

COLONY BANKCORP INC
Form 10-Q
November 08, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 2006

COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA
(STATE OR OTHER JURISDICTION OF

58-1492391
(I.R.S. EMPLOYER

INCORPORATION OR ORGANIZATION)

IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES x NO "

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER OR A NONACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER AND LARGE ACCELERATED FILER IN RULE 12b-2 OF THE EXCHANGE ACT. (CHECK ONE)

LARGE ACCELERATED FILER ACCELERATED FILER NON ACCELERATED FILER

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE ACT). YES NO

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

CLASS	OUTSTANDING AT NOVEMBER 8, 2006
COMMON STOCK, \$1 PAR VALUE	7,190,187

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I Financial Information</u>	
<u>Forward Looking Statement Disclosure</u>	3
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	51
<u>PART II Other Information</u>	
Item 1. <u>Legal Proceedings</u>	52
Item 1A. <u>Risk Factors</u>	52
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 3. <u>Defaults Upon Senior Securities</u>	52
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	52
Item 5. <u>Other Information</u>	52
Item 6. <u>Exhibits</u>	52
<u>Signatures</u>	54

Table of Contents

Forward Looking Statement Disclosure

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

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

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

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

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

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

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

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

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND SUBSIDIARIES: COLONY BANK OF FITZGERALD, COLONY BANK ASHBURN, COLONY BANK WILCOX, COLONY BANK OF DODGE COUNTY, COLONY BANK WORTH, COLONY BANK SOUTHEAST, COLONY MANAGEMENT SERVICES, INC., AND COLONY BANK QUITMAN, FSB.

- A. CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2006 AND DECEMBER 31, 2005.

- B. CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005.

- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005.

- D. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005.

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

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of Contents**COLONY BANKCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2006 AND DECEMBER 31, 2005****(DOLLARS IN THOUSANDS)**

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 23,254	\$ 21,606
Federal Funds Sold	35,577	57,456
	58,831	79,062
Interest-Bearing Deposits	3,156	1,635
Investment Securities		
Available for Sale, at Fair Value	140,010	124,247
Held to Maturity, at Cost (Fair Value of \$78 and \$79, as of September 30, 2006 and December 31, 2005, Respectively)	78	79
	140,088	124,326
Federal Home Loan Bank Stock, at Cost	5,222	5,034
Loans		
Allowance for Loan Losses	(12,308)	(10,762)
Unearned Interest and Fees	(499)	(302)
	926,332	848,053
Premises and Equipment	27,558	25,676
Other Real Estate	552	2,170
Goodwill	2,412	2,412
Other Intangible Assets	448	520
Other Assets	21,783	19,450
Total Assets	\$ 1,186,382	\$ 1,108,338
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-Bearing	\$ 72,033	\$ 78,778
Interest-Bearing	944,294	865,587

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

	1,016,327	944,365
Borrowed Money		
Subordinated Debentures	24,229	19,074
Other Borrowed Money	63,500	70,226
	87,729	89,300
Other Liabilities	7,974	6,545
Commitments and Contingencies		
Stockholders Equity		
Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,190,187 and 7,181,320 Shares as of September 30, 2006 and December 31, 2005, Respectively	7,190	7,181
Paid-In Capital	24,202	24,000
Retained Earnings	44,417	38,602
Restricted Stock - Unearned Compensation	(346)	(302)
Accumulated Other Comprehensive Loss, Net of Tax	(1,111)	(1,353)
	74,352	68,128
Total Liabilities and Stockholders Equity	\$ 1,186,382	\$ 1,108,338

The accompanying notes are an integral part of these statements.

Table of Contents**COLONY BANKCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****(UNAUDITED)****(DOLLARS IN THOUSANDS)**

	Three Months Ended		Nine Months Ended	
	09/30/2006	09/30/2005	09/30/2006	09/30/2005
Interest Income				
Loans, Including Fees	\$ 19,665	\$ 15,065	\$ 55,070	\$ 42,179
Federal Funds Sold	462	241	1,458	669
Deposits with Other Banks	38	23	92	57
Investment Securities				
U.S. Government Agencies	1,370	782	3,716	2,420
State, County and Municipal	95	60	274	178
Corporate Obligations	43	36	116	102
Dividends on Other Investments	75	55	203	136
	21,748	16,262	60,929	45,741
Interest Expense				
Deposits	9,762	5,984	25,938	15,531
Federal Funds Purchased	12	8	28	15
Borrowed Money	1,180	1,004	3,556	2,832
	10,954	6,996	29,522	18,378
Net Interest Income	10,794	9,266	31,407	27,363
Provision for Loan Losses	1,021	869	2,990	2,702
Net Interest Income After Provision for Loan Losses	9,773	8,397	28,417	24,661
Noninterest Income				
Service Charges on Deposits	1,193	1,077	3,380	3,057
Other Service Charges, Commissions and Fees	207	186	625	539
Mortgage Fee Income	180	146	516	379
Other	318	124	1,003	659
	1,898	1,533	5,524	4,634
Noninterest Expenses				
Salaries and Employee Benefits	4,350	3,580	12,676	10,454
Occupancy and Equipment	1,047	994	3,035	2,819
Other	2,283	1,917	6,655	5,794
	7,680	6,491	22,366	19,067

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Income Before Income Taxes	3,991	3,439	11,575	10,228
Income Taxes	1,369	1,188	4,034	3,556
Net Income	\$ 2,622	\$ 2,251	\$ 7,541	\$ 6,672
Net Income Per Share of Common Stock				
Basic	\$ 0.36	\$ 0.32	\$ 1.05	\$ 0.93
Diluted	\$ 0.36	\$ 0.31	\$ 1.05	\$ 0.93
Weighted Average Basic Shares Outstanding	7,181,894	7,143,741	7,176,186	7,143,741
Weighted Average Diluted Shares Outstanding	7,181,894	7,171,622	7,177,042	7,173,602
Cash Dividends Declared Per Share of Common Stock	\$ 0.0825	\$ 0.0720	\$ 0.2400	\$ 0.2100

The accompanying notes are an integral part of these statements.

Table of Contents

COLONY BANKCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	09/30/06	09/30/05	09/30/06	09/30/05
Net Income	\$ 2,622	\$ 2,251	\$ 7,541	\$ 6,672
Other Comprehensive Income, Net of Tax				
Gains (Losses) on Securities Arising During the Year	1,209	(150)	242	(167)
Reclassification Adjustment	0	0	0	0
Unrealized Gains (Losses) on Securities	1,209	(150)	242	(167)
Comprehensive Income	\$ 3,831	\$ 2,101	\$ 7,783	\$ 6,505

The accompanying notes are an integral part of these statements.

Table of Contents**COLONY BANKCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****(UNAUDITED)****(DOLLARS IN THOUSANDS)**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 7,541	\$ 6,672
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,441	1,396
Provision for Loan Losses	2,990	2,702
Amortization and Accretion	573	1,107
(Gain) Loss on Sale of Other Real Estate and Repossessions	(111)	40
Gain on Sale of Equipment	0	(2)
Increase in Cash Surrender Value of Life Insurance	(106)	(116)
Other Prepaids, Deferrals and Accruals, Net	(732)	247
	11,596	12,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	(188)	(623)
Purchases of Investment Securities Available for Sale	(34,121)	(24,691)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	18,545	28,292
Held to Maturity	9	8
Other Investments	(200)	
Interest-Bearing Deposits in Other Banks	(1,521)	(1,004)
Net Loans to Customers	(84,190)	(68,286)
Purchase of Premises and Equipment	(3,328)	(4,033)
Other Real Estate and Repossessions	4,590	1,303
Proceeds from Sale of Premises and Equipment	5	12
Investment in Statutory Trust	(155)	
	(100,554)	(69,022)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(6,745)	(1,788)
Interest-Bearing Customer Deposits	78,714	52,219
Dividends Paid	(1,671)	(1,465)
Proceeds from Other Borrowed Money	35,500	13,000
Principal Payments on Other Borrowed Money	(42,226)	(3,669)
Proceeds from Issuance of Subordinated Debentures	5,155	
	68,727	58,297
Net Increase (Decrease) in Cash and Cash Equivalents	(20,231)	1,321
Cash and Cash Equivalents at Beginning of Period	79,062	64,947

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Cash and Cash Equivalents at End of Period	\$ 58,831	\$ 66,268
--	------------------	-----------

The accompanying notes are an integral part of these statements.

