

COLONY BANKCORP INC  
Form 10-Q  
August 06, 2012

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED JUNE 30, 2012

COMMISSION FILE NUMBER 0-12436

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

GEORGIA  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

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

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

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

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

YES  NO

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

YES  NO

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

LARGE ACCELERATED FILER

ACCELERATED FILER

NON-ACCELERATED FILER

SMALLER REPORTING COMPANY

(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

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

YES

NO

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

CLASS

OUTSTANDING AT AUG 6, 2012

COMMON STOCK, \$1 PAR VALUE

8,439,258

---

---

---

## TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
Item 1. <u>Financial Statements</u>	5
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
Item 4. <u>Controls and Procedures</u>	57
PART II – Other Information	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
Item 3. <u>Defaults Upon Senior Securities</u>	58
Item 4. <u>(Removed and Reserved)</u>	58
Item 5. <u>Other Information</u>	58
Item 6. <u>Exhibits</u>	59
<u>Signatures</u>	61

Table of Contents

Forward Looking Statement Disclosure

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

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

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

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

- Changes in the Company's organization, compensation and benefit plans.
  - The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.
  - Greater than expected costs or difficulties related to the integration of new lines of business.
  - The Company's success at managing the risks involved in the foregoing items.
- Restrictions or conditions imposed by our regulators on our operations, including the terms of our Memorandum of Understanding.

Table of Contents

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

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

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 – JUNE 30, 2012 (UNAUDITED) AND DECEMBER 31, 2011.
- B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND 2011 AND FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED).
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND 2011 AND FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED).
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED).

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

THE RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of ContentsPart I (Continued)  
Item 1 (Continued)COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2012 AND DECEMBER 31, 2011  
(DOLLARS IN THOUSANDS)

ASSETS	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 21,770	\$ 28,380
Federal Funds Sold	40,836	54,992
	62,606	83,372
Interest-Bearing Deposits	3,369	28,957
Investment Securities		
Available for Sale, at Fair Value	294,945	303,891
Held to Maturity, at Cost (Fair Value of \$45 and \$46, as of June 30, 2012 and December 31, 2011, Respectively)	44	46
	294,989	303,937
Federal Home Loan Bank Stock, at Cost	4,159	5,398
Loans	716,361	716,321
Allowance for Loan Losses	(15,293 )	(15,650 )
Unearned Interest and Fees	(151 )	(57 )
	700,917	700,614
Premises and Equipment	25,474	25,750
Other Real Estate	17,915	20,445
Other Intangible Assets	241	259
Other Assets	23,500	26,644
Total Assets	\$ 1,133,170	\$ 1,195,376
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Noninterest-Bearing	\$ 103,709	\$ 94,269
Interest-Bearing	868,426	905,716
	972,135	999,985
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	35,000	71,000
	59,229	95,229
Other Liabilities	4,797	3,549
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,744	27,663



Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,439,258 Shares as of June 30, 2012 and December 31, 2011, Respectively	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	29,967	29,456
Accumulated Other Comprehensive Income, Net of Tax	1,714	1,910
	97,009	96,613
Total Liabilities and Stockholders' Equity	\$ 1,133,170	\$ 1,195,376

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)  
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED JUNE 30, 2012 AND 2011  
AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
<b>Interest Income</b>				
Loans, Including Fees	\$ 10,433	\$ 11,135	\$ 20,853	\$ 22,703
Federal Funds Sold	30	38	56	72
Deposits with Other Banks	10	8	30	26
<b>Investment Securities</b>				
U.S. Government Agencies	1,390	1,851	3,009	3,694
State, County and Municipal	65	29	131	58
Corporate Obligations and Asset-Backed Securities	25	22	48	45
Dividends on Other Investments	20	12	37	24
	11,973	13,095	24,164	26,622
<b>Interest Expense</b>				
Deposits	2,253	3,450	4,723	7,104
Federal Funds Purchased	--	171	--	338
Borrowed Money	629	893	1,466	1,781
	2,882	4,514	6,189	9,223
<b>Net Interest Income</b>	9,091	8,581	17,975	17,399
Provision for Loan Losses	1,943	2,250	3,885	3,750
<b>Net Interest Income After Provision for Loan Losses</b>	7,148	6,331	14,090	13,649
<b>Noninterest Income</b>				
Service Charges on Deposits	814	800	1,610	1,556
Other Service Charges, Commissions and Fees	328	330	747	645
Mortgage Fee Income	112	42	193	104
Securities Gains	743	736	880	1,132
Other	377	763	758	1,338
	2,374	2,671	4,188	4,775
<b>Noninterest Expenses</b>				
Salaries and Employee Benefits	3,833	3,570	7,653	7,139
Occupancy and Equipment	963	1,028	1,901	2,044
Other	3,609	3,620	6,834	6,974
	8,405	8,218	16,388	16,157
<b>Income Before Income Taxes</b>	1,117	784	1,890	2,267

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Income Taxes (Benefits)	357	245	589	672
Net Income	760	539	1,301	1,595
Preferred Stock Dividends	357	350	709	700
Net Income Available to Common Stockholders	\$ 403	\$ 189	\$ 592	\$ 895
Net Income Per Share of Common Stock				
Basic	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.11
Diluted	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.11
Cash Dividends Declared Per Share of Common Stock	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Weighted Average Basic Shares				
Outstanding	8,439,258	8,441,712	8,439,258	8,440,466
Weighted Average Diluted Shares				
Outstanding	8,439,258	8,441,712	8,439,258	8,440,466

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)  
 Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 THREE MONTHS ENDED JUNE 30, 2012 AND 2011  
 AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	06/30/12	06/30/11	06/30/12	06/30/11
Net Income	\$ 760	\$ 539	\$ 1,301	\$ 1,595
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year	( 30 )	3,019	385	2,465
Reclassification Adjustment	(490 )	(486 )	(581 )	(747 )
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	(520 )	2,533	(196 )	1,718
Comprehensive Income	\$ 240	\$ 3,072	\$ 1,105	\$ 3,313

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)  
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2012 AND 2011  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,301	\$ 1,595
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	830	927
Provision for Loan Losses	3,885	3,750
Securities Gains	(880 )	(1,132 )
Amortization and Accretion	2,073	1,686
Loss on Sale of Other Real Estate and Repossessions	396	453
Provision for Losses on Other Real Estate	752	648
Increase in Cash Surrender Value of Life Insurance	(110 )	(108 )
Other Prepaids, Deferrals and Accruals, Net	3,817	1,587
Gain on Sale of Equipment	--	(2 )
	12,064	9,404
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investment Securities Available for Sale	(76,113 )	(185,192 )
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	22,989	21,924
Held for Maturity	7	6
Proceeds from Sale of Investment Securities		
Available for Sale	60,654	154,560
Decrease in Interest-Bearing Deposits in Other Banks	25,588	22,103
Net Loans to Customers	(8,488 )	32,007
Purchase of Premises and Equipment	(553 )	(173 )
Proceeds from Sale of Other Real Estate and Repossessions	5,697	4,081
Federal Home Loan Bank Stock	1,239	329
Proceeds from Sale of Premises and Equipment	--	2
	31,020	49,647
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Noninterest-Bearing Customer Deposits	9,440	(10,378 )
Interest-Bearing Customer Deposits	(37,290 )	(46,540 )
Securities Sold Under Agreements to Repurchase	--	(20,000 )
Dividends Paid On Preferred Stock	--	(700 )
Principal Payments on Other Borrowed Money	(36,000 )	(4,076 )
	(63,850 )	(81,694 )
Net Decrease in Cash and Cash Equivalents	(20,766 )	(22,643 )
Cash and Cash Equivalents at Beginning of Period	83,372	54,149

Cash and Cash Equivalents at End of Period	\$ 62,606	\$ 31,506
--	-----------	-----------

The accompanying notes are an integral part of these statements.

9

---

Table of Contents

Part I (Continued)  
Item 1 (Continued)

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

(1) Summary of Significant Accounting Policies

Presentation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank (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.

The consolidated financial statements in this report are unaudited, except for the December 31, 2011 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the six months ended June 30, 2012, are not necessarily indicative of the results which may be expected for the entire year.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in 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 banking office network.

Use of Estimates

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

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2012. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At June 30, 2012, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.



Table of Contents

Part I (Continued)  
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

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

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

Investment Securities

The Company classifies its investment securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Currently, no securities are classified as trading. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All securities not classified as trading or held to maturity are considered available for sale. Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity. Gains and losses from sales of securities available for sale are computed using the specific identification method. Securities available for sale includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Table of Contents

Part I (Continued)  
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring (TDR)

Loans are considered to have been modified in a TDR when due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

Allowance for Loan Losses

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

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

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

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

In 2012, the Company refined its methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL). As discussed in Note 4 to the financial statements, the allowance for loan losses resulted in a reduction of \$1,530 due to a change in methodology in the current year. Refer to the financial statements for more

information on this topic.

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.

