

COLONY BANKCORP INC
Form 10-Q
May 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED MARCH 31, 2012

COMMISSION FILE NUMBER 0-12436

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

GEORGIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

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

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

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

YES NO

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

YES NO

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

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

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

YES NO

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

CLASS	OUTSTANDING AT MAY 7, 2012
COMMON STOCK, \$1 PAR VALUE	8,439,258

TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	44
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	68
Item 4. <u>Controls and Procedures</u>	71
PART II – Other Information	
Item 1. <u>Legal Proceedings</u>	72
Item 1A. <u>Risk Factors</u>	72
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
Item 3. <u>Defaults Upon Senior Securities</u>	72
Item 4. <u>(Removed and Reserved)</u>	72
Item 5. <u>Other Information</u>	72
Item 6. <u>Exhibits</u>	73
<u>Signatures</u>	75

Table of Contents

Forward-Looking Statement Disclosure

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

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

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

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

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

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

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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

A. CONSOLIDATED BALANCE SHEETS – MARCH 31, 2012 AND DECEMBER 31, 2011.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011.

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, 2012 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 18,055	\$ 28,380
Federal Funds Sold	29,770	54,992
	47,825	83,372
Interest-Bearing Deposits	28,051	28,957
Investment Securities		
Available for Sale, at Fair Value	333,608	303,891
Held to Maturity, at Cost (Fair Value of \$48 and \$46, as of March 31, 2012 and December 31, 2011, Respectively)	47	46
	333,655	303,937
Federal Home Loan Bank Stock, at Cost	5,398	5,398
Loans	706,513	716,321
Allowance for Loan Losses	(15,910)	(15,650)
Unearned Interest and Fees	(70)	(57)
	690,533	700,614
Premises and Equipment	25,772	25,750
Other Real Estate	20,989	20,445
Other Intangible Assets	250	259
Other Assets	24,171	26,644
Total Assets	\$ 1,176,644	\$ 1,195,376
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 105,473	\$ 94,269
Interest-Bearing	888,541	905,716
	994,014	999,985
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	57,500	71,000
	81,729	95,229
Other Liabilities	3,776	3,549
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,703	27,663

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Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,439,258 Shares as of March 31, 2012 and December 31, 2011, Respectively	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	29,604	29,456
Accumulated Other Comprehensive Income, Net of Tax	2,234	1,910
	97,125	96,613
Total Liabilities and Stockholders' Equity	\$ 1,176,644	\$ 1,195,376

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended	
	3/31/2012	3/31/2011
Interest Income		
Loans, Including Fees	\$10,420	\$11,568
Federal Funds Sold	26	34
Deposits with Other Banks	20	18
Investment Securities		
U.S. Government Agencies	1,619	1,843
State, County and Municipal	66	29
Corporate Obligations and Asset-Backed Securities	23	23
Dividends on Other Investments	17	12
	12,191	13,527
Interest Expense		
Deposits	2,470	3,654
Federal Funds Purchased	--	167
Borrowed Money	837	888
	3,307	4,709
Net Interest Income	8,884	8,818
Provision for Loan Losses	1,942	1,500
Net Interest Income After Provision for Loan Losses	6,942	7,318
Noninterest Income		
Service Charges on Deposits	796	756
Other Service Charges, Commissions and Fees	419	315
Mortgage Fee Income	81	62
Securities Gains	137	396
Other	381	575
	1,814	2,104
Noninterest Expenses		
Salaries and Employee Benefits	3,820	3,569
Occupancy and Equipment	938	1,016
Other	3,225	3,354
	7,983	7,939
Income Before Income Taxes	773	1,483
Income Taxes	232	427
Net Income	541	1,056
Preferred Stock Dividends	352	350
Net Income Available to Common Stockholders	\$189	\$706

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Net Income Per Share of Common Stock

Basic	\$0.02	\$0.08
Diluted	\$0.02	\$0.08
Cash Dividends Declared Per Share of Common Stock	\$0.00	\$0.00
Weighted Average Basic Shares Outstanding	8,439,258	8,439,220
Weighted Average Diluted Shares Outstanding	8,439,258	8,439,220

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended 03/31/12	Three Months Ended 03/31/11
Net Income	\$ 541	\$ 1,056
Other Comprehensive Income (Loss), Net of Tax		
Gains (Losses) on Securities Arising During the Year	415	(554)
Reclassification Adjustment	(91)	(261)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	324	(815)
Comprehensive Income	\$ 865	\$ 241

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)
Item 1 (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$541	\$1,056
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	402	455
Provision for Loan Losses	1,942	1,500
Securities Gains	(137)	(396)
Amortization and Accretion	1,016	872
Loss on Sale of Other Real Estate and Repossessions	121	10
Provision for Losses on Other Real Estate	350	443
Increase in Cash Surrender Value of Life Insurance	(62)	(61)
Other Prepaids, Deferrals and Accruals, Net	2,175	705
	6,348	4,584
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(46,858)	(76,277)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	10,709	12,363
Proceeds from Sale of Investment Securities		
Available for Sale	6,082	73,896
Decrease in Interest-Bearing Deposits in Other Banks	906	35,991
Decrease in Net Loans to Customers	4,815	20,865
Purchase of Premises and Equipment	(424)	(78)
Proceeds from Sale of Other Real Estate and Repossessions	2,346	771
	(22,424)	67,531
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	11,204	(8,100)
Interest-Bearing Customer Deposits	(17,175)	(20,061)
Dividends Paid On Preferred Stock	--	(350)
Principal Payments on Other Borrowed Money	(13,500)	(3,095)
	(19,471)	(31,606)
Net Increase (Decrease) in Cash and Cash Equivalents		
	(35,547)	40,509
Cash and Cash Equivalents at Beginning of Period	83,372	54,149
Cash and Cash Equivalents at End of Period	\$47,825	\$94,658

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)
Item 1 (Continued)

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

(1) Summary of Significant Accounting Policies

Presentation

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

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

In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim dates and interim periods are included herein.

