COLONY BANKCORP INC
Form 10-Q
May 08, 2009

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED MARCH 31, 2009 COMMISSION FILE NUMBER 0-12436

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

GEORGIA (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	58-1492391 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)

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

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

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

YES x NO ¨

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

LARGE ACCELERATED FILER ¨ ACCELERATED FILER x

NON ACCELERATED FILER ¨ (DO NOT CHECK IF A SMALLER REPORTING COMPANY)	SMALLER REPORTING COMPANY ¨

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

YES ¨ NO x

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 MAY 8, 2009
COMMON STOCK, $1 PAR VALUE	7,230,663

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Forward Looking Statement Disclosure

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

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

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

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

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

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

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

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

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PART 1. FINANCIAL INFORMATION
ITEM 1.

FINANCIAL STATEMENTS

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

A. CONSOLIDATED BALANCE SHEETS – MARCH 31, 2009 AND DECEMBER 31, 2008.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008.

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

THE RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2009 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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

ASSETS	March 31, 2009 (Unaudited)	December 31, 2008
Cash and Cash Equivalents		
Cash and Due from Banks	$21,485	$29,427
Federal Funds Sold	--	31
	21,485	29,458
Interest-Bearing Deposits	373	147
Investment Securities		
Available for Sale, at Fair Value	244,549	207,645
Held to Maturity, at Cost (Fair Value of $64 and $63, as of March 31, 2009 and December 31, 2008, Respectively)	62	60
	244,611	207,705
Federal Home Loan Bank Stock, at Cost	6,345	6,272
Loans	962,822	961,037
Allowance for Loan Losses	(18,996)	(17,016)
Unearned Interest and Fees	(152)	(179)
	943,674	943,842
Premises and Equipment	29,579	29,672
Other Real Estate	12,964	12,812
Goodwill	2,412	2,412
Other Intangible Assets	358	367
Other Assets	21,204	20,095
Total Assets	$1,283,005	$1,252,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$70,365	$77,497
Interest-Bearing	941,330	929,495
	1,011,695	1,006,992
Borrowed Money		
Federal Funds Purchased	1,178	2,274
Securities Sold Under Agreements to Repurchase	40,000	40,000
Subordinated Debentures	24,229	24,229
Other Borrowed Money	91,000	91,000
	156,407	157,503
Other Liabilities	5,376	5,072
Commitments and Contingencies		

Stockholders' Equity		
Preferred Stock, Par Value $1,000 a Share, Authorized 10,000,000 Shares, Issued 28,000 Shares	27,250	--
Common Stock, Par Value $1 a Share, Authorized 20,000,000 Shares, Issued 7,231,163 and 7,212,313 Shares as of March 31, 2009 and December 31, 2008, Respectively	7,231	7,212
Paid-In Capital	25,407	24,536
Retained Earnings	51,326	51,302
Restricted Stock - Unearned Compensation	(314)	(211)
Accumulated Other Comprehensive Income (Loss), Net of Tax	(1,373)	376
	109,527	83,215
Total Liabilities and Stockholders' Equity	$1,283,005	$1,252,782

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	3/31/2009	3/31/2008
Interest Income		
Loans, Including Fees	$14,197	$18,349
Federal Funds Sold	5	155
Deposits with Other Banks	--	11
Investment Securities		
U.S. Government Agencies	2,047	1,681
State, County and Municipal	88	138
Corporate Obligations and Asset-Backed Securities	123	94
Dividends on Other Investments	--	84
	16,460	20,512
Interest Expense		
Deposits	6,173	9,672
Federal Funds Purchased	232	28
Borrowed Money	995	1,207
	7,400	10,907
Net Interest Income	9,060	9,605
Provision for Loan Losses	4,225	1,071
Net Interest Income After Provision for Loan Losses	4,835	8,534
Noninterest Income		
Service Charges on Deposits	988	1,165
Other Service Charges, Commissions and Fees	236	254
Mortgage Fee Income	102	169
Securities Gains	2,317	570
Other	319	213
	3,962	2,371
Noninterest Expenses		
Salaries and Employee Benefits	3,807	4,403
Occupancy and Equipment	1,009	1,007
Other	2,545	2,347
	7,361	7,757
Income Before Income Taxes	1,436	3,148
Income Taxes	358	935
Net Income	1,078	2,213
Preferred Stock Dividends	315	--
Net Income Available to Common Stockholders	$763	$2,213