12

---

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

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

## Premises and Equipment

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

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

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

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

## Intangible Assets

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

## Transfers of Financial Assets

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

## Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

Table of Contents

Part I (Continued)  
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at estimated fair value at the date of acquisition less the cost of disposal. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Routine holding costs and gains or losses upon disposition are included in foreclosed property expense.

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

Accounting Standards Updates

ASU No. 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the

transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

ASU No. 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective for the Company on January 1, 2012 and, aside from new disclosures, did not have a significant impact on the Company's financial statements.



Table of Contents

Part I (Continued)  
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Accounting Standards Updates (Continued)

ASU No. 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income.” ASU 2011-05 amends Topic 220, “Comprehensive Income,” to require that all non-owner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity was eliminated. ASU 2011-05 became effective for the Company on January 1, 2012; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 “Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.”. The adoption of ASU 2011-05 did not have a significant impact on the Company’s financial statements.

ASU No. 2011-11, “Balance Sheet (Topic 210) – “Disclosures about Offsetting Assets and Liabilities.” ASU 2011-11 amends Topic 210, “Balance Sheet,” to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company’s financial statements.

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

## (2) Investment Securities

Investment securities as of June 30, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 283,292	\$ 2,665	\$ (226 )	\$ 285,731
State, County & Municipal	7,689	279	(1 )	7,967
Corporate Obligations	1,000	115	--	1,115
Asset-Backed Securities	367	--	(235 )	132
	\$ 292,348	\$ 3,059	\$ (462 )	\$ 294,945
Securities Held to Maturity:				
State, County and Municipal	\$ 44	\$ 1	\$ --	\$ 45

The amortized cost and fair value of investment securities as of June 30, 2012, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due Less Than One Year	\$ 125	\$ 127	\$ --	\$ --
Due After One Year Through Five Years	2,351	2,495	44	45
Due After Five Years Through Ten Years	5,690	5,925	--	--
Due After Ten Years	890	667	--	--
	9,056	9,214	44	45
Mortgage-Backed Securities	283,292	285,731	--	--
	\$ 292,348	\$ 294,945	\$ 44	\$ 45

Investment securities as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 291,097	\$ 3,152	\$ (188 )	\$ 294,061
State, County & Municipal	7,475	132	(23 )	7,584

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Corporate Obligations	2,000	124	(10 )	2,114
Asset-Backed Securities	426	--	(294 )	132
	\$ 300,998	\$ 3,408	\$ (515 )	\$ 303,891
Securities Held to Maturity:				
State, County and Municipal	\$ 46	\$ --	\$ --	\$ 46

Table of Contents

## Part I (Continued)

## Item 1 (Continued)

Proceeds from the sale of investments available for sale during first six months of 2012 totaled \$60,654 compared to \$154,560 for the first six months of 2011. The sale of investments available for sale during 2012 resulted in gross realized gains of \$990 and losses of \$(110). This was offset by other than temporary impairment charges of \$(60). The sale of investments available for sale during 2011 resulted in gross realized gain of \$1,133 and losses of \$(1).

## (2) Investment Securities (Continued)

Nonaccrual securities are securities for which principal and interest are doubtful of collection in accordance with original terms and for which accruals of interest have been discontinued due to payment delinquency. Fair value of securities on nonaccrual status totaled \$132 and \$132 as of June 30, 2012 and December 31, 2011, respectively.

Investment securities having a carry value approximating \$105,336 and \$136,838 as of June 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at June 30, 2012 and December 31, 2011 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2012						
U.S. Government Agencies						
Mortgage-Backed State, County and Municipal	\$ 59,875	\$ (226 )	\$ --	\$ --	\$ 59,875	\$ (226 )
Corporate Obligations	206	(1 )	75	--	281	(1 )
Asset-Backed Securities	--	--	--	--	--	--
	\$ 60,081	\$ (227 )	\$ 207	\$ (235 )	\$ 60,288	\$ (462 )
December 31, 2011						
U.S. Government Agencies						
Mortgage-Backed State, County and Municipal	\$ 26,440	\$ (188 )	\$ --	\$ --	\$ 26,440	\$ (188 )
Corporate Obligations	1,224	(21 )	73	(2 )	1,297	(23 )
Asset-Backed Securities	--	--	990	(10 )	990	(10 )
	\$ 27,664	\$ (209 )	\$ 1,195	\$ (306 )	\$ 28,859	\$ (515 )

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of

time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2012, the debt securities with unrealized losses have depreciated 0.76 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations, except for asset-backed 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. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company did own one asset-backed security at June 30, 2012 which has been in a continuous unrealized loss position for more than twelve months. This investment is comprised of one issuance of a trust preferred security, has a book value of \$367 and an unrealized loss of \$235. Management evaluates this investment on a quarterly basis utilizing a third-party valuation model. The results of this model revealed other-than-temporary impairment and as a result, \$60 was written off during the first quarter ended March 31, 2012. The Company does not intend to sell this investment, nor does the Company consider it likely that it will be required to sell the investment prior to recovery of the remaining fair value.

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

## (3) Loans

The following table presents the composition of loans segregated by class of loans, as of June 30, 2012 and December 31, 2011.

	June 30, 2012	December 31, 2011
Commercial and Industrial		
Commercial	\$ 55,274	\$ 48,986
Industrial	11,284	8,422
Real Estate		
Commercial Construction	56,368	58,546
Residential Construction	4,169	3,530
Commercial	308,936	315,281
Residential	193,190	193,638
Farmland	48,748	48,225
Consumer and Other		
Consumer	29,652	30,449
Other	8,740	9,244
<b>Total Loans</b>	<b>\$ 716,361</b>	<b>\$ 716,321</b>

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

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

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

- Grades 1 and 2 – Borrowers with these assigned grades range in risk from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the “pass” classification.

Grades 3 and 4 – Loans assigned these “pass” risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.

- Grade 5 – This grade includes “special mention” loans on management’s watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.
- Grade 6 – This grade includes “substandard” loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.

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

## (3) Loans (Continued)

- Grades 7 and 8 – These grades correspond to regulatory classification definitions of “doubtful” and “loss,” respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company’s problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 6.

The following table presents the loan portfolio by credit quality indicator (risk grade) as of June 30, 2012 and December 31, 2011. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

## June 30, 2012

	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	\$ 48,827	\$ 2,050	\$ 4,397	\$ 55,274
Industrial	11,224	--	60	11,284
Real Estate				
Commercial Construction	29,788	1,930	24,650	56,368
Residential Construction	3,861	103	205	4,169
Commercial	267,537	14,556	26,843	308,936
Residential	173,328	9,939	9,923	193,190
Farmland	44,892	1,169	2,687	48,748
Consumer and Other				
Consumer	28,737	336	579	29,652
Other	8,632	13	95	8,740
Total Loans	\$ 616,826	\$ 30,096	\$ 69,439	\$ 716,361

## December 31, 2011

	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	\$ 42,586	\$ 1,481	\$ 4,919	\$ 48,986
Industrial	8,153	--	269	8,422
Real Estate				
Commercial Construction	28,746	2,814	26,986	58,546
Residential Construction	3,227	303	--	3,530
Commercial	272,062	14,790	28,429	315,281
Residential	175,100	8,343	10,195	193,638
Farmland	43,664	1,413	3,148	48,225



Consumer and Other				
Consumer	29,372	362	715	30,449
Other	9,029	99	116	9,244
Total Loans	\$ 611,939	\$ 29,605	\$ 74,777	\$ 716,321

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of \$50,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

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

## (3) Loans (Continued)

In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. Nonaccrual loans totaled \$35,474 and \$38,822 as of June 30, 2012 and December 31, 2011, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$213 and \$15, respectively. During its review of impaired loans, the company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of June 30, 2012 and December 31, 2011:

June 30, 2012

	Accruing Loans 90 Days			Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days	or More	Total			
	Past Due	Past Due	Accruing Loans Past Due			
<b>Commercial and Industrial</b>						
Commercial	\$ 1,002	\$ --	\$ 1,002	\$ 330	\$ 53,942	\$ 55,274
Industrial	--	--	--	45	11,239	11,284
<b>Real Estate</b>						
<b>Commercial</b>						
Construction	66	182	248	22,659	33,461	56,368
Residential Construction	--	--	--	--	4,169	4,169
Commercial	2,769	--	2,769	6,639	299,528	308,936
Residential	2,340	31	2,371	3,231	187,588	193,190
Farmland	626	--	626	2,297	45,825	48,748
<b>Consumer and Other</b>						
Consumer	297	--	297	237	29,118	29,652
Other	20	--	20	36	8,684	8,740
<b>Total Loans</b>	<b>\$ 7,120</b>	<b>\$ 213</b>	<b>\$ 7,333</b>	<b>\$ 35,474</b>	<b>\$ 673,554</b>	<b>\$ 716,361</b>



Table of Contents

Part I (Continued)  
Item 1 (Continued)

(3) Loans (Continued)