Nature of Operations

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

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of deferred tax assets 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 2012. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At March 31, 2012, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

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

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

Investment Securities

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

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring (TDR)

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

Allowance for Loan Losses

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

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

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

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

In 2012, The Company refined its methodology used in estimating the amount of the Allowance for Loan and Lease Losses (ALLL). As discussed in Note 5 to the financial statements, the allowance for loan losses resulted in a reduction of \$1,496 due to a change in methodology in the current year. Refer to the financial statements for more

information on this topic.

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

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

(1) Summary of Significant Accounting Policies (Continued)

Premises and Equipment

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

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

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

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

Intangible Assets

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

Transfers of Financial Assets

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

Statement of Cash Flows

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

Securities Purchased Under Agreement to Resell and Securities Sold Under Agreements to Repurchase

The Company purchases certain securities under agreements to resell. The amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated balance sheets.

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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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

Other Real Estate

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

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

Accounting Standards Updates

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

Accounting Standards Updates (Continued)

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

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

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Cash on Hand and Cash Items	\$ 8,380	\$ 9,272
Noninterest-Bearing Deposits with Other Banks	9,675	19,108
	\$ 18,055	\$ 28,380

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Reserve balances totaled \$6.9 million and \$4.2 million at March 31, 2012 and December 31, 2011.

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

(3) Investment Securities

Investment securities as of March 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$319,355	\$3,554	\$(185)	\$322,724
State, County & Municipal	8,502	168	(28)	8,642
Corporate Obligations	2,000	115	(5)	2,110
Asset-Backed Securities	367	--	(235)	132
	\$330,224	\$3,837	\$(453)	\$333,608
Securities Held to Maturity:				
State, County and Municipal	\$47	\$1	\$--	\$48

The amortized cost and fair value of investment securities as of March 31, 2012, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due Less Than One Year	\$125	\$129	\$--	\$--
Due After One Year Through Five Years	2,355	2,487	47	48
Due After Five Years Through Ten Years	5,707	5,816	--	--
Due After Ten Years	2,682	2,452	--	--
	10,869	10,884	47	48
Mortgage-Backed Securities	319,355	322,724	--	--
	\$330,224	\$333,608	\$47	\$48

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$291,097	\$3,152	\$(188)	\$294,061
State, County & Municipal	7,475	132	(23)	7,584
Corporate Obligations	2,000	124	(10)	2,114
Asset-Backed Securities	426	--	(294)	132

	\$300,998	\$3,408	\$(515)	\$303,891
Securities Held to Maturity:					
State, County and Municipal	\$46	\$--	\$--		\$46

Proceeds from the sale of investments available for sale during first three months of 2012 totaled \$6,082 compared to \$73,896 for the first three months of 2011. The sale of investments available for sale during 2012 resulted in gross realized gains of \$197. This was offset by other than temporary impairment charges of \$(60). The sale of investments available for sale during 2011 resulted in gross realized gain of \$397 and losses of \$(1).

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

(3) Investment Securities (Continued)

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

Investment securities having a carry value approximating \$129,023 and \$136,838 as of March 31, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes.

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2012						
U.S. Government Agencies						
Mortgage-Backed	\$29,749	\$(179)	\$899	\$(6)	\$30,648	\$(185)
State, County and Municipal	2,200	(27)	73	(1)	2,273	(28)
Corporate Obligations	--	--	995	(5)	995	(5)
Asset-Backed Securities	--	--	132	(235)	132	(235)
	\$31,949	\$(206)	\$2,099	\$(247)	\$34,048	\$(453)
December 31, 2011						
U.S. Government Agencies						
Mortgage-Backed	\$26,440	\$(188)	\$--	\$--	\$26,440	\$(188)
State, County and Municipal	1,224	(22)	73	(2)	1,297	(24)
Corporate Obligations	--	--	990	(10)	990	(10)
Asset-Backed Securities	--	--	132	(293)	132	(293)
	\$27,664	\$(210)	\$1,195	\$(305)	\$28,859	\$(515)

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

At March 31, 2012, the debt securities with unrealized losses have depreciated 1.31 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations, except for asset-backed securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely

due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company did own one asset-backed security at March 31, 2012 which has been in a continuous unrealized loss position for more than twelve months. This investment is comprised of one issuance of a trust preferred security, has a book value of \$367 and an unrealized loss of \$235. Management evaluates this investment on a quarterly basis utilizing a third-party valuation model. The results of this model revealed other-than-temporary impairment and as a result, \$60 was written off during the three month period ended March 31, 2012. The Company does not intend to sell this investment, nor does the Company consider it likely that it will be required to sell the investment prior to recovery of the remaining fair value.

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

(4) Loans

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

	March 31, 2012	December 31, 2011
Commercial and Industrial		
Commercial	\$ 55,673	\$ 48,986
Industrial	8,848	8,422
Real Estate		
Commercial Construction	56,420	58,546
Residential Construction	3,224	3,530
Commercial	300,389	315,281
Residential	194,868	193,638
Farmland	48,008	48,225
Consumer and Other		
Consumer	29,643	30,449
Other	9,440	9,244
Total Loans	\$ 706,513	\$ 716,321

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

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

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

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

- Grades 3 and 4 – Loans assigned these “pass” risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.
- Grade 5 – This grade includes “special mention” loans on management’s watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.
- Grade 6 – This grade includes “substandard” loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.

