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Safe. Sound. Secure.

Colony Bankcorp, Inc.
2008 Annual Report

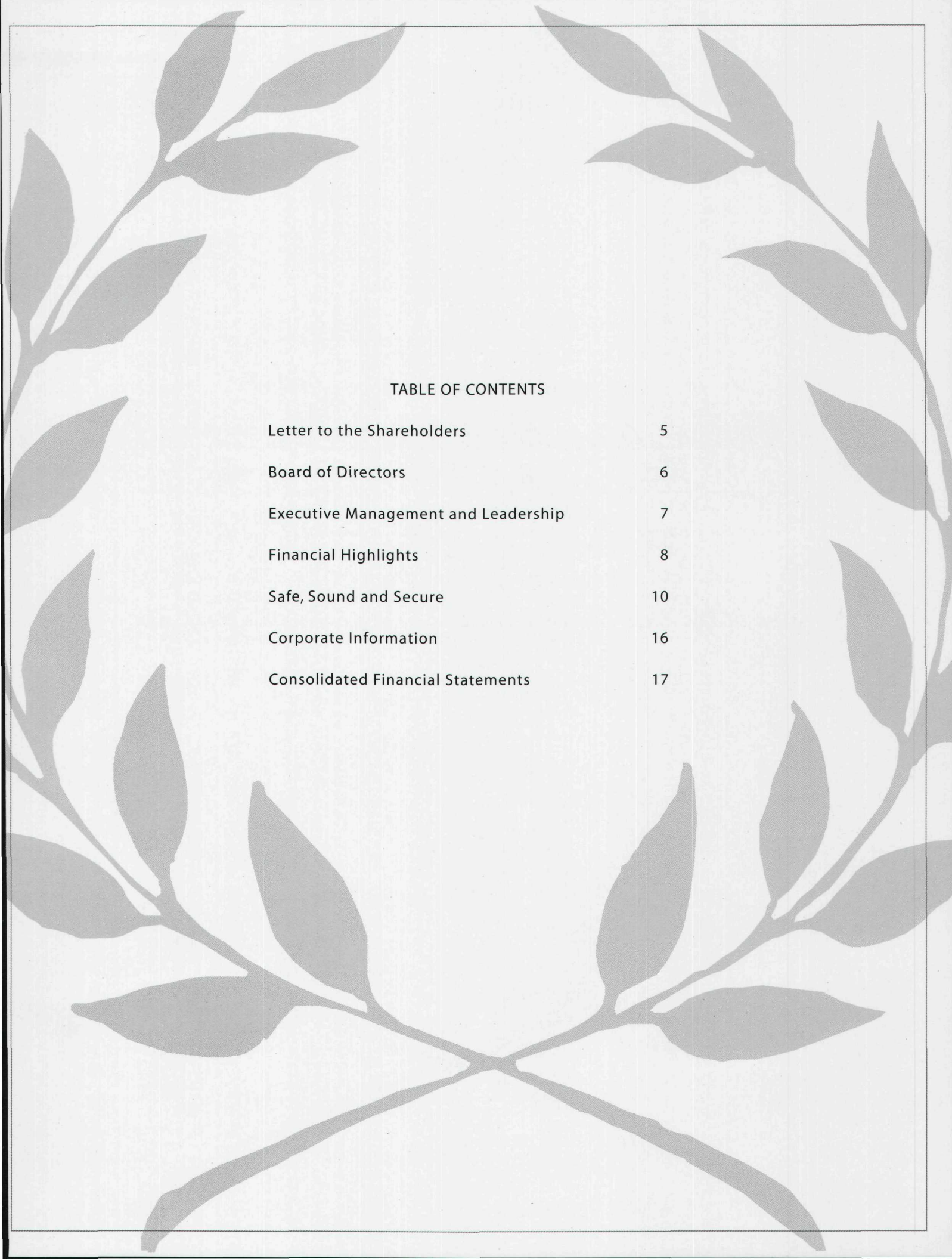
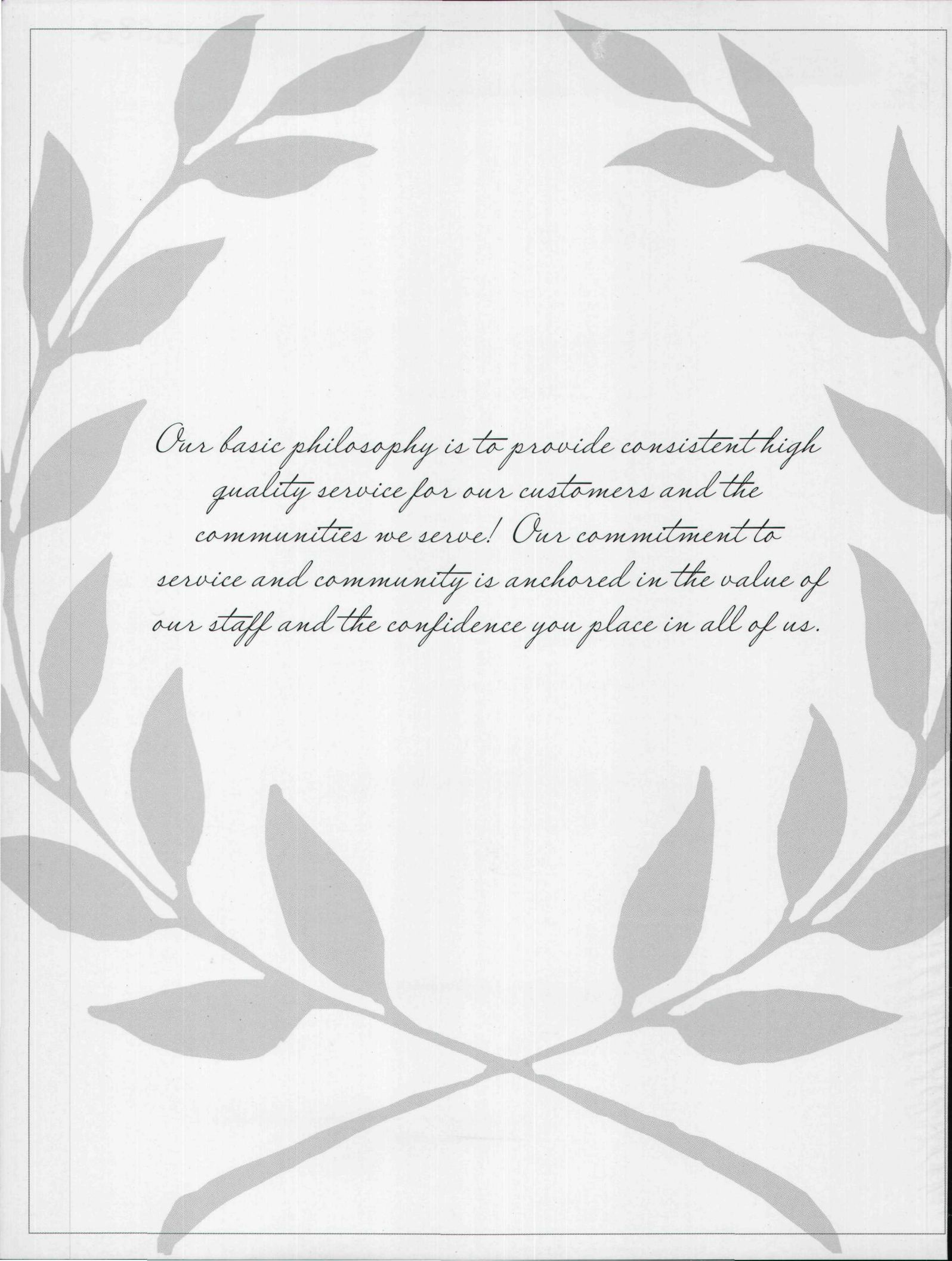
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TABLE OF CONTENTS

Letter to the Shareholders	5
Board of Directors	6
Executive Management and Leadership	7
Financial Highlights	8
Safe, Sound and Secure	10
Corporate Information	16
Consolidated Financial Statements	17



Our basic philosophy is to provide consistent high quality service for our customers and the communities we serve! Our commitment to service and community is anchored in the value of our staff and the confidence you place in all of us.

COLONY BANKCORP, INC.





“
*As a result of these efforts, our company
remains safe, sound, and secure.*
”

LETTER TO THE SHAREHOLDERS

To Our Shareholders;

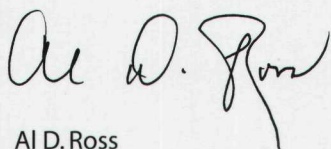
On behalf of every director, officer, and employee of Colony Bankcorp, Inc., we want to thank you for your support of our company during the most difficult economic period in over seventy years. During 2008, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. In response to the historic economic events that occurred during the year, Congress approved an unprecedented financial support package to provide stability to our banking system and confidence to deposit customers of thousands of banks. Both the economic events and the related government legislation will help redefine banking in the years to come.

We are proud to have produced positive earnings, and more importantly, to have provided our shareholders with consistent dividend payments throughout 2008. Many of our peer banks were not as fortunate. However, Colony Bank, like most banking companies, has been affected by these economic challenges that started with the rapid decline of real estate sales and development throughout the country. During 2008, Colony Bank worked aggressively to address the increasing level of problem loans. In addition, we made substantial provisions for loan losses due to the declining value of real estate secured loans. As a result, 2008 earnings were significantly below our expectation, but we believe our aggressive efforts will produce positive results in the future.

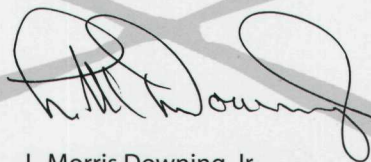
In addition, Colony made significant strides during 2008 to improve our operating leverage by seeking a more efficient structure and more consistent products and services throughout the company. We successfully completed the consolidation of our seven banking subsidiaries into the single banking company, Colony Bank. The momentum created by this strategic move will allow Colony to improve future profitability while better positioning the company to take advantage of future growth opportunities. We continue to focus on ways to improve our operating efficiencies and enhance our customer servicing abilities as part of our everyday plans and activities.

Colony Bank has gained strength and resolve from our work over the past year. This strength and resolve is the direct result of the inspired efforts of our people to complete our company's unification project and to work through the challenges of the adverse economy. As a result of these efforts, our company remains safe, sound, and secure. Our strength and purpose will be the foundation for our future successes and a commitment to achieve consistently higher results for our shareholders in future periods to come.

Again, on behalf of our directors, officers, and employees, we say thank you for your confidence in our resolve and for your support of our plans to improve our future performance.



Al D. Ross
President and CEO



L. Morris Downing, Jr.
Chairman of the Board

Board of Directors



L. Morris Downing, Jr., Chairman
Owner, Lowell Packing Company
Fitzgerald, Georgia

James D. Minix, Vice Chairman
Former President and CEO,
Colony Bankcorp, Inc.
Brinson, Georgia

Terry Coleman
Former Speaker of the House
Georgia General Assembly
Eastman, Georgia

Edward J. Harrell
Attorney, Managing Partner
Martin Snow, LLP
Macon, Georgia

Terry L. Hester
EVP, CFO, Colony Bankcorp, Inc.
Fitzgerald, Georgia

Mark H. Massee
President, Massee Builders, Inc.
Fitzgerald, Georgia

Charles E. Myler
Retired FDIC
Albany, Georgia

W. B. Roberts, Jr.
Farmer & Cattleman
Ashburn, Georgia

Al D. Ross
President and CEO
Colony Bankcorp, Inc.
Fitzgerald, Georgia

Jonathan W. R. Ross
President, Ross Construction
Company, Inc.
Tifton, Georgia

B. Gene Waldron
Owner, Tri County Gin
Douglas, Georgia

Emeritus Directors
Ben B. Mills, Joe K. Shiver,
Marion H. Massee III, Harold Kimball,
Ralph D. Roberts, M.D.

EXECUTIVE MANAGEMENT AND LEADERSHIP

Al D. Ross
President & Chief Executive Officer

Terry L. Hester
Chief Financial Officer and
Corporate Secretary

Larry Herndon
Risk Management Coordinator

W. David Griffin
Senior Operations Officer

Donna Watson
Senior Operations Officer

Hank Brown
Senior Credit Administration &
Regional Credit Officer

Patricia Dickson
Senior Compliance & CRA Officer

Leonard Brannan
Senior Auditing Officer

Donna Padgett
Bank Secrecy Officer

Faith Wray
Information & Physical Security
Officer

Jim Jowers
Senior Technology Officer

Steve Wood
MSA Group Executive

Larry Stevenson
Regional Credit Officer

Melanie Cousins
Regional Credit Officer

MARKET EXECUTIVES/ REGIONAL EXECUTIVES

Ty Bettis, Albany

David Davis, Savannah

Ricky Freeman, Cordele

John Gandy, Moultrie

Butch Kirkley, Eastman

Walter P. Patten, Sylvester

Chris Pettis, Thomaston

John Roberts, Columbus

Kirk Scott, Warner Robins

G. Edward Smith, III, Valdosta

Mark Turner, Fitzgerald

EMERITUS DIRECTORS (listed to the left)

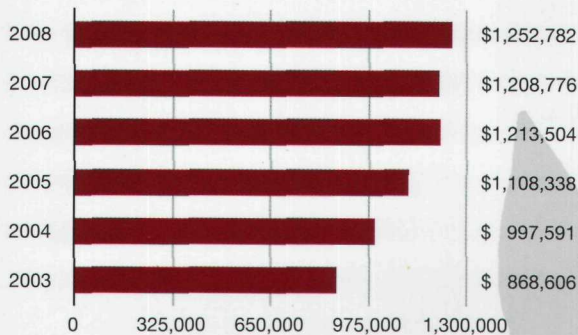


FINANCIAL HIGHLIGHTS

(dollars in thousands)

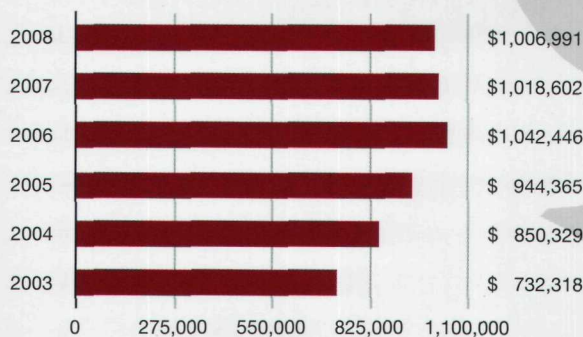
Total Assets:

Colony Bankcorp's total assets increased to \$1.25 billion, or an increase of 3.64% from 2007 to 2008. The relative flat growth is reflective of sluggish loan demand due to the current real estate market downturn and the continued recessionary economic trend that began during 2007.



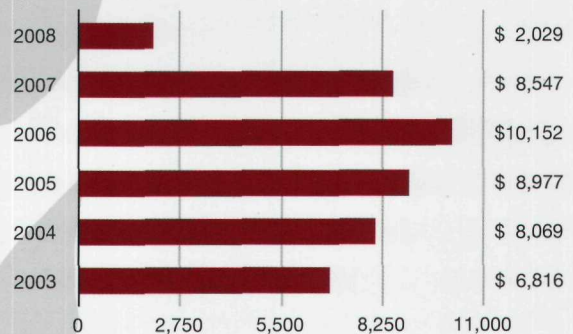
Total Deposits:

Total Deposits of Colony Bankcorp, Inc. decreased slightly from \$1.02 billion at December 31, 2007 to \$1.01 billion at year-end 2008. The 1.1% decrease resulted from increased competition for core deposits and the reduction of deposit rates due to the Federal Reserve loosening their interest rate policy with a 400 basis point rate reduction during 2008. The reduction of deposit rates resulted in some deposit runoff with depositors searching for higher-yielding investments.