Table of Contents

COLONY BANKCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Colony Bankcorp, Inc. (the Company) is a multi-bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiaries, Colony Bank of Fitzgerald, Fitzgerald, Georgia; Colony Bank Ashburn (which includes its wholly-owned subsidiary, Georgia First Mortgage Company), Ashburn, Georgia; Colony Bank Worth, Sylvester, Georgia; Colony Bank of Dodge County, Eastman, Georgia; Colony Bank Wilcox, Rochelle, Georgia; Colony Bank Southeast, Broxton, Georgia; Colony Bank Quitman, FSB, Quitman, Georgia (the Banks); and Colony Management Services, Inc., Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry.

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

Nature of Operations

The Banks provide a full range of retail and commercial banking services for consumers and small to medium size businesses located primarily in middle and south Georgia. Lending and investing activities are funded primarily by deposits gathered through its retail branch office network.

Use of Estimates

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

Reclassifications

In certain instances, amounts reported in prior years consolidated financial statements have been reclassified to conform to statement presentations selected for 2006. Such reclassifications had no effect on previously reported stockholders equity or net income.

Concentrations of Credit Risk

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

The success of Colony is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. No assurance can be given that the current economic conditions will continue. 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.

Accounting Policies

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

Table of Contents

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities

Investment securities are recorded under Statement of Financial Accounting Standards (SFAS) No. 115, whereby the Company classifies its securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All other securities not classified as trading or held to maturity are considered available for sale.

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

Federal Home Loan Bank Stock

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in SFAS No. 115; accordingly, the provisions of SFAS No. 115 are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

Loans

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

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

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

Allowance for Loan Losses

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

Table of Contents**(1) Summary of Significant Accounting Policies (Continued)****Allowance for Loan Losses (Continued)**

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, 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 general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Premises and Equipment

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

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

Description	Life in Years	Method
Banking Premises	15-40	Straight-Line and Accelerated
Furniture and Equipment	5-10	Straight-Line and Accelerated
Leasehold Improvements	2-20	Straight-Line

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

Goodwill and Intangible Assets

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

Table of Contents

(1) Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets (Continued)

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

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.

Income Taxes

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

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at the lower of cost or estimated market value at the date of acquisition. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Subsequent declines in value, routine holding costs and gains or losses upon disposition are included in other losses.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, requires the presentation in the financial statements of net income and all items of other comprehensive income as total comprehensive income.

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.

Table of Contents**(1) Summary of Significant Accounting Policies (Continued)****Changes in Accounting Principles and Effects of New Accounting Pronouncements**

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 140. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1,

Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a Replacement of FASB Statement No. 125, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect the adoption of this statement to have a material impact on our financial condition, results of operations or cash flows.

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the amortization method or fair value method for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. We do not expect the adoption of this statement to have a material impact on our financial condition, results of operations or cash flows.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This pronouncement, which will be effective for Colony in Fiscal 2007, clarifies accounting for income tax positions that are either: (1) complex, and therefore, subject to varied interpretation, or (2) controversial. Management does not expect this pronouncement to have a significant impact on Colony's financial position or results of operations in fiscal 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (FAS 157)*. SFAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In September 2006, the FASB issued No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106 and 132R. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. The Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with public traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The adoption of this standard is not expected to have an effect on the Company's results of operations or financial position.

Table of Contents**(2) Cash and Due from Banks**

Components of cash and balances due from banks are as follows as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Cash on Hand and Cash Items	\$ 8,771	\$ 8,971
Noninterest-Bearing Deposits with Other Banks	14,483	12,635
	\$ 23,254	\$ 21,606

As of September 30, 2006, the Banks had required deposit reserves of approximately \$2,755 with the Federal Reserve that was satisfied with cash on hand.

(3) Investment Securities

Investment securities as of September 30, 2006 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 80,413	\$ 164	\$ (1,392)	\$ 79,185
Other	48,395	76	(612)	47,859
State, County & Municipal	9,696	40	(83)	9,653
Corporate Obligations	3,026		(22)	3,004
Marketable Equity Securities	163	159	(13)	309
	\$ 141,693	\$ 439	\$ (2,122)	\$ 140,010
Securities Held to Maturity:				
State, County and Municipal	\$ 78	\$	\$	\$ 78

The amortized cost and fair value of investment securities as of September 30, 2006, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 5,661	\$ 5,628		
Due After One Year Through Five Years	47,125	46,522		
Due After Five Years Through Ten Years	7,119	7,148	\$ 78	\$ 78
Due After Ten Years	1,212	1,218		
	61,117	60,516	78	78
Mortgage Backed Securities	80,413	79,185		

Marketable Equity Securities	163	309		
	\$ 141,693	\$ 140,010	\$ 78	\$ 78

Table of Contents

(3) Investment Securities (Continued)

Investment securities as of December 31, 2005 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 74,811	\$ 22	\$ (1,545)	\$ 73,288
Other	39,073	23	(651)	38,445
State, County & Municipal	9,187	51	(47)	9,191
Corporate Obligations	3,062		(39)	3,023
Marketable Equity Securities	163	151	(14)	300
	\$ 126,296	\$ 247	\$ (2,296)	\$ 124,247
Securities Held to Maturity:				
State, County and Municipal	\$ 79	\$	\$	\$ 79

Investment securities having a carry value approximating \$78,041 and \$63,487 as of September 30, 2006 and December 31, 2005, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at September 30, 2006 and December 31, 2005 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2006						
U.S. Government Agencies						
Mortgage Backed	\$ 8,620	\$ (100)	\$ 50,256	\$ (1,292)	\$ 58,876	\$ (1,392)
Other	5,946	(27)	28,997	(585)	34,943	(612)
State, County and Municipal	6,144	(56)	1,489	(27)	7,633	(83)
Corporate Obligations			1,978	(22)	1,978	(22)
Marketable Equity Securities			47	(13)	47	(13)
	\$ 20,710	\$ (183)	\$ 82,767	\$ (1,939)	\$ 103,477	\$ (2,122)
December 31, 2005						
U.S. Government Agencies						
Mortgage Backed	\$ 28,900	\$ (409)	\$ 37,482	\$ (1,137)	\$ 66,382	\$ (1,546)
Other	20,677	(337)	11,305	(314)	31,982	(651)
State, County and Municipal	4,041	(33)	406	(14)	4,447	(47)
Corporate Obligations	1,002	(20)	1,016	(18)	2,018	(38)
Marketable Equity Securities	47	(14)			47	(14)
	\$ 54,667	\$ (813)	\$ 50,209	\$ (1,483)	\$ 104,876	\$ (2,296)

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

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.

Table of Contents**(3) Investment Securities (Continued)**

At September 30, 2006, the debt securities with unrealized losses have depreciated 2.01 percent from the Company's amortized cost basis. These securities are guaranteed by either U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar type of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

(4) Loans

The composition of loans as of September 30, 2006 and December 31, 2005 was as follows:

	September 30, 2006	December 31, 2005
Commercial, Financial and Agricultural	\$ 71,352	\$ 48,849
Real Estate - Construction	187,139	152,944
Real Estate - Farmland	44,187	37,152
Real Estate - Other	539,299	529,599
Installment Loans to Individuals	77,126	73,473
All Other Loans	20,036	17,100
	\$ 939,139	\$ 859,117

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled \$7,353 and \$8,579 as of September 30, 2006 and December 31, 2005, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$12 and \$14, respectively.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2006 and September 30, 2005 as follows:

	September 30, 2006	September 30, 2005
Balance, Beginning	\$ 10,762	\$ 10,012
Provision Charged to Operating Expenses	2,990	2,702
Loans Charged Off	(2,021)	(2,266)
Loan Recoveries	577	215
Balance, Ending	\$ 12,308	\$ 10,663

Table of Contents**(6) Premises and Equipment**

Premises and equipment are comprised of the following as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Land	\$ 7,302	\$ 6,094
Building	20,853	18,687
Furniture, Fixtures and Equipment	12,221	11,547
Leasehold Improvements	994	966
Construction in Progress		1,076
	41,370	38,370
Accumulated Depreciation	(13,812)	(12,694)
	\$ 27,558	\$ 25,676

Depreciation charged to operations totaled \$1,441 and \$1,396 for September 30, 2006 and September 30, 2005, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$243 and \$257 for nine months ended September 30, 2006 and September 30, 2005, respectively.

