Liabilities and Stockholders' Equity	\$ 107,919	\$ 109,023

Table of Contents

Part I (Continued)
Item 1 (Continued)

(18) 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, 2008 AND SEPTEMBER 30, 2007
(UNAUDITED)

	September 30, 2008	September 30, 2007
Income		
Dividends from Subsidiaries	\$ 3,779	\$ 4,544
Other	71	130
	3,850	4,674
Expenses		
Interest	951	1,468
Salaries and Employee Benefits	708	793
Other	1,036	731
	2,695	2,992
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	1,155	1,682
Income Tax (Benefits)	(763)	(875)
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	1,918	2,557
Equity in Undistributed Earnings of Subsidiaries	781	5,238
Net Income	2,699	7,795
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During Year	(852)	633
Reclassification Adjustment	(789)	(121)
Unrealized Gains (Losses) in Securities	(1,641)	512
Comprehensive Income	\$ 1,058	\$ 8,307

Table of Contents

Part I (Continued)
Item 1 (Continued)

(18) 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, 2008 AND SEPTEMBER 30, 2007
(UNAUDITED)

	2008	2007
Cash Flows from Operating Activities		
Net Income	\$ 2,699	\$ 7,795
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	215	252
Equity in Undistributed Earnings of Subsidiary	(781)	(5,238)
Other	844	(214)
	2,977	2,595
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(1,500)	---
Purchases of Premises and Equipment	(156)	(45)
Investment in Capital Trust	---	(434)
Liquidation of Statutory Trust	---	279
	(1,656)	(200)
Cash Flows from Financing Activities		
Dividends Paid	(2,091)	(1,890)
Proceeds from Issuance of Subordinated Debentures	---	14,434
Principal Payment on Subordinated Debentures	---	(9,279)
	(2,091)	3,265
Net Increase in Cash	(770)	5,660
Cash, Beginning	973	2,224
Cash, Ending	\$ 203	\$ 7,884

Table of ContentsPart I (Continued)
Item 1 (Continued)

(19) Earnings Per Share

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. 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, 2008 and 2007, respectively, under the requirements of Statement 128:

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 194	7,202	\$ 0.03	\$ 2,619	7,194	\$ 0.36
Dilutive Effect of Potential Common Stock						
Restricted Stock		0			8	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 194	7,202	\$ 0.03	\$ 2,619	7,202	\$ 0.36

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 2,699	7,197	\$ 0.38	\$ 7,795	7,188	\$ 1.08
Dilutive Effect of Potential Common Stock						

Restricted Stock		0		10
Diluted EPS				
Income Available to Common Stockholders				
After Assumed Conversions of Dilutive Securities	\$	2,699	7,197	\$
			0.38	\$
			7,795	7,198
				\$
				1.08

27

Table of Contents

Part I (Continued)

Item 2

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 as required by SFAS 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis require management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

Table of ContentsPart 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, 2008 and December 31, 2007, and results of operations for each of three months and nine months in the periods ended September 30, 2008 and 2007. 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 totaled \$0.19 million, or \$0.03 diluted per common share, in three months ended September 30, 2008 compared to \$2.62 million, or \$0.36 diluted per common share, in three months ended September 30, 2007 and net income totaled \$2.70 million, or \$0.38 diluted per common share in nine months ended September 30, 2008 compared to \$7.80 million, or \$1.08 diluted per common share in nine months ended September 30, 2007.

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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Taxable-equivalent net interest income	\$ 9,578	\$ 10,885	\$ 28,396	\$ 32,331
Taxable-equivalent adjustment	93	92	263	262
Net interest income	9,485	10,793	28,133	32,069
Provision for possible loan losses	3,370	850	8,512	2,678
Noninterest income	1,780	1,846	7,185	6,012
Noninterest expense	7,813	7,756	23,284	23,630
Income before income taxes	82	4,033	3,522	11,773
Income Taxes	(112)	1,414	823	3,978

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net income	\$	194	\$	2,619	\$	2,699	\$	7,795
Net Income per common share:								
Basic	\$	0.03	\$	0.36	\$	0.38	\$	1.08
Diluted	\$	0.03	\$	0.36	\$	0.38	\$	1.08
Return on average assets		0.06%		0.87%		0.30%		0.87%
Return on average equity		0.93%		12.87%		4.24%		13.07%

30

Table of Contents

Part I (Continued)

Item 2 (Continued)

Net income for three months ended September 30, 2008 decreased \$2.43 million, or 92.59 percent, compared to the same period in 2007. The decrease was primarily the result of a \$1.31 million decrease in net interest income, a decrease of \$0.07 million in noninterest income, an increase of \$2.52 million in provision for possible loan losses, a decrease of \$1.53 million in income taxes and an increase of \$0.06 million in noninterest expense.