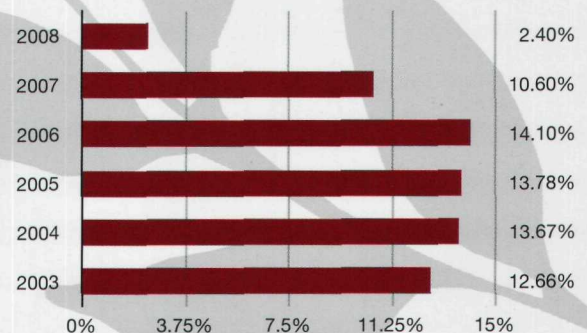
Net Income:

Net Income of Colony Bankcorp, Inc., declined 76.3% from \$8.5 million for calendar year 2007 to \$2.0 million for calendar year 2008. The decrease was primarily the result of a 118.1% increase in provision for possible loan losses from \$5.9 million in 2007 to \$12.9 million in 2008 and a decrease of 12.0% in net interest income from \$42.5 million in 2007 to \$37.4 million in 2008. The impact of these items was partly offset by a \$1.2 million increase in non-interest income, a decrease of \$0.7 million in noninterest expense and a decrease of \$3.7 million in income tax expense. Noninterest income increased 15.2% from \$7.8 million in 2007 to \$9 million in 2008, while noninterest expense decreased 2.3% from \$31.6 million in 2007 to \$30.9 million in 2008. Income tax expense decreased 86.8% from \$4.2 million in 2007 to \$0.6 million in 2008.



Return on Average Equity:

Return on Average Equity decreased from 10.60% at year-end 2007 to 2.40% at year-end 2008. The decrease in earnings primarily resulted from the 118.1% increase in the provision for possible loan losses from \$5.9 million in 2007 to \$12.9 million in 2008 and the 12% decrease in net interest income from \$42.5 million in 2007 to \$37.4 million in 2008.

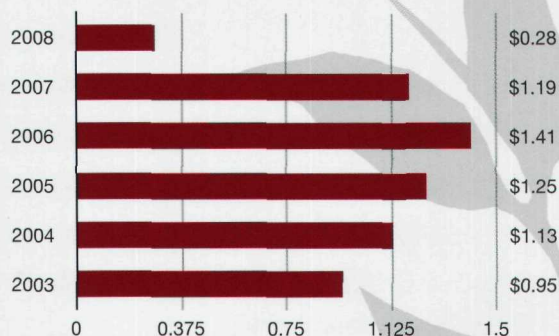


FINANCIAL HIGHLIGHTS

(dollars in thousands)

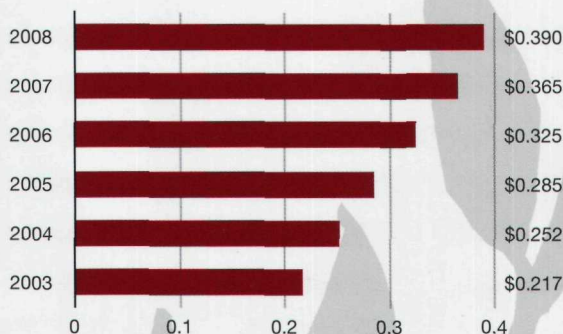
Earnings Per Share:

Earnings Per Share decreased relative to the decreased earnings as addressed in the Net Income and Return on Average Equity notes.



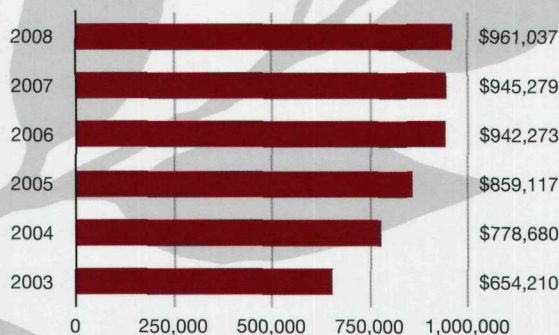
Dividend Payout:

The Dividend Payout of Colony Bankcorp, Inc. increased 6.8% from \$0.365 in 2007 to \$0.39 in 2008. Though earnings declined significantly in 2008 due to aggressively addressing problem loans during this economic downturn, the strong capital position of Colony allowed stable dividend payouts in 2008.



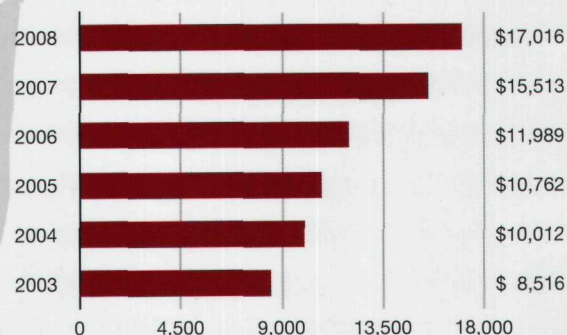
Total Loans:

Though national trends continue to reflect a reduction in loan demand in many areas, Colony had a slight increase in total loans during 2008, closing the year with \$961 million outstanding, an increase of 1.69% from 2007.



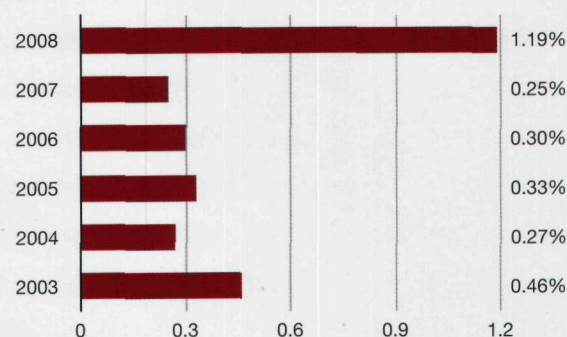
Allowance for Loan Losses:

Management of Colony Bankcorp, Inc. increased allowance for possible loan losses to \$17.0 million at year-end 2008, an increase of 9.7% over the year-end 2007 allowance for possible loan losses of \$15.5 million. The increase was in response to the elevated risk of residential real estate and land development loans given the downturn in the real estate market and the economy in general that began in the latter part of 2007.



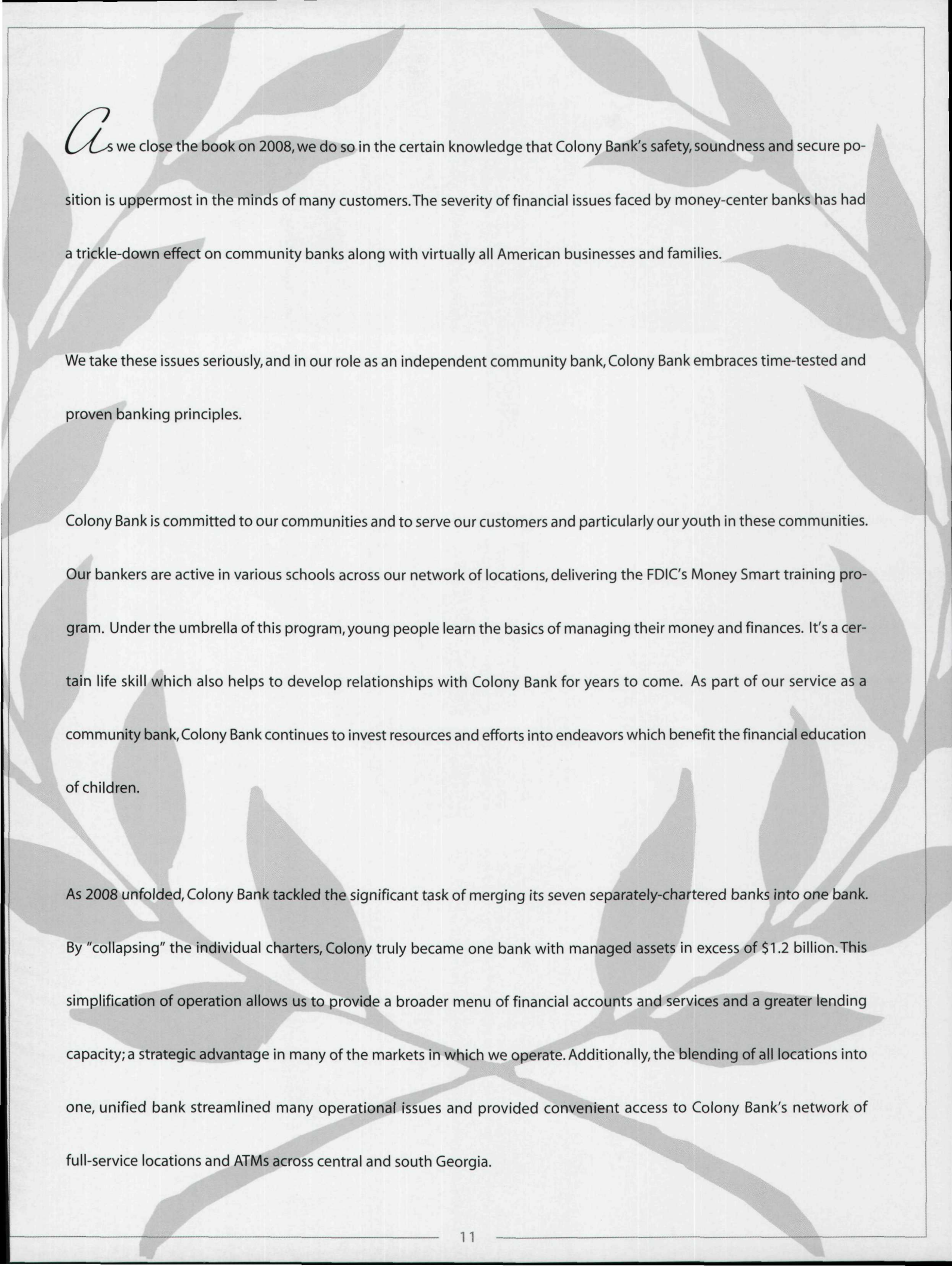
Net Charge-Offs to Average Loans:

Net Charge-Offs to Average Loans increased from 0.25% in 2007 to 1.19% in 2008. The increase in charge-offs was primarily attributable to writing down non-performing loans due to declining real estate values that secure land development, construction and speculative real estate loans in our larger MSA markets. Net charge-offs totaled \$11.4 million in 2008 compared to \$2.4 million in 2007.





“...invest resources and efforts into endeavors
which benefit the financial education of children.”



*A*s we close the book on 2008, we do so in the certain knowledge that Colony Bank's safety, soundness and secure position is uppermost in the minds of many customers. The severity of financial issues faced by money-center banks has had a trickle-down effect on community banks along with virtually all American businesses and families.

We take these issues seriously, and in our role as an independent community bank, Colony Bank embraces time-tested and proven banking principles.

Colony Bank is committed to our communities and to serve our customers and particularly our youth in these communities.

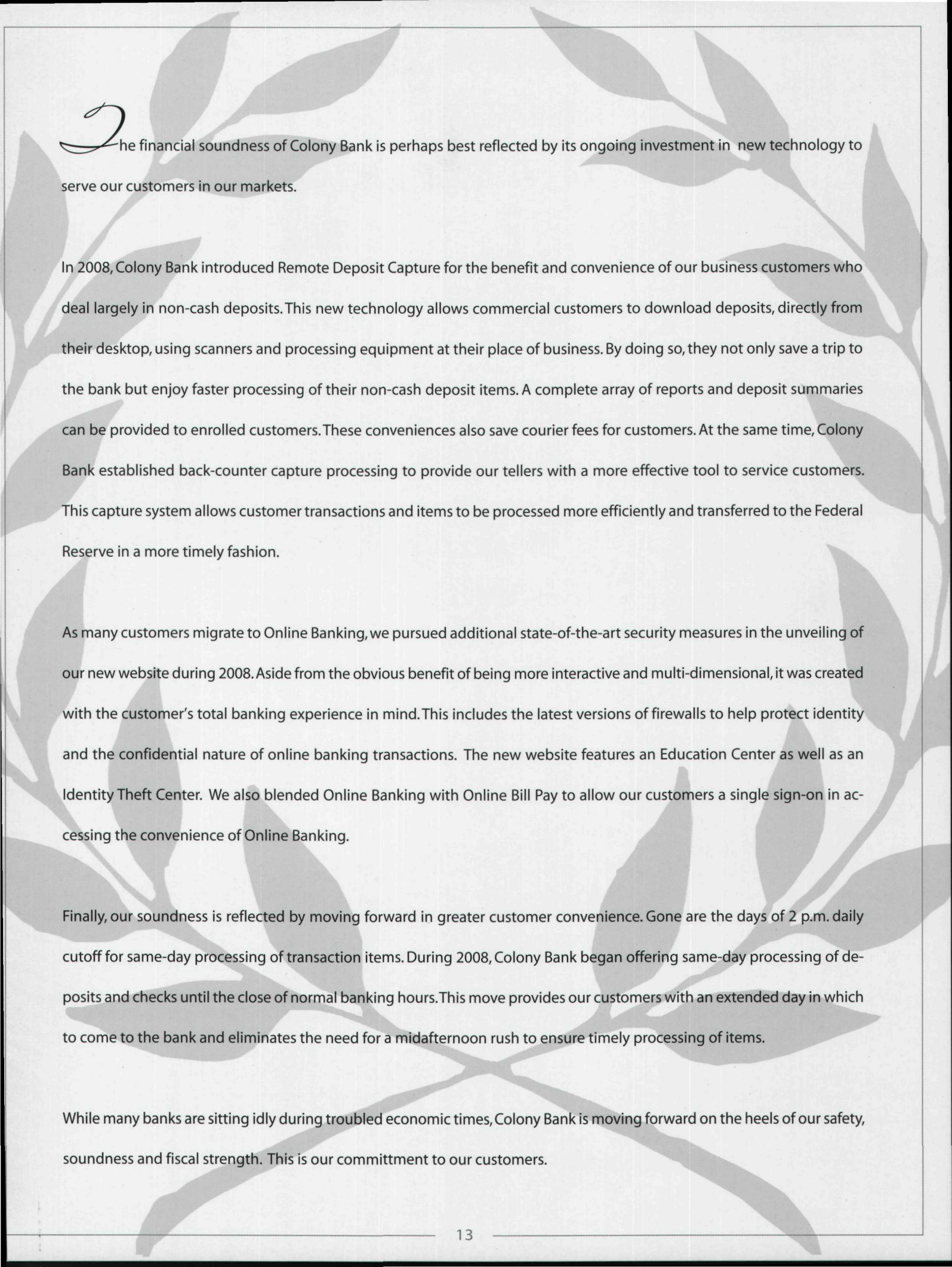
Our bankers are active in various schools across our network of locations, delivering the FDIC's Money Smart training program. Under the umbrella of this program, young people learn the basics of managing their money and finances. It's a certain life skill which also helps to develop relationships with Colony Bank for years to come. As part of our service as a community bank, Colony Bank continues to invest resources and efforts into endeavors which benefit the financial education of children.