December 31, 2011

	Accruing Loans 90 Days		Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days	or More				
	Past Due	Past Due				
<b>Commercial and Industrial</b>						
Commercial	\$ 645	\$ --	\$ 645	\$ 2,103	\$ 46,238	\$ 48,986
Industrial	--	--	--	86	8,336	8,422
<b>Real Estate</b>						
Commercial Construction	514	--	514	23,578	34,454	58,546
Residential Construction	33	--	33	--	3,497	3,530
Commercial	2,931	--	2,931	9,194	303,156	315,281
Residential	2,251	15	2,266	3,110	188,262	193,638
Farmland	376	--	376	487	47,362	48,225
<b>Consumer and Other</b>						
Consumer	410	--	410	221	29,818	30,449
Other	--	--	--	43	9,201	9,244
<b>Total Loans</b>	<b>\$ 7,160</b>	<b>\$ 15</b>	<b>\$ 7,175</b>	<b>\$ 38,822</b>	<b>\$ 670,324</b>	<b>\$ 716,321</b>

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

## (3) Loans (Continued)

The following table details impaired loan data as of June 30, 2012:

June 30, 2012

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$1,546	\$1,456	\$--	\$1,568	\$49	\$40
Agricultural	45	45	--	42	--	--
Commercial Construction	11,998	9,694	--	11,079	(7 )	4
Commercial Real Estate	33,857	28,254	--	30,136	358	325
Residential Real Estate	2,748	2,152	--	2,280	46	42
Farmland	2,340	2,297	--	2,297	32	44
Consumer	256	237	--	225	3	5
Other	38	36	--	40	--	--
	52,828	44,171	--	47,667	481	460
With An Allowance Recorded						
Commercial	290	290	300	300	2	5
Agricultural	--	--	--	--	--	--
Commercial Construction	17,961	12,966	2,111	11,954	--	--
Commercial Real Estate	5,163	5,141	1,462	4,394	55	53
Residential Real Estate	4,852	4,139	868	4,092	46	45
Farmland	--	--	--	130	--	--
Consumer	--	--	--	--	--	--
Other	--	--	--	--	--	--
	28,266	22,536	4,741	20,870	103	103
Total						
Commercial	1,836	1,746	300	1,868	51	45
Agricultural	45	45	--	42	--	--
Commercial Construction	29,959	22,660	2,111	23,033	(7 )	4
Commercial Real Estate	39,020	33,395	1,462	34,530	413	378
Residential Real Estate	7,600	6,291	868	6,372	92	87
Farmland	2,340	2,297	--	2,427	32	44
Consumer	256	237	--	225	3	5
Other	38	36	--	40	--	--
	\$81,094	\$66,707	\$4,741	\$68,537	\$584	\$563



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

## (3) Loans (Continued)

The following table details impaired loan data as of December 31, 2011:

December 31, 2011

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
Allowance Recorded With No Related						
Commercial	\$1,743	\$1,580	\$--	\$947	\$60	\$65
Agricultural	86	86	--	208	(4 )	--
Commercial Construction	17,699	12,799	--	13,310	116	144
Commercial Real Estate	34,686	29,385	--	27,027	833	834
Residential Real Estate	2,601	1,934	--	3,176	88	80
Farmland	278	227	--	342	66	66
Consumer	229	216	--	184	11	12
Other	52	43	--	40	1	2
	57,374	46,270	--	45,234	1,171	1,203
With An Allowance Recorded						
Commercial	775	776	308	214	15	19
Commercial Construction	14,036	11,489	2,693	10,470	14	61
Commercial Real Estate	6,430	6,430	2,061	6,557	182	197
Residential Real Estate	4,772	4,042	675	3,859	97	97
Farmland	299	260	12	65	(18 )	--
Consumer	5	5	2	4	1	1
Other	--	--	--	19	--	--
	26,317	23,002	5,751	21,188	291	375
Total						
Commercial	2,518	2,356	308	1,161	75	84
Agricultural	86	86	--	208	(4 )	--
Commercial Construction	31,735	24,288	2,693	23,780	130	205
Commercial Real Estate	41,116	35,815	2,061	33,584	1,015	1,031
Residential Real Estate	7,373	5,976	675	7,035	185	177
Farmland	577	487	12	407	48	66
Consumer	234	221	2	188	12	13
Other	52	43	--	59	1	2
	\$83,691	\$69,272	\$5,751	\$66,422	\$1,462	\$1,578





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

## (3) Loans (Continued)

The following table details impaired loan data as of June 30, 2011:

June 30, 2011

	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded					
Commercial	\$373	\$--	\$282	\$7	\$14
Agricultural	196	--	254	(28 )	--
Commercial Construction	13,485	--	10,642	41	67
Commercial Real Estate	28,744	--	23,436	251	261
Residential Real Estate	4,277	--	3,517	32	49
Farmland	211	--	328	66	66
Consumer	158	--	181	3	4
Other	43	--	33	1	1
	47,487	--	38,673	373	462
With An Allowance Recorded					
Commercial	--	--	10	--	--
Commercial Construction	12,418	2,965	10,198	58	101
Commercial Real Estate	7,072	1,473	8,372	114	151
Residential Real Estate	5,488	512	3,024	125	124
Other	--	--	39	--	--
	24,978	4,950	21,643	297	376
Total					
Commercial	373	--	292	7	14
Agricultural	196	--	254	(28 )	--
Commercial Construction	25,903	2,965	20,840	99	168
Commercial Real Estate	35,816	1,473	31,808	365	412
Residential Real Estate	9,765	512	6,541	157	173
Farmland	211	--	328	66	66
Consumer	158	--	181	3	4
Other	43	--	72	1	1
	\$72,465	\$4,950	\$60,316	\$670	\$838

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms of the loan have been modified in favor of the borrower due to deterioration in the borrower's financial condition. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in

time. Not all loan modifications are TDRs. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether a loan is classified as a TDR include:

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

## (3) Loans (Continued)

- Interest rate reductions – Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.
- Amortization or maturity date changes – Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.
- Principal reductions – These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon our normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged-off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged-off during modification there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of June 30, 2012. The following tables present the number of loan contracts restructured during the three and six month periods ended June 30, 2012. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous twelve months which subsequently defaulted during the period. The Company did not have any loans modified as a troubled debt restructured loan in the three month period ending June 30, 2012. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings	Three Months Ending June 30, 2012			Six Months Ending June 30, 2012		
	# of Contracts	Pre-Modification	Post-Modification	# of Contracts	Pre-Modification	Post-Modification
Commercial RE	----	\$ ----	\$ ----	1	\$ 57	\$ 57
Residential RE	----	----	----	1	227	224
Total Loans	----	\$ ----	\$ ----	2	\$ 284	\$ 281

Troubled Debt Restructurings That Subsequently Defaulted	Three Months Ending June 30, 2012		Six Months Ending June 30, 2012	
	# of Contracts	Recorded Investment	# of Contracts	Recorded Investment
Commercial Construction	----	\$ ----	1	\$ 64
Residential RE	----	----	1	50

Total Loans	----	\$	----	2	\$	114
-------------	------	----	------	---	----	-----

25

---

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

## (4) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the six month period ended June 30, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

June 30, 2012

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
<b>Commercial and Industrial</b>					
Commercial	\$ 1,071	\$ (230 )	\$ 96	\$ 105	\$ 1,042
Industrial	297	--	--	--	297
<b>Real Estate</b>					
Commercial Construction	3,123	(474 )	35	578	3,262
Residential Construction	138	--	--	--	138
Commercial	6,448	(3,397 )	18	2,876	5,945
Residential	3,695	(275 )	5	285	3,710
Farmland	365	(39 )	5	--	331
<b>Consumer and Other</b>					
Consumer	205	(41 )	48	41	253
Other	308	--	7	--	315
	\$ 15,650	\$ (4,456 )	\$ 214	\$ 3,885	\$ 15,293

The following table details activity in the allowance for loan losses, segregated by class of loan, for the six month period ended June 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

June 30, 2011

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
<b>Commercial and Industrial</b>					
Commercial	\$ 4,415	\$ (703 )	\$ 120	\$ (1,187 )	\$ 2,645
Industrial	698	(455 )	--	(178 )	65
<b>Real Estate</b>					
Commercial Construction	4,126	(4,062 )	26	1,886	1,976
Residential Construction	520	--	--	(144 )	376
Commercial	8,030	(10,890 )	160	6,086	3,386
Residential	5,942	(751 )	41	(1,234 )	3,998

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Farmland	944	(21 )	--	(300 )	623
<b>Consumer and Other</b>					
Consumer	3,074	(125 )	87	(905 )	2,131
Other	531	(69 )	6	(274 )	194
	\$ 28,280	\$ (17,076 )	\$ 440	\$ 3,750	\$ 15,394

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

## (4) Allowance for Loan Losses (Continued)

In 2012, the Company refined its methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL). Management has been proactive in identifying problem loans, assessing exposure, and providing sufficient reserves to cover the exposures. The ALLL was increased in anticipation of identified exposures resulting in confirmed losses. When losses were confirmed, they were promptly charged off. As a result, losses over the last three years have been very high. During this time, newer loans granted were made subject to higher underwriting standards and more conservative appraisals. Because of the prompt recognition of losses that drove the excessive charge-off history, management now believes the remaining losses incurred in the current portfolio, including newer loans made, will be less than unadjusted loss history factors will suggest. Considering the major losses taken, along with organizational and staffing changes, the validity of qualitative factors in determining adjustments of loss history needed to be reviewed. Recognizing the importance of credit administration and the role of personnel involved in granting, approving, administering, monitoring, and collecting loans, management concluded that greater weight should be placed on factors associated with those activities. The effect of these changes on the ALLL resulted in a reduction in the ALLL estimate of \$1,530. Management believes the adjustments made will result in a better estimation of losses incurred in the portfolio.