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

(4) Loans (Continued)

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

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

March 31, 2012

	Pass	Special Mention	Substandard	Total Loans
Commercial and Industrial				
Commercial	\$48,836	\$ 2,182	\$4,655	\$55,673
Industrial	8,790	--	58	8,848
Real Estate				
Commercial Construction	28,891	1,739	25,790	56,420
Residential Construction	3,020	--	204	3,224
Commercial	258,928	13,887	27,574	300,389
Residential	175,906	9,255	9,707	194,868
Farmland	43,730	1,405	2,873	48,008
Consumer and Other				
Consumer	28,690	317	636	29,643
Other	9,313	14	113	9,440
Total Loans	\$606,104	\$ 28,799	\$71,610	\$706,513

December 31, 2011

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

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

18

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

(4) Loans (Continued)

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

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

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. Nonaccrual loans totaled \$39,367 and \$38,822 as of March 31, 2012 and December 31, 2011, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$0 and \$15, respectively. During its review of impaired loans, the company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

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

March 31, 2012

	Accruing Loans 90 Days		Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
	30-89 Days Past Due	or More Past Due				
Commercial and Industrial						
Commercial	\$ 149	\$--	\$ 149	\$1,737	\$ 53,787	\$55,673
Industrial	--	--	--	39	8,809	8,848
Real Estate						
Commercial Construction	247	--	247	23,405	32,768	56,420
Residential Construction	--	--	--	--	3,224	3,224
Commercial	1,749	--	1,749	7,998	290,642	300,389
Residential	2,656	--	2,656	3,375	188,837	194,868
Farmland	285	--	285	2,557	45,166	48,008
Consumer and Other						
Consumer	256	--	256	212	29,175	29,643
Other	--	--	--	44	9,396	9,440

Total Loans	\$5,342	\$--	\$ 5,342	\$39,367	\$ 661,804	\$706,513
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Table of Contents

Part I (Continued)

Item 1 (Continued)

(4) Loans (Continued)

December 31, 2011

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

20

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

(4) Loans (Continued)

The following table details impaired loan data as of March 31, 2012:

March 31, 2012

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	\$1,842	\$1,679	\$--	\$1,679	\$25	\$26
Agricultural	39	39	--	39	--	--
Commercial Construction	17,191	12,463	--	12,463	1	4
Commercial Real Estate	37,579	32,018	--	32,018	300	296
Residential Real Estate	3,149	2,407	--	2,407	23	18
Farmland	2,340	2,297	--	2,297	32	--
Consumer	224	212	--	212	2	3
Other	52	44	--	44	--	--
	62,416	51,159	--	51,159	383	347
With An Allowance Recorded						
Commercial	310	310	304	310	2	5
Agricultural	--	--	--	--	--	--
Commercial Construction	13,488	10,942	2,755	10,942	(9)	--
Commercial Real Estate	3,647	3,647	1,023	3,647	20	20
Residential Real Estate	4,708	4,045	788	4,045	25	26
Farmland	299	260	12	260	--	--
Consumer	--	--	--	--	--	--
Other	--	--	--	--	--	--
	22,452	19,204	4,882	19,204	38	51
Total						
Commercial	2,152	1,989	304	1,989	27	31
Agricultural	39	39	--	39	--	--
Commercial Construction	30,679	23,405	2,755	23,405	(8)	4
Commercial Real Estate	41,226	35,665	1,023	35,665	320	316
Residential Real Estate	7,857	6,452	788	6,452	48	44
Farmland	2,639	2,557	12	2,557	32	--
Consumer	224	212	--	212	2	3
Other	52	44	--	44	--	--
	\$84,868	\$70,363	\$4,882	\$70,363	\$421	\$398

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

(4) Loans (Continued)

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

December 31, 2011

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

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

(4) Loans (Continued)

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

March 31, 2011

	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded					
Commercial	\$ 190	\$--	\$ 190	\$(2)	\$--
Agricultural	312	--	312	(25)	1
Commercial Construction	7,799	--	7,799	6	5
Commercial Real Estate	18,128	--	18,128	32	86
Residential Real Estate	2,757	--	2,757	(7)	3
Farmland	444	--	444	66	66
Consumer	204	--	204	--	1
Other	23	--	23	--	--
	29,857	--	29,857	70	162
With An Allowance Recorded					
Commercial	21	4	21	--	--
Commercial Construction	7,977	1,981	7,977	29	29
Commercial Real Estate	9,672	2,819	9,672	80	72
Residential Real Estate	560	198	560	6	6
Other	78	8	78	5	--
	18,308	5,010	18,308	120	107
Total					
Commercial	211	4	211	(2)	--
Agricultural	312	--	312	(25)	1
Commercial Construction	15,776	1,981	15,776	35	34
Commercial Real Estate	27,800	2,819	27,800	112	158
Residential Real Estate	3,317	198	3,317	(1)	9
Farmland	444	--	444	66	66
Consumer	204	--	204	--	1
Other	101	8	101	5	--
	\$48,165	\$5,010	\$48,165	\$ 190	\$269

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms of the loan have been modified in favor of the borrower due to deterioration in the borrower's financial condition. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Loan modifications are reviewed and approved by the Company's senior

lending staff, who then determine whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether a loan is classified as a TDR include:

23

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

(4) Loans (Continued)

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

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of March 31, 2012. The following tables present the number of loan contracts restructured during the three months ended March 31, 2012 and the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous twelve months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings	# of Contracts	Pre-Modification	Post-Modification
Commercial RE	1	\$ 57	\$ 57
Residential RE	1	227	224
Total Loans	2	\$ 284	\$ 281