As 2008 unfolded, Colony Bank tackled the significant task of merging its seven separately-chartered banks into one bank. By "collapsing" the individual charters, Colony truly became one bank with managed assets in excess of \$1.2 billion. This simplification of operation allows us to provide a broader menu of financial accounts and services and a greater lending capacity; a strategic advantage in many of the markets in which we operate. Additionally, the blending of all locations into one, unified bank streamlined many operational issues and provided convenient access to Colony Bank's network of full-service locations and ATMs across central and south Georgia.



Sound.

“Finally, our soundness is reflected by moving forward in greater customer convenience.”



The financial soundness of Colony Bank is perhaps best reflected by its ongoing investment in new technology to serve our customers in our markets.

In 2008, Colony Bank introduced Remote Deposit Capture for the benefit and convenience of our business customers who deal largely in non-cash deposits. This new technology allows commercial customers to download deposits, directly from their desktop, using scanners and processing equipment at their place of business. By doing so, they not only save a trip to the bank but enjoy faster processing of their non-cash deposit items. A complete array of reports and deposit summaries can be provided to enrolled customers. These conveniences also save courier fees for customers. At the same time, Colony Bank established back-counter capture processing to provide our tellers with a more effective tool to service customers. This capture system allows customer transactions and items to be processed more efficiently and transferred to the Federal Reserve in a more timely fashion.

As many customers migrate to Online Banking, we pursued additional state-of-the-art security measures in the unveiling of our new website during 2008. Aside from the obvious benefit of being more interactive and multi-dimensional, it was created with the customer's total banking experience in mind. This includes the latest versions of firewalls to help protect identity and the confidential nature of online banking transactions. The new website features an Education Center as well as an Identity Theft Center. We also blended Online Banking with Online Bill Pay to allow our customers a single sign-on in accessing the convenience of Online Banking.

Finally, our soundness is reflected by moving forward in greater customer convenience. Gone are the days of 2 p.m. daily cutoff for same-day processing of transaction items. During 2008, Colony Bank began offering same-day processing of deposits and checks until the close of normal banking hours. This move provides our customers with an extended day in which to come to the bank and eliminates the need for a midafternoon rush to ensure timely processing of items.

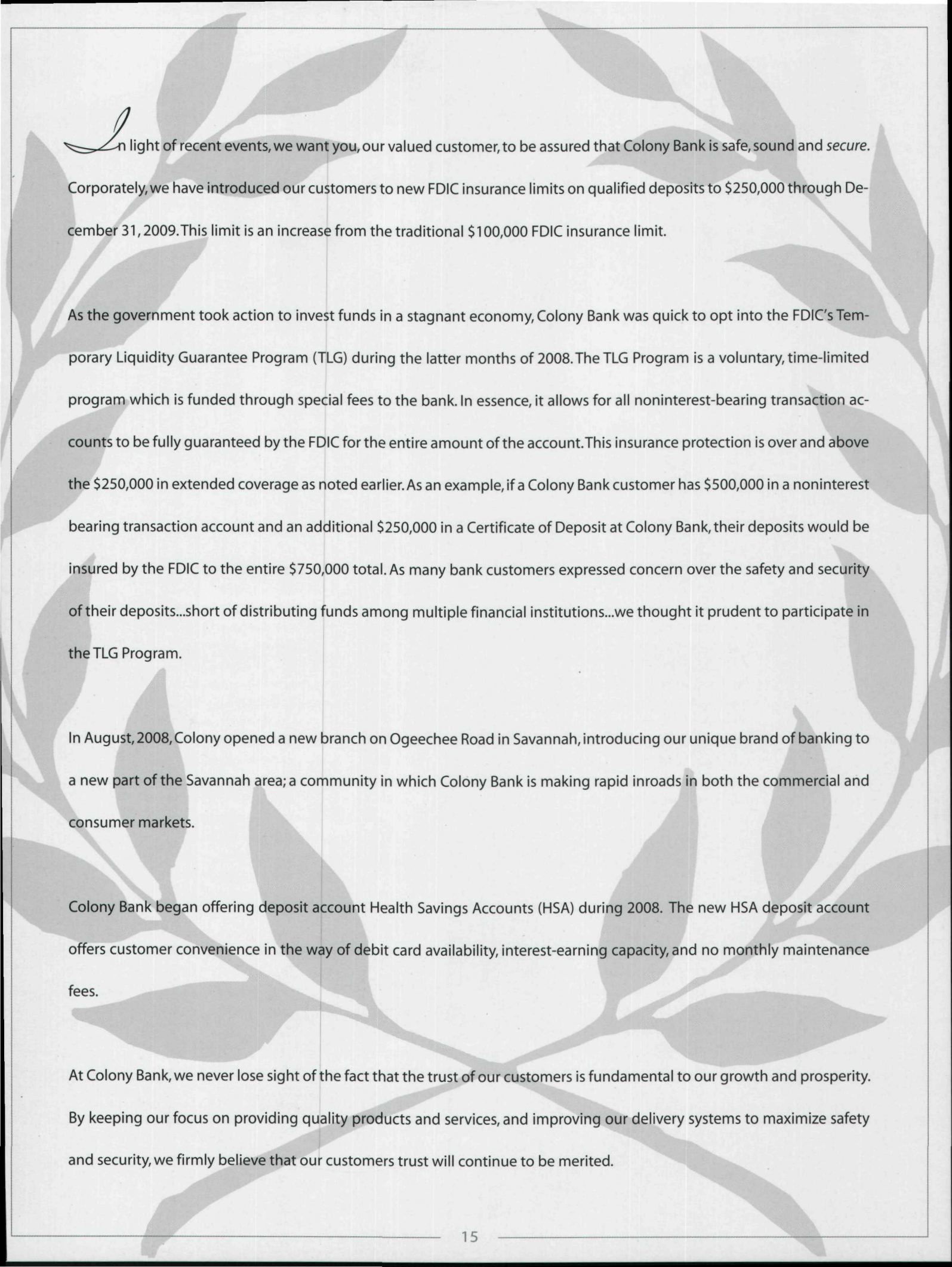
While many banks are sitting idly during troubled economic times, Colony Bank is moving forward on the heels of our safety, soundness and fiscal strength. This is our commitment to our customers.



“

*Secure banking is what every customer
expects from their financial institution.
This is what we are committed to deliver.*

”



In light of recent events, we want you, our valued customer, to be assured that Colony Bank is safe, sound and secure. Corporately, we have introduced our customers to new FDIC insurance limits on qualified deposits to \$250,000 through December 31, 2009. This limit is an increase from the traditional \$100,000 FDIC insurance limit.

As the government took action to invest funds in a stagnant economy, Colony Bank was quick to opt into the FDIC's Temporary Liquidity Guarantee Program (TLG) during the latter months of 2008. The TLG Program is a voluntary, time-limited program which is funded through special fees to the bank. In essence, it allows for all noninterest-bearing transaction accounts to be fully guaranteed by the FDIC for the entire amount of the account. This insurance protection is over and above the \$250,000 in extended coverage as noted earlier. As an example, if a Colony Bank customer has \$500,000 in a noninterest bearing transaction account and an additional \$250,000 in a Certificate of Deposit at Colony Bank, their deposits would be insured by the FDIC to the entire \$750,000 total. As many bank customers expressed concern over the safety and security of their deposits...short of distributing funds among multiple financial institutions...we thought it prudent to participate in the TLG Program.

In August, 2008, Colony opened a new branch on Ogeechee Road in Savannah, introducing our unique brand of banking to a new part of the Savannah area; a community in which Colony Bank is making rapid inroads in both the commercial and consumer markets.

Colony Bank began offering deposit account Health Savings Accounts (HSA) during 2008. The new HSA deposit account offers customer convenience in the way of debit card availability, interest-earning capacity, and no monthly maintenance fees.

At Colony Bank, we never lose sight of the fact that the trust of our customers is fundamental to our growth and prosperity. By keeping our focus on providing quality products and services, and improving our delivery systems to maximize safety and security, we firmly believe that our customers trust will continue to be merited.



**Market Makers For
Colony Bankcorp, Inc.
Common Stock**

Sterne, Agee & Leach, Inc.
Sam Haskell, Vice President
Birmingham, Alabama
(866) 378-3763

Morgan Keegan & Co.
Trey Kilpatrick, Vice President
Atlanta, Georgia
(800) 669-3469

Fig-Partners, LLC
Eric Lawless, Vice President
Atlanta, Georgia
(866) 344-2657

Colony Bankcorp, Inc. Common Stock
is quoted on the NASDAQ National
Market under the symbol "CBAN."

**Colony Bankcorp, Inc.
Shareholder
Information**

Corporate Headquarters:
Colony Bankcorp, Inc.
Post Office Box 989
115 South Grant Street
Fitzgerald, Georgia 31750
(229) 426-6000

Annual Meeting
Tuesday, May 26, 2009 at 2:00 p.m.
Colony Bankcorp, Inc.
115 South Grant Street
Fitzgerald, Georgia 31750

Independent Auditors:
McNair, McLemore, Middlebrooks & Co., LLP
Post Office Box One
Macon, Georgia 31202

Shareholder Services:

Shareholders who want to change the name, address, or ownership of stock; to report lost, stolen or destroyed certificates; or to consolidate accounts should contact:

American Stock Transfer & Trust Company, Shareholder Services
59 Maiden Lane, Plaza Level
New York, New York, 10038
(800) 937-5449

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street • Post Office Box One • Macon, GA 31202

Telephone (478) 746-6277 • Facsimile (478) 743-6858

www.mmmcpa.com

RALPH S. McLEMORE, SR., CPA (1902-1981)

SIDNEY B. McNAIR, CPA (1913-1992)

SIDNEY E. MIDDLEBROOKS, CPA, PC

RAY C. PEARSON, CPA

J. RANDOLPH NICHOLS, CPA

WILLIAM H. EPPS, JR., CPA

RAYMOND A. PIPPIN, JR., CPA

JERRY A. WOLFE, CPA

W. E. BARFIELD, JR., CPA

HOWARD S. HOLLEMAN, CPA

F. GAY McMICHAEL, CPA

RICHARD A. WHITTEN, JR., CPA

ELIZABETH WARE HARDIN, CPA

CAROLINE E. GRIFFIN, CPA

RONNIE K. GILBERT, CPA

RON C. DOUTHIT, CPA

CHARLES A. FLETCHER, CPA

MARJORIE HUCKABEE CARTER, CPA

BRYAN A. ISGETT, CPA

DAVID PASCHAL MUSE, JR., CPA

KATHY W. FLETCHER, CPA

March 13, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Colony Bankcorp, Inc.

We have audited the accompanying consolidated balance sheets of **Colony Bankcorp, Inc. and Subsidiary** as of December 31, 2008 and 2007 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colony Bankcorp, Inc. and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Colony Bankcorp, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2009 expressed an unqualified opinion on the effectiveness of Colony Bankcorp, Inc.'s internal control over financial reporting.

McNair, McLemore, Middlebrooks & Co., LLP

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

Colony Bankcorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31



ASSETS	2008	2007
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 29,427,430	\$ 28,369,037
Federal Funds Sold	30,941	21,737,143
	<u>29,458,371</u>	<u>50,106,180</u>
Interest-Bearing Deposits	146,987	1,466,690
Investment Securities		
Available for Sale, at Fair Value	207,644,579	167,123,042
Held to Maturity, at Cost (Fair Value of \$63,254 and \$72,005 as of December 31, 2008 and 2007, Respectively)	59,886	68,170
	<u>207,704,465</u>	<u>167,191,212</u>
Federal Home Loan Bank Stock, at Cost	6,272,400	5,532,700
Loans	961,036,525	945,278,642
Allowance for Loan Losses	(17,015,883)	(15,512,940)
Unearned Interest and Fees	(179,257)	(300,577)
	<u>943,841,385</u>	<u>929,465,125</u>
Premises and Equipment	29,671,881	27,808,838
Other Real Estate	12,811,819	1,332,391
Goodwill	2,412,338	2,412,338
Other Intangible Assets	366,505	402,253
Other Assets	20,095,784	23,058,742
Total Assets	<u>\$1,252,781,935</u>	<u>\$1,208,776,469</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 77,496,891	\$ 86,111,783
Interest-Bearing	929,494,577	932,490,203
	<u>1,006,991,468</u>	<u>1,018,601,986</u>
Borrowed Money		
Federal Funds Purchased	2,274,000	1,346,000
Securities Sold Under Agreements to Repurchase	40,000,000	-
Subordinated Debentures	24,229,000	24,229,000
Other Borrowed Money	91,000,000	73,600,000
	<u>157,503,000</u>	<u>99,175,000</u>
Other Liabilities	5,072,312	7,256,365
Commitments and Contingencies		
Stockholders' Equity		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,212,313 and 7,200,913 Shares as of December 31, 2008 and 2007, Respectively	7,212,313	7,200,913
Paid-In Capital	24,535,683	24,420,497
Retained Earnings	51,302,025	52,086,834
Restricted Stock – Unearned Compensation	(210,993)	(237,002)
Accumulated Other Comprehensive Income, Net of Tax	376,127	271,876
	<u>83,215,155</u>	<u>83,743,118</u>
Total Liabilities and Stockholders' Equity	<u>\$1,252,781,935</u>	<u>\$1,208,776,469</u>

The accompanying notes are an integral part of these balance sheets.

**Colony Bankcorp, Inc. and Subsidiary
Consolidated Statements of Income
For the Years Ended December 31**



	2008	2007	2006
Interest Income			
Loans, Including Fees	\$ 66,732,488	\$ 80,973,666	\$ 75,086,845
Federal Funds Sold	273,476	1,477,985	2,034,823
Deposits with Other Banks	27,452	142,785	133,321
Investment Securities			
U. S. Government Agencies	7,140,902	6,437,743	5,198,384
State, County and Municipal	410,298	549,031	381,085
Corporate Obligations	414,319	269,283	162,377
Other Investments	-	-	3,808
Dividends on Other Investments	298,264	308,840	278,974
	<u>75,297,199</u>	<u>90,159,333</u>	<u>83,279,617</u>
Interest Expense			
Deposits	32,801,362	42,730,760	36,610,386
Federal Funds Purchased	513,961	59,145	28,853
Borrowed Money	4,607,347	4,910,945	4,752,642
	<u>37,922,670</u>	<u>47,700,850</u>	<u>41,391,881</u>
Net Interest Income	<u>37,374,529</u>	<u>42,458,483</u>	<u>41,887,736</u>
Provision for Loan Losses	12,937,750	5,930,756	3,987,000
Net Interest Income After Provision for Loan Losses	<u>24,436,779</u>	<u>36,527,727</u>	<u>37,900,736</u>
Noninterest Income			
Service Charges on Deposits	4,699,616	4,771,239	4,580,181
Other Service Charges, Commissions and Fees	981,124	921,502	831,472
Mortgage Fee Income	609,044	966,897	767,803
Securities Gains	1,195,314	183,656	-
Other	1,520,092	973,687	1,170,725
	<u>9,005,190</u>	<u>7,816,981</u>	<u>7,350,181</u>
Noninterest Expenses			
Salaries and Employee Benefits	16,238,080	17,866,304	16,870,488
Occupancy and Equipment	4,190,845	4,039,327	4,034,909
Directors' Fees	578,315	632,547	638,721
Legal and Professional Fees	1,379,696	1,144,229	1,070,605
Other Real Estate and Repossession Expense	332,864	100,959	162,384
Loss on Sale of Other Real Estate	49,448	48,384	20,263
FDIC Assessment	603,093	189,635	166,151
Other	7,483,574	7,557,904	6,918,038
	<u>30,855,915</u>	<u>31,579,289</u>	<u>29,881,559</u>
Income Before Income Taxes	<u>2,586,054</u>	<u>12,765,419</u>	<u>15,369,358</u>
Income Taxes	<u>557,230</u>	<u>4,218,463</u>	<u>5,217,363</u>
Net Income	<u>\$ 2,028,824</u>	<u>\$ 8,546,956</u>	<u>\$ 10,151,995</u>
Net Income Per Share of Common Stock			
Basic	\$ 0.28	\$ 1.19	\$ 1.41
Diluted	\$ 0.28	\$ 1.19	\$ 1.41
Cash Dividends Declared Per Share of Common Stock	<u>\$ 0.39</u>	<u>\$ 0.365</u>	<u>\$ 0.325</u>
Weighted Average Shares Outstanding	<u>7,199,121</u>	<u>7,188,696</u>	<u>7,176,894</u>