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or below and an outstanding balance of \$50,000 or more. At June 30, 2012 and 2011, impaired loans totaling \$748 and \$796 were below the \$50,000 review threshold and were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Since not all loans in the substandard category are considered impaired, this quarterly assessment often results in the identification of individual reserves which are placed against certain loans as part of management's allowance for loan loss calculation. The total of these loans and the related reserves are presented in the column titled "Substandard Loans Individually Reviewed for Impairment" in the following tables. The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for June 30, 2012 and 2011:

June 30, 2012

	Ending Allowance Balance				Total
	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial and Industrial					
Commercial	\$ 300	\$ 220	\$ 520	\$ 522	1,042
Industrial	--	--	--	297	297
Real Estate					
Commercial Construction	2,111	165	2,276	986	3,262
Residential Construction	--	--	--	138	138
Commercial	1,462	190	1,652	4,293	5,945
Residential	868	700	1,568	2,142	3,710
Farmland	--	--	--	331	331

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Consumer and Other					
Consumer	--	--	--	253	253
Other	--	--	--	315	315
Total End of Period Allowance Balance	\$ 4,741	\$ 1,275	\$6,016	\$9,277	\$15,293

27

---



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

## (4) Allowance for Loan Losses (Continued)

June 30, 2012

	Ending Loan Balance				Total
	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
<b>Commercial and Industrial</b>					
Commercial	\$ 1,721	\$ 2,410	\$ 4,131	\$ 51,143	55,274
Industrial	--	--	--	11,284	11,284
<b>Real Estate</b>					
Commercial Construction	22,595	1,889	24,484	31,884	56,368
Residential Construction	--	204	204	3,965	4,169
Commercial	33,395	5,524	38,919	270,017	308,936
Residential	5,951	4,304	10,255	182,935	193,190
Farmland	2,277	266	2,543	46,205	48,748
<b>Consumer and Other</b>					
Consumer	20	7	27	29,625	29,652
Other	--	20	20	8,720	8,740
<b>Total End of Period Loan Balance</b>	<b>\$ 65,959</b>	<b>\$ 14,624</b>	<b>\$ 80,583</b>	<b>\$ 635,778</b>	<b>\$ 716,361</b>

June 30, 2011

	Ending Allowance Balance				Total
	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
<b>Commercial and Industrial</b>					
Commercial	\$ --	\$ 606	\$ 606	\$ 2,039	\$ 2,645
Industrial	--	7	7	58	65
<b>Real Estate</b>					
Commercial Construction	1,421	390	1,811	165	1,976
Residential Construction	--	--	--	376	376
Commercial	1,453	605	2,058	1,328	3,386
Residential	1,967	964	2,931	1,067	3,998
Farmland	--	51	51	572	623
<b>Consumer and Other</b>					
Consumer	--	63	63	2,068	2,131

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other	--	--	--	194	194
Total End of Period Allowance Balance	\$ 4,841	\$ 2,686	\$ 7,527	\$ 7,867	\$ 15,394

28

---

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

## (4) Allowance for Loan Losses (Continued)

June 30, 2011

	Ending Loan Balance				
	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
<b>Commercial and Industrial</b>					
Commercial	\$ 256	\$ 1,751	\$ 2,007	\$ 46,459	\$ 48,466
Industrial	149	221	370	11,595	11,965
<b>Real Estate</b>					
Commercial Construction	35,781	5,020	40,801	27,625	68,426
Residential Construction	--	--	--	4,046	4,046
Commercial	25,803	6,219	32,022	298,170	330,192
Residential	9,456	5,298	14,754	186,365	201,119
Farmland	212	691	903	47,107	48,010
<b>Consumer and Other</b>					
Consumer	12	61	73	31,998	32,071
Other	--	32	32	14,783	14,815
<b>Total End of Period Loan Balance</b>	<b>\$ 71,669</b>	<b>\$ 19,293</b>	<b>\$ 90,962</b>	<b>\$ 668,148</b>	<b>\$ 759,110</b>

## (5) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at June 30, 2012 and December 31, 2011 was \$17,915 and \$20,445, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO for the six months ended June 30, 2012 and the year ended December 31, 2011.

	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
Balance, Beginning	\$ 20,445	\$ 20,208
Additions	4,195	12,556
Sales of OREO	(5,577 )	(9,805 )
Loss on Sale	(396 )	(1,103 )
Provision for Losses	(752 )	(1,411 )
Balance, Ending	\$ 17,915	\$ 20,445



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

## (6) Fair Value Measurements

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

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

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

## Assets

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

**Impaired loans** – Fair value accounting principles also apply to loans measured for impairment, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. When the fair value of collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring level 2. When a current appraisal value is not available or management determines the value, the Company records the impaired loan as nonrecurring level 3.

**Other Real Estate** – Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value less cost to sale through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market price or appraised value. When appraised value is not available and management determines the fair value, the fair value of the

foreclosed assets is considered Level 3.

30

---

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

## (6) Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis – The following table presents the recorded amount of the Company's assets measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 aggregated by the level in the fair value hierarchy within which those measurements fall.

	June 30, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring</b>				
<b>Securities Available for Sale</b>				
Mortgage-backed	\$285,731	\$---	\$ 285,731	\$ ---
State,County & Municipal	7,967	---	7,967	---
Corporate Obligations	1,115	---	1,115	---
Asset-Backed Securities	132	---	---	132
	\$294,945	\$---	\$ 294,813	\$ 132
<b>Nonrecurring</b>				
<b>Impaired Loans</b>				
	\$61,966	\$---	\$ 12,086	\$ 49,880
<b>Other Real Estate</b>				
	\$17,915	\$---	\$ 5,850	\$ 12,065
	December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring</b>				
<b>Securities Available for Sale</b>				
Mortgage-backed	\$ 294,061	\$---	\$ 294,061	\$ ---
State,County & Municipal	7,584	---	7,584	---
Corporate Obligations	2,114	---	1,124	990

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Asset-Backed Securities	132	---	---	132
	\$ 303,891	\$---	\$ 302,769	\$ 1,122
<b>Nonrecurring</b>				
Impaired Loans	\$ 63,521	\$---	\$ 34,936	\$ 28,585
Other Real Estate	\$ 20,445	\$---	\$ 6,170	\$ 14,275

31

---



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

## (6) Fair Value Measurements (Continued)

## Liabilities

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

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2012 and 2011.

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	2012	2011
	Available for Sale Securities (In Thousands)	Available for Sale Securities (In Thousands)
Balance, Beginning	\$ 1,122	\$ 1,017
Total Realized/Unrealized Gains (Losses) Included In		
Loss on OTTI Impairment	(60 )	--
Other Comprehensive Income	70	101
Purchases, Sales, Issuances and Settlements		
Sales/Call	(1,000 )	--
Balance, Ending	\$ 132	\$ 1,118

## (7) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$275 and \$250 as of June 30, 2012 and December 31, 2011.

Components of interest-bearing deposits as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Interest-Bearing Demand	\$ 278,889	\$ 284,871
Savings	45,907	41,231
Time, \$100,000 and Over	238,457	247,589
Other Time	305,173	332,025
	\$ 868,426	\$ 905,716

At June 30, 2012 and December 31, 2011, the Company had brokered deposits of \$32,905 and \$28,158 respectively. Of the \$32,905 brokered deposits at June 30, 2012, \$32,905 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled \$0 at June 30, 2012. The aggregate amount of short-term jumbo

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$204,304 and \$190,877 as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 and December 31, 2011, the scheduled maturities of certificates of deposits are as follows:

Maturity	June 30, 2012	December 31, 2011
One Year and Under	\$ 460,765	\$ 428,603
One to Three Years	65,534	137,619
Three Years and Over	17,331	13,392
	\$ 543,630	\$ 579,614

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

## (8) Other Borrowed Money

Other borrowed money at June 30, 2012 and December 31, 2011 is summarized as follows:

	June 30, 2012	December 31, 2011
Federal Home Loan Bank Advances	\$ 35,000	\$ 71,000
	\$ 35,000	\$ 71,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2012 to 2019 and interest rates ranging from 3.17 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. In addition, the Company has pledged certain available-for-sale investment securities with carrying values at June 30, 2012 of approximately \$8,852 as additional collateral, as well as cash balances held on deposit with the FHLB. At June 30, 2012 the Company had remaining credit availability from the FHLB of approximately \$141,090. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The aggregate stated maturities of other borrowed money at June 30, 2012 are as follows:

Year	Amount
2012	\$ 5,000
2013	--
2014	--
2015 and Thereafter	30,000
	\$ 35,000

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,000, of which there were none outstanding at June 30, 2012.