Net income for nine months ended September 30, 2008 decreased \$5.10 million, or 65.38 percent compared to the same period in 2007. The decrease was primarily the result of a decrease of \$3.94 million in net interest income, an increase of \$1.17 million in noninterest income, an increase of \$5.83 million in provision for possible loan losses, a decrease of \$3.15 million in income taxes and a decrease of \$0.35 million in noninterest expense.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 79.66 percent of total revenue for nine months ended September 30, 2008 and 84.21 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 4.00 percent to 8.25 percent during 2001 to 2007. At year end 2007, the prime rate was 7.25 percent and with the 225 basis point reduction during the first half of 2008 the prime rate ended the quarter at 5.00 percent. The federal funds rate moved similar to prime rate with interest rates ranging from 1.00 percent to 5.25 percent during 2001 to 2007. At year end 2007, the federal funds rate was 4.25 percent and with the 225 basis point reduction during the first nine months of 2008 the federal funds rate ended the quarter at 2.00 percent. We anticipate the Federal Reserve lowering rates during fourth quarter 2008 due to recessionary fears with a bias toward tightening policy the last half of 2009.

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 ContentsPart I (Continued)
Item 2 (Continued)

Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from September 30, 2007 to September 30, 2008 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, 2007 to September 30, 2008 (1)		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$ 692	\$ (10,212)	\$ (9,520)
Investment Securities			
Taxable	228	132	360
Tax-exempt	(61)	13	(48)
Total Investment Securities	167	145	312
Interest-Bearing Deposits in other Banks	(53)	(31)	(84)
Federal Funds Sold	(714)	(226)	(940)
Other Interest - Earning Assets	31	(3)	28
Total Interest Income	123	(10,327)	(10,204)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	126	(992)	(866)
Time Deposits	(1,760)	(3,761)	(5,521)
Federal Funds Purchased	435	(192)	243
Subordinated Debentures	(45)	(472)	(517)
Other Borrowed Money	632	(239)	393
Total Interest Expense	(612)	(5,656)	(6,268)
Net Interest Income	\$ 735	\$ (4,671)	\$ (3,936)

(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 approximately 38 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 the past several years, though the unprecedented 475 basis point decrease by U.S. Federal Reserve in 2001, 50 basis point decrease in 2002 and 25 basis point decrease in 2003 resulted in significant net interest margin pressure. During 2004 and 2005, interest rates increased 125 basis points and 200 basis points respectively, while another 100 basis point increase occurred during 2006, resulting in stable net interest margins. The 100 basis point decrease by the Federal Reserve in 2007 followed by 225 basis point decrease in first half 2008 resulted in significant pressure on net interest margins again. Net interest margin decreased to 3.34 percent for nine months ended September 30, 2008 compared to 3.79 percent for the same period a year ago. We anticipate margin compression the balance of 2008 given the Federal Reserve's present interest rate forecast of lowering rates the balance of 2008.

Taxable-equivalent net interest income for nine months ended September 30, 2008 decreased \$3.94 million, or 12.17 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, 2008 decreased almost \$3.22 million compared to the same period a year ago while over the same period the net interest margin decreased by 45 basis points from 3.79 percent to 3.34 percent. Growth in average earning assets during 2008 and 2007 was primarily in loans. The decrease in the net interest margin in 2008 was primarily the result of the general decrease in market interest rates and sluggish loan activity.

The average volume of loans increased \$10.7 million in nine months ended September 30, 2008 compared to the same period a year ago. The average yield on loans decreased 142 basis points in nine months ended September 30, 2008 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 decreased \$37.9 million in nine months ended September 30, 2008 compared to the same period a year ago, with interest-bearing deposits decreasing \$37.1 million in nine months ended September 30, 2008. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.4 percent in nine months ended September 30, 2008 compared to 92.6 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 70 basis points in nine months ended September 30, 2008 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 2.98 percent in nine months ended September 30, 2008 compared to 3.38 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 \$8.51 million in nine months ended September 30, 2008 compared to \$2.68 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 ContentsPart I (Continued)
Item 2 (Continued)

Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Service Charges on Deposit Accounts	\$ 1,233	\$ 1,224	\$ 3,571	\$ 3,556
Other Charges, Commissions and Fees	240	218	735	703
Other	128	181	1,173	806
Mortgage Fee Income	168	225	511	763
Securities Gains (Losses)	11	(2)	1,195	184
Total	\$ 1,780	\$ 1,846	\$ 7,185	\$ 6,012

Total noninterest income for three months ended September 30, 2008 decreased \$66 thousand, or 3.58 percent compared to the same period a year ago. Total noninterest income for nine months ended September 30, 2008 increased \$1.17 million, or 19.51 percent, compared to the same year ago period. Growth in noninterest income was primarily in other income and 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, 2008 increased \$9 thousand, or 0.74 percent, compared to the same period a year ago. Service charges on deposit accounts for the nine months ended September 30, 2008 increased \$15 thousand, or 0.42 percent, compared to the same year ago period.