Troubled Debt Restructurings That Subsequently Defaulted	# of Contracts	Recorded Investment
Commercial Construction	1	\$ 64
Residential RE	1	50
Total Loans	2	\$ 114

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

(5) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the three month period ended March 31, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

March 31, 2012

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Industrial					
Commercial	\$ 1,071	\$ (47)	\$ 4	\$ 52	\$ 1,080
Industrial	297	--	--	--	297
Real Estate					
Commercial Construction	3,123	(260)	21	289	3,173
Residential Construction	138	--	--	--	138
Commercial	6,448	(1,297)	11	1,438	6,600
Residential	3,695	(129)	3	142	3,711
Farmland	365	--	4	--	369
Consumer and Other					
Consumer	205	(19)	25	21	232
Other	308	--	2	--	310
	\$ 15,650	\$ (1,752)	\$ 70	\$ 1,942	\$ 15,910

The following table details activity in the allowance for loan losses, segregated by class of loan, for the three month period ended March 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

March 31, 2011

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Industrial					
Commercial	\$ 4,415	\$ (207)	\$ 18	\$ (1,111)	\$ 3,115
Industrial	698	(455)	1	(176)	68
Real Estate					
Commercial Construction	4,126	(2,088)	18	1,213	3,269
Residential Construction	520	--	--	(122)	398
Commercial	8,030	(4,484)	95	4,768	8,409
Residential	5,942	(146)	29	(1,733)	4,092

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Farmland	944	(20)	--	(278)	646
Consumer and Other					
Consumer	3,074	(68)	58	(793)	2,271
Other	531	(66)	5	(268)	202
	\$ 28,280	\$ (7,534)	\$ 224	\$ 1,500	\$ 22,470

25

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

(5) Allowance for Loan Losses (Continued)

In 2012, The Company refined its methodology used in estimating the amount of the Allowance for Loan and Lease Losses. Management has been proactive in identifying problem loans, assessing exposure, and providing sufficient reserves to cover the exposures. The Allowance for Loan and Lease Losses was increased in anticipation of identified exposures resulting in confirmed losses. When losses were confirmed, they were promptly charged off. As a result, losses over the last three years have been very high. During this time, newer loans granted were made subject to higher underwriting standards and more conservative appraisals. Because of the prompt recognition of losses that drove the excessive charge-off history, management now believes the remaining losses incurred in the current portfolio, including newer loans made, will be less than unadjusted loss history factors will suggest. Considering the major losses taken, along with organizational and staffing changes, the validity of qualitative factors in determining adjustments of loss history needed to be reviewed. Recognizing the importance of credit administration and the role of personnel involved in granting, approving, administering, monitoring, and collecting loans, management concluded that greater weight should be placed on factors associated with those activities. The effect of these changes on the ALLL resulted in a reduction in the ALLL estimate of \$1,496. Management believes the adjustments made will result in a better estimation of losses incurred in the portfolio.

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or below and an outstanding balance of \$50,000 or more. At March 31, 2012 and 2011, impaired loans totaling \$869 and \$824 were below the \$50,000 review threshold and were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Since not all loans in the substandard category are considered impaired, this quarterly assessment often results in the identification of individual reserves which are placed against certain loans as part of management's allowance for loan loss calculation. The total of these loans and the related reserves are presented in the column titled "Substandard Loans Individually Reviewed for Impairment" in the following tables. The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for March 31, 2012 and 2011:

March 31, 2012

	Ending Allowance Balance				
	Nonaccrual/TDR Individually Evaluated for Impairment	Substandard Individually Evaluated for Impairment	Total Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Industrial					
Commercial	\$ 304	\$ 307	\$611	\$ 469	\$1,080
Industrial	--	--	--	297	297
Real Estate					
Commercial Construction	2,755	169	2,924	249	3,173
Residential Construction	--	--	--	138	138
Commercial	1,023	217	1,240	5,360	6,600
Residential	788	823	1,611	2,100	3,711
Farmland	12	--	12	357	369

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Consumer and Other					
Consumer	--	54	54	178	232
Other	--	--	--	310	310
Total End of Period Allowance Balance	\$ 4,882	\$ 1,570	\$6,452	\$ 9,458	\$15,910

26

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

(5) Allowance for Loan Losses (Continued)

March 31, 2012

	Ending Loan Balance					
	Nonaccrual/TDR	Substandard	Total			
	Individually	Individually	Individually	Collectively		
	Evaluated for	Evaluated	Evaluated	Evaluated	Total	
	Impairment	for	for	for		
		Impairment	Impairment	Impairment	Impairment	
Commercial and Industrial						
Commercial	\$ 1,885	\$ 2,428	\$4,313	\$ 51,360	\$55,673	
Industrial	--	--	--	8,848	8,848	
Real Estate						
Commercial Construction	23,322	2,299	25,621	30,799	56,420	
Residential Construction	--	204	204	3,020	3,224	
Commercial	35,665	5,567	41,232	259,157	300,389	
Residential	6,086	4,193	10,279	184,589	194,868	
Farmland	2,536	241	2,777	45,231	48,008	
Consumer and Other						
Consumer	--	41	41	29,602	29,643	
Other	--	21	21	9,419	9,440	
Total End of Period Loan Balance	\$ 69,494	\$ 14,994	\$84,488	\$ 622,025	\$706,513	

March 31, 2011

	Ending Allowance Balance					
	Nonaccrual/TDR	Substandard	Total			
	Individually	Individually	Individually	Collectively		
	Evaluated for	Evaluated	Evaluated	Evaluated	Total	
	Impairment	for	for	for		
		Impairment	Impairment	Impairment	Impairment	
Commercial and Industrial						
Commercial	\$ 39	\$ 629	\$668	\$ 2,447	\$3,115	
Industrial	--	3	3	65	68	
Real Estate						
Commercial Construction	1,981	1,132	3,113	156	3,269	
Residential Construction	--	--	--	398	398	
Commercial	2,785	4,821	7,606	803	8,409	
Residential	198	1,284	1,482	2,610	4,092	
Farmland	--	16	16	630	646	
Consumer and Other						
Consumer	8	47	55	2,216	2,271	