Net Income Per Share of Common Stock		
Basic	$0.11	$0.31
Diluted	$0.11	$0.31
Cash Dividends Declared Per Share of Common Stock	$0.0975	$0.0975
Weighted Average Basic Shares Outstanding	7,202,865	7,191,861
Weighted Average Diluted Shares Outstanding	7,202,865	7,191,861

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COLONY BANKCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended 03/31/09	Three Months Ended 03/31/08
Net Income	$1,078	$2,213
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During the Year	(220)	1,115
Reclassification Adjustment	(1,529)	(376)
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	(1,749)	739
Comprehensive Income	$(671)	$2,952

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$1,078	$2,213
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	506	481
Provision for Loan Losses	4,225	1,071
Securities Gains	(2,317)	(570)
Amortization and Accretion	664	90
Gain on Sale of Other Real Estate and Repossessions	(9)	(1)
Gain on Sale of Equipment	--	(10)
Increase in Cash Surrender Value of Life Insurance	(100)	(99)
Other Prepaids, Deferrals and Accruals, Net	(131)	784
	3,916	3,959
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	(73)	138
Purchases of Investment Securities Available for Sale	(235,070)	(43,906)
Proceeds from Maturities, Calls, and Paydowns of		
Investment Securities:		
Available for Sale	10,611	25,010
Held to Maturity	--	--
Proceeds from Sale of Investment Securities		
Available for Sale	186,664	31,733
Interest-Bearing Deposits in Other Banks	(226)	187
Net Loans to Customers	(7,448)	(2,763)
Purchase of Premises and Equipment	(414)	(1,199)
Other Real Estate and Repossessions	3,303	738
Proceeds from Sale of Premises and Equipment	--	10
	(42,653)	9,948
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(7,132)	(9,512)
Interest-Bearing Customer Deposits	11,835	(15,534)
Federal Funds Purchased	(1,096)	1,571
Dividends Paid On Common Stock	(703)	(684)
Dividends Paid On Preferred Stock	(140)	--
Proceeds from Other Borrowed Money	--	700
Principal Payments on Other Borrowed Money	--	(3,400)
Proceeds Allocated to Issuance of Preferred Stock	27,215	--
Proceeds Allocated to Warrants Issued	785	--
	30,764	(26,859)

Net Increase (Decrease) in Cash and Cash Equivalents	(7,973)	(12,952)
Cash and Cash Equivalents at Beginning of Period	29,458	50,106
Cash and Cash Equivalents at End of Period	$21,485	$37,154

The accompanying notes are an integral part of these statements.

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

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The Company merged all of its operations into one sole subsidiary effective August 1, 2008. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank (which includes its wholly-owned subsidiary, Colony Mortgage Corp.), Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry.

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

Nature of Operations

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

Use of Estimates

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

Reclassifications

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

Concentrations of Credit Risk

Lending is concentrated in commercial and real estate loans primarily to local borrowers. The Company has a high concentration of real estate loans that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. In management's opinion, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of real estate dependent problem loans. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2009.

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

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

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(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.

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.

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

Allowance for Loan Losses (Continued)

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

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

Premises and Equipment

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

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

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

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

Goodwill and Intangible Assets

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

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

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

Statement of Cash Flows

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

Securities Sold Under Repurchase Agreements

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

Advertising Costs

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

Income Taxes

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

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

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

Other Real Estate

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

Comprehensive Income

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

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Part 1 (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

SFAS No. 141, Business Combinations (Revised 2007). SFAS No. 141R replaces SFAS No. 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141R, the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a noncontractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, Accounting for Contingencies. SFAS No. 141R is expected to have an impact on the Company’s accounting for business combinations closing on or after January 1, 2009.

SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51. SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statements of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 157, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 if the entity also elects to early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly and FSP

FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. Management will evaluate the impact on the Company's financial statements upon adoption.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. If an entity elects to early adopt either FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairment, then the entity must also early adopt this FSP. Additionally, if an entity elects to early adopt this FSP, it is required to adopt FSP FAS 157-4. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. Management will evaluate the impact on the Company's financial statements upon adoption.

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(1) Summary of Significant Accounting Policies (Continued)

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

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. If an entity elects to early adopt either FSP FAS 115-2 and FAS 124-2 or FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, the entity is also required to early adopt this FSP. Additionally, if an entity elects to early adopt this FSP, FSP FAS 115-2 and FAS 124-2 also must be adopted early. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. Management will evaluate the impact on the Company's financial statements upon adoption.

(2) Cash and Balances Due from Banks

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

	March 31, 2009	December 31, 2008
Cash on Hand and Cash Items	$ 9,858	$ 9,228
Noninterest-Bearing Deposits with Other Banks	11,627	20,199
	$ 21,485	$ 29,427

(3) Investment Securities

Investment securities as of March 31, 2009 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	$ 232,928	$ 208	$ (1,066)	$ 232,070
State, County & Municipal	6,018	45	(103)	5,960
Corporate Obligations	6,683	124	(693)	6,114
Asset-Backed Securities	1,000	--	(595)	405
	$ 246,629	$ 377	$ (2,457)	$ 244,549

Securities Held to Maturity:				
State, County and Municipal	$ 62	$ 2	$ --	$ 64

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The amortized cost and fair value of investment securities as of March 31, 2009, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$2,233	$2,228		
Due After One Year Through Five Years	4,608	4,426		
Due After Five Years Through Ten Years	3,222	3,362	$62	$64
Due After Ten Years	3,638	2,463	--	--
	13,701	12,479	62	64
Mortgage-Backed Securities	232,928	232,070	--	--
	$246,629	$244,549	$62	$64

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

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

Proceeds from the sale of investments available for sale during the first three months of 2009 totaled $186,664 compared to $31,733 for the first three months of 2008. The sale of investments available for sale during 2009 resulted in gross realized gains of $2,361 and gross realized losses of $44 and the sale of investments available for sale during 2008 resulted in gross realized gain of $573 and losses of $3.

Investment securities having a carry value approximating $134,817 and $145,647 as of March 31, 2009 and December 31, 2008, respectively, were pledged to secure public deposits and for other purposes.

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2009						
U.S. Government Agencies						
Mortgage-Backed	$169,229	$(1,043)	$451	$(22)	$169,680	$(1,065)
State, County and Municipal	3,588	(88)	436	(16)	4,024	(104)
Corporate Obligations	4,990	(693)	---	---	4,990	(693)
Asset-Backed Securities	405	(595)	---	---	405	(595)
	$178,212	$(2,419)	$887	$(38)	$179,099	$(2,457)
December 31, 2008						
U.S. Government Agencies						
Mortgage-Backed	$52,277	$(267)	$708	$(43)	$52,985	$(310)
Other	---	---	92	(8)	92	(8)
State, County and Municipal	5,053	(212)	---	---	5,053	(212)
Corporate Obligations	5,021	(630)	---	---	5,021	(630)
Asset-Backed Securities	668	(332)	---	---	668	(332)
	$63,019	$(1,441)	$800	$(51)	$63,819	$(1,492)

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

At March 31, 2009, the debt securities with unrealized losses have depreciated 1.35 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 March 31, 2009 and December 31, 2008 was as follows:

	March 31, 2009	December 31, 2008
Commercial, Financial and Agricultural	$ 83,418	$ 86,379
Real Estate – Construction	155,227	160,374
Real Estate – Farmland	55,708	54,159
Real Estate – Other	611,943	600,654
Installment Loans to Individuals	41,278	44,163
All Other Loans	15,248	15,308
	$ 962,822	$ 961,037

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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 $40,129 and $35,124 as of March 31, 2009 and December 31, 2008, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated $37 and $250, respectively.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for three months ended March 31, 2009 and March 31, 2008 as follows:

	March 31, 2009	March 31, 2008
Balance, Beginning	$ 17,016	$ 15,513
Provision Charged to Operating Expenses	4,225	1,071
Loans Charged Off	(2,345)	(1,431)
Loan Recoveries	100	67
Balance, Ending	$ 18,996	$ 15,220

(6) Premises and Equipment

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

	March 31, 2009	December 31, 2008
Land	$ 7,805	$ 7,805
Building	23,590	23,461
Furniture, Fixtures and Equipment	13,753	13,530
Leasehold Improvements	995	990
Construction in Progress	183	127
	46,326	45,913
Accumulated Depreciation	(16,747)	(16,241)
	$ 29,579	$ 29,672

Depreciation charged to operations totaled $506 and $481 for March 31, 2009 and March 31, 2008, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $84 and $90 for three months ended March 31, 2009 and March 31, 2008, respectively.

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(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the three months ended March 31, 2009 and March 31, 2008:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Goodwill		
Balance, Beginning	$ 2,412	$ 2,412
Goodwill Acquired	--	--
Balance, Ending	$ 2,412	$ 2,412
Net Core Deposit, Intangible		
Balance, Beginning	$ 367	$ 402
Amortization Expense	(9)	(9)
Balance, Ending	$ 358	$ 393

The following table reflects the expected amortization for the core deposit intangible at March 31, 2009:

2009	$27
2010	36
2011	36
2012	36
2013 and thereafter	223
	$358

(8) Income Taxes

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

(9) Fair Value Measurements

SFAS No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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(9) Fair Value Measurements (Continued)

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

Assets

Securities

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

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Assets measured at fair value at March 31, 2009 are as follows:

		Fair Value Measurements at Reporting Date Using		
	3/31/2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. Government Agencies Mortgage-backed	$232,070	$---	$232,070	$ ---
State,County & Municipal	5,960	---	5,960	---
Corporate Obligations	6,114	---	5,614	500
Asset-Backed Securities	405	---	---	405

	$244,549	$---	$243,644	$ 905

Liabilities

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

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(9) Fair Value Measurements (Continued)

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended March 31, 2009.

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

	Available Sale Securities (In Thousands)
Balance, Beginning	$ 1,427
Total Unrealized Gains (Losses) Included In	
Net Income	---
Other Comprehensive Income	(522)
Purchases, Sales, Issuances and Settlements, Net	---
Transfers In and (Out) of Level 3	---
Balance, Ending	$ 905

10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $326 and $322 as of March 31, 2009 and December 31, 2008.

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

	March 31, 2009	December 31, 2008
Interest-Bearing Demand	$ 211,936	$ 194,211
Savings	37,163	33,349
Time, $100,000 and Over	335,584	333,498
Other Time	356,647	368,437
	$ 941,330	$ 929,495

At March 31, 2009 and December 31, 2008, the Company had brokered deposits of $129,099 and $131,958, respectively. Of the $129,099 brokered deposits at March 31, 2009, $21,800 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled $107,299 at March 31, 2009. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $293,973 and $301,151 as of March 31, 2009 and December 31, 2008, respectively.