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the nine months ended September 30, 2006 and September 30, 2005:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Goodwill		
Balance, Beginning	\$ 2,412	\$ 2,412
Goodwill Acquired		
Balance, Ending	\$ 2,412	\$ 2,412
Net Core Deposit, Intangible		
Balance, Beginning	\$ 520	\$ 634
Amortization Expense	(72)	(89)
Balance, Ending	\$ 448	\$ 545

The following table reflects the expected amortization for the core deposit intangible at September 30, 2006:

2006	\$ 9
2007	36
2008	36
2009	36
2010 and thereafter	331

(8) Income Taxes

The Company records income taxes under SFAS No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Table of Contents**(9) Deposits**

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$673 and \$594 as of September 30, 2006 and December 31, 2005.

Components of interest-bearing deposits as of September 30, 2006 and December 31, 2005 are as follows:

	September 30, 2006	December 31, 2005
Interest-Bearing Demand	\$ 168,854	\$ 187,736
Savings	35,915	35,245
Time, \$100,000 and Over	370,203	283,583
Other Time	369,322	359,023
	\$ 944,294	\$ 865,587

At September 30, 2006 and December 31, 2005, the Company had brokered deposits of \$92,791 and \$45,729 respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$336,715 and \$234,307 as of September 30, 2006 and December 31, 2005, respectively.

As of September 30, 2006 and December 31, 2005, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2006	December 31, 2005
One Year and Under	\$ 661,443	\$ 543,311
One to Three Years	49,361	74,215
Three Years and Over	28,721	25,080
	\$ 739,525	\$ 642,606

(10) Other Borrowed Money

Other borrowed money at September 30, 2006 and December 31, 2005 is summarized as follows:

	September 30, 2006	December 31, 2005
Federal Home Loan Bank Advances	\$ 63,500	\$ 67,500
The Banker's Bank Note Payable	0	2,500
The Banker's Bank Note Payable	0	226
	\$ 63,500	\$ 70,226

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2006 to 2019 and interest rates ranging from 2.74 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans, commercial real estate loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At September 30, 2006, the Company had available line of credit commitments totaling \$101,809, of which \$38,309 was available.

The Banker's Bank note payable originated on May 27, 2005 for \$1,500. On December 20, 2005, the original \$1,500 was renewed into a new note with an additional \$1,000 advanced at an interest rate of The Wall Street Prime minus 0.75 percent. Interest payments were due quarterly with the entire unpaid balance due May 27, 2006. The loan is collateralized by a negative pledge of Colony Bank Wilcox stock. The loan was paid off in April 2006.

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

The Banker's Bank note payable was renewed on January 7, 2003 for \$1,113 at a rate of the Wall Street Prime minus one half percent. Payments are due monthly with the entire unpaid balance due January 7, 2007. The debt is secured by all furniture, fixtures, machinery, equipment and software of Colony Management Services, Inc. Colony Bankcorp, Inc. guarantees the debt. The loan was paid off in August 2006.

Table of Contents**(10) Other Borrowed Money (Continued)**

The aggregate stated maturities of other borrowed money at September 30, 2006 are as follows:

Year	Amount
2007	\$ 17,000
2008	9,500
2009	
2010 and Thereafter	37,000
	\$ 63,500

(11) Subordinated Debentures (Trust Preferred Securities)

During the first quarter of 2002, the Company formed a subsidiary whose sole purpose was to issue \$9,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2006, the floating-rate securities had a 8.97 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.60 percent.

During the fourth quarter of 2002, the Company formed a second subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2006 the floating-rate securities had a 8.62 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.25 percent.

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2006, the floating rate securities had a 8.07 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2006 the floating-rate securities had a 6.87 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

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

(12) Restricted Stock Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. During 2000-2006, 72,928 split-adjusted shares were issued under this plan and since the plan's inception, 11,102 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are 2,875 at September 30, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period.)

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. During 2006, 6,855 shares were issued under this plan and since the plan's inception 1,048 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 137,693 at September 30, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

Table of Contents**(13) Profit Sharing Plan**

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was \$558 for 2005, \$479 for 2004 and \$476 for 2003.

(14) Commitments and Contingencies

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

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

At September 30, 2006 and December 31, 2005 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2006	December 31, 2005
Loan Commitments	\$ 115,362	\$ 112,056
Standby Letters of Credit	3,152	2,572
Performance Letter of Credit	0	472

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

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

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

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

(15) Deferred Compensation Plan

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

Table of Contents

(15) Deferred Compensation Plan (Continued)

Liabilities accrued under the plans totaled \$1,096 and \$1,114 as of September 30, 2006 and December 31, 2005, respectively. Benefit payments under the contracts were \$127 and \$126 for the nine month period ended September 30, 2006 and September 30, 2005, respectively. Provisions charged to operations totaled \$109 and \$314 for the nine month period ended September 30, 2006 and September 30, 2005, respectively.

Fee income recognized with deferred compensation plans totaled \$106 and \$279 for nine month period ended September 30, 2006 and September 30, 2005, respectively.

(16) Regulatory Capital Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2006, 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 Contents**(16) Regulatory Capital Matters (Continued)**

The following table summarizes regulatory capital information as of September 30, 2006 and December 31, 2005 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		Adequacy Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Under Prompt Corrective	
					To Be Well Capitalized	
As of September 30, 2006						
Total Capital to Risk-Weighted Assets Consolidated	\$ 107,971	11.44%	\$ 75,490	8.00%	\$ 94,363	10.00%
Fitzgerald	18,267	11.01	13,270	8.00	16,587	10.00
Ashburn	28,682	11.14	20,593	8.00	25,741	10.00
Worth	14,336	10.82	10,599	8.00	13,249	10.00
Southeast	19,605	10.89	14,398	8.00	17,998	10.00
Quitman	12,009	11.78	8,157	8.00	10,197	10.00
Tier 1 Capital to Risk-Weighted Assets Consolidated	\$ 96,103	10.18%	\$ 37,745	4.00%	\$ 56,618	6.00%
Fitzgerald	16,127	9.72	6,635	4.00	9,952	6.00
Ashburn	25,460	9.89	10,296	4.00	15,445	6.00
Worth	12,679	9.57	5,299	4.00	7,949	6.00
Southeast	17,521	9.73	7,199	4.00	10,798	6.00
Quitman	10,741	10.53	4,079	4.00	6,118	6.00
Tier 1 Capital to Average Assets Consolidated	\$ 96,103	8.27%	\$ 46,469	4.00%	\$ 58,086	5.00%
Fitzgerald	16,127	7.98	8,087	4.00	10,108	5.00
Ashburn	25,460	7.78	13,096	4.00	16,370	5.00
Worth	12,679	7.61	6,665	4.00	8,332	5.00
Southeast	17,521	8.73	8,027	4.00	10,034	5.00
Quitman	10,741	7.46	5,759	4.00	7,199	5.00

Table of Contents**16) Regulatory Capital Matters (Continued)**

	To Be Well Capitalized					
	Under Prompt Corrective					
	Actual		For Capital Adequacy Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005						
Total Capital to Risk-Weighted Assets Consolidated	\$ 95,873	11.02%	\$ 69,600	8.00%	\$ 87,000	10.00%
Fitzgerald	16,801	11.34	11,849	8.00	14,811	10.00
Ashburn	28,183	11.07	20,363	8.00	25,454	10.00
Worth	13,718	10.48	10,475	8.00	13,094	10.00
Southeast	15,025	10.30	11,665	8.00	14,581	10.00
Quitman	11,237	12.15	7,397	8.00	9,246	10.00
Tier 1 Capital to Risk-Weighted Assets Consolidated	\$ 85,049	9.78%	\$ 34,800	4.00%	\$ 52,200	6.00%
Fitzgerald	14,988	10.12	5,924	4.00	8,887	6.00
Ashburn	24,999	9.82	10,181	4.00	15,272	6.00
Worth	12,079	9.22	5,238	4.00	7,856	6.00
Southeast	13,687	9.39	5,833	4.00	8,749	6.00
Quitman	10,164	10.99	3,698	4.00	5,548	6.00
Tier 1 Capital to Average Assets Consolidated	\$ 85,049	7.77%	\$ 43,768	4.00%	\$ 54,710	5.00%
Fitzgerald	14,988	8.03	7,463	4.00	9,329	5.00
Ashburn	24,999	7.60	13,162	4.00	16,452	5.00
Worth	12,079	7.25	6,668	4.00	8,335	5.00
Southeast	13,687	8.36	6,551	4.00	8,188	5.00
Quitman	10,164	8.06	5,044	4.00	6,305	5.00

Table of Contents**(17) Financial Information of Colony Bankcorp, Inc. (Parent Only)**

The parent company's balance sheets as of September 30, 2006 and December 31, 2005 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)**BALANCE SHEETS****SEPTEMBER 30, 2006 AND DECEMBER 31, 2005**

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash	\$ 1,724	\$ 229
Premises and Equipment, Net	1,273	1,285
Investment in Subsidiaries, at Equity	95,649	88,376
Other	905	788
Totals Assets	\$ 99,551	\$ 90,678
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Dividends Payable	\$ 593	\$ 538
Other	377	438
	970	976
Other Borrowed Money	0	2,500
Subordinated Debt	24,229	19,074
Stockholders Equity		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,190,187 and 7,181,320 Shares as of September 30, 2006 and December 31, 2005, Respectively	7,190	7,181
Paid-In Capital	24,202	24,000
Retained Earnings	44,417	38,602
Restricted Stock - Unearned Compensation	(346)	(302)
Accumulated Other Comprehensive Loss, Net of Tax	(1,111)	(1,353)
	74,352	68,128
Total Liabilities and Stockholders Equity	\$ 99,551	\$ 90,678

Table of Contents**(17) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)****COLONY BANKCORP, INC. (PARENT ONLY)****STATEMENT OF INCOME AND COMPREHENSIVE INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005****(UNAUDITED)**

	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005
Income		
Dividends from Subsidiaries	\$ 5,108	\$ 3,452
Other	79	52
	5,187	3,504
Expenses		
Interest	1,415	946
Salaries and Employee Benefits	806	773
Other	589	551
	2,810	2,270
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	2,377	1,234
Income Tax (Benefits)	(788)	(725)
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	3,165	1,959
Equity in Undistributed Earnings of Subsidiaries	4,376	4,713
Net Income	7,541	6,672
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During Year	242	(167)
Reclassification Adjustment	0	0
Unrealized Gains (Losses) in Securities	242	(167)
Comprehensive Income	\$ 7,783	\$ 6,505

Table of Contents**(17) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)****COLONY BANKCORP, INC. (PARENT ONLY)****STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005****(UNAUDITED)**

	2006	2005
Cash Flows from Operating Activities		
Net Income	\$ 7,541	\$ 6,672
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	229	192
Equity in Undistributed Earnings of Subsidiary	(4,376)	(4,713)
Other	(178)	(37)
	3,216	2,114
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(2,500)	(1,950)
Purchases of Premises and Equipment	(50)	(196)
Investment in Statutory Trust	(155)	
	(2,705)	(2,146)
Cash Flows from Financing Activities		
Dividends Paid	(1,671)	(1,465)
Principal Payments on Other Borrowed Money	(2,500)	
Proceeds from Other Borrowed Money		1,500
Proceeds from Issuance of Subordinated Debentures	5,155	
	984	35
Net Increase in Cash	1,495	3
Cash, Beginning	229	163
Cash, Ending	\$ 1,724	\$ 166

Table of Contents**(18) Earnings Per Share**

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the three months and nine months ended September 30, 2006 and 2005, respectively, under the requirements of Statement 128:

	Three Months Ended			Three Months Ended		
	September 30, 2006			September 30, 2005		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 2,622	7,182	\$ 0.36	\$ 2,251	7,144	\$ 0.32
Dilutive Effect of Potential Common Stock						
Restricted Stock		0			28	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 2,622	7,182	\$ 0.36	\$ 2,251	7,172	\$ 0.31

	Nine Months Ended			Nine Months Ended		
	September 30, 2006			September 30, 2005		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 7,541	7,176	\$ 1.05	\$ 6,672	7,144	\$ 0.93
Dilutive Effect of Potential Common Stock						
Restricted Stock		1			30	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$7,541	7,177	\$ 1.05	\$ 6,672	7,174	\$ 0.93

Table of Contents

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.

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

The ability to increase market share and control expenses.

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

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

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

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

Table of Contents

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

The Company's success at managing the risks involved in the foregoing items. Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

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

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

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

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

Table of Contents**Overview**

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2006 and 2005, and results of operations for each of three months and nine months in the periods ended September 30, 2006 and 2005. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income totaled \$2.62 million, or \$0.36 diluted per common share, in three months ended September 30, 2006 compared to \$2.25 million, or \$0.31 diluted per common share, in three months ended September 30, 2005 and net income totaled \$7.54 million or \$1.05 diluted per common share in nine months ended September 30, 2006 compared to \$6.67 million, or \$0.93 diluted per common share in nine months ended September 30, 2005.

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

	Three Months Ended		Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
Taxable-equivalent net interest income	\$ 10,866	\$ 9,325	\$ 31,592	\$ 27,533
Taxable-equivalent adjustment	72	59	185	170
Net interest income	10,794	9,266	31,407	27,363
Provision for possible loan losses	1,021	869	2,990	2,702
Noninterest income	1,898	1,533	5,524	4,634
Noninterest expense	7,680	6,491	22,366	19,067
Income before income taxes	3,991	3,439	11,575	10,228
Income Taxes	1,369	1,188	4,034	3,556
Net income	\$ 2,622	\$ 2,251	\$ 7,541	\$ 6,672
Basic per common share:				
Net income	\$ 0.36	\$ 0.32	\$ 1.05	\$ 0.93
Diluted per common share:				
Net income	\$ 0.36	\$ 0.31	\$ 1.05	\$ 0.93
Return on average assets:				
Net income	0.90%	0.87%	0.88%	0.88%
Return on average equity:				
Net income	14.45%	13.60%	14.22%	13.83%

Table of Contents

Income from operations for three months ended September 30, 2006 increased \$0.371 million, or 16.48 percent, compared to the same period in 2005. The increase was primarily the result of a \$1.528 million increase in net interest income and an increase of \$0.365 million in noninterest income. This was offset by a \$1.189 million increase in noninterest expense, a \$0.181 million increase in income tax expense and a \$0.152 million increase in provision for loan losses.

Income from operations for nine months ended September 30, 2006 increased \$0.869 million, or 13.02 percent, compared to the same period in 2005. The increase was primarily the result of a \$4.044 million increase in net interest income and an increase of \$0.890 million in noninterest income. This was offset by a \$3.299 million increase in noninterest expense, a \$0.478 million increase in income tax expense and an increase of \$0.288 million in provision for loan losses.

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 47.26 percent of total revenue for nine months ended September 30, 2006 and 54.32 percent for the same period a year ago.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, began 2001 at 9.50 percent and decreased 475 basis points during 2001 to end the year at 4.75 percent. During 2002, the prime rate decreased 50 basis points to end the year at 4.25 percent. During 2003, the prime rate decreased 25 basis points to end the year at 4.00 percent. During 2004, the prime rate increased 125 basis points to end the year at 5.25 percent and during 2005, the prime rate increased 200 basis points to end the year at 7.25 percent. During 2006, the prime rate has increased 100 basis points to end the quarter at 8.25 percent. The federal funds rate moved similar to prime rate with interest rates of 1.75 percent, 1.25 percent, 1.00 percent, 2.25 percent and 4.25 percent, respectively, as of year-end 2001, 2002, 2003, 2004 and 2005. During 2006, the federal funds rate has increased 100 basis points to end the quarter at 5.25 percent. It is anticipated that the Federal Reserve will move toward a neutral stance during the balance of 2006 and first half of 2007.