In addition, the Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At June 30, 2012, the Company had approximately \$5.5 million of borrowing capacity available under this arrangement, with no outstanding balances. Certain available-for-sale investment securities totaling approximately \$5.6 million were pledged as collateral under this agreement.

## (9) Preferred Stock and Warrants

On January 9, 2009, the Company issued to the United States Department of the Treasury (Treasury), in exchange for aggregate consideration of \$28.0 million, (i) 28,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (the Preferred Stock), and (ii) a warrant (the Warrant) to purchase up to 500,000 shares (the Warrant Common Stock) of the Company's common stock.

The Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed

by the Company on or after February 15, 2012 at the liquidation preference of \$1,000 per share plus any accrued and unpaid dividends. Accrued and unpaid dividends on the Preferred Stock must be declared and set aside for the benefit of the holders of the Preferred Stock before any dividend may be declared on our common stock.

On February 13, 2012, the Company announced the suspension of dividends on the Preferred Stock. At June 30, 2012, there were accumulated dividends in arrears of \$884, including related accrued interest. The Company may defer dividend payments for up to an aggregate of six dividend periods, whether consecutive or not, without default or penalty under the terms of the agreement. Failure to pay dividends for six periods would trigger board appointment rights for the holder of the Preferred Stock.

The Warrant may be exercised on or before January 9, 2019 at an exercise price of \$8.40 per share. The Treasury may not exercise voting power with respect to any shares of Warrant Common Stock until the Warrant has been exercised.

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (9)Preferred Stock and Warrants (Continued)

Upon receipt of the aggregate consideration from the Treasury on January 9, 2009, the Company allocated the \$28,000 proceeds on a pro rata basis to the Preferred Stock and the Warrant based on relative fair values. As a result, the Company allocated \$27,220 of the aggregate proceeds to the Preferred Stock, and \$780 thousand was allocated to the Warrant. The discount recorded on the Preferred Stock that resulted from allocating a portion of the proceeds to the Warrant is being accreted directly to retained earnings over a 5-year period applying a level yield.

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

Description	Date	Amount	3 month Libor Rate	Added Points	Total Rate	Maturity	5 Year Call Option
Colony Bankcorp Statutory Trust III	6/17/2004	4,500	0.46785	2.68	3.14785	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,000	0.46060	1.50	1.96060	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,000	0.46060	1.65	2.11060	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,000	0.46585	1.40	1.86585	9/14/2037	9/14/2012

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

On February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities. Under the terms of the trust documents, the Company may defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. The regularly scheduled interest payments will continue to be accrued for payment in the future and reported as an expense in the current period. At June 30, 2012, accrued but unpaid interest expense totaled \$280.

Table of Contents

Part I (Continued)

Item 1 (Continued)

## (11)Commitments and Contingencies

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

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

At June 30, 2012 and December 31, 2011 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	June 30, 2012	December 31, 2011
Loan Commitments	\$ 49,368	\$ 39,966
Letters of Credit	1,360	1,327

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

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

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

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

Table of Contents

Part I (Continued)  
Item 1 (Continued)

(12)Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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





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

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

The carrying amount and estimated fair values of the Company's financial instruments as of June 30, 2012 and December 31, 2011 are as follows:

	Carrying Amount	June 30, 2012 Estimated Fair Value (in thousands)	December 31, 2011 Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and Short-Term Investments	\$ 65,975	\$ 65,975	\$ 112,329	\$ 112,329
Investment Securities Available for Sale	294,945	294,945	303,891	303,891
Investment Securities Held to Maturity	44	45	46	46
Federal Home Loan Bank Stock	4,159	4,159	5,398	5,398
Loans, Net	700,917	701,642	700,614	702,438
<b>Liabilities</b>				
Deposits	972,135	975,285	999,985	1,003,648
Subordinated Debentures	24,229	24,229	24,229	24,229
Other Borrowed Money	35,000	38,804	71,000	74,720

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

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

## (13) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, in the third quarter of 2009, the Company suspended the payment of dividends to common shareholders. At June 30, 2012, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior approval from the Federal Reserve Bank.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of June 30, 2012, 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.

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

## (13)Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of June 30, 2012 and December 31, 2011 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2012						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 119,319	16.94	% \$ 56,364	8.00	% NA	NA
Colony Bank	118,764	16.88	56,270	8.00	\$ 70,338	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	110,432	15.67	28,182	4.00	NA	NA
Colony Bank	109,891	15.62	28,135	4.00	42,203	6.00
Tier 1 Capital to Average Assets						
Consolidated	110,432	9.71	45,515	4.00	NA	NA
Colony Bank	109,891	9.67	45,441	4.00	56,802	5.00
As of December 31, 2011						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 118,913	16.50	% \$ 57,658	8.00	% NA	NA
Colony Bank	117,243	16.29	57,584	8.00	\$ 71,980	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	109,822	15.24	28,829	4.00	NA	NA
Colony Bank	108,163	15.03	28,792	4.00	43,188	6.00

Tier 1 Capital to Average  
Assets

Consolidated	109,822	9.51	46,185	4.00	NA	NA
Colony Bank	108,163	9.38	46,117	4.00	57,646	5.00

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

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

## (14)Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income (loss) after preferred stock dividends. The following table presents earnings per share for the three month and six month period ended June 30, 2012 and 2011:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Numerator				
Net Income (Loss) Available to Common Stockholders	\$403	\$189	\$592	\$895
Denominator				
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	8,439	8,442	8,439	8,440
Dilutive Effect of Potential Common Stock				
Restricted Stock	--	--	--	--
Stock Warrants	--	--	--	--
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	8,439	8,442	8,439	8,440
Earnings (Loss) Per Share - Basic	\$0.05	\$0.02	\$0.07	\$0.11
Earnings (Loss) Per Share - Diluted	\$0.05	\$0.02	\$0.07	\$0.11

For the six months ended June 30, 2012 and 2011, 500 and 503 shares of common stock equivalents, respectively, were excluded from the calculation of diluted earnings per share because they would have an anti-dilutive effect.

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 subsidiary must comply.
  - The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
    - Changes in the Company's organization, compensation and benefit plans.
    - The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.
    - Greater than expected costs or difficulties related to the integration of new lines of business.
    - The Company's success at managing the risks involved in the foregoing items.
  - Restrictions or conditions imposed by our regulators on our operations, including the terms of our Memorandum of Understanding.
-

Table of Contents

Part I (Continued)  
Item 2 (Continued)

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

The following discussion sets forth management's discussion and analysis of our consolidated financial condition as of June 30, 2012, and the consolidated results of operations for the six months ended June 30, 2012. This discussion should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2012. Readers should also carefully review all other disclosures we file from time to time with the SEC.

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

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

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

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification



and estimation of losses for larger nonhomogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans are among other factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of risk associated with the commercial and consumer levels and the estimated impact of the current economic environment.

#### Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of June 30, 2012 and 2011, and results of operations for each of the three and six months in the periods ended June 30, 2012 and 2011. 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.

Table of Contents

Part I (Continued)

Item 2 (Continued)

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

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

## Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income available to shareholders totaled \$403 thousand, or \$0.05 diluted per common share, in three months ended June 30, 2012 compared to net income available to shareholders of \$189 thousand, or \$0.02 diluted per common share, in three months ended June 30, 2011. Net income available to shareholders totaled \$592 thousand, or \$0.07 diluted per common share, in six months ended June 30, 2012 compared to net income available to shareholders of \$895 thousand, or \$0.11 diluted per common share, in six months ended June 30, 2011.

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		Six Months Ended	
	2012	June 30 2011	2012	June 30 2011
Taxable-equivalent net interest income	\$ 9,125	\$ 8,623	\$ 18,043	\$ 17,483
Taxable-equivalent adjustment	34	42	68	84
Net interest income	9,091	8,581	17,975	17,399
Provision for loan losses	1,943	2,250	3,885	3,750
Noninterest income	2,374	2,671	4,188	4,775
Noninterest expense	8,405	8,218	16,388	16,157
Income before income taxes	\$ 1,117	\$ 784	1,890	2,267
Income Taxes	357	245	589	672
Net income	\$ 760	\$ 539	\$ 1,301	\$ 1,595
Preferred stock dividends	357	350	709	700
Net income available to common shareholders	\$ 403	\$ 189	\$ 592	\$ 895

Net income available to common  
shareholders:

Basic	\$ 0.05		\$ 0.02		\$ 0.07		\$ 0.11	
Diluted	\$ 0.05		\$ 0.02		\$ 0.07		\$ 0.11	
Return on average assets	0.14	%	0.06	%	0.10	%	0.14	%
Return on average common equity	1.66	%	0.81	%	1.22	%	1.92	%

Net income from operations for three months ended June 30, 2012 increased \$221 thousand, or 41.00 percent, compared to the same period in 2011. The increase was primarily the result of an increase of \$510 thousand in net interest income and a decrease of \$307 thousand in provision for loan losses. This was offset by an increase of \$187 thousand in noninterest expense, a decrease of \$297 thousand in noninterest income, and an increase of \$112 thousand in income taxes.