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

Maturity	March 31, 2009	December 31, 2008
One Year and Under	$ 603,958	$ 632,562
One to Three Years	83,000	62,929
Three Years and Over	5,273	6,444
	$ 692,231	$ 701,935

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(11) Securities Sold Under Repurchase Agreements

The Company has securities sold under repurchase agreements in the amount of $40,000 at March 31, 2009. Barclay's Master Repurchase Agreement originated on June 26, 2008 with the initial draw of $20,000 on June 30, 2008. The Repurchase Agreement matures on June 30, 2011 and has a one-time call option on December 30, 2009. Interest payments are due quarterly at a fixed rate of 3.34 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

South Street Securities Master Repurchase Agreement originated on October 27, 2008 with the initial draw of $20,000 on October 31, 2008. The Repurchase Agreement is overnight borrowing at a floating interest rate. Interest payments are due monthly, and at March 31, 2009, the floating interest rate was 0.94 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

(12) Other Borrowed Money

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

	March 31, 2009	December 31, 2008
Federal Home Loan Bank Advances	$ 91,000	$ 91,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2009 to 2019 and interest rates ranging from 0.45 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At March 31, 2009, the Company had available line of credit commitments totaling $187,520 of which $96,520 was available.

The aggregate stated maturities of other borrowed money at March 31, 2009 are as follows:

Year	Amount
2009	$ 19,000
2010	1,000
2011	---
2012	41,000
2013 and Thereafter	30,000
	$ 91,000

The Company also has available federal funds lines of credit with various financial institutions totaling $64,000, of which there was $1,178 outstanding amount at March 31, 2009.

(13) Preferred Stock and Warrants

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

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

(14) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue $4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At March 31, 2009, the floating rate securities had a 4.00 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

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

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At March 31, 2009 the floating-rate securities had a 2.72 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

During the first quarter of 2007, the Company formed a fifth subsidiary whose sole purpose was to issue $9,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At March 31, 2009, the floating-rate securities had a 2.88 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the first subsidiary formed in March 2002 as the Company exercised its option to call.

During the third quarter of 2007, the Company formed a sixth subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At March 31, 2009, the floating-rate securities had a 2.57 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the second subsidiary formed in December 2002 as the Company exercised its option to call.

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

The total aggregate principal amount of trust preferred certificates outstanding at March 31, 2009 was $23,500,000. The total aggregate principal amount of subordinated debentures outstanding at March 31, 2009 was $24,229,000.

(15) Restricted Stock – Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. To date, 77,052 split-adjusted shares have been issued under this plan and since the plan’s inception, 12,351 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are none at March 31, 2009. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders’ equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period.)

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 53,256 shares have been issued under this plan and since the plan’s inception 8,148 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 98,392 at March 31, 2009. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(16) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The provision for the three months ended March 31, 2009 was $52 compared to $155 for the three months ended March 31, 2008. The total provision for contributions to the plan was $206 for 2008, $584 for 2007 and $663 for 2006.

(17) Commitments and Contingencies

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

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

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(17) Commitments and Contingencies (Continued)

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

	Contract Amount	
	March 31, 2009	December 31, 2008
Loan Commitments	$ 73,117	$ 73,610
Standby Letters of Credit	1,802	2,710

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

(18) Deferred Compensation Plan

Colony Bank, the wholly-owned subsidiary, has deferred compensation plans covering certain former directors and certain officers choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Bank is committed to pay the participant's deferred compensation over a specified number of years, beginning at age 65. In the event of a participant's death before age 65, payments are made to the participant's named beneficiary over a specified number of years, beginning on the first day of the month following the death of the participant.

Liabilities accrued under the plans totaled $1,108 and $1,123 as of March 31, 2009 and December 31, 2008, respectively. Benefit payments under the contracts were $44 and $47 for the three month period ended March 31, 2009 and March 31, 2008, respectively. Provisions charged to operations totaled $29 and $37 for the three month period ended March 31, 2009 and March 31, 2008, respectively.

Fee income recognized with deferred compensation plans totaled $100 and $61 for three month period ended March 31, 2009 and March 31, 2008, respectively.

(19) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations.

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

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(19) Regulatory Capital Matters (Continued)

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 March 31, 2009, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2009						
Total Capital to Risk-Weighted Assets						
Consolidated	$143,811	14.86 %	$77,416	8.00 %	NA	NA
Colony Bank	140,878	14.59	77,272	8.00	$96,591	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	131,630	13.60	38,708	4.00	NA	NA
Colony Bank	128,719	13.33	38,636	4.00	57,954	6.00
Tier 1 Capital to Average Assets						
Consolidated	131,630	10.40	50,634	4.00	NA	NA
Colony Bank	128,719	10.19	50,521	4.00	63,151	5.00

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						

Total Capital to Risk-Weighted Assets									
Consolidated	$115,604	12.06	%	$76,684	8.00	%	NA	NA	
Colony Bank	114,545	11.97		76,547	8.00		$95,684	10.00	%
Tier 1 Capital to Risk-Weighted Assets									
Consolidated	103,560	10.80		38,342	4.00		NA	NA	
Colony Bank	102,522	10.71		38,273	4.00		57,470	6.00	
Tier 1 Capital to Average Assets									
Consolidated	103,560	8.39		49,380	4.00		NA	NA	
Colony Bank	102,522	8.33		49,205	4.00		61,506	5.00	

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

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

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

ASSETS	March 31, 2009 (Unaudited)	December 31, 2008
Cash	$ 1,793	$ 2
Premises and Equipment, Net	1,604	1,542
Investment in Subsidiaries, at Equity	130,673	105,506
Other	727	1,294
Totals Assets	$ 134,797	$ 108,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	880	$ 703
Other	161	197
	1,041	900
Subordinated Debt	24,229	24,229
Stockholders' Equity		
Preferred Stock, Par Value $1,000 a Share; Authorized 10,000,000Shares, Issued 28,000 Shares as of March 31, 2009	27,250	---
Common Stock, Par Value $1 a Share; Authorized 20,000,000Shares, Issued 7,231,163 and 7,212,313 Shares as of March 31, 2009 and December 31, 2008, Respectively	7,231	7,212
Paid-In Capital	25,407	24,536
Retained Earnings	51,326	51,302
Restricted Stock - Unearned Compensation	(314)	(211)
Accumulated Other Comprehensive Income (Loss), Net of Tax	(1,373)	376
	109,527	83,215
Total Liabilities and Stockholders' Equity	$ 134,797	$ 108,344

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND MARCH 31, 2008
(UNAUDITED)

	MARCH 31, 2009	MARCH 31, 2008
Income		
Dividends from Subsidiaries	$ 807	$ 1,262
Other	28	24
	835	1,286
Expenses		
Interest	205	388
Salaries and Employee Benefits	215	258
Other	217	362
	637	1,008
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	198	278
Income Tax (Benefits)	(193)	(312)
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	391	590
Equity in Undistributed Earnings of Subsidiaries	687	1,623
Net Income	1,078	2,213
Preferred Stock Dividends	315	--
Net Income Available to Common Shareholders	763	2,213
Net Income	1,078	2,213
Other Comprehensive Income, Net of Tax		
Gains on Securities Arising During Year	(220)	1,115
Reclassification Adjustment	(1,529)	(376)
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	(1,749)	739
Comprehensive Income	$ (671)	$ 2,952

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND MARCH 31, 2008
(UNAUDITED)

	2009	2008
Cash Flows from Operating Activities		
Net Income	$1,078	$2,213
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	73	79
Equity in Undistributed Earnings of Subsidiary	(687)	(1,623)
Other	(244)	(34)
	220	635
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(25,500)	(850)
Purchases of Premises and Equipment	(86)	(2)
	(25,586)	(852)
Cash Flows from Financing Activities		
Dividends Paid Preferred Stock	(140)	---
Dividends Paid Common Stock	(703)	(684)
Proceeds Allocated to Issuance of Preferred Stock	27,215	---
Proceeds Allocated to Warrants Issued	785	---
	27,157	(684)
Net Increase in Cash	1,791	(901)
Cash, Beginning	2	973
Cash, Ending	$1,793	$72

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(21) 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 ended March 31, 2009 and 2008, respectively, under the requirements of Statement 128:

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
Income	Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	$763	7,203	$0.11	$2,213	7,192	$0.31
Dilutive Effect of Potential Common Stock						
Restricted Stock		0			0	
Diluted EPS						
Income Available to Common Stockholders						
After Assumed Conversions of Dilutive Securities	$763	7,203	$0.11	$2,213	7,192	$0.31

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Item 2

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

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

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

- The ability to increase market share and control expenses.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company’s organization, compensation and benefit plans.
- The cost and effects of litigation and of unexpected or adverse outcomes in such litigation.

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- 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.

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Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of March 31, 2009 and 2008, and results of operations for each of three months in the periods ended March 31, 2009 and 2008. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income totaled $1.08 million, or $0.11 diluted per common share, in three months ended March 31, 2009 compared to $2.21 million, or $0.31 diluted per common share, in three months ended March 31, 2008.

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

	Three Months Ended March 31	
	2009	2008
Taxable-equivalent net interest income	$ 9,140	$ 9,699
Taxable-equivalent adjustment	80	94
Net interest income	9,060	9,605
Provision for possible loan losses	4,225	1,071
Noninterest income	3,962	2,371
Noninterest expense	7,361	7,757
Income before income taxes	$ 1,436	$ 3,148
Income Taxes	358	935
Net income	$ 1,078	$ 2,213
Preferred stock dividends	315	--

Net income available to common shareholders	$	763		$	2,213	
Net Income per common share:						
Basic	$	0.11		$	0.31	
Diluted	$	0.11		$	0.31	
Return on average assets		0.24	%		0.74	%
Return on average common equity		3.63	%		10.38	%

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Net income for three months ended March 31, 2009 decreased $1.135 million, or 51.3 percent compared to the same period in 2008. The decrease was primarily the result of a decrease of $0.545 million in net interest income and an increase of $3.154 million in provision for possible loan loss. This was offset by an increase of $1.591 million in non-interest income, a decrease of $0.396 in non-
interest expense and a decrease of $0.577 in income taxes.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 69.57 percent of total revenue for three months ended March 31, 2009 and 80.20 percent for the same period a year ago.

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

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit has ranged from 3.25 percent to 8.25 percent during 2001 to 2009. At year end 2007, the prime rate was 7.25 percent and with the 400 basis point reduction during 2008 the prime rate at March 31, 2009 is currently at 3.25 percent. The federal funds rate moved similar to prime rate with interest rates ranging from 0.25 percent to 5.25 percent during 2001 to 2009. At year end 2007, the federal funds rate was 4.25 percent and with the 400 basis point reduction during 2008 the federal funds rate at March 31, 2009 is currently at 0.25 percent. We anticipate the Federal Reserve tightening interest rate policy toward the latter part of 2009, which should improve Colony's net interest margin.

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

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Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from March 31, 2008 to March 31, 2009 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

	Changes from March 31, 2008 to March 31, 2009 (1)		
($ in thousands)	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	$198	$(4,345)	$(4,147)
Investment Securities			
Taxable	898	(516)	382
Tax-exempt	(55)	---	(55)
Total Investment Securities	843	(516)	327
Interest-Bearing Deposits in other Banks	(9)	(2)	(11)
Federal Funds Sold	(96)	(54)	(150)
Other Interest - Earning Assets	11	(95)	(84)
Total Interest Income	947	(5,012)	(4,065)
Interest Expense			
Interest-Bearing Demand and			
Savings Deposits	57	(572)	(515)
Time Deposits	(73)	(2,911)	(2,984)
Federal Funds Purchased	193	(221)	(28)
Subordinated Debentures	---	(183)	(183)
Other Borrowed Money	387	(183)	204
Total Interest Expense	564		