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Other	--	--	--	202	202
Total End of Period Allowance Balance	\$ 5,011	\$ 7,932	\$12,943	\$ 9,527	\$22,470

27

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

(5) Allowance for Loan Losses (Continued)

March 31, 2011

	Ending Loan Balance				
	Nonaccrual/TDR	Substandard	Total		
	Individually	Individually	Individually	Collectively	
	Evaluated for	Evaluated	Evaluated	Evaluated	Total
	Impairment	for	for	for	
		Impairment	Impairment	Impairment	
Commercial and Industrial					
Commercial	\$ 74	\$ 2,511	\$2,585	\$ 49,996	\$52,581
Industrial	313	57	370	9,345	9,715
Real Estate					
Commercial Construction	15,164	11,738	26,902	45,743	72,645
Residential Construction	--	--	--	4,180	4,180
Commercial	27,774	20,852	48,626	295,227	343,853
Residential	2,982	7,480	10,462	194,104	204,566
Farmland	444	378	822	47,968	48,790
Consumer and Other					
Consumer	92	95	187	32,495	32,682
Other	8	26	34	13,935	13,969
Total End of Period Loan Balance	\$ 46,851	\$ 43,137	\$89,988	\$ 692,993	\$782,981

(6) Premises and Equipment

Premises and equipment are comprised of the following as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Land	\$ 7,780	\$ 7,780
Building	23,669	23,663
Furniture, Fixtures and Equipment	13,474	13,059
Leasehold Improvements	998	995
	45,921	45,497
Accumulated Depreciation	(20,149)	(19,747)
	\$ 25,772	\$ 25,750

Depreciation charged to operations totaled \$402 and \$455 for March 31, 2012 and March 31, 2011, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$77 and \$97 for three months ended March 31, 2012 and March 31, 2011, respectively.

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

(7) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at March 31, 2012 and December 31, 2011 was \$20,989 and \$20,445, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO for the three months ended March 31, 2012 and the year ended December 31, 2011.

	Three Months Ended March 31, 2012	Twelve Months Ended December 31, 2011
Balance, Beginning	\$ 20,445	\$ 20,208
Additions	3,244	12,556
Sales of OREO	(2,241)	(9,805)
Loss on Sale	(109)	(1,103)
Provision for Losses ^T	(350)	(1,411)
Balance, Ending	\$ 20,989	\$ 20,445

(8) Intangible Assets

The following is an analysis of core deposit intangible asset activity for the three months ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net Core Deposit, Intangible		
Balance, Beginning	\$ 259	\$ 295
Amortization Expense	(9)	(9)
Balance, Ending	\$ 250	\$ 286

The following table reflects the expected amortization for the core deposit intangible at March 31, 2012:

2012	\$27
2013	36
2014	36
2015	36
2016 and thereafter	115
	\$250

(9) Income Taxes

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

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

(9) Income Taxes (Continued)

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

(10) Fair Value Measurements

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

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

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

Assets

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

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

Other Real Estate – Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value less cost to sale through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market price or appraised value. When appraised value is not available and management determines the fair value, the fair value of the foreclosed assets is considered Level 3.

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

(10) Fair Value Measurements (Continued)

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

	March 31, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities Available for Sale				
Mortgage-backed	\$ 322,724	\$ ---	\$ 322,724	\$ ---
State,County & Municipal	8,642	---	8,642	---
Corporate Obligations	2,110	---	1,115	995
Asset-Backed Securities	132	---	---	132
	\$ 333,608	\$ ---	\$ 332,481	\$ 1,127
Nonrecurring				
Impaired Loans	\$ 65,481	\$ ---	\$ 15,694	\$ 49,787
Other Real Estate	\$ 20,989	\$ ---	\$ 6,817	\$ 14,172
	December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities Available for Sale				
Mortgage-backed	\$ 294,061	\$ ---	\$ 294,061	\$ ---
State,County & Municipal	7,584	---	7,584	---
Corporate Obligations	2,114	---	1,124	990
Asset-Backed Securities	132	---	---	132

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	\$ 303,891	\$ ---	\$ 302,769	\$ 1,122
Nonrecurring				
Impaired Loans	\$ 63,521	\$ ---	\$ 34,936	\$ 28,585
Other Real Estate	\$ 20,445	\$ ---	\$ 6,170	\$ 14,275

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

(10) Fair Value Measurements (Continued)

Liabilities

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

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012.

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Available for Sale Securities (In Thousands)
Balance, Beginning	\$ 1,122
Total Realized/Unrealized Gains (Losses) Included In	
Loss on OTTI Impairment	(60)
Other Comprehensive Income	65
Balance, Beginning	\$ 1,127

(11) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$146 and \$250 as of March 31, 2012 and December 31, 2011.

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

	March 31, 2012	December 31, 2011
Interest-Bearing Demand	\$ 287,474	\$ 284,871
Savings	46,396	41,231
Time, \$100,000 and Over	240,215	247,589
Other Time	314,456	332,025
	\$ 888,541	\$ 905,716

At March 31, 2012 and December 31, 2011, the Company had brokered deposits of \$29,058 and \$28,158 respectively. Of the \$29,058 brokered deposits at March 31, 2012, \$29,058 represented Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company received reciprocal brokered deposits in a like amount. Thus, brokered deposits less the reciprocal deposits totaled \$0 at March 31, 2012. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$188,209 and \$190,877 as of March 31, 2012 and December 31, 2011, respectively.