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

Table of Contents**Rate/Volume Analysis**

The rate/volume analysis presented hereafter illustrates the change from September 30, 2005 to September 30, 2006 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

(\$ in thousands)	Changes from September 30, 2005 to September 30, 2006 (1)		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$ 4,898	\$ 7,989	\$ 12,887
Investment Securities			
Taxable	440	928	1,368
Tax-exempt	38	19	57
Total Investment Securities	478	947	1,425
Interest-Bearing Deposits in other Banks	(2)	37	35
Federal Funds Sold	193	596	789
Other Interest - Earning Assets	11	56	67
Total Interest Income	5,578	9,625	15,203
Interest Expense			
Interest-Bearing Demand and Savings Deposits	122	1,056	1,178
Time Deposits	2,245	6,984	9,229
Federal Funds Purchased	5	8	13
Subordinated Debentures	151	299	450
Other Borrowed Money	43	231	274
Total Interest Expense	2,566	8,578	11,144
Net Interest Income	\$ 3,012	\$ 1,047	\$ 4,059

(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 to the net portfolio of equity value and net interest income from potential changes to interest rates and considers the

impact of alternative strategies or changes in balance sheet structure.

Table of Contents

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

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

The Company maintains about 42 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin the past several years, though the unprecedented 475 basis point decrease by U.S. Federal Reserve in 2001, 50 basis point decrease in 2002 and 25 basis point decrease in 2003 resulted in significant net interest margin pressure. During 2004 and 2005, interest rates increased 125 basis points and 200 basis points respectively, while another 100 basis point increase has occurred during 2006. These increases have resulted in stable net interest margins. Net interest margin increased to 3.89 percent for nine months ended September 30, 2006 compared to 3.82 percent for the same period a year ago. We anticipate slight improvement or a flat margin for the balance of 2006 given the Federal Reserve's present interest rate forecast of neutral for the balance of 2006.

Taxable-equivalent net interest income for nine months ended September 30, 2006 increased \$4.059 million, or 14.74 percent compared to the same period a year ago. The significant fluctuation between the comparable periods resulted from the positive impact of growth in the average volume of earning assets that was partially offset by the negative impact of increasing average interest rates. The average volume of earning assets during nine months ended September 30, 2006 increased almost \$122 million compared to the same period a year ago while over the same period the net interest margin increased by 7 basis points from 3.82 percent to 3.89 percent. Growth in average earning assets during 2006 and 2005 was primarily in loans. The increase in the net interest margin in 2006 was primarily the result of the general increase in market interest rates and the increase in average earning assets.

The average volume of loans increased \$93.7 million in nine months ended September 30, 2006 compared to the same period a year ago. The average yield on loans increased 118 basis points in nine months ended September 30, 2006 compared to the same period a year ago. Funding for this growth was primarily provided by deposit growth. The average volume of deposits increased \$117.5 million in nine months ended September 30, 2006 compared to the same period a year ago. Interest-bearing deposits made up 94.2 percent of the growth in average deposits in nine months ended September 30, 2006. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.5 percent in nine months ended September 30, 2006 compared to 92.3 percent in the same period a year ago. This deposit mix, combined with a general increase in market rates, had the effect of (i) increasing the average cost of total deposits by 113 basis points in nine months ended September 30, 2006 compared to the same period a year ago and, (ii) mitigating a portion of the impact of increasing 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 3.57 percent in nine months ended September 30, 2006 compared to 3.59 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 \$2.99 million in nine months ended September 30, 2006 compared to \$2.702 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Table of Contents**NonInterest Income**

The components of noninterest income were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Service Charges on Deposit Accounts	\$ 1,193	\$ 1,077	\$ 3,380	\$ 3,057
Other Charges, Commissions and Fees	207	186	625	539
Other	318	124	1,003	659
Mortgage Fee Income	180	146	516	379
Total	\$ 1,898	\$ 1,533	\$ 5,524	\$ 4,634

Total noninterest income for three months ended September 30, 2006 increased \$365 thousand, or 23.8 percent compared to the same period a year ago. Total noninterest income for nine months ended September 30, 2006 increased \$890 thousand, or 19.21 percent compared to the same year ago period. Growth in noninterest income was primarily in service charges on deposit accounts, mortgage fee income and other noninterest income. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for three months ended September 30, 2006 increased \$116 thousand, or 10.77 percent, compared to the same period a year ago. Service charges on deposit accounts for the nine months ended September 30, 2006 increased \$323 thousand, or 10.57 percent, compared to the same year ago period. The increase for both periods was primarily due to an increase in overdraft fees, which were mostly related to consumer and commercial accounts.

Mortgage Fee Income. Mortgage fee income for three months ended September 30, 2006 increased \$34 thousand, or 23.29 percent, compared to the same period year ago. Mortgage fee income for nine months ended September 30, 2006 increased \$137 thousand, or 36.15 percent compared to the same year ago period. The increase for both periods was primarily due to the Company's focus on generating mortgage fee income. The Company anticipates fee income to continue to show an increase over the previous year, though continued interest rate increases could slow mortgage activity.

All Other Noninterest Income. Other charges, commissions and fees and other income for three months ended September 30, 2006 increased \$215 thousand, or 69.35 percent, compared to the same period a year ago. Significant increases were premiums on SBA/FSA loans sold, ATM fees and gain on the sale of assets. Premiums on the sale of SBA/FSA loans increased to \$170 thousand from \$19 thousand for the same year ago period, ATM fees increased to \$170 thousand from \$133 thousand and gain on the sale of assets increased to \$16 thousand from no gain for the same year ago period. Other charges, commissions and fees and other income for nine months ended September 30, 2006 increased \$430 thousand, or 35.89 percent, compared to the same period a year ago. Premiums on the sale of SBA and FSA loans increased to \$430 thousand from \$42 thousand for the same year ago period, ATM fees increased to \$484 thousand from \$384 thousand for the same year ago period, and gain on the sale of assets increased to \$65 thousand from no gain for the same year ago period. These increases were offset by a decrease in deferred compensation revenue to \$106 thousand from \$279 thousand for the same year ago period. A one-time gain of \$163 thousand was recognized in first quarter 2005 in connection with the deferred compensation plan and demutualization of the insurance companies used to fund the plan.

Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Salaries and Employee Benefits	\$ 4,350	\$ 3,580	\$ 12,676	\$ 10,454
Occupancy and Equipment	1,047	994	3,035	2,819
Other	2,283	1,917	6,655	5,794

Total	\$ 7,680	\$ 6,491	\$ 22,366	\$ 19,067
-------	----------	----------	-----------	-----------

Table of Contents

Total noninterest expense for three months ended September 30, 2006 increased \$1.189 million, or 18.32 percent, compared to the same period a year ago. Total noninterest expense for nine months ended September 30, 2006 increased \$3.3 million, or 17.30 percent, compared to the same period a year ago. Growth in noninterest expense for both periods was primarily in salaries, employee benefits, occupancy and equipment expense and other noninterest expense. These items and the changes in the various components of noninterest expense are discussed in more detail below.

Salaries and Employee Benefits. Salaries and employee benefits expense for three months ended September 30, 2006 increased \$770 thousand, or 21.51 percent, compared to the same period a year ago. Salaries and employee benefits for nine months ended September 30, 2006 increased \$2.222 million, or 21.26 percent, compared to the same period a year ago. The increase in both periods is primarily related to increases in headcount and merit increases as a result of new offices with the Company's denovo branch expansions. The Company opened one new office during second quarter 2006, one during first quarter 2006 and two new offices during the last half of 2005.

Occupancy and Equipment. Net occupancy expense for three months ended September 30, 2006 increased \$53 thousand, or 5.33 percent, compared to the same period a year ago and for the nine months ended September 30, 2006 increased \$216 thousand, or 7.66 percent compared to the same period a year ago. The increase in both periods is primarily related to two new offices opened during 2006 and two new offices opened during the last half of 2005. The impact of new offices resulted in higher building maintenance, insurance, utilities and depreciation on buildings and equipment.

All Other Non-Interest Expense. All other non-interest expense for three months ended September 30, 2006 increased \$366 thousand, or 19.09 percent, compared to the same period a year ago and for the nine months ended September 30, 2006 increased \$861 thousand, or 14.86 percent compared to the same period a year ago. Significant increases for three months ended September 30, 2006 compared to the same period a year ago include legal, professional and consultation fees increasing to \$285 thousand from \$133 thousand, advertising expense increasing to \$186 thousand from \$108 thousand, and office supplies increasing to \$144 thousand from \$123 thousand. Significant increases for the nine months ended September 30, 2006 compared to the same period a year ago include legal, professional and consultation fees increasing to \$868 thousand from \$430 thousand, director fees increasing to \$480 thousand from \$460 thousand, advertising increasing to \$459 thousand from \$306 thousand, office supplies increasing to \$409 thousand from \$362 thousand and travel expense increasing to \$158 thousand from \$120 thousand, ATM fees increasing to \$278 thousand from \$224 thousand and telephone and data lines increasing to \$521 thousand from \$473 thousand. These increases were offset by deferred compensation expense decreasing to \$109 thousand from \$314 thousand.

Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1.146 billion in nine months ended September 30, 2006 compared to \$1.014 billion in nine months ended September 30, 2005.

	Nine Months Ended			
	September 30,			
	2006		2005	
Source of Funds:				
Deposits:				
Noninterest Bearing	\$ 72,811	6.36%	\$ 65,982	6.51%
Interest-Bearing	903,759	78.87	793,086	78.23
Federal Funds Purchased	717	0.06	549	0.06
Borrowed Money	89,310	7.79	84,698	8.35
Other Noninterest-Bearing Liabilities	8,551	0.75	5,155	0.51
Equity Capital	70,705	6.17	64,323	6.34
Total	\$ 1,145,853	100.00%	\$ 1,013,793	100.00%
Uses of Funds:				
Loans	\$ 891,046	77.76%	\$ 798,530	78.77%
Investment Securities	131,674	11.49	112,297	11.08
Federal Funds Sold	40,444	3.53	31,365	3.09

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Interest-Bearing Deposits in Other Banks	2,612	0.23	2,725	0.27
Other Interest-Earning Assets	5,219	0.46	4,820	0.47
Other Noninterest-Earning Assets	74,858	6.53	64,056	6.32
Total	\$ 1,145,853	100.00%	\$ 1,013,793	100.00%

Table of Contents

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 92.54 percent of total average deposits in nine months ended September 30, 2006 compared to 92.32 percent in the same period a year ago.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Loan demand continues to be strong as total loans were \$939 million at September 30, 2006, up 9.31 percent, compared to loans of \$859 million at December 31, 2005. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included elsewhere in this discussion. The majority of funds provided by deposit growth have been invested in loans.

Loans

The following table presents the composition of the Company's loan portfolio as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Commercial, Financial and Agricultural	\$ 71,352	\$ 48,849
Real Estate		
Construction	187,139	152,944
Mortgage, Farmland	44,187	37,152
Mortgage, Other	539,299	529,599
Consumer	77,126	73,473
Other	20,036	17,100
	939,139	859,117
Unearned Interest and Fees	(499)	(302)
Allowance for Loan Losses	(12,308)	(10,762)
Loans	\$ 926,332	\$ 848,053

The following table presents total loans as of September 30, 2006 according to maturity distribution and/or repricing opportunity on adjustable rate loans:

Maturity and Repricing Opportunity	(\$ in Thousands)
One Year or Less	\$ 610,157
After One Year through Three Years	261,216
After Three Years through Five Years	52,462
Over Five Years	15,304
	\$ 939,139

Overview. Loans totaled \$939 million at September 30, 2006, up 9.31 percent from December 31, 2005 loans of \$859 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and installment loans to individuals. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 57.42 percent and 61.64 percent of total loans, real estate construction made up 19.93 percent and 17.80 percent, while installment loans to individuals made up 8.21 percent and 8.55 percent of total loans at September 30, 2006 and December 31, 2005, respectively. Real estate loans-other include both commercial and consumer balances.

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the local bank level. The Company utilizes a Senior 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.

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

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

Table of Contents

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

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

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

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at September 30, 2006 increased 46.07 percent from December 31, 2005 to \$71 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

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

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

	September 30, 2006			December 31, 2005		
	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding
Large Credit Relationships:						
\$10 million and greater	2	\$ 25,821	\$ 18,479	2	\$ 24,854	\$ 19,744
\$5 million to \$9.9 million	11	\$ 69,628	\$ 57,663	8	\$ 45,645	\$ 39,373

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at September 30, 2006. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

Table of Contents

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with fixed interest rates	\$ 226,561	\$ 251,736	\$ 52,462	\$ 15,304	\$ 546,063
Loans with floating interest rates	383,596	9,480	0	0	393,076
Total	\$ 610,157	\$ 261,216	\$ 52,462	\$ 15,304	\$ 939,139

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

Non-Performing Assets and Potential Problem Loans

Non-performing assets and accruing past due loans as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
Loans accounted for on nonaccrual	\$ 7,353	\$ 8,579
Loans past due 90 days or more	12	14
Other real estate foreclosed	552	2,170
Total non-performing assets	\$ 7,917	\$ 10,763
Non-performing assets as a percentage of:		
Total loans and foreclosed assets	0.84%	1.25%
Total assets	0.67%	0.97%
Accruing past due loans:		
30-89 days past due	\$ 8,240	\$ 6,829
90 or more days past due	12	14
Total accruing past due loans	\$ 8,252	\$ 6,843

Non-performing assets include non-accrual loans, loans past due 90 days or more, restructured loans and foreclosed real estate. Non-performing assets at September 30, 2006 decreased 26.44 percent from December 31, 2005.

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

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to

maintaining the properties.

Table of Contents**Allowance for Loan Losses**

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

The allowance for loan losses includes allowance allocations calculated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS 118, and allowance allocations determined in accordance with SFAS No. 5, *Accounting for Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. The company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics.

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

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

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

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

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

	September 30, 2006		December 31, 2005	
	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 3,692	8%	\$ 3,229	6%
Real Estate - Construction	923	20%	646	18%
Real Estate - Farmland	615	5%	538	4%
Real Estate - Other	3,816	57%	3,498	62%
Loans to Individuals	2,462	8%	2,152	8%
All other Loans	800	2%	699	2%
Total	\$ 12,308	100%	\$ 10,762	100%

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

Table of Contents

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

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

(\$ in thousands)	Three Months Ended	Three Months Ended
	September 30, 2006	September 30, 2005
Allowance for Loan Losses at Beginning of Quarter	\$ 11,658	\$ 10,119
Charge-Off		
Commercial, Financial and Agricultural	242	181
Real Estate	44	2
Consumer	130	139
All Other	62	44
	478	366
Recoveries		
Commercial, Financial and Agricultural	33	10
Real Estate	1	2
Consumer	56	23
All Other	17	6
	107	41
Net Charge-Offs	371	325
Provision for Loan Losses	1,021	869
Allowance for Loan Losses at End of Quarter	\$ 12,308	\$ 10,663
Ratio of Net Charge-Offs to Average Loans	0.04%	0.04%

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 \$152 thousand from \$869 thousand in three months ended September 30, 2005 to \$1,021 thousand in three months ended September 30, 2006. Provisions increased during third quarter 2006 primarily due to our increase in loan volume from a year ago.

Net charge-offs in three months ended September 30, 2006 increased \$46 thousand compared to the same period a year ago. Net charge-offs of 0.04 percent for third quarter 2006 that annualizes to 0.16 percent is below normal for our company. We anticipate annual net charge-offs to be in the 0.25 percent range.

Management believes the level of the allowance for loan losses was adequate as of September 30, 2006. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Table of Contents

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

(\$ in thousands)	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Allowance for Loan Losses at Beginning of Year	\$ 10,762	\$ 10,012
Charge-Off		
Commercial, Financial and Agricultural	1,074	432
Real Estate	365	568
Consumer	357	1,077
All Other	225	189
	2,021	2,266
Recoveries		
Commercial, Financial and Agricultural	413	107
Real Estate	17	14
Consumer	124	59
All Other	23	35
	577	215
Net Charge-Offs	1,444	2,051
Provision for Loan Losses	2,990	2,702
Allowance for Loan Losses at End of Quarter	\$ 12,308	\$ 10,663
Ratio of Net Charge-Offs to Average Loans	0.14%	0.25%

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 \$288 thousand from \$2,702 thousand in nine months ended September 30, 2005 to \$2,990 thousand in nine months ended September 30, 2006. Provisions have increased during 2006 primarily due to our increase in loan volume from a year ago.

Net charge-offs in nine months ended September 30, 2006 decreased \$607 thousand compared to the same period a year ago. The general decrease in net charge-offs during the comparable periods is reflective of more stringent underwriting standards. In addition, one large commercial loan accounted for approximately 29 percent of the gross charge-offs during 2006, while one agricultural credit accounted for approximately 47 percent of the gross recoveries during 2006.

Management believes the level of the allowance for loan losses was adequate as of September 30, 2006. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Table of Contents**Investment Portfolio**

The following table presents carrying values of investment securities held by the Company as of September 30, 2006 and December 31, 2005.

(\$ in thousands)	September 30, 2006	December 31, 2005
U.S. Government Agencies	\$ 47,859	\$ 38,446
State, County and Municipal	9,731	9,270
Corporate Obligations	3,004	3,023
Marketable Equity Securities	309	300
Investment Securities	60,903	51,039
Mortgage Backed Securities	79,185	73,287
Total Investment Securities and Mortgage Backed Securities	\$ 140,088	\$ 124,326

The following table represents maturities and weighted-average yields of investment securities held by the Company as of September 30, 2006. (Mortgage backed securities are based on the average life at the projected speed, while Agencies and State and Political subdivisions reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government Agencies	\$ 4,376	4.36%	\$ 42,506	4.40%	\$ 977	5.71%	\$	%
Mortgage Backed Securities	6,393	3.27	62,456	4.35	10,336	5.39		
State, County and Municipal	1,954	3.98	4,024	4.64	3,753	6.30		
Corporate Obligations	1,002	2.96	2,002	6.29				
Marketable Equity Securities							309	1.01
Total Investment Portfolio	\$ 13,725	3.70%	\$ 110,988	4.41%	\$ 15,066	5.64%	\$ 309	1.01%

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

At September 30, 2006, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 4.26 percent in nine months ended September 30, 2006 compared to 3.30 percent in the same period a year ago. The increase in the average yield over the comparable periods primarily resulted from reduced amortization on mortgage backed securities and the higher interest rate environment.

Table of Contents**Deposits**

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the nine month periods ended September 30, 2006 and September 30, 2005.

(\$ in thousands)	September 30, 2006		September 30, 2005	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	\$ 72,811		\$ 65,982	
Interest-Bearing Demand and Savings Deposits	211,344	1.91%	198,183	1.24%
Time Deposits	692,415	4.41%	594,903	3.07%
Total Deposits	\$ 976,570	3.54%	\$ 859,068	2.41%

The following table presents the maturities of the Company's time deposits as of September 30, 2006.

(\$ in thousands)	Time Deposits		Total
	\$100,000 or Greater	Time Deposits Less Than \$100,000	
Months to Maturity			
3 or Less		\$ 90,913	\$ 167,234
Over 3 through 12 Months		245,802	494,209
Over 12 Months through 36 Months		18,860	49,361
Over 36 Months		14,628	28,721
		\$ 370,203	\$ 739,525

Average deposits increased \$117.5 million to \$976.6 million at September 30, 2006 from \$859.1 million at September 30, 2005. The increase included \$6.8 million, or 5.79 percent, related to noninterest-bearing deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.46 percent for nine months ended September 30, 2006 compared to 7.68 percent for nine months ended September 30, 2005. The general increase in market rates, had the effect of (i) increasing the average cost of total deposits by 113 basis points in nine months ended September 30, 2006 compared to the same period a year ago; and (ii) mitigating a portion of the impact of increasing yields on earning assets.

Total average interest-bearing deposits increased \$110.7 million, or 13.95 percent in nine months ended September 30, 2006 compared to the same period a year ago. The growth in average deposits at September 30, 2006 compared to September 30, 2005 was primarily in money market deposit accounts and savings and interest-on-checking accounts and other time accounts. With the current interest rate environment, it appears that many customers are more inclined to invest their funds for extended periods and are choosing to maintain such funds in time accounts.

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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of September 30, 2006. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

Table of Contents

	Payments Due by Period				Total
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	
Contractual obligations:					
Subordinated debentures	\$	\$	\$	\$ 24,229	\$ 24,229
Federal Home Loan Bank advances	17,000	9,500	1,000	36,000	63,500
Operating leases	119	133	93	106	451
Deposits with stated maturity dates	661,443	49,361	28,682	39	739,525
	678,562	58,994	29,775	60,374	827,705
Other commitments:					
Loan commitments	115,362				115,362
Standby letters of credit	3,152				3,152
	118,514				118,514
Total contractual obligations and Other commitments	\$ 797,076	\$ 58,994	\$ 29,775	\$ 60,374	\$ 946,219

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 loan losses. Loan commitments outstanding at September 30, 2006 are included in the table above.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at September 30, 2006 are included in the table above.

Capital and Liquidity

At September 30, 2006, stockholders' equity totaled \$74.35 million compared to \$68.13 million at December 31, 2005. In addition to net income of \$7.54 million, other significant changes in stockholders' equity during nine months ended September 30, 2006 included \$1.73 million of dividends paid and an increase of \$0.17 million resulting from the amortization of the stock grant plan. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$(1,111) thousand at September 30, 2006 compared to \$(1,353) thousand at December 31, 2005. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses and gain on marketable equity securities.

Table of Contents

Using the capital requirements presently in effect, the Tier 1 ratio as of September 30, 2006 was 10.18 percent and total Tier 1 and 2 risk-based capital was 11.44 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of September 30, 2006 was 8.27 percent, which exceeds the required ratio standard of 4 percent.

For nine months ended September 30, 2006, average capital was \$70.7 million, representing 6.17 percent of average assets for the year. This compares to 6.34 percent for nine months ended September 30, 2005 and 6.30 percent for calendar year 2005.

The Company paid cash dividends of \$0.24 per common share during the first three quarters of 2006, and a cash dividend of \$0.21 per common share during the first three quarters of 2005, respectively. This equates to a dividend payout ratio of 22.86 percent for the first three quarters of 2006 compared to 22.58 percent for the same period a year ago.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of September 30 2006, the Company held \$140 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2005, the available for sale bond portfolio totaled \$124.3 million. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 92.4 percent as of September 30, 2006 and 90.9 percent at December 31, 2005. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at September 30, 2006 and December 31, 2005 were 87 percent and 84.7 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small business with comprehensive banking relationships and limited volatility. At September 30, 2006 and December 31, 2005, the Banks had \$370.2 million and \$283.6 million in certificates of deposit of \$100,000 or more. These larger deposits represented 36.4 percent and 30.03 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

Local market deposit sources proved insufficient to fund the strong loan growth trends at Colony over the past several years. The Company supplemented deposit sources with brokered deposits. As of September 30, 2006, the Company had \$92.8 million, or 9.13 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the banks use external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

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

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.

Table of Contents

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

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

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

Impact of Inflation and Changing Prices

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

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Table of Contents**Return on Assets and Stockholders' Equity**

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Return on Assets	0.90%	0.87%	0.88%	0.88%
Return on Equity	14.45%	13.60%	14.22%	13.83%
Dividend Payout	22.92%	22.50%	22.86%	22.58%
Avg. Equity to Avg. Assets	6.23%	6.41%	6.17%	6.34%
Dividends Declared	\$ 0.0825	\$ 0.072	\$ 0.24	\$ 0.21

Future Outlook

Colony is an emerging company in an industry filled with nonregulated competitors and a rapid pace of consolidation. The year brings with it new opportunities for growth in our existing markets, as well as opportunities to expand into new markets through acquisitions and denovo branching. The Company completed construction of its main office in Valdosta/Lowndes County that opened during second quarter 2005. The Company completed renovation of its Savannah office during third quarter 2005 and opened its first full-service branch in the Savannah/Chatham County market. The Company completed construction on its first full-service office in Columbus/Muscogee County that was opened during second quarter 2006. The Company completed construction on a second office in Warner Robins that was opened during first quarter 2006. Entry into the MSA markets – Savannah, Columbus, Warner Robins, and Valdosta – will require multi-branch offices and the Company is presently looking for available real estate to purchase in those markets. Presently Colony has secured real estate in the Savannah market and will likely begin construction of its second Savannah office in 2007.

BUSINESS

General

The Company was organized in 1983 as a bank holding company through the merger of Colony Bank of Fitzgerald with a subsidiary of the Company. Since that time, Colony Bank of Fitzgerald, which was formed by principals of Colony Bankcorp, Inc. in 1976, has operated as a wholly-owned subsidiary of the Company. In April 1984, Colony Bankcorp, Inc. acquired Colony Bank Wilcox, and in November 1984, Colony Bank Ashburn became a wholly-owned subsidiary of Colony Bankcorp, Inc. Colony Bankcorp, Inc. continued its growth with the acquisition of Colony Bank of Dodge County in September 1985. In August 1991, Colony Bankcorp, Inc. acquired Colony Bank Worth. In November 1996, Colony Bankcorp, Inc. acquired Colony Bank Southeast and in November 1996 formed a non-bank subsidiary Colony Management Services, Inc. In March 2002, Colony Bankcorp, Inc. acquired Colony Bank Quitman, FSB and also formed Colony Bankcorp Statutory Trust I. In December 2002, Colony formed its second trust, Colony Bankcorp Statutory Trust II. In September 2004, Colony formed its third Trust, Colony Bankcorp Statutory Trust III. In April 2006, Colony formed its fourth Trust, Colony Bankcorp Capital Trust I.

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

On April 2, 1998, the Company was listed on Nasdaq National Market. The Company's common stock trades on the Nasdaq Stock Market under the symbol "CBAN". The Company presently has approximately 2,150 shareholders as of September 30, 2006. The Nasdaq Stock Market or Nasdaq is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

Table of Contents**Quantitative and Qualitative Disclosures About Market Risk****AVERAGE BALANCE SHEETS**

(\$ in thousands)	Nine Months Ended September 30, 2006			Nine Months Ended September 30, 2005		
	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)	\$ 902,599	\$ 55,156	8.15%	\$ 808,906	\$ 42,269	6.97%
Investment Securities Taxable	124,619	3,913	4.19%	106,223	2,545	3.19%
Tax-Exempt (2)	7,055	292	5.52%	6,074	235	5.16%
Total Investment Securities	131,674	4,205	4.26%	112,297	2,780	3.30%
Interest-Bearing Deposits	2,612	92	4.70%	2,725	57	2.79%
Federal Funds Sold	40,444	1,458	4.81%	31,365	669	2.84%
Interest-Bearing Other Assets	5,219	203	5.19%	4,820	136	3.76%
Total Interest-Earning Assets	1,082,548	\$ 61,114	7.53%	960,113	\$ 45,911	6.38%
Non-interest-Earning Assets						
Cash and Cash Equivalents	22,629			20,236		
Allowance for Loan Losses	(11,553)			(10,376)		
Other Assets	52,229			43,820		
Total Noninterest-Earning Assets	63,305			53,680		
Total Assets	\$ 1,145,853			\$ 1,013,793		
Liabilities and Stockholders' Equity						
Interest-Bearing Liabilities						
Interest-Bearing Deposits Interest-Bearing Demand and Savings Other Time	\$ 211,344 692,415	\$ 3,028 22,910	1.91% 4.41%	\$ 198,183 594,903	\$ 1,850 13,681	1.24% 3.07%
Total Interest-Bearing Deposits	903,759	25,938	3.83%	793,086	15,531	2.61%
Other Interest-Bearing Liabilities						
Other Borrowed Money	67,101	2,188	4.35%	65,624	1,914	3.89%
Subordinated Debentures	22,209	1,368	8.21%	19,074	918	6.42%
Federal Funds Purchased	717	28	5.21%	549	15	3.64%
Total Other Interest-Bearing Liabilities	90,027	3,584	5.31%	85,247	2,847	4.45%
Total Interest-Bearing Liabilities	993,786	\$ 29,522	3.96%	878,333	\$ 18,378	2.79%
Noninterest-Bearing Liabilities and Stockholders' Equity						
Demand Deposits	72,811			65,982		

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other Liabilities	8,551	5,155
Stockholders Equity	70,705	64,323
Total Noninterest-Bearing Liabilities and Stockholders Equity	152,067	135,460
Total Liabilities and Stockholders Equity	\$ 1,145,853	\$ 1,013,793
Interest Rate Spread		3.57%
		3.59%
Net Interest Income	\$ 31,592	\$ 27,533
Net Interest Margin		3.89%
		3.82%

(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 \$86 and \$90 for nine month periods ended September 30, 2006 and 2005, respectively, are included in tax-exempt interest on loans.

Table of Contents

- (2) Taxable-equivalent adjustments totaling \$99 and \$80 for nine month periods ended September 30, 2006 and 2005, 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.

Colony Bankcorp, Inc. and Subsidiaries**Interest Rate Sensitivity**

The following table is an analysis of the Company's interest rate-sensitivity position at September 30, 2006. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

(\$ in Thousands)	Assets and Liabilities Repricing Within					Total
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	
EARNING ASSETS:						
Interest-Bearing Deposits	\$ 3,156	\$ 0	\$ 3,156	\$ 0	\$ 0	\$ 3,156
Federal Funds Sold	35,577	0	35,577	0	0	35,577
Investment Securities	13,590	5,280	18,870	110,291	10,927	140,088
Loans, Net of Unearned Income	419,536	190,621	610,157	313,179	15,304	938,640
Other Interest-Bearing Assets	5,222	0	5,222	0	0	5,222
Total Interest-Earning Assets	477,081	195,901	672,982	423,470	26,231	1,122,683
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand Deposits (1)	168,854	0	168,854	0	0	168,854
Savings (1)	35,915	0	35,915	0	0	35,915
Time Deposits	167,234	494,209	661,443	78,043	39	739,525
Other Borrowings (2)	15,000	4,000	19,000	13,500	31,000	63,500
Subordinated Debentures	24,229	0	24,229	0	0	24,229
Total Interest-Bearing Liabilities	411,232	498,209	909,441	91,543	31,039	1,032,023
Interest Rate-Sensitivity Gap	65,849	(302,308)	(236,459)	331,927	(4,808)	90,660
Cumulative Interest-Sensitivity Gap	65,849	(236,459)	(236,459)	95,468	90,660	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	5.87%	(26.93)%	(21.06)%	29.57%	(0.43)%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	5.87%	(21.06)%	(21.06)%	8.50%	8.08%	

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

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

The foregoing table indicates that we had a one year negative gap of (\$236) million, or (21.06) percent of total assets at September 30, 2006. In theory, this would indicate that at September 30, 2006, \$236 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to increase, the gap would indicate a resulting decrease in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease

Table of Contents

the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

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

The Company is now utilizing SunTrust Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net-interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent percentage change. The most recent analysis as of June 30, 2006 indicates that net interest income would deteriorate 7.46% with a 200 basis point decrease and would improve 4.13% with a 200 basis point increase. The Company has established equity at risk in a +/- 200 basis points rate shock to be no more than a twenty percent percentage change. The most recent analysis as of June 30, 2006 indicates that net economic value of equity percentage change would be up 0.30 percent with a 200 basis point increase and would decrease 5.24 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of June 30, 2006 indicates a one year gap of 0.89 percent. The analysis reflects net interest margin compression in a declining interest rate environment. Given that interest rates are at or near its peak, the Company is focusing on areas to minimize margin compression in the future. These include locking in more loans at a fixed rate versus a variable rate, minimizing dollars in Federal funds, extending out on the yield curve with investments, securing brokered certificates of deposit for terms less than one year and focusing on reduction of nonperforming assets.

Table of Contents

CONTROLS AND PROCEDURES

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

Table of Contents

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 1A RISK FACTORS

During the period covered by this report, there have been no material changes from risk factors as previously disclosed in the registrant's Form 10-K filed on March 15, 2006 in response to Item 1A to Part I of Form 10-K.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS

3.1 Articles of Incorporation

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

3.2 Bylaws, as Amended

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

4.1 Instruments Defining the Rights of Security Holders

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

10.1 Deferred Compensation Plan and Sample Director Agreement

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

10.2 Profit-Sharing Plan Dated January 1, 1979

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

Table of Contents

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

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

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

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

11.1 Statement of Computation of Earnings Per Share

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

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

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

Table of Contents

SIGNATURE

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

Date: November 8, 2006

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

Date: November 8, 2006

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