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
For the Years Ended December 31



	2008	2007	2006
Net Income	\$ 2,028,824	\$ 8,546,956	\$ 10,151,995
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	893,158	1,367,910	377,840
Reclassification Adjustment	(788,907)	(121,213)	-
Change in Net Unrealized Gains on Securities			
Available For Sale, Net of Reclassification Adjustment			
and Tax Effects	104,251	1,246,697	377,840
Comprehensive Income	\$ 2,133,075	\$ 9,793,653	\$ 10,529,835

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2008, 2007 and 2006

	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Restricted Stock - Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2005	7,181,320	\$ 7,181,320	\$ 23,999,775	\$ 38,601,441	\$ (301,883)	\$ (1,352,661)	\$ 68,127,992
Issuance of Restricted Stock	12,790	12,790	303,123		(315,913)		-
Forfeiture of Restricted Stock	(4,173)	(4,173)	(106,663)		110,836		-
Tax Benefit of Restricted Stock			61,157				61,157
Amortization of Unearned Compensation					229,042		229,042
Change in Net Unrealized Gains (Losses) on Securities							
Available For Sale, Net of Reclassification Adjustment							
and Tax Effects						377,840	377,840
Dividends Declared				(2,336,865)			(2,336,865)
Net Income				10,151,995			10,151,995
Balance, December 31, 2006	7,189,937	7,189,937	24,257,392	46,416,571	(277,918)	(974,821)	76,611,161
Cumulative Effect of Change in Accounting							
for Uncertainty in Income Taxes				(247,312)			(247,312)
Issuance of Restricted Stock	16,175	16,175	270,122		(286,297)		-
Forfeiture of Restricted Stock	(5,199)	(5,199)	(110,514)		115,713		-
Tax Benefit of Restricted Stock			3,497				3,497
Amortization of Unearned Compensation					211,500		211,500
Change in Net Unrealized Gains (Losses) on Securities							
Available For Sale, Net of Reclassification Adjustment							
and Tax Effects						1,246,697	1,246,697
Dividends Declared				(2,629,381)			(2,629,381)
Net Income				8,546,956			8,546,956
Balance, December 31, 2007	7,200,913	7,200,913	24,420,497	52,086,834	(237,002)	271,876	83,743,118
Issuance of Restricted Stock	15,500	15,500	220,100		(235,600)		-
Forfeiture of Restricted Stock	(4,100)	(4,100)	(69,070)		73,170		-
Tax Loss of Restricted Stock			(35,844)				(35,844)
Amortization of Unearned Compensation					188,439		188,439
Change in Net Unrealized Gains (Losses) on Securities							
Available For Sale, Net of Reclassification Adjustment							
and Tax Effects						104,251	104,251
Dividends Declared				(2,813,633)			(2,813,633)
Net Income				2,028,824			2,028,824
Balance, December 31, 2008	7,212,313	\$ 7,212,313	\$ 24,535,683	\$ 51,302,025	\$ (210,993)	\$ 376,127	\$ 83,215,155

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31



	2008	2007	2006
Cash Flows from Operating Activities			
Net Income	\$ 2,028,824	\$ 8,546,956	\$ 10,151,995
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation	2,028,158	1,875,779	1,933,290
Amortization and Accretion	777,051	529,805	720,446
Provision for Loan Losses	12,937,750	5,930,756	3,987,000
Deferred Income Taxes	(250,215)	(1,233,259)	112,518
Securities Gains	(1,195,314)	(183,656)	-
(Gain) Loss on Sale of Equipment	(857)	(5,813)	7,507
(Gain) Loss on Sale of Other Real Estate and Repossessions	59,623	53,851	(14,239)
Unrealized Loss on Other Real Estate	-	-	32,773
Increase in Cash Surrender Value of Life Insurance	(235,305)	(15,427)	(185,850)
Change In			
Interest Receivable	2,875,146	362,311	(2,913,483)
Prepaid Expenses	18,698	144,931	87,542
Interest Payable	(816,819)	291,225	1,040,748
Accrued Expenses and Accounts Payable	(815,214)	(109,441)	344,075
Other	(121,645)	(1,018,977)	(301,677)
	<u>17,289,881</u>	<u>15,169,041</u>	<u>15,002,645</u>
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	1,319,703	1,608,791	(1,440,066)
Purchase of Investment Securities			
Available for Sale	(157,485,718)	(60,521,076)	(48,498,815)
Proceeds from Sale of Investment Securities			
Available for Sale	65,298,695	16,984,665	-
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	52,666,161	27,603,088	23,868,423
Held to Maturity	13,573	12,054	18,035
Proceeds from Sale of Premises and Equipment	29,888	267,120	4,691
Net Loans to Customers	(42,435,526)	(8,333,042)	(88,764,174)
Purchase of Premises and Equipment	(3,920,230)	(2,492,797)	(3,722,786)
Other Real Estate and Repossessions	3,392,500	2,318,696	4,136,207
Federal Home Loan Bank Stock	(739,700)	(445,900)	(52,600)
Investment in Capital Trusts	-	(434,000)	(155,000)
Liquidation of Statutory Trusts	-	434,000	-
Other Investments	-	(420,560)	(400,000)
	<u>(81,860,654)</u>	<u>(23,418,961)</u>	<u>(115,006,085)</u>
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	(2,995,624)	(32,620,017)	99,529,936
Noninterest-Bearing Customer Deposits	(8,614,892)	8,776,104	(1,442,462)
Proceeds from Other Borrowed Money	122,400,000	41,100,000	41,500,000
Principal Payments on Other Borrowed Money	(65,000,000)	(29,000,000)	(50,226,206)
Dividends Paid	(2,794,520)	(2,556,438)	(2,264,319)
Proceeds from Issuance of Subordinated Debentures	-	14,434,000	5,155,000
Principal Payments of Subordinated Debentures	-	(14,434,000)	-
Federal Funds Purchased	928,000	276,000	1,070,000
	<u>43,922,964</u>	<u>(14,024,351)</u>	<u>93,321,949</u>
Net Decrease in Cash and Cash Equivalents	<u>(20,647,809)</u>	<u>(22,274,271)</u>	<u>(6,681,491)</u>
Cash and Cash Equivalents, Beginning	<u>50,106,180</u>	<u>72,380,451</u>	<u>79,061,942</u>
Cash and Cash Equivalents, Ending	<u>\$ 29,458,371</u>	<u>\$ 50,106,180</u>	<u>\$ 72,380,451</u>

The accompanying notes are an integral part of these statements.

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies

Principles of Consolidation

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

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 goodwill and other intangible assets.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements and note disclosures have been reclassified to conform to statement presentations selected for 2008. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Lending is concentrated in commercial and real estate primarily to local borrowers. The Company has a high concentration of real estate loans that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. In management's opinion, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of real estate dependent problem loans. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2008.

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

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

Investment Securities

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

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies (continued)

Investment Securities (continued)

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Allowance for Loan Losses

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

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses (continued)

collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

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

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

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

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

Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. Impairment testing of goodwill is performed annually or more frequently if events or circumstances indicate possible impairment. No impairment was identified as a result of the testing performed during 2008 or 2007.

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

Transfers of Financial Assets

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

Statement of Cash Flows

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

Securities Sold Under Repurchase Agreements

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

Advertising Costs

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

Income Taxes

The provision for income taxes is based upon income for financial statement purposes, adjusted for nontaxable income and

Colony Bankcorp, Inc. and Subsidiary Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies (continued) Income Taxes (continued)

nondeductible expenses. Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes.

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

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the 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.

Other Real Estate

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

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

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

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies (continued)

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

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109. Interpretation No. 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation No. 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. The adoption of Interpretation No. 48 on January 1, 2007 did not significantly impact the Company's consolidated financial statements.

FSP No. 48-1 Definition of Settlement in FASB Interpretation No. 48. FSP No. 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP No. 48-1 was effective retroactively to January 1, 2007 and did not significantly impact the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning January 1, 2009. The Company is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. SFAS No. 159 became effective for the Company on January 1, 2008. The Company elected not to adopt the fair value option.

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

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The hierarchical guidance provided by SFAS 162 did not have a significant impact on the Company's consolidated financial statements.

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(1) Summary of Significant Accounting Policies (continued)
Changes in Accounting Principles and Effects of New Accounting Pronouncements (continued)

FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participated Securities*. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 will be effective on January 1, 2009. All previously reported earnings per share data will be retrospectively adjusted to conform with the provisions of FSP EITF 03-6-1. FSP EITF 03-6-1 is not expected to have a significant impact on the Company's consolidated financial statements.

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of December 31:

	2008	2007
Cash on Hand and Cash Items	\$ 9,227,763	\$ 8,527,336
Noninterest-Bearing Deposits with Other Banks	20,199,667	19,841,701
	<u>\$ 29,427,430</u>	<u>\$ 28,369,037</u>

(3) Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$ 190,197,764	\$ 1,861,970	\$ (309,684)	\$ 191,750,050
State, County and Municipal	9,226,505	44,138	(219,856)	9,050,787
Corporate Obligations	6,650,420	155,230	(629,628)	6,176,022
Asset-Backed Securities	1,000,000	-	(332,280)	667,720
	<u>\$ 207,074,689</u>	<u>\$ 2,061,338</u>	<u>\$ (1,491,448)</u>	<u>\$ 207,644,579</u>
Securities Held to Maturity				
State, County and Municipal	\$ 59,886	\$ 3,368	\$ -	\$ 63,254

The amortized cost and fair value of investment securities as of December 31, 2008, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 2,716,130	\$ 2,703,435	\$ -	\$ -
Due After One Year Through Five Years	5,239,129	4,884,055	-	-
Due After Five Years Through Ten Years	5,279,959	5,359,410	59,886	63,254
Due After Ten Years	3,641,707	2,947,629	-	-
	<u>16,876,925</u>	<u>15,894,529</u>	<u>59,886</u>	<u>63,254</u>
Mortgage-Backed Securities	190,197,764	191,750,050	-	-
	<u>\$ 207,074,689</u>	<u>\$ 207,644,579</u>	<u>\$ 59,886</u>	<u>\$ 63,254</u>

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(3) Investment Securities (continued)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$ 109,023,711	\$ 758,105	\$ (459,043)	\$ 109,322,773
Other	36,817,832	314,276	(36,536)	37,095,572
State, County and Municipal	14,178,545	32,979	(295,869)	13,915,655
Corporate Obligations	5,689,011	105,029	(6,748)	5,787,292
Asset-Backed Securities	1,000,000	-	-	1,000,000
Marketable Equity Securities	2,010	-	(260)	1,750
	<u>\$ 166,711,109</u>	<u>\$ 1,210,389</u>	<u>\$ (798,456)</u>	<u>\$ 167,123,042</u>
Securities Held to Maturity				
State, County and Municipal	<u>\$ 68,170</u>	<u>\$ 3,835</u>	<u>\$ -</u>	<u>\$ 72,005</u>

Proceeds from sales of investments available for sale were \$65,298,695 in 2008, \$16,984,665 in 2007 and \$0 in 2006. Gross realized gains totaled \$1,201,896 in 2008, \$211,676 in 2007 and \$0 in 2006. Gross realized losses totaled \$6,582 in 2008, \$28,020 in 2007 and \$0 in 2006.

Investment securities having a carrying value approximating \$145,647,000 and \$89,145,000 as of December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2008						
U.S. Government Agencies						
Mortgage-Backed	\$52,276,619	\$ (266,923)	\$ 708,302	\$ (42,761)	\$52,984,921	\$ (309,684)
State, County and Municipal	5,053,601	(211,683)	91,827	(8,173)	5,145,428	(219,856)
Corporate Obligations	5,020,792	(629,628)	-	-	5,020,792	(629,628)
Asset-Backed Securities	667,720	(332,280)	-	-	667,720	(332,280)
	<u>\$63,018,732</u>	<u>\$ (1,440,514)</u>	<u>\$ 800,129</u>	<u>\$ (50,934)</u>	<u>\$63,818,861</u>	<u>\$ (1,491,448)</u>
December 31, 2007						
U.S. Government Agencies						
Mortgage-Backed	\$13,721,144	\$ (56,190)	\$30,761,318	\$ (402,853)	\$44,482,462	\$ (459,043)
Other	-	-	14,100,741	(36,536)	14,100,741	(36,536)
State, County and Municipal	6,917,719	(255,263)	3,114,838	(40,606)	10,032,557	(295,869)
Corporate Obligations	-	-	995,090	(6,748)	995,090	(6,748)
Marketable Equity Securities	1,750	(260)	-	-	1,750	(260)
	<u>\$20,640,613</u>	<u>\$ (311,713)</u>	<u>\$48,971,987</u>	<u>\$ (486,743)</u>	<u>\$69,612,600</u>	<u>\$ (798,456)</u>

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 December 31, 2008, the debt securities with unrealized losses have depreciated 2.28 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies,

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(3) Investment Securities (continued)

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.

(4) Loans

The composition of loans as of December 31 are:

	2008	2007
Commercial, Financial and Agricultural	\$ 86,378,778	\$ 52,322,654
Real Estate-Construction	160,373,797	211,483,898
Real Estate-Farmland	54,158,907	42,438,731
Real Estate-Other	600,653,523	544,654,646
Installment Loans to Individuals	44,163,516	72,350,201
All Other Loans	15,308,004	22,028,512
	<u>\$ 961,036,525</u>	<u>\$ 945,278,642</u>

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled \$35,123,955 and \$14,955,945 as of December 31, 2008 and 2007, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$250,500 and \$60,100, respectively. Foregone interest on nonaccrual loans approximated \$1,328,600 in 2008, \$576,000 in 2007 and \$533,000 in 2006.

The following table details impaired loan data as of December 31 for the years ended as indicated:

	2008	2007
Total Investment in Impaired Loans	\$ 35,123,955	\$ 14,955,945
Less Allowance for Impaired Loan Losses	(1,721,131)	(1,323,108)
Net Investment, December 31	<u>\$ 33,402,824</u>	<u>\$ 13,632,837</u>
Average Investment during the Year	<u>\$ 24,291,239</u>	<u>\$ 8,086,620</u>
Income Recognized during the Year	<u>\$ 1,301,500</u>	<u>\$ 812,378</u>
Income Collected during the Year	<u>\$ 1,496,785</u>	<u>\$ 910,725</u>

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for the years ended December 31:

	2008	2007	2006
Balance, Beginning	\$ 15,512,940	\$ 11,989,359	\$ 10,761,915
Provision Charged to Operating Expenses	12,937,750	5,930,756	3,987,000
Loans Charged Off	(11,966,439)	(3,908,011)	(3,373,273)
Loan Recoveries	531,632	1,500,836	613,717
Balance, Ending	<u>\$ 17,015,883</u>	<u>\$ 15,512,940</u>	<u>\$ 11,989,359</u>

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(6) Premises and Equipment

Premises and equipment are comprised of the following as of December 31:

	2008	2007
Land	\$ 7,805,167	\$ 7,799,149
Building	23,460,842	20,900,517
Furniture, Fixtures and Equipment	13,529,356	12,641,372
Leasehold Improvements	990,198	994,283
Construction in Progress	127,155	448,087
	45,912,718	42,783,408
Accumulated Depreciation	(16,240,837)	(14,974,570)
	<u>\$ 29,671,881</u>	<u>\$ 27,808,838</u>

Depreciation charged to operations totaled \$2,028,158 in 2008, \$1,875,779 in 2007 and \$1,933,290 in 2006.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$374,000 for 2008, \$360,000 for 2007 and \$329,000 for 2006.

Future minimum rental payments as of December 31, 2008 are as follows:

Year Ending December 31	Amount
2009	\$ 134,838
2010	125,918
2011	125,918
2012	122,813
2013 and Thereafter	98,796
	<u>\$ 608,283</u>

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible activity for the years ended December 31:

	2008	2007
Goodwill		
Balance, Beginning	\$ 2,412,338	\$ 2,412,338
Goodwill Acquired	-	-
Balance, Ending	<u>\$ 2,412,338</u>	<u>\$ 2,412,338</u>

	Core Deposit Intangible	Accumulated Amortization	Net Core Deposit Intangible
Core Deposit Intangible			
Balance, December 31, 2007	\$ 1,056,693	\$ (654,440)	\$ 402,253
Amortization Expense	-	(35,748)	(35,748)
Balance, December 31, 2008	<u>\$ 1,056,693</u>	<u>\$ (690,188)</u>	<u>\$ 366,505</u>

Amortization expense related to the core deposit intangible was \$35,748, \$36,461 and \$81,201 for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table reflects the expected amortization schedule for the core deposit intangible at December 31, 2008:

2009	\$ 35,749
2010	35,749
2011	35,749
2012	35,749
2013 and Thereafter	223,509
	<u>\$ 366,505</u>

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(8) Income Taxes

The components of income tax expense for the years ended December 31 are as follows:

	2008	2007	2006
Current Federal Expense	\$ 861,723	\$ 5,339,925	\$ 4,994,008
Deferred Federal (Benefit) Expense	(250,215)	(1,233,259)	112,518
Federal Income Tax Expense	611,508	4,106,666	5,106,526
Current State Income Tax (Benefit) Expense	(54,278)	111,797	110,837
	<u>\$ 557,230</u>	<u>\$ 4,218,463</u>	<u>\$ 5,217,363</u>

The federal income tax expense of \$611,508 in 2008, \$4,106,666 in 2007 and \$5,106,526 in 2006 is less than the income taxes computed by applying the federal statutory rates to income before income taxes. The reasons for the differences are as follows:

	2008	2007	2006
Statutory Federal Income Taxes	\$ 879,258	\$ 4,340,243	\$ 5,290,356
Tax-Exempt Interest	(239,097)	(234,863)	(188,408)
Interest Expense Disallowance	35,869	46,847	28,211
Premiums on Officers' Life Insurance	(54,464)	(47,369)	(50,419)
Meal and Entertainment Disallowance	13,810	14,488	16,644
State Income Taxes	-	(2,281)	(46,441)
Other	(23,868)	(10,399)	56,583
Actual Federal Income Taxes	<u>\$ 611,508</u>	<u>\$ 4,106,666</u>	<u>\$ 5,106,526</u>

Deferred taxes in the accompanying consolidated balance sheets as of December 31 include the following:

	2008	2007
Deferred Tax Assets		
Allowance for Loan Losses	\$ 5,785,400	\$ 5,274,506
Deferred Compensation	381,896	393,617
Restricted Stock	411,238	347,169
Other	298,390	263,618
	<u>6,876,924</u>	<u>6,278,910</u>
Deferred Tax Liabilities		
Premises and Equipment	(1,237,807)	(1,013,824)
Vested Restricted Stock	(269,014)	(190,117)
Other	(236,107)	(191,188)
	<u>(1,742,928)</u>	<u>(1,395,129)</u>
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	<u>(193,763)</u>	<u>(140,058)</u>
Net Deferred Tax Assets	<u>\$ 4,940,233</u>	<u>\$ 4,743,723</u>

As discussed in Note 1, the Company applied the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109*, on January 1, 2007. An analysis of activity related to unrecognized tax benefits follows as of December 31, 2008.

Balance, Beginning	\$ 309,739
Positions Taken During the Current Year	30,709
Reductions Resulting from Lapse of Statutes of Limitation	(43,627)
Balance, Ending	<u>\$ 296,821</u>

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(9) Fair Value Measurements

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

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

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

Assets

Securities

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

Impaired loans

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

Assets 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 December 31, 2008 aggregated by the level in the fair value hierarchy within which those measurements fall.

	December 31, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$ 191,750	\$ -	\$ 191,750	\$ -
State, County and Municipal	9,051	-	9,051	-
Corporate Obligations	6,176	-	5,417	759
Asset-Backed Securities	668	-	-	668
	<u>\$ 207,645</u>	<u>\$ -</u>	<u>\$ 206,218</u>	<u>\$ 1,427</u>

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(9) Fair Value Measurements (continued)

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 year ended December 31, 2008.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Available for Sale Securities (in thousands)
Balance, Beginning	\$ -
Total Unrealized Gains (Losses) Included In	
Net Income	-
Other Comprehensive Income	(573)
Purchases, Sales, Issuances and Settlements, Net	-
Transfers In and (Out) of Level 3	2,000
Balance, Ending	<u>\$ 1,427</u>

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$321,931 and \$573,939 as of December 31, 2008 and 2007, respectively.

Components of interest-bearing deposits as of December 31 are as follows:

	2008	2007
Interest-Bearing Demand	\$ 194,210,807	\$ 190,303,611
Savings	33,349,191	31,588,035
Time, \$100,000 and Over	333,498,421	347,219,102
Other Time	368,436,158	363,379,455
	<u>\$ 929,494,577</u>	<u>\$ 932,490,203</u>

At December 31, 2008 and 2007, the Company had brokered deposits of \$131,957,550 and \$54,737,011, respectively. Of the \$131,957,550 brokered deposits at December 31, 2008, \$20,870,777 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 \$111,086,773 at December 31, 2008. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000, was approximately \$301,151,000 and \$310,971,000 as of December 31, 2008 and 2007, respectively.

As of December 31, 2008, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2009	\$ 632,562,438
2010	33,816,266
2011	29,112,206
2012	4,351,483
2013 and Thereafter	2,092,186
	<u>\$ 701,934,579</u>

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(11) Securities Sold Under Repurchase Agreements

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

South Street Securities Master Repurchase Agreement originated on October 27, 2008 with the initial draw of \$20,000,000 on October 31, 2008. The Repurchase Agreement is overnight borrowing at a floating interest rate. Interest payments are due monthly, and at December 31, 2008, the floating interest rate was 0.82 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

(12) Other Borrowed Money

Other borrowed money at December 31 is summarized as follows:

	2008	2007
Federal Home Loan Bank Advances	\$ 91,000,000	\$ 73,500,000
Silverton Bank Note Payable	-	100,000
	<u>\$ 91,000,000</u>	<u>\$ 73,600,000</u>

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2009 to 2019 and interest rates ranging from 0.46 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans, commercial loans, mortgage-backed securities and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At December 31, 2008, the Company had available line of credit commitments totaling \$130,890,562, of which \$39,890,562 was available.

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

The aggregate stated maturities of other borrowed money at December 31, 2008 are as follows:

Year	Amount
2009	\$ 19,000,000
2010	1,000,000
2011	-
2012	41,000,000
2013 and Thereafter	30,000,000
	<u>\$ 91,000,000</u>

The Company also has available federal funds lines of credit with various financial institutions totaling \$64,000,000, of which there was \$2,274,000 outstanding at December 31, 2008.

(13) Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2008, the floating rate securities had a 4.55 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 \$5,000,000 in Trust Preferred Securities in a private placement by SunTrust Bank Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after 5 years with certain exceptions. At December 31, 2008, the floating rate securities had a

Colony Bankcorp, Inc. and Subsidiary Notes to Consolidated Financial Statements



(13) Subordinated Debentures (Trust Preferred Securities) (continued)

2.96 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 \$9,000,000 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 5 years with certain exceptions. At December 31, 2008, the floating rate securities had a 3.12 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to pay off 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 \$5,000,000 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 5 years with certain exceptions. At December 31, 2008, the floating rate securities had a 4.87 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to pay off 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 a liability on the consolidated balance sheets, but, subject to certain limitations, qualify as Tier 1 capital for regulatory capital purposes. The proceeds from the offerings were used to fund the cash portion of the Quitman acquisition, pay off holding company debt, and inject capital into the bank subsidiary.

The total aggregate principal amount of trust preferred certificates outstanding at December 31, 2008 was \$23,500,000. The total aggregate principal amount of subordinated debentures outstanding at December 31, 2008 was \$24,229,000.

(14) Restricted Stock - Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. To date, 77,052 shares have been issued under this plan and 12,351 shares have been forfeited; thus, there are no remaining shares which may be issued at December 31, 2008. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a second restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. To date, 34,406 shares have been issued under this plan and 8,148 shares have been forfeited; thus, remaining shares which may be issued are 117,242 at December 31, 2008. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(15) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was \$206,179 for 2008, \$583,690 for 2007 and \$662,730 for 2006.

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(16) 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 December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2008	2007
Commitments to Extend Credit	\$ 73,610,000	\$ 93,105,000
Standby Letters of Credit	2,710,000	3,814,000

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.

(17) 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 \$1,123,223 and \$1,158,597 as of December 31, 2008 and 2007, respectively. Benefit payments under the contracts were \$211,816 in 2008 and \$187,059 in 2007. Provisions charged to operations totaled \$178,542 in 2008, \$238,003 in 2007 and \$164,997 in 2006.

Fee income recognized with deferred compensation plans totaled \$160,187 in 2008, \$139,322 in 2007 and \$148,290 in 2006.

(18) Interest Income and Expense

Interest income of \$426,779, \$506,896 and \$311,828 from state, county and municipal bonds was exempt from regular income taxes in 2008, 2007 and 2006, respectively.

Interest on deposits includes interest expense on time certificates of \$100,000 or more totaling \$14,596,774, \$18,700,653 and \$16,189,086 for the years ended December 31, 2008, 2007 and 2006, respectively.

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(19) Supplemental Cash Flow Information

Cash payments for the following were made during the years ended December 31:

	2008	2007	2006
Interest Expense	\$ 38,739,489	\$ 47,409,625	\$ 40,351,134
Income Taxes	\$ 1,875,000	\$ 6,380,000	\$ 5,371,395

Noncash financing and investing activities for the years ended December 31 are as follows:

	2008	2007	2006
Acquisitions of Real Estate Through Loan Foreclosures	\$ 14,748,105	\$ 2,576,332	\$ 2,815,716
Unrealized Gain on Investment Securities	\$ (157,957)	\$ (1,888,934)	\$ (572,485)

(20) Related Party Transactions

The aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company was \$7,641,037 as of December 31, 2008 and \$16,544,057 as of December 31, 2007. All such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectibility. A summary of activity of related party loans is shown below:

	2008	2007
Balance, Beginning	\$ 16,544,057	\$ 18,142,109
New Loans	5,871,138	10,009,867
Repayments	(4,282,192)	(10,981,245)
Transactions Due to Changes in Directors	(10,491,966)	(626,674)
Balance, Ending	\$ 7,641,037	\$ 16,544,057

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(21) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires 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.

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(21) Fair Value of Financial Instruments (continued)

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

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in Thousands)				
Assets				
Cash and Short-Term Investments	\$ 29,605	\$ 29,605	\$ 51,573	\$ 51,573
Investment Securities Available for Sale	207,645	207,645	167,123	167,123
Investment Securities Held to Maturity	60	63	68	72
Federal Home Loan Bank Stock	6,272	6,272	5,533	5,533
Loans, Net	943,841	959,613	929,465	928,156
Liabilities				
Deposits	1,006,991	1,009,967	1,018,602	1,020,855
Federal Funds Purchased	2,274	2,274	1,346	1,346
Subordinated Debentures	24,229	24,229	24,229	24,229
Securities Sold Under Agreements to Repurchase	40,000	40,756	-	-
Other Borrowed Money	91,000	94,067	73,600	72,301

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.

Colony Bankcorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements



(22) Regulatory Capital Matters

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

The Company is subject to various regulatory capital requirements administered by the 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 classification 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 I capital to risk-weighted assets, and of Tier I capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2008, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The following table summarizes regulatory capital information as of December 31, 2008 and 2007 on a consolidated basis and for its wholly-owned subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In Thousands)						
As of December 31, 2008						
Total Capital						
to Risk-Weighted Assets						
Consolidated	\$ 115,604	12.06%	\$ 76,684	8.00%	NA	NA
Colony Bank	114,545	11.97	76,547	8.00	\$ 95,684	10.00%
Tier I Capital						
to Risk-Weighted Assets						
Consolidated	103,560	10.80	38,342	4.00	NA	NA
Colony Bank	102,522	10.71	38,273	4.00	57,470	6.00
Tier I Capital						
to Average Assets						
Consolidated	103,560	8.39	49,380	4.00	NA	NA
Colony Bank	102,522	8.33	49,205	4.00	61,506	5.00
As of December 31, 2007						
Total Capital						
to Risk-Weighted Assets						
Consolidated	\$ 116,222	12.08%	\$ 76,944	8.00%	NA	NA
Colony Bank	113,618	11.86	76,644	8.00	\$ 95,805	10.00%
Tier I Capital						
to Risk-Weighted Assets						
Consolidated	104,157	10.83	38,472	4.00	NA	NA
Colony Bank	101,679	10.61	38,322	4.00	57,483	6.00
Tier I Capital						
to Average Assets						
Consolidated	104,157	8.60	48,467	4.00	NA	NA
Colony Bank	101,679	8.46	48,055	4.00	60,069	5.00

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



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

The parent company's balance sheets as of December 31, 2008 and 2007 and the related statements of income and comprehensive income and cash flows for each of the years in the three-year period then ended are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
DECEMBER 31

ASSETS

	2008	2007
Cash	\$ 2,227	\$ 972,960
Premises and Equipment, Net	1,542,040	1,235,508
Investment in Subsidiaries, at Equity	105,506,392	104,594,496
Other	1,293,424	2,219,676
Total Assets	\$ 108,344,083	\$ 109,022,640

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Dividends Payable	\$ 703,201	\$ 684,087
Other	196,727	366,435
	899,928	1,050,522
Subordinated Debt	24,229,000	24,229,000

Stockholders' Equity

Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,212,313 and 7,200,913 Shares as of December 31, 2008 and 2007, Respectively	7,212,313	7,200,913
Paid-In Capital	24,535,683	24,420,497
Retained Earnings	51,302,025	52,086,834
Restricted Stock – Unearned Compensation	(210,993)	(237,002)
Accumulated Other Comprehensive Income, Net of Tax	376,127	271,876
	83,215,155	83,743,118
Total Liabilities and Stockholders' Equity	\$ 108,344,083	\$ 109,022,640

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2008	2007	2006
Income			
Dividends from Subsidiary	\$ 5,038,854	\$ 5,662,500	\$ 6,800,000
Other	92,111	281,885	168,763
	<u>5,130,965</u>	<u>5,944,385</u>	<u>6,968,763</u>
Expenses			
Interest	1,270,942	2,005,971	1,926,647
Amortization	2,250	295,093	30,317
Salaries and Employee Benefits	876,166	974,524	1,013,523
Other	1,240,339	889,093	735,821
	<u>3,389,697</u>	<u>4,164,681</u>	<u>3,706,308</u>
Income Before Taxes and Equity in			
Undistributed Earnings of Subsidiary	1,741,268	1,779,704	3,262,455
Income Tax Benefits	979,911	1,213,835	1,027,921
Income Before Equity in Undistributed			
Earnings of Subsidiary	2,721,179	2,993,539	4,290,376
Equity in Undistributed Earnings (Losses) of Subsidiary	(692,355)	5,553,417	5,861,619
Net Income	<u>2,028,824</u>	<u>8,546,956</u>	<u>10,151,995</u>
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	893,158	1,367,910	377,840
Reclassification Adjustment	(788,907)	(121,213)	-
Change in Net Unrealized Gains			
on Securities Available for Sale, Net of			
Reclassification Adjustment and Tax Effects	104,251	1,246,697	377,840
Comprehensive Income	<u>\$ 2,133,075</u>	<u>\$ 9,793,653</u>	<u>\$ 10,529,835</u>

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2008	2007	2006
Cash Flows from Operating Activities			
Net Income	\$ 2,028,824	\$ 8,546,956	\$ 10,151,995
Adjustments to Reconcile Net Income to Net Cash			
Provided from Operating Activities			
Depreciation and Amortization	275,299	294,121	309,388
Equity in Undistributed Earnings of Subsidiary	692,355	(5,553,417)	(5,861,619)
Other	720,701	(436,928)	(267,646)
	<u>3,717,179</u>	<u>2,850,732</u>	<u>4,332,118</u>
Cash Flows from Investing Activities			
Capital Infusion in Subsidiary	(1,500,000)	(1,500,000)	(2,500,000)
Purchases of Premises and Equipment	(393,392)	(44,915)	(73,749)
Investment in Capital Trusts	-	(434,000)	(155,000)
Liquidation of Statutory Trusts	-	434,000	-
	<u>(1,893,392)</u>	<u>(1,544,915)</u>	<u>(2,728,749)</u>
Cash Flows from Financing Activities			
Dividends Paid	(2,794,520)	(2,556,438)	(2,264,320)
Principal Payments on Notes and Debentures	-	(14,434,000)	(2,500,000)
Proceeds from Notes and Debentures	-	14,434,000	5,155,000
	<u>(2,794,520)</u>	<u>(2,556,438)</u>	<u>390,680</u>
Increase (Decrease) in Cash	(970,733)	(1,250,621)	1,994,049
Cash, Beginning	972,960	2,223,581	229,532
Cash, Ending	\$ 2,227	\$ 972,960	\$ 2,223,581

Colony Bankcorp, Inc. and Subsidiary
Notes to Consolidated Financial Statements



(24) Earnings Per Share

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the years ended December 31, 2008, 2007 and 2006 under the requirements of Statement 128:

	Income Numerator	Common Shares Denominator	EPS
December 31, 2008			
Basic EPS			
Income Available to Common Stockholders	\$ 2,028,824	7,199,121	\$.28
Dilutive Effect of Potential Common Stock			
Restricted Stock		-	
Diluted EPS			
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 2,028,824	7,199,121	\$.28
December 31, 2007			
Basic EPS			
Income Available to Common Stockholders	\$ 8,546,956	7,188,696	\$ 1.19
Dilutive Effect of Potential Common Stock			
Restricted Stock		8,635	
Diluted EPS			
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 8,546,956	7,197,331	\$ 1.19
December 31, 2006			
Basic EPS			
Income Available to Common Stockholders	\$ 10,151,995	7,176,894	\$ 1.41
Dilutive Effect of Potential Common Stock			
Restricted Stock		843	
Diluted EPS			
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 10,151,995	7,177,737	\$ 1.41

(25) Subsequent Events

On December 4, 2008, Colony Bankcorp, Inc. received preliminary approval for participation in the U.S. Treasury Capital Program (CPP). On January 9, 2009, Colony consummated the sale of \$28,000,000 in preferred stock and related warrants to the U.S. Treasury. The Company issued 28,000 shares of Series A preferred stock along with warrants to purchase 500,000 shares of common stock. The preferred stock has a 5 percent dividend rate per annum for the first five years and a 9 percent dividend rate per annum thereafter that is payable quarterly in arrears starting on February 15, 2009. The 500,000 shares of common stock issuable upon exercise of the warrants, which shares, if issued, would represent ownership of approximately 6.5 percent of our common stock as of January 28, 2009.

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

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

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

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations



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 and subjective.

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

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

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

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2008 and 2007, and results of operations for each of the years in the three-year period ended December 31, 2008. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Overview(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 totaled \$2.03 million, or \$0.28 diluted per common share in 2008 compared to \$8.55 million, or \$1.19 diluted per common share in 2007 and \$10.15 million, or \$1.41 diluted per common share in 2006.

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

	2008	2007	2006
Taxable-Equivalent Net Interest Income	\$ 37,740	\$ 42,817	\$ 42,158
Taxable-Equivalent Adjustment	365	359	270
Net Interest Income	37,375	42,458	41,888
Provision for Possible Loan Losses	12,938	5,931	3,987
Noninterest Income	9,005	7,817	7,350
Noninterest Expense	30,856	31,579	29,882
Income Before Income Taxes	2,586	12,765	15,369
Income Taxes	557	4,218	5,217
Net Income	<u>\$ 2,029</u>	<u>\$ 8,547</u>	<u>\$ 10,152</u>
Basic per Common Share			
Net Income	\$ 0.28	\$ 1.19	\$ 1.41
Diluted per Common Share			
Net Income	\$ 0.28	\$ 1.19	\$ 1.41
Return on Average Assets			
Net Income	0.17%	0.71%	0.87%
Return on Average Equity			
Net Income	2.40%	10.60%	14.10%

Net income for 2008 decreased \$6.52 million, or 76.26 percent, compared to 2007. The decrease was primarily the result of a \$7.01 million increase in provision for loan losses and a decrease of \$5.08 million in net interest income. The impact of these items was partly offset by a \$1.19 million increase in noninterest income, a decrease of \$0.72 million in noninterest expense and a decrease of \$3.66 million in income tax expense. Net income for 2007 decreased \$1.61 million, or 15.81 percent, compared to 2006. The decrease was primarily the result of a \$1.95 million increase in provision for loan losses and an increase of \$1.70 million in noninterest expense. The impact of these items was partly offset by a \$0.57 million increase in net interest income, an increase of \$0.47 million in noninterest income and a decrease of \$1.00 million in income tax expense.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



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 80.58 percent of total revenue during 2008 and 84.45 percent during 2007.

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



Rate/Volume Analysis

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

	Changes From 2007 to 2008 (a)			Changes From 2006 to 2007 (a)		
	Volume	Rate	Total	Volume	Rate	Total
(In Thousands)						
Interest Income						
Loans, Net-Taxable	\$ 943	\$ (15,143)	\$ (14,200)	\$ 2,855	\$ 3,028	\$ 5,883
Investment Securities						
Taxable	645	132	777	704	627	1,331
Tax-Exempt	(121)	20	(101)	278	(7)	271
Total Investment Securities	524	152	676	982	620	1,602
Interest-Bearing Deposits in						
Other Banks	(82)	(34)	(116)	6	4	10
Federal Funds Sold	(940)	(265)	(1,205)	(613)	56	(557)
Other Interest-Earning Assets	45	(56)	(11)	6	24	30
Total Interest Income	490	(15,346)	(14,856)	3,236	3,732	6,968
Interest-Expense						
Interest-Bearing Demand and						
Savings Deposits	139	(1,509)	(1,370)	72	328	400
Time Deposits	(2,017)	(6,542)	(8,559)	1,090	4,631	5,721
Total Interest Expense						
On Deposits	(1,878)	(8,051)	(9,929)	1,162	4,959	6,121
Other Interest-Bearing Liabilities						
Federal Funds Purchased &						
Repurchase Agreements	891	(436)	455	29	1	30
Subordinated Debentures	(137)	(598)	(735)	272	(145)	127
Other Debt	865	(434)	431	18	13	31
Total Interest Expense	(259)	(9,519)	(9,778)	1,481	4,828	6,309
Net Interest Income (Loss)	\$ 749	\$ (5,827)	\$ (5,078)	\$ 1,755	\$ (1,096)	\$ 659

- (a) 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 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. Interest rate risk is addressed by our Asset & Liability Management Committee (ALCO) which includes senior management representatives. The ALCO monitors interest rate risk by analyzing the potential impact to the net portfolio of equity value and net interest income from potential changes to interest rates and considers the impact of alternative strategies or changes in balance sheet structure.

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earnings assets and

Management's Discussion and Analysis of Financial Condition and Results of Operations



Rate/Volume Analysis (continued)

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 .80 to 1.20.

Our exposure to interest rate risk is reviewed at least quarterly 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. The Company has engaged FTN Financial to run a quarterly asset/liability model for interest rate risk analysis. We are generally focusing our investment activities on securities with terms or average lives in the 3-7 year range.

The Company maintains about 36.5 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 certificates of deposit 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 2006 interest rates increased 100 basis points and during 2007 interest rates decreased 100 basis points. The 100 basis point decrease by the Federal Reserve in 2007 followed by 400 basis point decrease in 2008 resulted in significant pressure in net interest margins. Net interest margin decreased to 3.30 percent for 2008 compared to 3.75 percent for 2007 and 3.84 percent for 2006. Given the Federal Reserve's aggressive posture during 2008 that ended the year with a range of 0 – 0.25 percent federal funds target rate, we anticipate a slightly improved net interest margin in 2009.

Taxable-equivalent net interest income for 2008 decreased \$5.08 million, or 11.86 percent, compared to 2007, while taxable-equivalent net interest income for 2007 increased by \$0.66 million, or 1.56 percent, compared to 2006. The fluctuation between the comparable periods resulted from the slight positive impact of growth in the average volume of earning assets and a negative impact from the decreasing average interest rates. The average volume of earning assets during 2008 increased almost \$3.28 million compared to 2007 while over the same period the net interest margin decreased to 3.30 percent from 3.75 percent. Similarly, the average volume of earning assets during 2007 increased \$43.9 million compared to 2006 while over the same period the net interest margin decreased to 3.75 percent from 3.84 percent. Growth in average earning assets during 2008 and 2007 was primarily in loans. The reduction in the net interest margin in 2008 was primarily the result of the Federal Reserve reducing interest rates 400 basis points during 2008 along with sluggish loan growth in 2008.

The average volume of loans increased \$11.0 million in 2008 compared to 2007 and increased \$34.6 million in 2007 compared to 2006. The average yield on loans decreased 158 basis points in 2008 compared to 2007 and increased 32 basis points in 2007 compared to 2006. Funding for this growth was primarily provided by other borrowings in 2008 and by deposit growth in 2007. The average volume of other borrowings increased \$35 million in 2008 compared to 2007 while average deposits decreased \$35 million in 2008 compared to 2007. The average volume of deposits increased \$30.6 million in 2007 compared to 2006. Interest-bearing deposits made up 91.6 percent of the decrease in average deposits in 2008 and 89.6 percent of the growth in average deposits in 2007. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.5 percent in 2008, 92.5 percent in 2007 and 92.6 percent in 2006. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 85 basis points in 2008 compared to 2007 and increasing the average cost of total deposits by 49 basis points in 2007 compared to 2006, and (ii) mitigating a portion of the impact of decreasing yields on earning assets on the Company's net interest income.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 2.97 percent in 2008 compared to 3.34 percent in 2007 and 3.50 percent in 2006. 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 Interest Rate Sensitivity included elsewhere in this report.

Provision for Possible Loan Losses

The provision for possible loan losses is determined by management as the amount to be added to the allowance for possible 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 possible loan losses totaled \$12.94 million in 2008 compared to \$5.93 million in 2007 and \$3.99 million in 2006. See the section captioned "Allowance for Possible Loan Losses" elsewhere in this discussion for further analysis of the provision for possible loan losses.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Noninterest Income

The components of noninterest income were as follows:

	2008	2007	2006
	(In Thousands)		
Service Charges on Deposit Accounts	\$ 4,700	\$ 4,771	\$ 4,580
Other Charges, Commissions and Fees	981	921	831
Other	1,520	974	1,171
Mortgage Fee Income	609	967	768
Securities Gains	1,195	184	-
	<u>\$ 9,005</u>	<u>\$ 7,817</u>	<u>\$ 7,350</u>

Total noninterest income for 2008 increased \$1.19 million, or 15.20 percent, compared to 2007 while total noninterest income for 2007 increased \$0.47 million, or 6.35 percent, compared to 2006. The increase in 2008 noninterest income compared to 2007 was primarily in securities gains and other income, while the increase in 2007 noninterest income compared to 2006 was primarily in mortgage fee income and service charges on deposit accounts. 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 2008 decreased \$71 thousand, or 1.49 percent, compared to 2007. The decrease was primarily due to a decrease in volume of consumer and business account overdraft fees. Service charges on deposit accounts for 2007 increased \$191 thousand, or 4.17 percent, compared to 2006. The increase was primarily due to an increase in overdraft fees, which were mostly related to consumer accounts.

Mortgage Fee Income. Mortgage fee income for 2008 decreased \$358 thousand, or 37.02 percent, compared to 2007. The decrease was primarily due to decreased mortgage loan activity with the housing and real estate downturn. Mortgage fee income for 2007 increased \$199 thousand, or 25.91 percent, compared to 2006 due to a company-wide focus on mortgage loans to be sold into the secondary market.

All Other Noninterest Income. The aggregate of all other noninterest income accounts increased \$1,617 thousand, or 77.78 percent, compared to 2007. The increase was primarily due to gains realized from the sale of securities of \$1,195 thousand for 2008 compared to \$184 thousand for 2007, or an increase of \$1,011 thousand. In addition other income increased to \$1,520 thousand for 2008 compared to \$974 thousand for 2007, or an increase of \$546 thousand. The significant increase was gains realized of \$670 thousand resulting from the company's unwinding of its position in \$19 million FHLB advances during 2008. These increases were offset by a reduction in gains realized from the sale of SBA and FSA governmental loans as gains realized were \$12 thousand for 2008 compared to a \$150 thousand for 2007, or a reduction of \$138 thousand.

The aggregate of all other noninterest income accounts increased \$77 thousand, or 3.85 percent compared to 2006. The increase was primarily due to gains from the sale of securities of \$184 thousand for 2007 compared to no security gains for 2006, or an increase of \$184 thousand. In addition ATM fee income increased to \$765 thousand for 2007 compared to \$652 thousand for 2006, or an increase of \$113 thousand and fee income on check orders increased to \$147 thousand for 2007 compared to \$78 thousand for 2006, or an increase of \$69 thousand. These increases were offset by a reduction in gains realized from the sale of SBA and FSA governmental loans as gains realized were \$150 thousand for 2007 compared to \$512 thousand for 2006, or a reduction of \$362 thousand.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Noninterest Expense

The components of noninterest expense were as follows:

	2008	2007	2006
	(In Thousands)		
Salaries and Employee Benefits	\$ 16,238	\$ 17,866	\$ 16,870
Occupancy and Equipment	4,191	4,039	4,035
Other	10,427	9,674	8,977
	<u>\$ 30,856</u>	<u>\$ 31,579</u>	<u>\$ 29,882</u>

Total noninterest expense for 2008 decreased \$723 thousand, or 2.29 percent compared to 2007 while total noninterest expense for 2007 increased \$1.70 million, or 5.68 percent, compared to 2006. Reduction in noninterest expense in 2008 was primarily in salaries and employee benefits while the Company had an increase in occupancy and equipment expense and other noninterest expense. Growth in noninterest expense in 2007 was primarily in salaries and employee benefits and other noninterest expense.

Salaries and Employee Benefits. Salaries and employee benefits expense for 2008 decreased \$1,628 thousand, or 9.11 percent, compared to 2007. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition and restructuring due to consolidation efforts initiated in 2008. In addition, bonuses and profit sharing payouts were down significantly based on Company performance being significantly below targeted goals. Bonus and profit sharing payouts were \$316 thousand for 2008 compared to \$1,517 thousand for 2007, or a reduction of \$1,201 thousand. Reduction of head count and incentive payouts are the primary factors for the reduction in salaries and employee benefits compared to 2007.

Salaries and employee benefits for 2007 increased \$996 thousand, or 5.90 percent, compared to 2006. The increase is primarily related to increases in head count, merit increases, payroll taxes and health insurance expense. The slight increase in head count was primarily staffing needs in the back office support area as no new offices were opened in 2007. Areas of addition included *technology, human resources and administrative support*. These increases were offset by a reduction in incentive and profit sharing expense as payouts were approximately \$442 thousand less than in 2006 due to the Company's performance in which targeted goals with the incentive and profit sharing plan were not met.

Occupancy and Equipment. Net occupancy expense for 2008 increased \$152 thousand compared to 2007, or an increase of 3.76 percent. The Company opened one new office during 2008 to incur additional occupancy expense compared to 2007. In addition new data processing equipment purchased in connection with Company-wide consolidation efforts resulted in depreciation expense increasing \$152 thousand for 2008 compared to 2007.

Net occupancy expense for 2007 remained flat compared to 2006. The Company matched up with net occupancy and equipment expense for 2006 primarily because there were no new offices opened during 2007.

All Other Noninterest Expense. All other noninterest expense for 2008 increased \$753 thousand, or 7.78 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees increased to \$604 thousand for 2008 compared to \$190 thousand for 2007, or an increase of \$414 thousand; legal and professional fees increased to \$1.38 million for 2008 compared to \$1.14 million for 2007, or an increase of \$240 thousand and repossession/foreclosure expense increased to \$333 thousand for 2008 compared to \$101 thousand for 2007, or an increase of \$232 thousand.

All other noninterest expense for 2007 increased \$697 thousand, or 7.76 percent. Significant changes in noninterest expense were: legal and professional fees increased to \$1.14 million for 2007 compared to \$1.07 million for 2006, or an increase of \$70 thousand; ATM expense increased to \$462 thousand for 2007 compared to \$377 thousand for 2006, or an increase of \$85 thousand; software and license fee expense increased to \$424 thousand for 2007 compared to \$341 thousand for 2006, or an increase of \$83 thousand; deferred compensation expense increased to \$238 thousand for 2007 compared to \$165 thousand for 2006, or an increase of \$73 thousand and amortization expense on trust preferred securities increased to \$295 thousand for 2007 compared to \$30 thousand for 2006, or an increase of \$265 thousand. The Company exercised call options on trust preferred securities to refinance at lower interest rates and expensed the unamortized fees on the two trust preferred securities.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1,205 million in 2008 compared to \$1,204 million in 2007 and \$1,161 million in 2006.

	2008		2007		2006	
Sources of Funds						
Deposits						
Noninterest-Bearing	\$ 73,569	6.1%	\$ 76,509	6.4%	\$ 73,334	6.3%
Interest-Bearing	912,932	75.8	945,028	78.5	917,634	79.1
Federal Funds Purchased						
and Repurchase Agreements	18,200	1.5	1,130	-	563	-
Subordinated Debentures						
and Other Borrowed Money	110,141	9.1	92,211	7.7	88,512	7.6
Other Noninterest-Bearing Liabilities	5,632	0.5	8,692	0.7	8,682	0.8
Equity Capital	84,372	7.0	80,595	6.7	71,993	6.2
	<u>\$ 1,204,846</u>	<u>100.0%</u>	<u>\$ 1,204,165</u>	<u>100.0%</u>	<u>\$ 1,160,718</u>	<u>100.0%</u>
Uses of Funds						
Loans	\$ 941,794	78.2%	\$ 934,495	77.6%	\$ 901,162	77.6%
Investment Securities	168,532	14.0	157,033	13.0	135,538	11.7
Federal Funds Sold	10,499	0.9	28,863	2.4	41,307	3.6
Interest-Bearing Deposits	1,235	0.1	2,879	0.2	2,753	0.2
Other Interest-Earning Assets	6,079	0.5	5,308	0.5	5,192	0.4
Other Noninterest-Earning Assets	76,707	6.3	75,587	6.3	74,766	6.5
	<u>\$ 1,204,846</u>	<u>100.0%</u>	<u>\$ 1,204,165</u>	<u>100.0%</u>	<u>\$ 1,160,718</u>	<u>100.0%</u>

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 92.54 percent of total average deposits in 2008 compared to 92.51 percent in 2007 and 92.60 percent in 2006.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Loan demand was sluggish in 2008 as total loans were \$961.0 million at December 31, 2008, up 1.66 percent, compared to loans of \$945.3 million at December 31, 2007, while total loans at December 31, 2007 were up 0.32 percent compared to loans of \$942.3 million at December 31, 2006. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included below. The majority of funds provided by deposit growth have been invested in loans.

Loans

The following table presents the composition of the Company's loan portfolio as of December 31 for the past five years.

	2008	2007	2006	2005	2004
Commercial, Financial and Agricultural	\$ 86,379	\$ 52,323	\$ 61,887	\$ 48,849	\$ 44,284
Real Estate					
Construction	160,374	211,484	193,952	152,944	100,774
Mortgage, Farmland	54,159	42,439	40,936	37,152	38,245
Mortgage, Other	600,653	544,655	549,601	529,599	500,869
Consumer	44,163	72,350	76,930	73,473	73,685
Other	15,308	22,028	18,967	17,100	20,823
	<u>961,036</u>	<u>945,279</u>	<u>942,273</u>	<u>859,117</u>	<u>778,680</u>
Unearned Interest and Fees	(179)	(301)	(501)	(302)	(37)
Allowance for Loan Losses	(17,016)	(15,513)	(11,989)	(10,762)	(10,012)
Loans	<u>\$ 943,841</u>	<u>\$ 929,465</u>	<u>\$ 929,783</u>	<u>\$ 848,053</u>	<u>\$ 768,631</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations



Loans (continued)

The following table presents total loans as of December 31, 2008 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity	(\$ in thousands)
One Year or Less	\$ 595,545
After One Year through Three Years	297,803
After Three Years through Five Years	57,051
Over Five Years	10,637
	<u>\$ 961,036</u>

Overview. Loans totaled \$961.0 million at December 31, 2008, up 1.66 percent from December 31, 2007 loans of \$945.3 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial financial and agricultural loans. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties and includes both commercial and consumer balances, made up 62.50 percent and 57.62 percent of total loans, real estate construction made up 16.69 percent and 22.37 percent while commercial financial and agricultural loans made up 8.99 percent and 5.54 percent of total loans at December 31, 2008 and December 31, 2007, respectively.

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the local office level. The Company utilizes an Executive Loan Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by office. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

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

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

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

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

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at December 31, 2008 increased 65.20 percent from December 31, 2007 to \$86.4 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to

Management's Discussion and Analysis of Financial Condition and Results of Operations



Loans (continued)

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

Industry Concentrations. As of December 31, 2008 and December 31, 2007, there were no concentrations of loans within any single industry in excess of 10 percent of total loans, as segregated by Standard Industrial Classification code ("SIC code"). The SIC code is a federally designed standard industrial numbering system used by the Company to categorize loans by the borrower's type of business.

Collateral Concentrations. Lending is concentrated in commercial and real estate primarily to local borrowers. The Company has a high concentration of real estate loans that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. In management's opinion, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of real estate dependent problem loans. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2008.

Large Credit Relationships. Colony is currently in eighteen counties in south and central Georgia and include metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Central Credit Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at December 31, 2008 and December 31, 2007.

	December 31, 2008			December 31, 2007		
	Number of Relationships	Period End Balances		Number of Relationships	Period End Balances	
		Committed	Outstanding		Committed	Outstanding
Large Credit Relationships						
\$10 Million and Greater	2	\$ 27,605	\$ 21,345	3	\$ 38,957	\$ 23,441
\$5 Million to \$9.9 Million	12	74,679	71,215	15	92,595	89,677

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at December 31, 2008. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with Fixed Interest Rates	\$ 250,413	\$ 293,447	\$ 57,031	\$ 10,302	\$ 611,193
Loans with Floating Interest Rates	345,132	4,356	20	335	349,843
	<u>\$ 595,545</u>	<u>\$ 297,803</u>	<u>\$ 57,051</u>	<u>\$ 10,637</u>	<u>\$ 961,036</u>

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



Nonperforming Assets and Potential Problem Loans

Year-end nonperforming assets and accruing past due loans were as follows:

	2008	2007	2006	2005	2004
Loans Accounted for on Nonaccrual	\$ 35,124	\$ 14,956	\$ 8,069	\$ 8,579	\$ 7,856
Loans Past Due 90 Days or More	250	60	9	14	953
Other Real Estate Foreclosed	12,812	1,332	970	2,170	1,127
Total Nonperforming Assets	<u>\$ 48,186</u>	<u>\$ 16,348</u>	<u>\$ 9,048</u>	<u>\$ 10,763</u>	<u>\$ 9,936</u>
Nonperforming Assets as a Percentage of					
Total Loans and Foreclosed Assets	4.95%	1.73%	0.96%	1.25%	1.27%
Total Assets	3.85%	1.35%	0.75%	0.97%	1.00%
Accruing Past Due Loans					
30-89 Days Past Due	\$ 18,675	\$ 15,681	\$ 10,593	\$ 6,829	\$ 8,302
90 or More Days Past Due	250	60	9	14	953
Total Accruing Past Due Loans	<u>\$ 18,925</u>	<u>\$ 15,741</u>	<u>\$ 10,602</u>	<u>\$ 6,843</u>	<u>\$ 9,255</u>

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, restructured loans and foreclosed real estate. Nonperforming assets at December 31, 2008 increased 194.75 percent from December 31, 2007. The increase in nonperforming assets was primarily attributable to the under performance of residential real estate and land development loans given the downturn in the real estate market that began during the latter part of 2007.

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

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

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

Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, and allowance allocations determined in accordance with SFAS No. 5, *Accounting for Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Allowance for Possible Loan Losses (continued)

The Company's allowance for possible loan losses consists of specific valuation allowances established for probable losses on impaired loans and historical valuation allowances for other loans with similar risk characteristics.

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

The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that our assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

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

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

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

	2008		2007		2006		2005		2004	
	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 4,254	9%	\$ 3,645	6%	\$ 3,597	7%	\$ 3,229	6%	\$ 3,004	6%
Real Estate – Construction	2,808	17%	2,560	22%	719	21%	646	18%	501	13%
Real Estate – Farmland	681	6%	621	4%	599	4%	538	4%	501	5%
Real Estate – Other	5,955	62%	5,430	58%	3,896	58%	3,498	62%	3,304	64%
Loans to Individuals	2,467	4%	2,404	8%	2,398	8%	2,152	8%	2,002	9%
All Other Loans	851	2%	853	2%	780	2%	699	2%	700	3%
	<u>\$17,016</u>	<u>100%</u>	<u>\$15,513</u>	<u>100%</u>	<u>\$11,989</u>	<u>100%</u>	<u>\$10,762</u>	<u>100%</u>	<u>\$10,012</u>	<u>100%</u>

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



Allowance for Possible Loan Losses (continued)

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

	2008	2007	2006	2005	2004
(\$ in Thousands)					
Allowance for Loan Losses at Beginning of Year	\$ 15,513	\$ 11,989	\$ 10,762	\$ 10,012	\$ 8,516
Charge-Offs					
Commercial, Financial and Agricultural	1,680	957	1,351	767	463
Real Estate	9,190	1,862	854	678	692
Consumer	994	793	697	1,369	618
All Other	103	296	471	232	363
	11,967	3,908	3,373	3,046	2,136
Recoveries					
Commercial, Financial and Agricultural	73	109	420	176	9
Real Estate	285	992	20	18	36
Consumer	155	312	156	83	90
All Other	19	88	17	75	28
	532	1,501	613	352	163
Net Charge-Offs	11,435	2,407	2,760	2,694	1,973
Provision for Loan Losses	12,938	5,931	3,987	3,444	3,469
Allowance for Loan Losses at End of Year	\$ 17,016	\$ 15,513	\$ 11,989	\$ 10,762	\$ 10,012
Ratio of Net Charge-Offs to Average Loans	1.19%	0.25%	0.30%	0.33%	0.27%

The allowance for possible loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased \$7.01 million from \$5.93 million in 2007 to \$12.94 million in 2008. Provisions were higher in 2008 compared to 2007 primarily due to the elevated risk of residential real estate and land development loans given the downturn in the real estate market that began in the last half of 2007. Non-performing assets as a percentage of total loans and foreclosed assets increased to 4.95 percent at December 31, 2008 compared to 1.73 percent a year ago. During 2007, provision for loan losses increased \$1.94 million from the \$3.99 million recorded in 2006.

Net charge-offs in 2008 increased \$9,028 thousand compared to 2007 while net charge-offs in 2007 decreased \$353 thousand compared to 2006. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly in 2008 primarily from the write-down of non-performing credits to current appraised values. We anticipate an elevated amount of charge-offs in 2009 as problem credits run through the collection process to resolution.

Management believes the level of the allowance for loan losses was adequate as of December 31, 2008. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for possible loan losses.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2008, 2007 and 2006.

	2008	2007	2006
	(\$ in Thousands)		
U.S. Treasuries and Government Agencies	\$ -	\$ 37,095	\$ 54,366
Obligations of State and Political Subdivisions	9,110	13,984	11,811
Corporate Obligations	6,176	5,787	3,745
Asset-Backed Securities	668	1,000	-
Marketable Equity Securities	-	2	349
Investment Securities	15,954	57,868	70,271
Mortgage-Backed Securities	191,750	109,323	79,036
Total Investment Securities And Mortgage Backed Securities	\$ 207,704	\$ 167,191	\$ 149,307

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2008. (Mortgage backed securities are based on the average life at the projected speed, while Agencies, State and Political Subdivisions and Corporate Obligations reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(\$ in Thousands)							
Mortgage-Backed Securities	\$ 44,148	4.99%	\$ 146,914	4.72%	\$ -	-	\$ 688	5.52%
Obligations of State and Political Subdivisions	515	4.76	2,810	5.78	4,264	5.77%	1,521	5.04
Corporate Obligations	2,188	7.83	2,074	5.41	1,155	5.67	759	6.05
Asset-Backed Securities	-	-	-	-	-	-	668	6.33
Total Investment Portfolio	\$ 46,851	5.12%	\$ 151,798	4.75%	\$ 5,419	5.75%	\$ 3,636	5.58%

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

At December 31, 2008, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 4.84 percent in 2008 compared to 4.77 percent in 2007 and 4.34 percent in 2006. The increase in the average yield from 2007 to 2008 primarily resulted from the investment of new funds at higher rates. The overall growth in the securities portfolio over the comparable periods was primarily funded by other borrowings growth.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2008, 2007 and 2006.