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

Maturity	March 31, 2012	December 31, 2011
One Year and Under	\$ 436,791	\$ 428,603
One to Three Years	102,578	137,619
Three Years and Over	15,302	13,392
	\$ 554,671	\$ 579,614

(12) Securities Sold Under Agreements to Repurchase

At March 31, 2012, the Company had an available repurchase agreement line of credit with a third party totaling \$50,000 of which the total \$50,000 was outstanding. Use of this credit facility is subject to the underwriting and risk management policies of the third-party in effect at the time of the request. Such policies may take into consideration current market conditions, the current financial

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

(12) Securities Sold Under Agreements to Repurchase (Continued)

condition of the Company and the ability of the Company to provide adequate securities as collateral for the transaction, among other factors.

(13) Other Borrowed Money

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

	March 31, 2012	December 31, 2011
Federal Home Loan Bank Advances	\$ 57,500	\$ 71,000
	\$ 57,500	\$ 71,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2012 to 2019 and interest rates ranging from 3.17 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. In addition, the Company has pledged certain available-for-sale investment securities with carrying values at March 31, 2012 of approximately \$22,855 as additional collateral, as well as cash balances held on deposit with the FHLB. At March 31, 2012 the Company had remaining credit availability from the FHLB of approximately \$121,420. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The aggregate stated maturities of other borrowed money at March 31, 2012 are as follows:

Year	Amount
2012	\$ 27,500
2013	--
2014	--
2015 and Thereafter	30,000
	\$ 57,500

The Company also has available federal funds lines of credit with various financial institutions totaling \$43,000, of which there were none outstanding at March 31, 2012.

In addition, the Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At March 31, 2012, the Company had approximately \$5.8 million of borrowing capacity available under this arrangement, with no outstanding balances. Certain available-for-sale investment securities totaling approximately \$5.9 million were pledged as collateral under this agreement.

(14) Preferred Stock and Warrants

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

Warrant Common Stock) of the Company's common stock.

The Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed by the Company on or after February 15, 2012 at the liquidation preference of \$1,000 per share plus any accrued and unpaid dividends. Accrued and unpaid dividends on the Preferred Stock must be declared and set aside for the benefit of the holders of the Preferred Stock before any dividend may be declared on our common stock.

On February 13, 2012, the Company announced the suspension of dividends on the Preferred Stock. At March 31, 2012, there were accumulated dividends in arrears of \$527, including related accrued interest. The Company may defer dividend payments for up to an aggregate of six dividend periods, whether consecutive or not, without default or penalty under the terms of the agreement. Failure to pay dividends for six periods would trigger board appointment rights for the holder of the Preferred Stock.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(14) Preferred Stock and Warrants (Continued)

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

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

(15) 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, 2012, the floating rate securities had a 3.15 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 March 31, 2012 the floating-rate securities had a 1.97 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, 2012, the floating-rate securities had a 2.12 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, 2012, the floating-rate securities had a 1.95 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.

On February 13, 2012, the Company announced the suspension of the quarterly interest payments on the Trust Preferred Securities. Under the terms of the trust documents, the Company may defer payments of interest for up to

20 consecutive quarterly periods without default or penalty. The regularly scheduled interest payments will continue to be accrued for payment in the future and reported as an expense in the current period. At March 31, 2012, accrued but unpaid interest expense totaled \$142.

(16) Restricted Stock – Unearned Compensation

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 17,798 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 108,042, at March 31, 2012. During 2012, there has not been any shares of restricted stock issued or forfeited. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

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

(17) 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. No provisions for contributions have been made for 2012 and 2011.

(18) 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 March 31, 2012 and December 31, 2011 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	March 31, 2012	December 31, 2011
Loan Commitments	\$ 47,430	\$ 39,966
Letters of Credit	1,041	1,327

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

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

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

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

(19) 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 \$1,081 and \$1,136 as of March 31, 2012 and December 31, 2011, respectively. Benefit payments under the contracts were \$76 and \$73 for the three month period ended March 31, 2012 and March 31, 2011, respectively. Provisions charged to operations totaled \$21 and \$25 for the three month period ended March 31, 2012 and March 31, 2011, respectively.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(19) Deferred Compensation Plan (Continued)

Fee income recognized with deferred compensation plans totaled \$62 and \$51 for three month period ended March 31, 2012 and March 31, 2011, respectively.

(20) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

(20) Fair Value of Financial Instruments (Continued)

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

	Carrying Amount	March 31, 2012 Estimated Fair Value (in thousands)	December 31, 2011 Carrying Amount	Estimated Fair Value
Assets				
Cash and Short-Term Investments	\$ 75,876	\$ 75,876	\$ 112,329	\$ 112,329
Investment Securities Available for Sale	333,608	333,608	303,891	303,891
Investment Securities Held to Maturity	47	48	46	46
Federal Home Loan Bank Stock	5,398	5,398	5,398	5,398
Loans, Net	690,533	690,913	700,614	702,438
Liabilities				
Deposits	994,014	997,602	999,985	1,003,648
Subordinated Debentures	24,229	24,229	24,229	24,229
Other Borrowed Money	57,500	60,851	71,000	74,720

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

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

(21) Regulatory Capital Matters

The amount of dividends payable to the parent company from the subsidiary bank is limited by various banking regulatory agencies. Upon approval by regulatory authorities, the Bank may pay cash dividends to the parent company in excess of regulatory limitations. Additionally, in the third quarter of 2009, the Company suspended the payment of dividends to common shareholders. At March 31, 2012, the Company is subject to certain regulatory restrictions that preclude the declaration of or payment of any dividends to its common stockholders, without prior

approval from the Federal Reserve Bank.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of March 31, 2012, the company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