Mortgage Fee Income. Mortgage fee income for three months ended September 30, 2008 decreased \$57 thousand, or 25.33 percent, compared to the same period year ago. Mortgage fee income for nine months ended September 30, 2008 decreased \$252 thousand, or 33.03 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, 2008 was \$368 thousand compared to \$399 thousand in the same year ago period, or a decrease of 7.77 percent. Other charges, commissions and fees, and other income for nine months ended September 30, 2008 was \$1.91 million compared to \$1.51 million in the same year ago period, or an increase of 26.44 percent. The significant increase was gains realized of \$670 thousand resulting from the Company's unwinding of its position in \$19 million FHLB advances during second quarter 2008.

Securities Gains. The Company realized gains from the sale of securities of \$11 thousand in three months ended September 30, 2008 compared to \$(2) thousand loss in the same year ago period and realized gains from the sale of securities of \$1.2 million in nine months ended September 30, 2008 compared to \$184 thousand in the same year ago period. The sale of securities in 2008 allowed the Company to restructure its balance sheet by selling short-term

securities that were likely to be called or experience higher paydowns on mortgage-backed securities and reinvest into longer-term securities at attractive yields.

Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Salaries and Employee Benefits	\$ 4,051	\$ 4,464	\$ 12,483	\$ 13,693
Occupancy and Equipment	1,098	1,025	3,166	3,036
Other	2,664	2,267	7,635	6,901
Total	\$ 7,813	\$ 7,756	\$ 23,284	\$ 23,630

Table of Contents

Part I (Continued)

Item 2 (Continued)

Total noninterest expense for three months ended September 30, 2008 increased \$57 thousand, or 0.73 percent, compared to the same period a year ago. Total noninterest expense for nine months ended September 30, 2008 decreased \$346 thousand, or 1.46 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, 2008 decreased \$413 thousand, or 9.25 percent, compared to the same period a year ago. Salaries and employee benefits expense for the nine months ended September 30, 2008 decreased \$1.21 million, or 8.84 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. In addition the bonus accrual for 2008 was adjusted as projected payouts based on company performance are significantly below incentive plan targeted goals. These two areas are the primary factors for the decreased salary and employee benefits for the comparable periods.

Occupancy and Equipment. Occupancy and equipment expense has remained relatively flat in both periods with an increase of \$73 thousand for three months ended September 30, 2008 compared to the same year ago period and an increase of \$130 thousand for nine months ended September 30, 2008 compared to the same year ago period.

All Other Non-Interest Expense. All other noninterest expense for three months ended September 30, 2008 increased \$397 thousand, or 17.51 percent compared to the same year ago period. All other noninterest expense for nine months ended September 30, 2008 increased \$734 thousand, or 10.64 percent compared to the same year ago period. Significant increases impacting the comparable periods include the FDIC insurance assessment and consultation expenses. For the nine months ended September 30, 2008, FDIC insurance assessments increased to \$421 thousand from \$129 thousand in the same year ago period, or an increase of 226.36 percent and consultation expense increased to \$682 thousand from \$253 thousand, or an increase of 169.57 percent. FDIC insurance premiums for the entire banking industry have been adjusted up by FDIC to reflect the insurance assessment increase, while the Company has engaged a consulting company to assist in a total bank performance assessment that accounts for the increase in consultation expenses. This assessment should result in enhanced revenue and operational cost reduction as the Company moves toward a centralized operational process.

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 \$1.194 billion in nine months ended September 30, 2008 compared to \$1.201 billion in nine months ended September 30, 2007.

Sources of Funds:	Nine Months Ended September 30,			
	2008		2007	
Deposits:				
Noninterest-Bearing	\$ 74,749	6.26%	\$ 75,553	6.29%
Interest-Bearing	909,744	76.18	946,877	78.86
Federal Funds Purchased and Repo Agreements	12,207	1.02	1,258	0.11
Long-term Debt and Other Borrowings	107,091	8.97	88,693	7.39

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other Noninterest-Bearing Liabilities	5,494	0.46	8,818	0.73
Equity Capital	84,967	7.11	79,518	6.62
Total	\$ 1,194,252	100.00%	\$ 1,200,717	100.00%

Uses of Funds:

Loans	\$ 936,483	78.41%	\$ 930,538	77.50%
Securities	160,671	13.45	155,658	12.96
Federal Funds Sold	12,518	1.05	30,762	2.56
Interest-Bearing Deposits in Other Banks	1,529	0.13	2,943	0.25
Other Interest-Earning Assets	5,951	0.50	5,233	0.44
Other Noninterest-Earning Assets	77,100	6.46	75,583	6.29
Total	\$ 1,194,252	100.00%	\$ 1,200,717	100.00%

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 92.41 percent of total average deposits in nine months ended September 30, 2008 compared to 92.61 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 \$970.7 million at September 30, 2008, up 2.69 percent, compared to loans of \$945.3 million at December 31, 2007. 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, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Commercial, Financial and Agricultural	\$ 90,105	\$ 52,323
Real Estate		
Construction	164,092	211,484
Mortgage, Farmland	58,254	42,439
Mortgage, Other	593,564	544,655
Consumer	44,012	72,350
Other	20,655	22,028
	970,682	945,279
Unearned Interest and Fees	(226)	(301)
Allowance for Loan Losses	(17,952)	(15,513)
Loans	\$ 952,504	\$ 929,465

The following table presents total loans as of September 30, 2008 according to maturity distribution and/or repricing opportunity on adjustable rate loans:

Maturity and
Repricing (\$ i n
Opportunity Thousands)

One Year or Less	\$ 611,916
After One Year through Three Years	289,034
After Three Years	58,189

through Five Years	
Over Five Years	11,543
	\$ 970,682

Overview. Loans totaled \$970.7 million at September 30, 2008, up 2.69 percent from December 31, 2007 loans of \$945.3 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 61.15 percent and 57.62 percent of total loans, real estate construction made up 16.90 percent and 22.37 percent, while commercial, financial and agricultural made up 9.28 percent and 5.54 percent of total loans at September 30, 2008 and December 31, 2007, 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, 2008 increased 72.21 percent from December 31, 2007 to \$90 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 that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. 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. Problem loans are centered primarily in land development in our larger MSA markets. Charge-offs in 2008 are primarily the result of declining collateral real estate values that secure land development, construction and speculative real estate loans in our larger MSA markets.

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

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

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.

	September 30, 2008			December 31, 2007		
	Number of Relationships	Period End Balances		Number of Relationships	Period End Balances	
		Committed	Outstanding		Committed	Outstanding
Large Credit Relationships:						
\$10 million and greater	2	\$ 30,156	\$ 21,034	3	\$ 38,957	\$ 23,441
\$5 million to \$9.9 million	10	\$ 62,879	\$ 61,320	15	\$ 92,595	\$ 89,677

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, 2008. 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	\$ 249,644	\$ 284,818	\$ 58,176	\$ 11,209	\$ 603,847
Loans with floating interest rates	362,272	4,216	13	334	366,835
Total	\$ 611,916	\$ 289,034	\$ 58,189	\$ 11,543	\$ 970,682

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, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Loans accounted for on nonaccrual	\$ 29,667	\$ 14,956
Loans past due 90 days or more	20	60
Other real estate foreclosed	4,756	1,332
Total non-performing assets	\$ 34,443	\$ 16,348
Non-performing assets as a percentage of:		
Total loans and foreclosed assets	3.53%	1.73%
Total assets	2.83%	1.35%
Accruing past due loans:		
30-89 days past due	\$ 18,480	\$ 15,681
90 or more days past due	20	60
Total accruing past due loans	\$ 18,500	\$ 15,741

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, 2008 increased 110.69 percent from December 31, 2007.

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 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.

Table of Contents

Part I (Continued)
Item 2 (Continued)

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 SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, and allowance allocations determined in accordance with SFAS No. 5, Accounting for Contingencies. 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, 2008		December 31, 2007	
	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 5,116	9%	\$ 3,645	6%
Real Estate – Construction	2,962	17%	2,560	22%
Real Estate – Farmland	718	6%	621	4%
Real Estate – Other	6,283	61%	5,430	58%
Loans to Individuals	1,885	5%	2,404	8%
All other Loans	988	2%	853	2%
Total	\$ 17,952	100%	\$ 15,513	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, 2008	Three Months Ended September 30, 2007
Allowance for Loan Losses at Beginning of Quarter	\$ 17,466	\$ 12,647
Charge-Off		
Commercial, Financial and Agricultural	682	139
Real Estate	1,906	188
Consumer	455	118
All Other	33	41
	3,076	486
Recoveries		
Commercial, Financial and Agricultural	7	74
Real Estate	148	710
Consumer	37	18
All Other	--	8
	192	810
Net Charge-Offs (recoveries)	2,884	(324)
Provision for Loan Losses	3,370	850
Allowance for Loan Losses at End of Quarter	\$ 17,952	\$ 13,821
Ratio of Net Charge-Offs (recoveries) to Average Loans	0.30%	(0.03)%