	2008		2007		2006	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(\$ in Thousands)					
Noninterest-Bearing Demand Deposits	\$ 73,569		\$ 76,509		\$ 73,334	
Interest-Bearing Demand and Savings	220,655	1.44%	214,111	2.13%	210,461	1.97%
Time Deposits	692,277	4.28	730,917	5.22	707,173	4.59
Total Deposits	<u>\$ 986,501</u>	<u>3.33%</u>	<u>\$ 1,021,537</u>	<u>4.18%</u>	<u>\$ 990,968</u>	<u>3.69%</u>

The following table presents the maturities of the Company's other time deposits as of December 31, 2008.

	Other Time Deposits \$100,000 or Greater	Other Time Deposits Less Than \$100,000	Total
	(\$ in Thousands)		
Months to Maturity			
3 or Less	\$ 126,264	\$ 122,804	\$ 249,068
Over 3 through 12	174,886	208,608	383,494
Over 12 Months	32,348	37,024	69,372
	<u>\$ 333,498</u>	<u>\$ 368,436</u>	<u>\$ 701,934</u>

Average deposits decreased \$35.0 million in 2008 compared to 2007 and increased \$30.6 million in 2007 compared to 2006. The decrease in 2008 included \$2.9 million or 8.3 percent, related to noninterest-bearing deposits while the increase in 2007 included \$3.2 million, or 10.4 percent related to noninterest-bearing deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.5 percent in 2008 and 7.5 percent in 2007 and 7.4 percent in 2006. The general decrease in market rates in 2008 had the effect of (i) decreasing the average cost of interest-bearing deposits by 93 basis points in 2008 compared to 2007 and (ii) mitigating a portion of the impact of decreasing yields on earning assets on the Company's net interest income in 2008. The general increase in market rates in 2007 had the effect of (i) increasing the average cost of interest-bearing deposits by 53 basis points in 2007 compared to 2006 and (ii) mitigating a portion of the impact of increasing yields on earning assets on the Company's net interest income in 2008.

Total average interest-bearing deposits decreased \$32.10 million, or 3.40 percent in 2008 compared to 2007 and increased \$27.4 million, or 2.99 percent, in 2007 compared to 2006. The decrease in average deposits in 2008 compared to 2007 was primarily in other time deposit accounts. With the current interest rate environment, it appears that many customers continue to maintain time deposit accounts, with the prevalent investment period continuing to be for one year time deposits.

The Company supplements deposit sources with brokered deposits. As of December 31, 2008, the Company had \$131.96 million, or 13.10 percent of total deposits, in brokered certificates of deposit attracted by external third parties.

Management's Discussion and Analysis of Financial Condition and Results of Operations



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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of December 31, 2008. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

	Payments Due By Period				Total
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	
Contractual Obligations					
Subordinated Debentures	\$ -	\$ -	\$ -	\$ 24,229	\$ 24,229
Federal Funds Purchased	2,274	-	-	-	2,274
Securities Sold Under Agreements to Repurchase	20,000	20,000	-	-	40,000
Federal Home Loan Bank Advances	19,000	1,000	41,000	30,000	91,000
Operating Leases	135	252	211	10	608
Deposits with Stated Maturity Dates	632,562	62,928	6,393	51	701,934
	673,971	84,180	47,604	54,290	860,045
Other Commitments					
Loan Commitments	73,610	-	-	-	73,610
Standby Letters of Credit	2,710	-	-	-	2,710
	76,320	-	-	-	76,320
Total Contractual Obligations and Other Commitments	\$ 750,291	\$ 84,180	\$ 47,604	\$ 54,290	\$ 936,365

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

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

Loan commitments outstanding at December 31, 2008 are included in the preceding table.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at December 31, 2008 are included in the preceding table.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Capital and Liquidity

At December 31, 2008, shareholders' equity totaled \$83.2 million compared to \$83.7 million at December 31, 2007. In addition to net income of \$2.03 million, other significant changes in shareholders' equity during 2008 included \$2.81 million of dividends declared and an increase of \$188 thousand resulting from the stock grant plan. The accumulated other comprehensive income component of shareholders' equity totaled \$376 thousand at December 31, 2008 compared to \$272 thousand at December 31, 2007. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses.

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2008 was 10.80 percent and total Tier 1 and 2 risk-based capital was 12.06 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of December 31, 2008 was 8.39 percent, which exceeds the required ratio standard of 4 percent.

For 2008, average capital was \$84.4 million, representing 7.00 percent of average assets for the year. This compares to 6.69 percent for 2007.

The Company paid a quarterly dividend of \$0.0975, \$0.0975, \$0.0975 and \$0.0975 per common share during the first, second, third and fourth quarters of 2008, respectively, and quarterly dividends of \$0.0875, \$0.09, \$0.0925 and \$0.095 per common share during the first, second, third and fourth quarters of 2007, respectively. This equates to a dividend payout ratio of 139.29 percent in 2008 and 30.67 percent in 2007.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2008, the Company held \$207.6 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2007, the available for sale bond portfolio totaled \$167.1 million. Only marketable investment grade bonds are purchased. Although most of the Bank's bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 95.4 percent as of December 31, 2008 and 92.8 percent at December 31, 2007. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at December 31, 2008 and December 31, 2007 were 84.3 percent and 86.4 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Bank's core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2008 and December 31, 2007, the Bank had \$333.5 million and \$347.2 million, respectively, in certificates of deposit of \$100,000 or more. These larger deposits represented 33.1 percent and 34.09

Management's Discussion and Analysis of Financial Condition and Results of Operations



Capital and Liquidity (continued)

percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

Local market deposit sources proved insufficient to fund the strong loan growth trends at Colony over the past several years. The Company supplemented deposit sources with brokered deposits. As of December 31, 2008, the Company had \$131.96 million, or 13.10 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the Bank uses external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

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

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of balance sheet structure, the ability to liquidate assets, and the availability of alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquid funds through asset/liability management.

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

Liability liquidity is provided by access to funding sources which include core deposits. Should the need arise, the Company also maintains relationships with the Federal Home Loan Bank and several correspondent banks that can provide funds on short notice.

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

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

Impact of Inflation and Changing Prices

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Management's Discussion and Analysis of Financial Condition and Results of Operations



Quantitative and Qualitative Disclosures About Market Risk

AVERAGE BALANCE SHEETS

(\$ in thousands)	2008			2007			2006		
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates
Assets									
Interest-Earning Assets									
Loans, Net of Unearned Income (1)	\$ 958,582	\$ 66,900	6.98%	\$ 947,569	\$ 81,100	8.56%	\$ 912,926	\$ 75,217	8.24%
Investment Securities									
Taxable	158,287	7,582	4.79	144,591	6,805	4.71	128,109	5,474	4.27
Tax-Exempt (2)	10,245	582	5.68	12,442	683	5.49	7,429	412	5.55
Total Investment Securities	168,532	8,164	4.84	157,033	7,488	4.77	135,538	5,886	4.34
Interest-Bearing Deposits	1,235	27	2.19	2,879	143	4.97	2,753	133	4.83
Federal Funds Sold	10,499	273	2.60	28,863	1,478	5.12	41,307	2,035	4.93
Other Interest-Earning Assets	6,079	298	4.90	5,308	309	5.82	5,192	279	5.37
Total Interest-Earning Assets	1,144,927	75,662	6.61	1,141,652	90,518	7.93	1,097,716	83,550	7.61
Noninterest-Earning Assets									
Cash	20,232			21,575			22,372		
Allowance for Loan Losses	(16,788)			(13,074)			(11,764)		
Other Assets	56,475			54,012			52,394		
Total Noninterest-Earning Assets	59,919			62,513			63,002		
Total Assets	\$1,204,846			\$1,204,165			\$1,160,718		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	\$ 220,655	\$ 3,185	1.44%	\$ 214,111	\$ 4,555	2.13%	\$ 210,461	\$ 4,155	1.97%
Other Time	692,277	29,617	4.28	730,917	38,176	5.22	707,173	32,455	4.59
Total Interest-Bearing Deposits	912,932	32,802	3.59	945,028	42,731	4.52	917,634	36,610	3.99
Other Interest-Bearing Liabilities									
Other Borrowed Money	85,912	3,336	3.88	66,200	2,905	4.39	65,794	2,874	4.37
Subordinated Debentures	24,229	1,271	5.25	26,011	2,006	7.71	22,718	1,879	8.27
Federal Funds Purchased and Repurchase Agreements	18,200	514	2.82	1,130	59	5.22	563	29	5.15
Total Other Interest-Bearing Liabilities	128,341	5,121	3.99	93,341	4,970	5.32	89,075	4,782	5.37
Total Interest-Bearing Liabilities	1,041,273	37,923	3.64	1,038,369	47,701	4.59	1,006,709	41,392	4.11
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	73,569			76,509			73,334		
Other Liabilities	5,632			8,692			8,682		
Stockholders' Equity	84,372			80,595			71,993		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	163,573			165,796			154,009		
Total Liabilities and Stockholders' Equity	\$1,204,846			\$1,204,165			\$1,160,718		
Interest Rate Spread			2.97%			3.34%			3.50%
Net Interest Income	\$37,739			\$ 42,817			\$ 42,158		
Net Interest Margin			3.30%			3.75%			3.84%

- (1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling \$168, \$127 and \$130 for 2008, 2007 and 2006, respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.
- (2) Taxable-equivalent adjustments totaling \$198, \$232 and \$140 for 2008, 2007, and 2006, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Colony Bankcorp, Inc. and Subsidiary Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2008. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	4 to 12 Months	1 Year	1 to 5 Years	Over 5 Years	Total
(\$ in thousands)						
EARNING ASSETS						
Interest-Bearing Deposits	\$ 147	\$ -	\$ 147	\$ -	\$ -	\$ 147
Federal Funds Sold	31	-	31	-	-	31
Investment Securities	5,374	41,477	46,851	105,401	55,452	207,704
Loans, Net of Unearned Income	436,619	158,836	595,455	354,765	10,637	960,857
Other Interest-Bearing Assets	6,272	-	6,272	-	-	6,272
Total Interest-Earning Assets	448,443	200,313	648,756	460,166	66,089	1,175,011
INTEREST-BEARING LIABILITIES						
Interest-Bearing Demand Deposits (1)	194,211	-	194,211	-	-	194,211
Savings (1)	33,349	-	33,349	-	-	33,349
Time Deposits	249,068	383,494	632,562	69,321	51	701,934
Other Borrowings (2)	22,000	-	22,000	42,000	27,000	91,000
Subordinated Debentures	24,229	-	24,229	-	-	24,229
Federal Funds Purchased	2,274	-	2,274	-	-	2,274
Securities Sold Under Agreement to Repurchase	20,000	-	20,000	20,000	-	40,000
Total Interest-Bearing Liabilities	545,131	383,494	928,625	131,321	27,051	1,086,997
Interest Rate-Sensitivity Gap	(96,688)	(183,181)	(279,869)	328,845	39,038	\$ 88,014
Cumulative Interest-Sensitivity Gap	\$ (96,688)	\$ (279,869)	\$ (279,869)	\$ 48,976	\$ 88,014	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(8.23)%	(15.59)%	(23.82)%	27.99%	3.32%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(8.23)%	(23.82)%	(23.82)%	4.17%	7.49%	

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

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

The foregoing table indicates that we had a one year negative gap of (\$280) million, or (23.82) percent of total assets at December 31, 2008. In theory, this would indicate that at December 31, 2008, \$280 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to decline, the gap would indicate a resulting increase in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

Gap analysis has certain limitations. Measuring the volume of repricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products; dynamic changes such as increasing prepay speeds as interest rates decrease, basis risk, or the benefit of non-rate funding sources.

Management's Discussion and Analysis of Financial Condition and Results of Operations



Colony Bankcorp, Inc. and Subsidiary Interest Rate Sensitivity (continued)

The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move slowly and usually incorporate only a fraction of the change in rates. Products categorized as nonrate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. Also, during the recent period of declines in interest rates, our net interest margin has declined. Therefore, management uses gap analysis, net interest margin analysis and market value of portfolio equity as our primary interest rate risk management tools.

The Company is now utilizing FTN Financial Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent percentage change. The most recent analysis as of December 31, 2008 indicates that net interest income would deteriorate 14.11 percent with a 200 basis point decrease and would improve 7.82 percent with a 200 basis point increase. The Company has established equity at risk in a +/- 200 basis point rate shock to be no more than a twenty percent percentage change. The most recent analysis as of December 31, 2008 indicates that net economic value of equity percentage change would increase 6.31 percent with a 200 basis point increase and would decrease 7.09 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of December 31, 2008 indicates a one year gap of 0.91 percent. The analysis reflects net interest margin compression in a declining interest rate environment. Given that interest rates have basically "bottomed-out" with the recent Federal Reserve action, the Company is anticipating interest rates to increase in the future though we believe that interest rates will remain flat most of 2009. The Company is focusing on areas to minimize margin compression in the future by minimizing longer term fixed rate loans, shortening on the yield curve with investments, securing longer term FHLB advances, securing brokered certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

Return on Assets and Stockholder's Equity

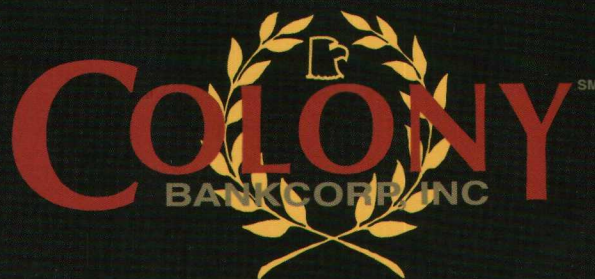
The following table presents selected financial ratios for each of the periods indicated.

	2008	Year Ended December 31 2007	2006
Return on Assets	0.17%	0.71%	0.87%
Return on Equity	2.40%	10.60%	14.10%
Dividend Payout	139.29%	30.67%	23.05%
Equity to Assets	6.64%	6.93%	6.31%
Dividends Declared	\$0.39	\$0.365	\$0.325

Future Outlook

During 2008, the financial services industry experienced tremendous adversities as a result of the collapse of the real estate markets across the country. Colony, like most banking companies, has been affected by these economic challenges that started with a rapid stall of real estate sales and development throughout the country.

Also during 2008, Colony made significant strides to reduce our operating leverage by seeking a more efficient structure and more consistent products and services throughout the company. We successfully completed the consolidation of our seven banking subsidiaries into the single banking company – Colony Bank. The momentum created by this strategic move will allow Colony to improve future profitability while better positioning the company to take advantage of future growth opportunities. In response to the elevated risk of residential real estate and land development loans, management has extensively reviewed our loan portfolio with a particular emphasis on our residential and land development real estate exposure. Senior management with experience in problem loan workouts have been identified and assigned responsibility to oversee the workout and resolution of problem loans. The Company will continue to closely monitor our real estate dependent loans throughout the company and focus on asset quality during this economic downturn.



Colony Bankcorp, Inc.
Post Office Box 989 • 115 South Grant Street
Fitzgerald, GA 31750
(229) 426-6000 • www.colonybank.com