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

(21) Regulatory Capital Matters (Continued)

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2012						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 118,849	16.99	% \$ 55,946	8.00	% NA	NA
Colony Bank	117,733	16.86	55,860	8.00	\$ 69,825	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	110,019	15.73	27,973	4.00	NA	NA
Colony Bank	108,916	15.60	27,930	4.00	41,895	6.00
Tier 1 Capital to Average Assets						
Consolidated	110,019	9.38	46,536	4.00	NA	NA
Colony Bank	108,916	9.30	46,860	4.00	58,575	5.00
As of December 31, 2011						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 118,913	16.50	% \$ 57,658	8.00	% NA	NA
Colony Bank	117,243	16.29	57,584	8.00	\$ 71,980	10.00 %
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	109,822	15.24	28,829	4.00	NA	NA
Colony Bank	108,163	15.03	28,792	4.00	43,188	6.00
Tier 1 Capital to Average Assets						

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

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

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

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

The parent company's balance sheets as of March 31, 2012 and December 31, 2011 and the statements of income, comprehensive income and cash flows for the three month period ended March 31, 2012 and 2011 are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
MARCH 31, 2012 AND DECEMBER 31, 2011
(DOLLARS IN THOUSANDS)

ASSETS	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Cash	\$ 816	\$ 1,052
Premises and Equipment, Net	1,354	1,378
Investment in Subsidiaries, at Equity	119,357	118,289
Other	600	438
Totals Assets	\$ 122,127	\$ 121,157
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	352	\$ 175
Other	421	140
	773	315
Subordinated Debt	24,229	24,229
Stockholders' Equity		
Preferred Stock, Stated Value \$1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	27,703	27,663
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 and 8,439,258 Shares as of March 31, 2012 and December 31, 2011, Respectively	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	29,604	29,456
Accumulated Other Comprehensive Income, Net of Tax	2,234	1,910
	97,125	96,613
Total Liabilities and Stockholders' Equity	\$ 122,127	\$ 121,157

Table of Contents

Part I (Continued)
Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	MARCH 31, 2012	MARCH 31, 2011
Income		
Dividends from Subsidiaries	\$ 5	\$ 4
Management Fees	145	126
Other	26	26
	176	156
Expenses		
Interest	143	125
Salaries and Employee Benefits	182	193
Other	150	175
	475	493
Income (Loss) Before Taxes and Equity in Undistributed Earnings of Subsidiaries	(299)	(337)
Income Tax (Benefits)	(96)	(103)
Income (Loss) Before Equity in Undistributed Earnings of Subsidiaries	(203)	(234)
Equity in Undistributed Earnings of Subsidiaries	744	1,290
Net Income	541	1,056
Preferred Stock Dividends	352	350
Net Income Available to Common Shareholders	\$ 189	\$ 706

Table of Contents

Part I (Continued)
Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	MARCH 31, 2012	MARCH 31, 2011
Net Income	\$ 541	\$ 1,056
Other Comprehensive Income (Loss), Net of Tax		
Gains (Losses) on Securities Arising During Year	415	(554)
Reclassification Adjustment	(91)	(261)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	324	(815)
Comprehensive Income	\$ 865	\$ 241

Table of Contents

Part I (Continued)
Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2012	2011
Cash Flows from Operating Activities		
Net Income	\$541	\$1,056
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	24	37
Equity in Undistributed Earnings of Subsidiary	(744)	(1,290)
Other	(57)	(425)
	(236)	(622)
Cash Flows from Financing Activities		
Dividends Paid Preferred Stock	--	(350)
Proceeds from Issuance of Common Stock	--	--
	--	(350)
Net Decrease in Cash	(236)	(972)
Cash, Beginning	1,052	3,173
Cash, Ending	\$816	\$2,201

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

(23) Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income (loss) after preferred stock dividends. The following table presents earnings per share for the three month period ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Numerator		
Net Income (Loss) Available to Common Stockholders	\$ 189	\$ 706
Denominator		
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	8,439	8,439
Dilutive Effect of Potential Common Stock		
Restricted Stock	--	--
Stock Warrants	--	--
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	8,439	8,439
Earnings (Loss) Per Share - Basic	\$ 0.02	\$ 0.08
Earnings (Loss) Per Share - Diluted	\$ 0.02	\$ 0.08

For the three months ended March 31, 2012 and 2011, 500 and 504 shares of common stock equivalents, respectively, were excluded from the calculation of diluted earnings per share because they would have an anti-dilutive effect.

Table of Contents

Part I (Continued)

Item 2

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

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

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

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

Table of Contents

Part I (Continued)
Item 2 (Continued)

- Greater than expected costs or difficulties related to the integration of new lines of business.
- The Company's success at managing the risks involved in the foregoing items.
- Restrictions or conditions imposed by our regulators on our operations, including the terms of our Memorandum of Understanding.

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

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

The Company

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

Application of Critical Accounting Policies and Accounting Estimates

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

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

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

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of March 31, 2012 and 2011, and results of operations for the three months in the periods ended March 31, 2012 and 2011. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Table of Contents

Part I (Continued)

Item 2 (Continued)

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income available to shareholders totaled \$189 thousand, or \$0.02 diluted per common share, in three months ended March 31, 2012 compared to net income available to shareholders of \$706 thousand, or \$0.08 diluted per common share, in three months ended March 31, 2011.