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 \$2.52 million from \$850 thousand in three months ended September 30, 2007. Provisions were higher in 2008 compared to 2007 primarily due to the elevated risk of residential real estate and land development loans given the downturn in the real estate market that began in 2007. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 3.53 percent at September 30, 2008 compared to 0.76 percent at September 30, 2007 and 1.73 percent at December 31, 2007.

Net charge-offs in three months ended September 30, 2008 increased \$3.21 million compared to the same period a year ago. Net charge-offs of 0.30 percent for third quarter 2008 annualizes to 1.20 percent for the year. Net charge-offs the past three years have averaged 0.30 percent; however, we will exceed that level in 2008 as many problem credits are now being brought to resolution in this challenging credit environment.

Management believes the level of the allowance for loan losses was appropriate as of September 30, 2008. 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 ContentsPart 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, 2008	Nine Months Ended September 30, 2007
Allowance for Loan Losses at Beginning of Period	\$ 15,513	\$ 11,989
Charge-Off		
Commercial, Financial and Agricultural	1,344	664
Real Estate	4,420	846
Consumer	685	314
All Other	85	147
	6,534	1,971
Recoveries		
Commercial, Financial and Agricultural	66	96
Real Estate	271	915
Consumer	105	89
All Other	19	25
	461	1,125
Net Charge-Offs	6,073	846
Provision for Loan Losses	8,512	2,678
Allowance for Loan Losses at End of Period	\$ 17,952	\$ 13,821
Ratio of Net Charge-Offs to Average Loans	0.64%	0.09%

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 \$5.83 million from \$2.68 million in nine months ended September 30, 2007 to \$8.51 million in nine months ended September 30, 2008. Provisions increased during 2008 primarily due to the elevated risk of residential real estate and land development loans given the downturn in the real estate market that began in 2007.

Net charge-offs in nine months ended September 30, 2008 increased \$5.23 million compared to the same period a year ago. Net charge-offs of 0.64 percent year to date 2008 that annualizes to 0.85 percent is above our net charge-off ratio for the past several years. We anticipate annual net charge-offs to be in the 0.85 to 1.00 percent range for 2008.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of September 30, 2008 and December 31, 2007.

(\$ in thousands)	September 30, 2008	December 31, 2007
U.S. Government Agencies	\$ 650	\$ 37,096
State, County and Municipal	9,533	13,983
Corporate Obligations	6,009	5,787
Asset-Backed Securities	656	1,000
	16,848	57,866
Marketable Equity Securities	--	2
Mortgage Backed Securities	155,080	109,323
Total Investment Securities and Mortgage Backed Securities	\$ 171,928	\$ 167,191

The following table represents maturities and weighted-average yields of investment securities held by the Company as of September 30, 2008. (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 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U. S. Government Agencies	\$ 650	3.75%	\$ ---	---%	\$ ---	---%	\$ ---	---%
Mortgage Backed Securities	9,845	4.34	139,486	4.86	5,749	5.17	---	---
State, County and Municipal	1,155	4.83	3,148	5.86	3,737	5.65	1,493	5.29
Corporate Obligations	2,132	8.36%	2,137	5.41	1,041	5.67	699	5.95
Asset-Backed Securities	---	---	---	---	---	---	656	6.33
Total Investment Portfolio	\$ 13,782	4.98%	\$ 144,771	4.89%	\$ 10,527	5.39%	\$ 2,848	5.69%

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, 2008, 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 4.85 percent in nine months ended September 30, 2008 compared to 4.74 percent in the same period a year ago. The increase in the average yield over the comparable periods primarily resulted from reinvestment of proceeds from maturities and paydowns on mortgage-backed securities into higher yielding securities.

Table of ContentsPart 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 nine month periods ended September 30, 2008 and September 30, 2007.

(\$ in thousands)	September 30, 2008		September 30, 2007	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	\$ 74,749		\$ 75,553	
Interest-Bearing Demand and Savings Deposits	221,395	1.56%	213,562	2.15%
Time Deposits	688,349	4.49%	733,315	5.22%
Total Deposits	\$ 984,493	3.49%	\$ 1,022,430	4.19%

The following table presents the maturities of the Company's time deposits as of September 30, 2008.

(\$ in thousands)	Time Deposits	Time Deposits	Total
	\$100,000 or Greater	Less Than \$100,000	
Months to Maturity			
3 or Less	\$ 79,240	\$ 122,295	\$ 201,535
Over 3 through 12 Months	208,289	215,874	424,163
Over 12 Months through 36 Months	27,968	33,173	61,141
Over 36 Months	2,970	4,643	7,613
	\$ 318,467	\$ 375,985	\$ 694,452

Average deposits decreased \$37.9 million to \$984 million at September 30, 2008 from \$1,022 million at September 30, 2007. The decrease included \$0.80 million, or 1.06 percent, related to noninterest-bearing deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.59 percent for nine months ended September 30, 2008 compared to 7.39 percent for nine months ended September 30, 2007. The general increase in market rates, had the effect of (i) decreasing the average cost of total deposits by 70 basis points in nine months ended September 30, 2008 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 decreased \$37.1 million, or 3.92 percent in nine months ended September 30, 2008 compared to the same period a year ago. The decline in average deposits at September 30, 2008 compared to September 30, 2007 was primarily in time accounts.

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, 2008. 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.

43

Table of ContentsPart 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	12,664	20,000	----	----	32,664
Federal Home Loan Bank advances	19,000	1,000	41,000	30,000	91,000
Operating leases	121	184	153	19	477
Deposits with stated maturity dates	625,698	61,141	7,486	127	694,452
	657,483	82,325	48,639	54,375	842,822
Other commitments:					
Loan commitments	85,091	----	----	----	85,091
Standby letters of credit	2,696	----	----	----	2,696
	87,787	----	----	----	87,787
Total contractual obligations and Other commitments	\$ 745,270	\$ 82,325	\$ 48,639	\$ 54,375	\$ 930,609

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, 2008 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, 2008 are included in the table above.

Capital and Liquidity

At September 30, 2008, stockholders' equity totaled \$82.81 million compared to \$83.74 million at December 31, 2007. In addition to net income of \$2.70 million, other significant changes in stockholders' equity during nine months ended September 30, 2008 included \$2.11 million of dividends declared and an increase of \$0.15 million resulting from the amortization of the stock grant plan. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$(1,369) thousand at September 30, 2008 compared to \$272 thousand at December 31, 2007. 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, 2008 was 10.89 percent and total Tier 1 and 2 risk-based capital was 12.15 percent. Both of these measures compare favorably with the regulatory minimum 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, 2008 was 8.70 percent, which exceeds the required ratio standard of 4 percent.

For nine months ended September 30, 2008, average capital was \$85 million, representing 7.11 percent of average assets for the year. This compares to 6.62 percent for nine months ended September 30, 2007 and 6.69 percent for calendar year 2007.

The Company declared cash dividends of \$0.29 per common share during the first three quarters of 2008, and a cash dividend of \$0.27 per common share during the first three quarters of 2007, respectively. This equates to a dividend payout ratio of 76.32 percent for the first three quarters of 2008 compared to 24.90 percent for the same period a year ago.

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 2008, the Company held \$171.9 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2007, the available for sale bond portfolio totaled \$167 million. Only marketable investment grade bonds are purchased. Although most of the bank's 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 99.3 percent as of September 30, 2008 and 92.8 percent at December 31, 2007. 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, 2008 and December 31, 2007 were 88.11 percent and 86.4 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the bank's 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, 2008 and December 31, 2007, the bank had \$318.5 million and \$347.2 million in certificates of deposit of \$100,000 or more. These larger deposits represented 32.57 percent and 34.09 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, 2008, the Company had \$115.2 million, or 11.78 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Of the \$115.2 million in brokered deposits at September 30, 2008, \$13.4 million represented 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. Excluding reciprocal deposits the Company had brokered deposits of \$101.8 million or 10.41 percent of total deposits. Additionally, the bank 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 bank has also established overnight borrowing for Federal Funds Purchased through various correspondent banks and has secured a master repurchase agreement line of credit. 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 the subsidiary bank and borrowings from outside sources.

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

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. 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 ContentsPart 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 2008	2007	September 30 2008	2007
Return on Assets	0.06%	0.87%	0.30%	0.87%
Return on Equity	0.93%	12.87%	4.24%	13.07%
Dividend Payout	333.33%	25.45%	76.32%	24.90%
Avg. Equity to Avg. Assets	6.94%	6.76%	7.11%	6.62%
Dividends Declared	\$ 0.10	\$ 0.09	\$ 0.29	\$ 0.27

Future Outlook

Colony is an emerging company in an industry filled with nonregulated competitors and a rapid pace of consolidation. The year brings with it new opportunities for growth in our existing markets, as well as opportunities to expand into new markets through acquisitions and denovo branching. Entry into the MSA markets – Savannah, Albany, Columbus, Warner Robins, and Valdosta – will require multi-branch offices and the Company is presently looking for available real estate to purchase in those markets. Construction on the second office in Savannah is complete and it opened for business on October 6, 2008. Likewise, Colony has secured real estate in the Albany market for another office though no established date for construction has been set. Colony consummated the merger of its subsidiaries into the surviving charter, Colony Bank on August 1, 2008. The single bank charter will allow for standardization and consistency in the products we offer and the services that we deliver. We believe it will enhance our ability to manage risk within the company.

BUSINESS

General

The Company was organized in 1983 as a bank holding company through the merger of Colony Bank of Fitzgerald with a subsidiary of the Company. Since that time, Colony Bank of Fitzgerald, which was formed by principals of Colony Bankcorp, Inc. in 1976, has operated as a wholly-owned subsidiary of the Company. In April 1984, Colony Bankcorp, Inc. acquired Colony Bank Wilcox, and in November 1984, Colony Bank Ashburn became a wholly-owned subsidiary of Colony Bankcorp, Inc. Colony Bankcorp, Inc. continued its growth with the acquisition of Colony Bank of Dodge County in September 1985. In August 1991, Colony Bankcorp, Inc. acquired Colony Bank Worth. In November 1996, Colony Bankcorp, Inc. acquired Colony Bank Southeast and in November 1996 formed a non-bank subsidiary Colony Management Services, Inc. In March 2002, Colony Bankcorp, Inc. acquired Colony Bank Quitman, FSB and also formed Colony Bankcorp Statutory Trust I. In December 2002, Colony formed its second trust, Colony Bankcorp Statutory Trust II. In September 2004, Colony formed its third Trust, Colony

Bankcorp Statutory Trust III. In April 2006, Colony formed its fourth Trust, Colony Bankcorp Capital Trust I. In March 2007, Colony formed its fifth Trust, Colony Bankcorp Capital Trust II, while it liquidated its first Trust, Colony Bankcorp Statutory Trust I by exercising its call option. In September 2007, Colony formed its sixth Trust, Colony Bankcorp Capital Trust III and liquidated its second Trust, Colony Bankcorp Statutory Trust II by exercising its call option in December 2007. In August 2008 all of the subsidiaries were merged into the surviving bank charter – Colony Bank. Colony Bank of Fitzgerald is the remaining charter and effective with the merger the bank name was changed to Colony Bank.

Through its subsidiary bank, Colony Bankcorp, Inc. operates a full-service banking business and offers a broad range of retail and commercial banking services including checking, savings, NOW accounts, money market and time deposits of various types; loans for business, agriculture, real estate, personal uses, home improvement and automobiles; credit card; letters of credit; investment and discount brokerage services; IRA's; safe deposit box rentals, bank money orders; electronic funds transfer services, including wire transfers and automated teller machines and internet accounts. Colony Bank is a member of Federal Deposit Insurance Corporation whose customer deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation.

Table of Contents

Part I (Continued)
Item 2 (Continued)

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 2,089 shareholders as of September 30, 2008. "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, 2008			Nine Months Ended September 30, 2007		
	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)	\$ 954,045	\$ 51,494	7.20%	\$ 943,342	\$ 61,014	8.62%
Investment Securities						
Taxable	150,017	5,391	4.79%	143,514	5,031	4.67%
Tax-Exempt (2)	10,654	453	5.67%	12,144	501	5.50%
Total Investment Securities	160,671	5,844	4.85%	155,658	5,532	4.74%
Interest-Bearing Deposits	1,529	27	2.35%	2,943	111	5.03%
Federal Funds Sold	12,518	264	2.81%	30,762	1,204	5.22%
Interest-Bearing Other Assets	5,951	253	5.67%	5,233	225	5.73%
Total Interest-Earning Assets	1,134,714	\$ 57,882	6.80%	1,137,938	\$ 68,086	7.98%
Non-interest-Earning Assets						
Cash and Cash Equivalents	20,496			21,474		
Allowance for Loan Losses	(16,256)			(12,804)		
Other Assets	55,298			54,109		
Total Noninterest-Earning Assets	59,538			62,779		
Total Assets	\$ 1,194,252			\$ 1,200,717		
Liabilities and Stockholders' Equity						
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Interest-Bearing Demand and Savings						
	\$ 221,395	\$ 2,585	1.56%	\$ 213,562	\$ 2,451	2.15%
Other Time	688,349	23,161	4.49%	733,315	28,682	5.22%
Total Interest-Bearing Deposits	909,744	25,746	3.77%	946,877	32,133	4.52%
Other Interest-Bearing Liabilities						
Other Borrowed Money	82,862	2,497	4.02%	63,705	2,104	4.40%
Subordinated Debentures	24,229	951	5.23%	24,988	1,468	7.83%
Federal Funds Purchased and Repurchase Agreements	12,207	293	3.20%	1,258	50	5.30%
Total Other Interest-Bearing Liabilities	119,298	3,741	4.18%	89,951	3,622	5.37%
Total Interest-Bearing Liabilities	1,029,042	\$ 29,487	3.82%	1,036,828	\$ 35,755	4.60%

Noninterest-Bearing Liabilities
and

Stockholders' Equity			
Demand Deposits	74,749		75,553
Other Liabilities	5,494		8,818
Stockholders' Equity	84,967		79,518
Total Noninterest-Bearing Liabilities and Stockholders' Equity	165,210		163,889
Total Liabilities and Stockholders' Equity	\$ 1,194,252		\$ 1,200,717
Interest Rate Spread		2.98%	3.38%
Net Interest Income	\$ 28,395		\$ 32,331
Net Interest Margin		3.34%	3.79%

(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 \$108 and \$92 for nine month periods ended September 30, 2008 and 2007, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling \$154 and \$170 for nine month periods ended September 30, 2008 and 2007, 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, 2008. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	Total
(\$ in Thousands)						
EARNING ASSETS:						
Interest-Bearing Deposits	\$ 435	\$ ---	\$ 435	\$ ---	---	\$ 435
Federal Funds Sold	199	---	199	---	---	199
Investment Securities	6,426	11,674	18,100	102,058	51,770	171,928
Loans, Net of Unearned Income	450,867	160,936	611,803	347,110	11,543	970,456
Other Interest-Bearing Assets	6,317	---	6,317	---	---	6,317
Total Interest-Earning Assets	464,244	172,610	636,854	449,168	63,313	1,149,335
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand						
Deposits (1)	180,505	---	180,505	---	---	180,505
Savings (1)	33,757	---	33,757	---	---	33,757
Time Deposits	201,535	424,163	625,698	61,141	7,613	694,452
Other Borrowings (2)	22,000	---	22,000	42,000	27,000	91,000
Subordinated Debentures	24,229	---	24,229	---	---	24,229
Federal Funds Purchased	12,664	---	12,664	---	---	12,664
Repurchase Agreements	---	---	---	20,000	---	20,000
Total Interest-Bearing Liabilities	474,690	424,163	898,853	123,141	34,613	1,056,607
Interest Rate-Sensitivity Gap	(10,446)	(251,553)	(261,999)	326,027	28,700	92,728
Cumulative Interest-Sensitivity Gap	(10,446)	(261,999)	(261,999)	64,028	92,728	

Interest Rate-Sensivity Gap
as a Percentage of
Interest-Earning Assets

(0.91%)	(21.89%)	(22.80%)	28.37%	2.50%
---------	----------	----------	--------	-------

Cumulative Interest
Rate-Sensitivity as as a
Percentage of
Interest-Earning Assets

(0.91%)	(22.80%)	(22.80%)	5.57%	8.07%
---------	----------	----------	-------	-------

(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.

50

Table of ContentsPart I (Continued)
Item 3 (Continued)

The foregoing table indicates that we had a one year negative gap of (\$262) million, or (22.80) percent of total assets at September 30, 2008. In theory, this would indicate that at September 30, 2008, \$262 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 Financial 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 August 31, 2008 indicates that net interest income would deteriorate 11.83 percent with a 200 basis point decrease and would improve 6.70 percent with a 200 basis point increase. 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 August 31, 2008 indicates that net economic value of equity percentage change would decrease 5.16 percent with a 200 basis point increase and would decrease 7.53 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of August 31, 2008 indicates a one year gap of 0.84 percent. The analysis suggests net interest margin compression in a declining interest rate environment. Given that interest rates are at or near its bottom, the Company is focusing on areas to minimize margin compression in the future. These include extending on the liability side of the balance with FHLB advances and longer-term time deposits. With the anticipation of rates going up the last half of 2009, we will look at security investments in the shorter term (2-4 years) and look to book loans with an adjustable rate.

Table of Contents

Part I (Continued)

Item 4

CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and the Principal Financial and Accounting Officer of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that the disclosure controls and procedures are effective.

52

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 14, 2008 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

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

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)

10.1 Deferred Compensation Plan and Sample Director Agreement

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

10.2 Profit-Sharing Plan Dated January 1, 1979

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

53

Table of Contents

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

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

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 7, 2008

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

Date: November 7, 2008

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