Table of Contents

Part I (Continued)

Item 2 (Continued)

Net income from operations for six months ended June 30, 2012 decreased \$294 thousand, or 18.43 percent, compared to the same period in 2011. The decrease was primarily the result of an increase of \$231 thousand in noninterest expense, a decrease of \$587 thousand in noninterest income and an increase of \$135 thousand in provision for possible loan loss. This was offset by an increase of \$576 thousand in net interest income and a decrease of \$83 thousand in income taxes.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 81.10 percent of total revenue for six months ended June 30, 2012 and 80.74 percent for the same period a year ago.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit is currently 3.25 percent and has been for the past three years. The federal funds rate moved similar to prime rate with interest rates currently at 0.25 percent and has been for the past three years. We anticipate the Federal Reserve maintaining its current interest rate policy in 2012, which should benefit Colony's net interest margin.

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

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

## Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from June 30, 2011 to June 30, 2012 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 June 30, 2011 to June 30, 2012		
	Volume	Rate	Total
<b>Interest Income</b>			
Loans, Net-taxable	\$(2,157 )	\$287	\$(1,870 )
<b>Investment Securities</b>			
Taxable	47	(664 )	(617 )
Tax-exempt	19	(7 )	12
Total Investment Securities	66	(671 )	(605 )
Interest-Bearing Deposits in other Banks	(2 )	6	4
Federal Funds Sold	(16 )	---	(16 )
Other Interest - Earning Assets	(3 )	16	13
Total Interest Income	(2,112 )	(362 )	(2,474 )
<b>Interest Expense</b>			
Interest-Bearing Demand and Savings Deposits	135	(128 )	7
Time Deposits	(1,024 )	(1,364 )	(2,388 )
Federal Funds Purchased and Repurchase Agreements	(338 )	---	(338 )
Subordinated Debentures	---	29	29
Other Borrowed Money	(352 )	8	(344 )
Total Interest Expense	(1,579 )	(1,455 )	(3,034 )
Net Interest Income	\$(533 )	\$1,093	\$560

(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 a quarterly basis by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates, in order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. We are generally focusing our investment activities on securities with terms or average lives in the 2-5 year range.

The Company maintains about 20 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin until 2008. During 2007 interest rates decreased 100 basis points and this decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. While the Federal Reserve rates have remained unchanged since 2008, the net interest margin increased to 3.31 percent for six months ended June 30, 2012 compared to 2.98 percent for the same period a year ago. We anticipate continued improvement in the net interest margin in 2012 as a result of our loan and deposit pricing guidance.

Taxable-equivalent net interest income for six months ended June 30, 2012 increased \$560 thousand, or 3.20 percent compared to the same period a year ago. The average volume of earning assets during six months ended June 30, 2012 decreased \$85 million compared to the same period a year ago while over the same period the net interest margin increased by 33 basis points from 2.98 percent to 3.31 percent. Decline in average earning assets during 2012 was primarily in loans and federal funds sold. The increase in the net interest margin in 2012 is primarily the result of reducing and repricing higher cost time deposits and borrowed money.

The average volume of loans decreased \$74.39 million in six months ended June 30, 2012 compared to the same period a year ago. The average yield on loans increased 8 basis points in six months ended June 30, 2012 compared to the same period a year ago. The average volume of investment securities increased \$4.53 million in six months ended June 30, 2012 compared to the same year ago period, while the average yield on investment securities decreased 44 basis points for the same period comparison. The average volume of deposits decreased \$45.93 million in six months ended June 30, 2012 compared to the same period a year ago, with interest-bearing deposits decreasing \$47.70 million in six months ended June 30, 2012. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 90.00 percent in six months ended June 30, 2012 compared to 90.62 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 42 basis points in six months ended June 30, 2012 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.17 percent in six months ended June 30, 2012 compared to 2.79 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 \$3.89 million in six months ended June 30, 2012 compared to \$3.75 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 June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Service Charges on Deposit Accounts	\$ 814	\$ 800	\$ 1,610	\$ 1,556
Other Charges, Commissions and Fees	328	330	747	645
Other	377	763	758	1,338
Mortgage Fee Income	112	42	193	104
Securities Gains	743	736	880	1,132
<b>Total</b>	<b>\$ 2,374</b>	<b>\$ 2,671</b>	<b>\$ 4,188</b>	<b>\$ 4,775</b>

Total noninterest income for three months ended June 30, 2012 decreased \$297 thousand, or 11.12 percent compared to the same period year ago. Total noninterest income for six months ended June 30, 2012 decreased \$587 thousand, or 12.29 percent, compared to the same year ago period. The decrease in noninterest income was primarily in other income for three months ended June 30, 2012. 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 June 30, 2012 increased \$14 thousand, or 1.75 percent, compared to the same period a year ago. Service charges on deposit accounts for the six months ended June 30, 2012 increased \$54 thousand, or 3.47 percent compared to the same year ago period.

**Mortgage Fee Income.** Mortgage fee income for three months ended June 30, 2012 increased \$70 thousand, or 166.67 percent, compared to the same period year ago. Mortgage fee income for six months ended June 30, 2012 increased \$89 thousand, or 85.58 percent, compared to the same year ago period. The Company began an initiative during first quarter 2012 to enhance our secondary mortgage lending operations. This will allow better penetration in the markets that Colony serves and result in increased mortgage fee income.

**All Other Noninterest Income.** Other charges, commissions and fees and other income for three months ended June 30, 2012 was \$70.5 thousand compared to \$1.09 million in the same year ago period, or a decrease of 35.50 percent. Other charges, commissions and fees, and other income for six months ended June 30, 2012 was \$1.51 million compared to \$1.98 million in the same year ago period, or a decrease of 24.10 percent. Significant amounts impacting the comparable periods was primarily attributed to premiums on sale of guaranteed loans which decreased to \$207 thousand in 2012 compared to \$750 thousand in 2011, or a decrease of 72.36 percent. The decrease was offset by a \$105 thousand increase in ATM and debit card fees in 2012 compared to 2011.

**Securities Gains.** The Company realized gains from the sale of securities of \$743 thousand in three months ended June 30, 2012 compared to \$736 thousand in the same year ago period and realized gains from the sale of securities of \$880 thousand in six months ended June 30, 2012 compared to \$1.13 million in the same year ago period.



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

## Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended		Six Months Ended	
	2012	June 30 2011	2012	June 30 2011
Salaries and Employee Benefits	\$ 3,833	\$ 3,570	\$ 7,653	\$ 7,139
Occupancy and Equipment	963	1,028	1,901	2,044
Other	3,609	3,620	6,834	6,974
<b>Total</b>	<b>\$ 8,405</b>	<b>\$ 8,218</b>	<b>\$ 16,388</b>	<b>\$ 16,157</b>

Total noninterest expense for three months ended June 30, 2012 increased \$187 thousand, or 2.28 percent, compared to the same period a year ago. Total noninterest expense for six months ended June 30, 2012 increased \$231 thousand, or 1.43 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 June 30, 2012 increased \$263 thousand, or 7.37 percent, compared to the same period a year ago. Salaries and employee benefits expense for the six months ended June 30, 2012 increased \$514 thousand, or 7.20 percent, compared to the same year ago period. The increase is primarily attributable to an increase in headcount related to increased “back office” regulatory compliance demands.

**Occupancy and Equipment.** Occupancy and equipment expense has remained relatively flat in both periods with a decrease of \$65 thousand for three months ended June 30, 2012 compared to the same year ago period and a decrease of \$143 thousand for six months ended June 30, 2012 compared to the same year ago period.

**All Other Non-Interest Expense.** All other noninterest expense for three months ended June 30, 2012 decreased \$11 thousand, or 0.30 percent compared to the same year ago period. All other noninterest expense for six months ended June 30, 2012 decreased \$140 thousand, or 2.01 percent compared to the same year ago period. Significant amounts impacting the comparable periods was primarily credit related expenses. Credit-related expenses including writedown and losses on OREO property and repossession and foreclosure expenses decreased to \$1.83 million in 2012 compared to \$1.92 million in 2011, or a decrease of 4.69 percent.

## Loans

The following table presents the composition of the Company’s loan portfolio as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Commercial, Financial and Agricultural	\$ 66,558	\$ 57,408
Real Estate		

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Construction	60,537	62,076
Mortgage, Farmland	48,748	48,225
Mortgage, Other	502,126	508,919
Consumer	29,652	30,449
Other	8,740	9,244
	716,361	716,321
Unearned Interest and Fees	(151 )	(57 )
Allowance for Loan Losses	(15,293 )	(15,650 )
Loans	\$ 700,917	\$ 700,614

Table of Contents

Part I (Continued)

Item 2 (Continued)

Overview. Loans totaled \$716.4 million at June 30, 2012, up 0.01 percent from December 31, 2011 loans of \$716.3 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 70.09 percent and 71.05 percent of total loans, real estate construction made up 8.45 percent and 8.67 percent, while commercial, financial, and agricultural based loans made up 9.29 percent and 8.01 percent of total loans at June 30, 2012 and December 31, 2011, 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 an Executive Loan Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by bank. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

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

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

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

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

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at June 30, 2012 increased 15.94 percent from December 31, 2011 to \$66.6 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal

working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

**Collateral Concentrations.** Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At June 30, 2012, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development and construction real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in 2012. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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

## Non-Performing Assets and Potential Problem Loans

Non-performing assets and accruing past due loans as of June 30, 2012, December 31, 2011 and June 30, 2011 were as follows:

	June 30, 2012	December 31, 2011	June 30, 2011
Loans Accounted for on Nonaccrual	\$ 35,474	\$ 38,822	\$ 44,788
Loans Past Due 90 Days or More	213	15	--
Other Real Estate Foreclosed	17,915	20,445	20,545
Securities Accounted for on Nonaccrual	367	426	479
Total Nonperforming Assets	\$ 53,969	\$ 59,708	\$ 65,812

## Nonperforming Assets as a Percentage of:

Total Loans and Foreclosed Assets	7.35	%	8.10	%	8.44	%
Total Assets	4.76	%	4.99	%	5.50	%

## Supplemental Data:

Trouble Debt Restructured Loans In Compliance with Modified Terms	30,096	29,839	27,065
Trouble Debt Restructured Loans Past Due 30-89 Days	1,136	611	611
Accruing Past Due Loans:			
30-89 Days Past Due	\$ 7,120	\$ 7,161	\$ 7,654
90 or More Days Past Due	213	15	--
Total Accruing Past Due Loans	\$ 7,333	\$ 7,176	\$ 7,654

Non-performing assets include non-accrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Non-performing assets at June 30, 2012 decreased 9.61 percent from December 31, 2011.

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.

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at 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.

#### Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.



Table of Contents

Part I (Continued)  
Item 2 (Continued)

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 of \$50 or more is classified, it is considered impaired and is reviewed to determine the amount of specific valuation allowance needed, if any. 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. In addition, the Company has also segmented its real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During the first quarter of 2012, management refined the Company's methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL) which is defined in the footnote for Allowance for Loan Losses. The effect of these changes on the ALLL resulted in a reduction in the ALLL estimate of \$1,530. Management believes the adjustments made will result in a better estimation of losses incurred in the portfolio.

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 specific amounts or loan categories in which the charge-offs may ultimately occur. An analysis of the allocation of the reserve for loan losses and a detail of the Company's loss experience by loan segment is included in footnote 5 in the accompanying notes to the interim financial statements.

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 decreased \$307 thousand from \$2.25 million in three months ended June 30, 2011 to \$1.94 million in three months

ended June 30, 2012. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at quarter-end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during the second quarter 2012 was the provision of \$1.94 million and net charge-offs of \$2.56 million. Charge-offs largely consisted of three nonfarm property loans totaling \$1.99 million. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans. The large charge-offs were attributable to significant declines in collateral value based upon current real estate values. Charge-offs for second quarter 2011 totaled \$9.33 million. Charge-offs largely consisted of two construction and land development loans totaling \$1.73 million, one agricultural loan totaling \$354 thousand and seven nonfarm property loans totaling \$5.34 million. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans.

Table of Contents

## Part I (Continued)

## Item 2 (Continued)

All of the large charge-offs were attributable to significant declines in collateral value based upon current real estate values.

Provisions continue to be higher than normal primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets decreased to 7.35 percent at June 30, 2012 compared to 8.10 percent at December 31, 2011 and 8.44 percent at June 30, 2011. Total nonperforming assets at June 30, 2012 were \$54.0 million, of which \$33.6 million were construction, land development and other land loans; \$4.7 million were 1-4 family residential properties; \$0.1 million were multifamily residential properties; \$12.1 million were nonfarm nonresidential properties; \$2.5 million were farmland properties; and the remainder of nonperforming assets totaling \$1.0 million were commercial and consumer loans. All of the classified loans greater than \$50 thousand, including the nonperforming loans, are reviewed throughout the quarter for impairment review. Total nonperforming assets at December 31, 2011 were \$59.7 million, of which \$35.5 million were construction, land development and other land loans; \$4.6 million were 1-4 family residential properties; \$0.7 million were multifamily residential properties; \$15.3 million were nonfarm nonresidential properties; \$0.7 million were farmland properties; and the remainder of nonperforming assets totaling \$2.9 million were commercial and consumer loans. Total nonperforming assets at June 30, 2011 were \$65.8 million, of which \$36.7 million were construction, land development and other land loans; \$1.0 million were farmland; \$6.5 million were 1-4 family residential properties; \$2.0 million were multifamily residential properties; \$18.5 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling \$1.1 million were commercial and consumer loans. The allowance for loan losses of \$15.29 million at June 30, 2012 was 2.13 percent of total loans which compares to \$15.6 million at December 31, 2011, or 2.18 percent of total loans and to \$15.39 million at June 30, 2011, or 2.03 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 4.98 percent, 5.42 percent, 5.90 percent, respectively as of June 30, 2012, December 31, 2011 and June 30, 2011, the Company's allowance for loan losses as a percentage of nonperforming loans was 42.85 percent, 40.29 percent, 34.37 percent, respectively as of June 30, 2012, December 31, 2011 and June 30, 2011. We continue to identify new problem loans, though at a slower pace than in previous quarters.

While the allowance for loan losses decreased from \$15.65 million, or 2.18 percent of total loans at December 31, 2011 to \$15.29 million, or 2.13 percent of total loans at June 30, 2012, the Company also reflected a decrease in nonperforming loans from \$38.84 million at December 31, 2011 to \$35.69 million at June 30, 2012 and a decrease in special mention and substandard loans from \$104.38 million at December 31, 2011 to \$99.54 million at June 30, 2012. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are \$50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive any contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades. In addition, the Company has also segmented its real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on reviews throughout the year and an environmental analysis at year end.

As part of our monitoring and evaluation of collateral values for nonperforming and problem loans in determining adequate allowance for loan losses, regional credit officers along with lending officers submit quarterly problem loan reports for loans greater than \$50 thousand in which impairment is identified. This process typically determines collateral shortfall based upon local market real estate value estimates should the collateral be liquidated. Once the loan is deemed uncollectible, it is transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department gets a current appraisal on the property in order to record a fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate.

Net charge-offs in three months ended June 30, 2012 decreased \$6.77 million compared to the same period a year ago. Net charge-offs of 0.36 percent for second quarter 2012 annualizes to 1.44 percent. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of nonperforming credits to appraised values. We anticipate an elevated amount of charge-offs in 2012 as problem credits run through the collection process to resolution.

Table of Contents

## Part I (Continued)

## Item 2 (Continued)

The allowance for loan losses is \$617 thousand less than the prior quarter end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level, management believes the level of the allowance for loan losses was adequate as of June 30, 2012. 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.

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 \$135 thousand from \$3.75 million in six months ended June 30, 2011 to \$3.89 million in six months ended June 30, 2012. Of significance to changes in the allowance for loan losses during first half 2012 was net charge-offs of \$4.24 million. Charge-offs largely consisted of one construction and land development loan totaling \$243 thousand and four nonfarm nonresidential loans totaling \$3.00 million. The remainder of the charge-offs were made up of several small loans most of which were real estate dependent loans. All of the large charge-offs were attributable to significant declines in collateral value based upon current real estate values.

Net charge-offs in six months ended June 30, 2012 decreased \$12.39 million compared to the same period a year ago. Net charge-offs of 0.60 percent for first half of 2012 annualizes to 1.20 percent. We do not expect actual net charge-offs for 2012 to reach that annualized level. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of non-performing credits to appraised values. We anticipate an elevated amount of charge-offs in 2012 as problem credits run through the collection process to resolution.

Management believes the level of the allowance for loan losses was adequate as of June 30, 2012. 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.

## Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the six month periods ended June 30, 2012 and June 30, 2011.

(\$ in thousands)	June 30, 2012			June 30, 2011		
	Average Amount	Average Rate		Average Amount	Average Rate	
Noninterest-Bearing Demand Deposits	\$ 98,475			\$ 96,709		
Interest-Bearing Demand and Savings Deposits	328,007	0.39	%	270,649	0.47	%
Time Deposits	557,981	1.46	%	663,038	1.95	%
<b>Total Deposits</b>	<b>\$ 984,463</b>	<b>0.96</b>	<b>%</b>	<b>\$ 1,030,396</b>	<b>1.38</b>	<b>%</b>

Average deposits decreased \$45.93 million to \$984.46 million at June 30, 2012 from \$1.03 billion at June 30, 2011. The decrease included a decrease of \$105.06 million, or 15.84 percent, related to time deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 10.00 percent for six months ended June 30, 2012 compared to 9.39 percent for six months ended June 30, 2011. The general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 42 basis points in six months ended June 30, 2012 compared to the same period a year ago; and (ii) mitigating a portion of the impact of decreasing yields on earning assets.

Table of Contents

Part I (Continued)  
Item 2 (Continued)

Off-Balance-Sheet Arrangements, Commitments, Guarantees

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

**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 June 30, 2012 are included in the table in Footnote 11.

Capital and Liquidity

At June 30, 2012, stockholders' equity totaled \$97.0 million compared to \$96.6 million at December 31, 2011. In addition to net income of \$1.30 million, other significant changes in stockholders' equity during six months ended June 30, 2012 included \$709 thousand of preferred stock dividends declared. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$1.71 million at June 30, 2012 compared to \$1.9 million at December 31, 2011. 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.

Using the capital requirements presently in effect, the Tier 1 ratio as of June 30, 2012 was 15.67 percent and total Tier 1 and 2 risk-based capital was 16.94 percent. Both of these measures compare favorably with the regulatory minimum to be adequately capitalized of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of June 30, 2012 was 9.71 percent, which exceeds the required ratio standard of 4 percent.

The Company suspended cash dividends on its common stock beginning in the third quarter of 2009 and has not reinstated dividend payments. In addition on February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities and of the dividends on the Preferred Stock.

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

is continuously provided through the acquisition of new deposits, the renewal of maturing deposits and external borrowings.

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of June 30, 2012, the Company held \$294.9 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2011, the available for sale bond portfolio totaled \$303.9 million. Only marketable investment grade bonds are purchased. Although most of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.



Table of Contents

Part I (Continued)

Item 2 (Continued)

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 73.7 percent as of June 30, 2012 and 71.6 percent at December 31, 2011. 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 June 30, 2012 and December 31, 2011 were 71.1 percent and 66.9 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small business with comprehensive banking relationships and limited volatility. At June 30, 2012 and December 31, 2011, Colony had \$238.5 million and \$248.0 million in certificates of deposit of \$100,000 or more. These larger deposits represented 24.5 percent and 24.8 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.

As of June 30, 2012, the Company had \$32.9 million, or 3.38 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, Colony uses external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. As of June 30, 2012, the Company had \$38.9 million, or 4.00 percent of total deposits in internet deposits.

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

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, Federal Reserve Bank, three correspondent banks and repurchase agreement lines that can provide funds on short notice.

Since Colony is a bank holding company and does not conduct operations, its primary sources of liquidity are dividends up streamed from the subsidiary bank and borrowings from outside sources.

The liquidity position of the Company is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to

have a material adverse effect on the Company's liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on the Company.

On October 21, 2010, the Board of Directors of the Company's subsidiary bank, Colony Bank (the "Bank"), received notification from its primary regulators, the Georgia Department of Banking and Finance ("GDB&F") and the FDIC that the Bank's latest examination results require a program of corrective action as outlined in a proposed Memorandum of Understanding ("MOU"). An MOU is characterized by the supervising authorities as an informal action that is neither published nor made publically available by the supervising authorities and is used when circumstances do not warrant formal supervisory action. An MOU is not a "written agreement" for purposes of Section 8 of the Federal Deposit Insurance Act. The Board of Directors entered into the MOU at its regularly scheduled monthly meeting on November 16, 2010 with the effective date of the MOU being November 23, 2010.

Table of Contents

Part I (Continued)

Item 2 (Continued)

The MOU requires the Bank to develop, implement, and maintain various processes to improve the Bank's risk management of its loan portfolio, reduce adversely classified assets in accordance with certain timeframes, limit the extension of additional credit to borrowers with adversely classified loans subject to certain exceptions, adopt a written plan to properly monitor and reduce the Bank's commercial real estate concentration, continue to maintain the Bank's loan loss provision and review its adequacy at least quarterly, and formulate and implement a written plan to improve and maintain earnings to be forwarded for review by the GDB&F and FDIC. The Bank is also required to obtain approval before any cash dividends can be paid.

The Bank has also agreed to have and maintain minimum capital ratios at specified levels higher than those otherwise required by applicable regulations as follows: Tier 1 capital to total average assets of 8% and total risk-based capital to total risk-weighted assets of 10%. At June 30, 2012, the Bank's capital ratios were 9.67% and 16.88%, respectively.

## 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.

## Return on Assets and Stockholders' Equity

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

	Three Months Ended				Six Months Ended			
	June 30		June 30		June 30		June 30	
	2012	2011	2012	2011	2012	2011	2012	2011
Return on Average Assets (1)	0.14	%	0.06	%	0.10	%	0.14	%
Return on Average Total Equity (1)	1.66	%	0.81	%	1.22	%	1.92	%
Average Total Equity to Average Assets	8.44	%	7.59	%	8.30	%	7.48	%

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

Table of Contents

## Part I (Continued)

## Item 3

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

## AVERAGE BALANCE

## SHEETS

(\$ in thousands)	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011				
	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)	\$ 710,814	\$ 20,890	5.88	%	\$ 785,206	\$ 22,760	5.80	%
Investment Securities								
Taxable	303,553	3,127	2.06	%	299,781	3,744	2.50	%
Tax-Exempt (2)	3,867	92	4.76	%	3,111	80	5.14	%
Total Investment Securities	307,420	3,219	2.09	%	302,892	3,824	2.53	%
Interest-Bearing Deposits	22,309	30	0.27	%	24,220	26	0.21	%
Federal Funds Sold	44,188	56	0.25	%	56,145	72	0.26	%
Interest-Bearing Other Assets	5,117	37	1.45	%	5,981	24	0.80	%
Total Interest-Earning Assets	1,089,848	\$ 24,232	4.45	%	1,174,444	\$ 26,706	4.55	%
Non-interest-Earning Assets								
Cash and Cash Equivalents	18,785				19,700			
Allowance for Loan Losses	(16,324 )				(24,183 )			
Other Assets	73,206				74,354			
Total Noninterest-Earning Assets	75,667				69,871			
Total Assets	\$ 1,165,515				\$ 1,244,315			
Liabilities and Stockholders' Equity								
Interest-Bearing Liabilities								
Interest-Bearing Deposits								
Interest-Bearing Demand and Savings								
	\$ 328,007	\$ 645	0.39	%	\$ 270,649	\$ 638	0.47	%
Other Time	557,981	4,078	1.46	%	663,038	6,466	1.95	%
Total Interest-Bearing Deposits	885,988	4,723	1.07	%	933,687	7,104	1.52	%
Other Interest-Bearing Liabilities								
Other Borrowed Money	55,745	1,185	4.25	%	72,451	1,529	4.22	%
Subordinated Debentures	24,229	281	2.32	%	24,229	252	2.08	%
Federal Funds Purchased and Repurchase Agreements	--	--	--		19,890	338	3.40	%
Total Other Interest-Bearing Liabilities	79,974	1,466	3.67	%	116,570	2,119	3.64	%
Total Interest-Bearing Liabilities	965,962	\$ 6,189	1.28	%	1,050,257	\$ 9,223	1.76	%

Noninterest-Bearing Liabilities  
and Stockholders' Equity

Demand Deposits	98,475	96,709
Other Liabilities	4,312	4,294
Stockholders' Equity	96,766	93,055
Total Noninterest-Bearing Liabilities and Stockholders' Equity	199,553	194,058
Total Liabilities and Stockholders' Equity	\$1,165,515	\$1,244,315

Interest Rate Spread		3.17	%		2.79	%
Net Interest Income	\$18,043			\$17,483		
Net Interest Margin		3.31	%		2.98	%

(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 \$37 and \$57 for six month periods ended June 30, 2012 and 2011, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling \$31 and \$27 for six month periods ended June 30, 2012 and 2011, 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 4

CONTROLS AND PROCEDURES

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

During the quarter ended June 30, 2012, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

57

---

Table of Contents

PART II – OTHER INFORMATION

ITEM 1– LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

N/A

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

None

ITEM 3 –DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 –(REMOVED AND RESERVED)

None

ITEM 5 –OTHER INFORMATION

None

58

---

Table of Contents

Part II (Continued)

Item 6

ITEM 6 –EXHIBITS

3.1 Articles of Incorporation

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

3.2 Bylaws, as Amended

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

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

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

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

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

4.1 Instruments Defining the Rights of Security Holders

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

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

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

4.3 Form of Series A Preferred Stock Certificate

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

10.1 Deferred Compensation Plan and Sample Director Agreement

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

10.2 Profit-Sharing Plan Dated January 1, 1979



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

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

Table of Contents

Part II (Continued)

Item 6

10.42004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

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

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

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

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

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

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

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

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

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

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

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

101.INSXBRL Instance Document

101.SCHXBRL Schema Document

101.CALXBRL Calculation Linkbase Document

101.LABXBRL Label Linkbase Document

101.PREXBRL Presentation Linkbase Document



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.

Colony Bankcorp, Inc.

Date: August 6, 2012

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

Date: August 6, 2012

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