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

	Three Months Ended March 31	
	2012	2011
Taxable-equivalent net interest income	\$ 8,917	\$ 8,860
Taxable-equivalent adjustment	33	42
Net interest income	8,884	8,818
Provision for possible loan losses	1,942	1,500
Noninterest income	1,814	2,104
Noninterest expense	7,983	7,939
Income before income taxes	773	1,483
Income taxes	232	427
Net income	\$ 541	\$ 1,056
Preferred stock dividends	352	350
Net income available to common shareholders	\$ 189	\$ 706
Net income available to common shareholders:		
Basic	\$ 0.02	\$ 0.08
Diluted	\$ 0.02	\$ 0.08
Return on average assets	0.06	% 0.22

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Return on average common equity	0.78	%	3.05	%
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Net income from operations for three months ended March 31, 2012 decreased \$515 thousand, or 48.77 percent, compared to the same period in 2011. The decrease was primarily the result of an increase of \$44 thousand in noninterest expense, a decrease of \$290 thousand in noninterest income and an increase of \$442 thousand in provision for possible loan loss. This was offset by an increase of \$66 thousand in net interest income and a decrease of \$195 thousand in income taxes.

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

Table of Contents

Part I (Continued)
Item 2 (Continued)

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 83.04 percent of total revenue for three months ended March 31, 2012 and 80.74 percent for the same period a year ago.

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

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

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

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

Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from March 31, 2011 to March 31, 2012 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

(\$ in thousands)	Changes from March 31, 2011 to March 31, 2012		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$ (1,253)	\$ 93	\$ (1,160)
Investment Securities			
Taxable	63	(258)	(195)
Tax-exempt	14	(3)	11
Total Investment Securities	77	(261)	(184)
Interest-Bearing Deposits in other Banks	2	6	8
Federal Funds Sold	(9)	1	(8)
Other Interest - Earning Assets	(2)	1	(1)
Total Interest Income	(1,185)	(160)	(1,345)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	69	(64)	5
Time Deposits	(526)	(663)	(1,189)
Federal Funds Purchased and Repurchase Agreements	(167)	---	(167)
Subordinated Debentures	---	18	18
Other Borrowed Money	(95)	26	(69)
Total Interest Expense	(719)	(683)	(1,402)
Net Interest Income	\$ (466)	\$ 523	\$ 57

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

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

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

Table of Contents

Part I (Continued)
Item 2 (Continued)

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

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

The Company maintains about 23 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin until 2008. During 2007 interest rates decreased 100 basis points and this decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. While the Federal Reserve rates have remained unchanged since 2008, the net interest margin increased to 3.23 percent for three months ended March 31, 2012 compared to 2.98 percent for the same period a year ago. We anticipate continued improvement in the net interest margin in 2012 as a result of our loan and deposit pricing guidance.

Taxable-equivalent net interest income for three months ended March 31, 2012 increased \$57 thousand, or 0.64 percent compared to the same period a year ago. The average volume of earning assets during three months ended March 31, 2012 decreased \$85 million compared to the same period a year ago while over the same period the net interest margin increased by 25 basis points from 2.98 percent to 3.23 percent. Decline in average earning assets during 2012 was primarily in loans and federal funds sold. The increase in the net interest margin reducing and repricing in 2012 is primarily the result of higher cost time deposits and borrowed money.

The average volume of loans decreased \$85.84 million in three months ended March 31, 2012 compared to the same period a year ago. The average yield on loans increased 4 basis points in three months ended March 31, 2012 compared to the same period a year ago. The average volume of investment securities increased \$11.16 million in three months ended March 31, 2012 compared to the same year ago period, while the average yield on investment securities decreased 32 basis points for the same period comparison. The average volume of deposits decreased \$48.99 million in three months ended March 31, 2012 compared to the same period a year ago, with interest-bearing deposits decreasing \$48.82 million in three months ended March 31, 2012. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 90.17 percent in three months ended March 31, 2012 compared to 90.62 percent in the same period a year ago. This deposit mix, combined with a general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 40 basis points in three months ended March 31, 2012 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.08 percent in three months ended March 31, 2012 compared to 2.79 percent in the same period a year ago. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in

Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled \$1.94 million in three months ended March 31, 2012 compared to \$1.5 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Table of Contents

Part I (Continued)
Item 2 (Continued)

Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended March 31	
	2012	2011
Service Charges on Deposit Accounts	\$ 796	\$ 756
Other Charges, Commissions and Fees	419	315
Other	381	575
Mortgage Fee Income	81	62
Securities Gains	137	396
Total	\$ 1,814	\$ 2,104

Total noninterest income for three months ended March 31, 2012 decreased \$290 thousand, or 13.78 percent compared to the same period year ago. The decrease in noninterest income was primarily in securities gains and other income for three months ended March 31, 2012. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for three months ended March 31, 2012 increased \$40 thousand, or 5.29 percent, compared to the same period a year ago.

Mortgage Fee Income. Mortgage fee income for three months ended March 31, 2012 increased \$19 thousand, or 30.65 percent, compared to the same period year ago. The Company began an initiative during first quarter 2012 to enhance our secondary mortgage lending operations. This will allow better penetration in the markets that Colony serves and result in increased mortgage fee income.

All Other Noninterest Income. Other charges, commissions and fees and other income for three months ended March 31, 2012 was \$800 thousand compared to \$890 thousand in the same year ago period, or a decrease of 10.11 percent. Significant amounts impacting the comparable periods was primarily attributed to premiums on guaranteed loans which decreased to \$105 thousand in 2012 compared to \$360 thousand in 2011, or a decrease of 70.83 percent. The decrease was offset by a \$58 thousand increase in ATM and debit card fees in 2012 compared to 2011.

Securities Gains. The Company realized gains from the sale of securities of \$137 thousand in three months ended March 31, 2012 compared to \$396 thousand in the same year ago period.

Table of Contents

Part I (Continued)
Item 2 (Continued)

Noninterest Expense

The components of noninterest expense were as follows: