2009

ANNUAL REPORT

COLONY BANKCORP, INC

Bank wisely. Live happily.

Today's bank has to be more than just an institution, and we're just the one to break the stereotype. Colony Bank has become the community's favorite bank by quietly being the bank that everyone wants.

We are dedicated to being your financial partner—the one you can count on to meet your needs and keep your pace, support the local economy and deliver an extraordinary level of personal service that is almost unheard of today. We're independent, community driven and locally operated, passionate, like-minded and resolute … just like you.

This is our future. And this is our home. With more than a century of experience serving communities throughout Georgia, we are focused on preserving and nurturing the strong and vital relationships we share with our customers and neighbors.

We want to lead with strength, differentiate ourselves on excellence and surprise you with our refreshing personal touch. By honoring our history and carefully planning our future, we are dedicated to giving you an unparalleled banking experience.

Colony Bank
More than money

To Our Shareholders:

It's a genuine pleasure to thank you for your support and confidence during the most difficult economic period for our country in more than 75 years. The lasting economic challenges have been felt in every community that Colony serves. The current economic recession continues to negatively impact real estate demand and values, as well as increase the unemployment rates in all communities throughout South Georgia. The economic burden created during our current recession has resulted not only in new national banking regulations, but also enhanced state regulations. Bank regulatory pressures have been elevated at both the state and national levels. The impact of the economy, combined with the increasing regulatory oversight, will reshape our financial banking system for years to come. Colony is committed to meeting the current economic and regulatory challenges while preparing for future opportunities.

Colony Bancorp's earnings performance during 2009 was an extreme disappointment to everyone. Record provisions for loan losses were incurred to fund the declines in real estate dependent and income producing loan collateral values. We were not alone. Many financial companies reported similar earnings for 2009. While our performance was far below our expectations, we believe our fundamental actions taken during 2009 will prove beneficial in future periods and help solidify the foundation needed to work through this historic economic period.

Colony has maintained a favorable regulatory capital position, and we continue to improve our core earnings momentum each month and improve our overall capital structure. To improve our overall performance, we must improve asset quality, stabilize our earnings and continue to grow our core deposit base. At the same time, we must strengthen our overall brand identity while maintaining a commitment to serve every community in which Colony has a presence.

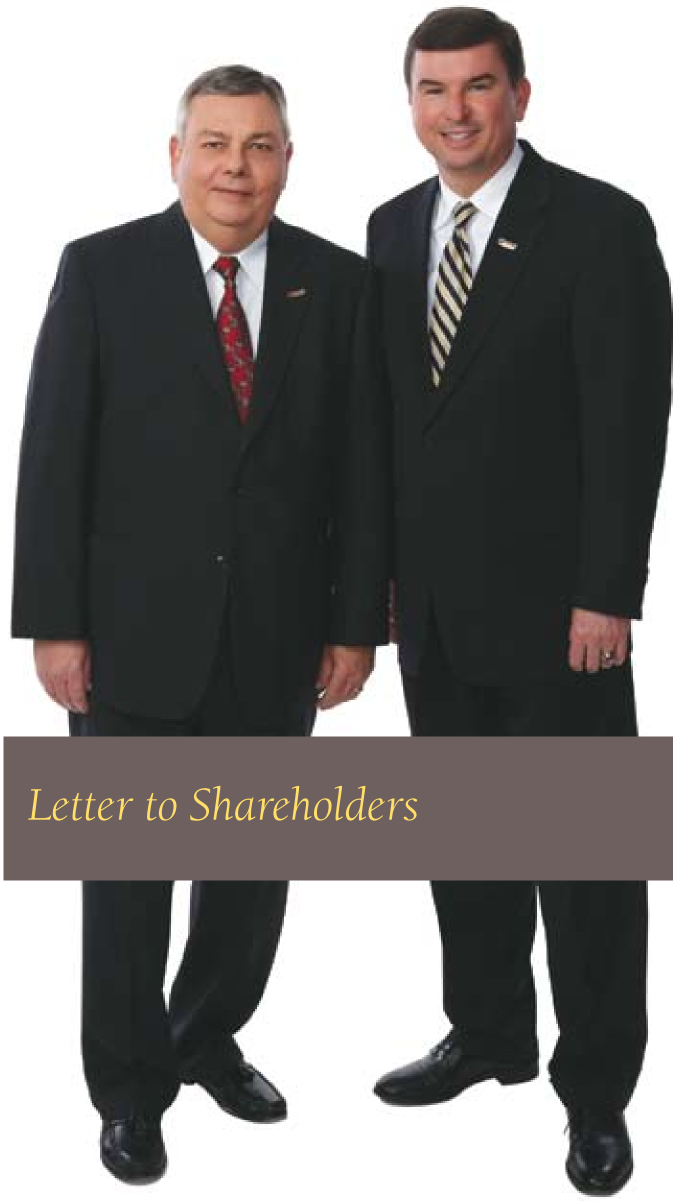
Maintaining commitments to outstanding customer and community service are the cornerstone of sustainable success. The relationship we share with our customers and communities is a special bond that will help anchor our return to profitability and growth. We are about "more than money," and that outlook will set us apart as we continue to build stronger, long-lasting relationships with customers that ultimately lead to improved performance and increased market share.

As we move into 2010, Colony has both challenges to overcome and opportunities for achievement as a company. We look forward to an improving economic climate that will support improvement for both our customers and shareholders. On behalf of our board of directors, officers and staff members, we want to say thank you for your trust and support during this difficult period. We remain resolved to provide you with improved performance in future periods.

Sincerely,

Al D. Ross
President and CEO

L. Morris Downing Jr.
Chairman of the Board



Letter to Shareholders

Contents

Board of Directors

B. Gene Waldron
President and CEO
Waldron Enterprises Inc.
Douglas, Georgia

Charles E. Myler
Retired FDIC
Albany, Georgia

L. Morris Downing Jr.
Chairman
Colony Bankcorp Inc.
Owner, Lowell Packing Co.
Fitzgerald, Georgia

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

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

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

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

Edward J. Harrell
Vice Chairman
Colony Bankcorp Inc.
Attorney, Managing Partner
Martin Snow LLP
Macon, Georgia

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

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

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

Strengthening Our Brand Identity

Seeing and feeling the effects that the economic climate is invoking on not only the financial industry as a whole, but on the very way consumers now bank and will bank in the future, we knew we needed to take a very close look at how consumers perceive us and how we must position the bank to succeed in a very different industry culture. This is why, in 2009, we began taking strategic steps to discover, define and deliver our brand identity in its most effective form, and why we plan to continue developing it throughout 2010 and the coming years.

Discover

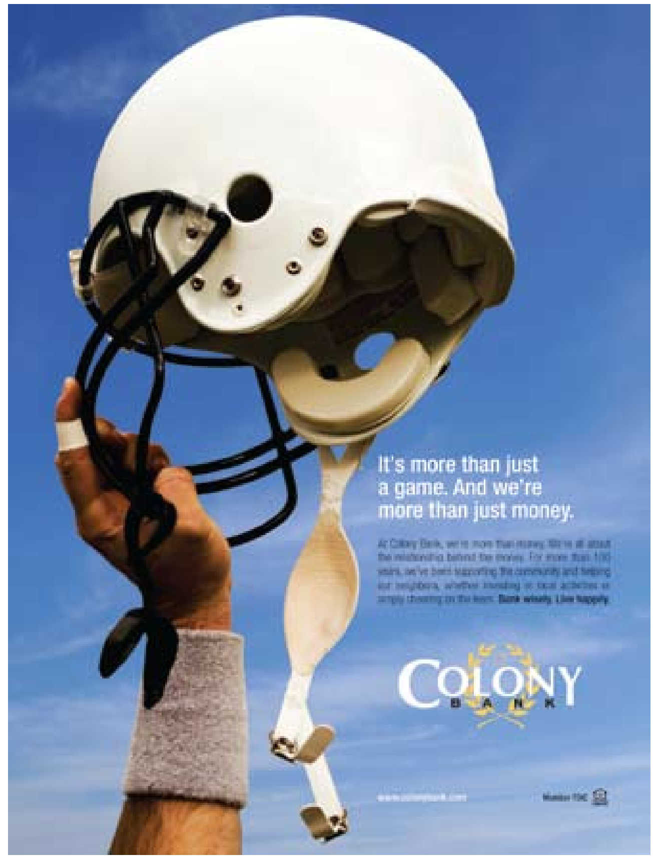
While we anticipate the recession turning around, we know that the banking climate out there has been forever changed. How do we know the best way to move forward in light of this? We listen.

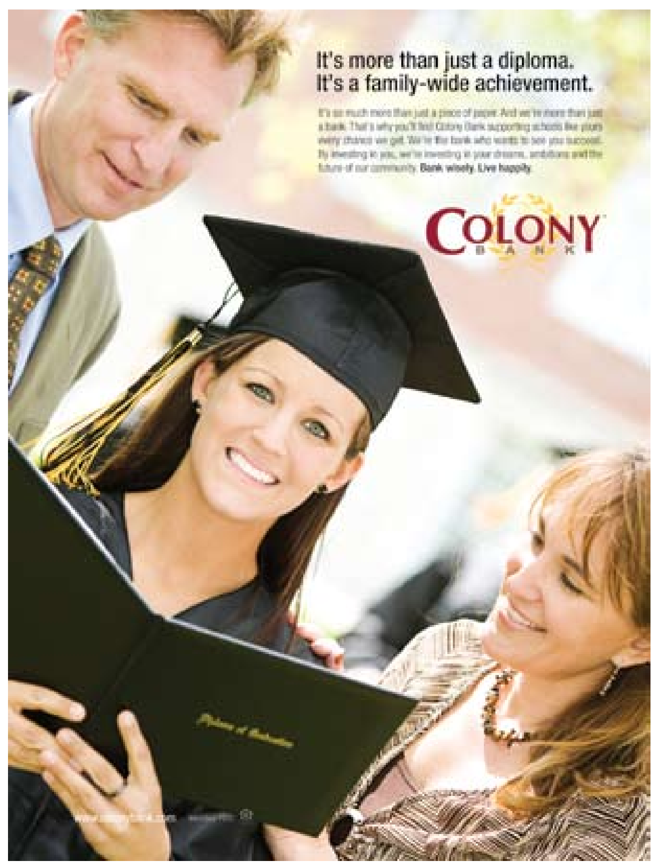
People are grateful for their jobs, being more frugal and rethinking their spending habits. Opening our ears, eyes and hearts to what customers are experiencing, we've learned that positioning Colony Bank, now more than ever, as offering something beyond the typical bank stereotype—something unique and authentic—is an important step in maintaining superior customer satisfaction.

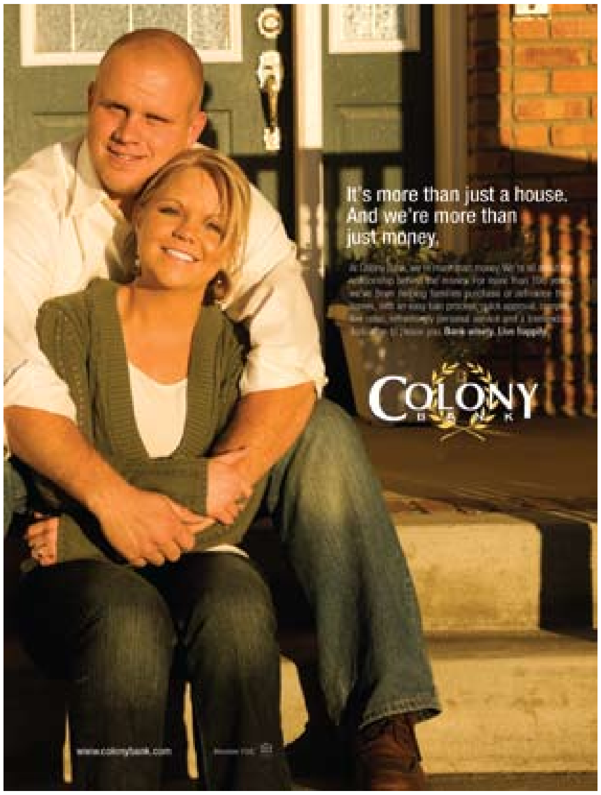
Define

We are a strong bank that wants to be viewed as a trustworthy "partner" and "friend." How do we make this message widespread, common knowledge? We communicate.

The message at its core is simple … we're here to encourage people to "bank wisely" and "live happily" with a solid financial partner at their side. We want our customers to know that we understand banking today needs to be about more than just money; it needs to be about being a true financial partner, showing our support, our strength and integrity, and creating an unparalleled banking experience. Customers want a bank they can genuinely believe in, and the refreshing message we have the opportunity to communicate will help us to be viewed in this light.







Deliver

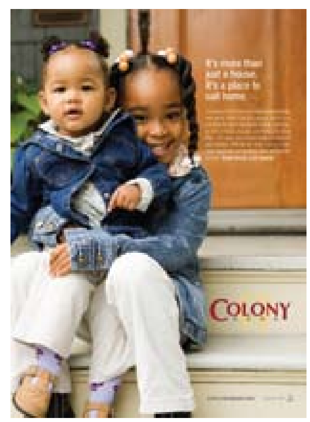
Our message carries with it the potential to form stronger bonds with customers and the communities we serve. How do we effectively deliver it? We infuse it into every aspect of communication.

We want this new image to be seen and heard in our established markets and also extend into other markets that represent potential for growth. We've been rethinking how we present everything—from the simple internal lobby pieces like brochures and posters to our external presence in marketing and in service all throughout the marketplace, as with the ads you see here. These are just a few of the positive changes we plan to implement showing that, now more than ever, we are sensitive and committed to our customers' desire for a strong and personal relationship with a bank they can trust.

Develop

How do we nurture this image over time for the best results? We continue to develop it … by listening to our customers on an ongoing basis, by examining our goals and effectiveness, and by evolving accordingly as we hold close the core of our identity.

Just as customers are rethinking their priorities, we too will continue restructuring our focus to think carefully about what's best for them and us as a bank, making wise banking decisions and keeping the priority on service.



Forward Motion in 2009

In 2009, we implemented several innovations into our product and service lineup that are helping to position us more competitively in the marketplace and appeal to a larger audience. These innovations include:

eStatements

The option for an electronic statement provides an efficient, safe, paperless recordkeeping system for customers, while also saving the bank money in operational costs.

Mobile Banking

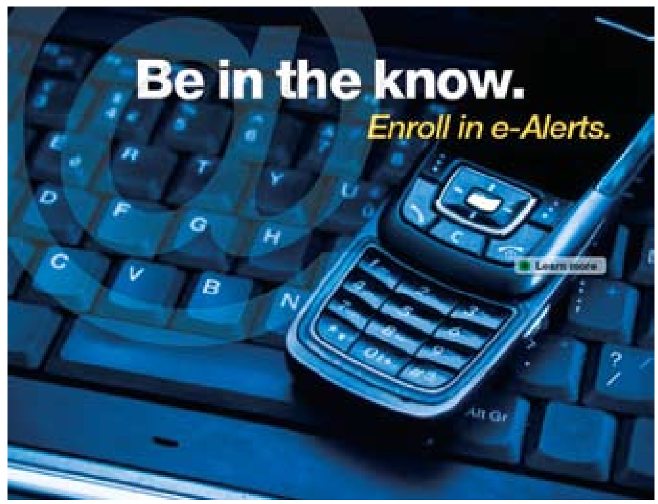
Allowing customers to monitor their accounts via their mobile device makes it more convenient than ever for them to bank when, where and how they want. The features of this technology include viewing account balances and transactions, transferring funds, viewing alerts and more.

eNotices

Responding to the growing popularity of fast, secure electronic communication, we're now making available the option to receive notices for certain activity, such as overdrafts, rate changes and loan payments past due, through our customers' online banking account.

eAlerts

Customers can also now receive electronic message alerts for low balances, loan payments due and other activity via e-mail or text messaging, keeping them informed of important banking activity in a convenient, timely manner.



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 Global Market under the symbol "CBAN."

Colony Bankcorp, Inc. Shareholder Information

Corporate Headquarters:

Colony Bankcorp, Inc.
P.O. Box 989
115 South Grant Street
Fitzgerald, Georgia 31750
229-426-6000

Annual Meeting
Tuesday, May 25, 2010 at 2:00 p.m.
Colony Bankcorp, Inc.
115 South Grant Street
Fitzgerald, Georgia 31750

Independent Auditors:

McNair, McLemore, Middlebrooks & Co., LLP
P.O. 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

Financial Statements

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

March 15, 2010

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, 2009 and 2008 and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assessment of the effectiveness of Colony Bankcorp, Inc.'s internal control over financial reporting as of December 31, 2009 included under Item 9A, *Controls and Procedures*, in Colony Bankcorp, Inc.'s Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

McNair, McLemore, Middlebrooks & Co., LLP
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

ASSETS

	2009	2008
Cash and Cash Equivalents		
Cash and Due from Banks	**$ 25,995,486**	$ 29,427,430
Federal Funds Sold	**16,433,256**	30,941
	42,428,742	29,458,371
Interest-Bearing Deposits	**6,478,801**	146,987
Investment Securities		
Available for Sale, at Fair Value	**267,246,673**	207,644,579
Held to Maturity, at Cost (Fair Value of $56,999 and $63,254 as of December 31, 2009 and 2008, Respectively)	**53,906**	59,886
	267,300,579	207,704,465
Federal Home Loan Bank Stock, at Cost	**6,345,400**	6,272,400
Loans	**931,391,626**	961,036,525
Allowance for Loan Losses	**(31,400,641)**	(17,015,883)
Unearned Interest and Fees	**(139,597)**	(179,257)
	899,851,388	943,841,385
Premises and Equipment	**28,826,350**	29,671,881
Other Real Estate (Net of Allowance of $467,408 and $0 in 2009 and 2008, Respectively)	**19,705,044**	12,811,819
Goodwill	**-**	2,412,338
Other Intangible Assets	**330,756**	366,505
Other Assets	**35,822,274**	20,095,784
Total Assets	**$1,307,089,334**	$1,252,781,935

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

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

LIABILITIES AND STOCKHOLDERS' EQUITY

	2009	2008
Deposits		
Noninterest-Bearing	**$ 84,238,839**	$ 77,496,891
Interest-Bearing	**973,347,642**	929,494,577
	1,057,586,481	1,006,991,468
Borrowed Money		
Federal Funds Purchased	**-**	2,274,000
Securities Sold Under Agreements to Repurchase	**40,000,000**	40,000,000
Subordinated Debentures	**24,229,000**	24,229,000
Other Borrowed Money	**91,000,000**	91,000,000
	155,229,000	157,503,000
Other Liabilities	**4,999,229**	5,072,312
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock, No Par Value; Authorized 10,000,000 Shares, Issued 28,000 Shares	**27,356,964**	-
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 7,229,163 and 7,212,313 Shares as of December 31, 2009 and 2008, Respectively	**7,229,163**	7,212,313
Paid-In Capital	**25,392,913**	24,535,683
Retained Earnings	**29,553,941**	51,302,025
Restricted Stock - Unearned Compensation	**(158,548)**	(210,993)
Accumulated Other Comprehensive Income, Net of Tax	**(99,809)**	376,127
	89,274,624	83,215,155
Total Liabilities and Stockholders' Equity	**$1,307,089,334**	$1,252,781,935

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

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2009	2008	2007
Interest Income			
Loans, Including Fees	**$ 57,620,911**	$66,732,488	$80,973,666
Federal Funds Sold	**24,438**	273,476	1,477,985
Deposits with Other Banks	**553**	27,452	142,785
Investment Securities			
U. S. Government Agencies	**7,626,856**	7,140,902	6,437,743
State, County and Municipal	**258,545**	410,298	549,031
Corporate Obligations	**296,273**	414,319	269,283
Dividends on Other Investments	**19,846**	298,264	308,840
	65,847,422	75,297,199	90,159,333
Interest Expense			
Deposits	**21,642,734**	32,801,362	42,730,760
Federal Funds Purchased	**876,484**	513,961	59,145
Borrowed Money	**3,761,924**	4,607,347	4,910,945
	26,281,142	37,922,670	47,700,850
Net Interest Income	**39,566,280**	37,374,529	42,458,483
Provision for Loan Losses	**43,445,000**	12,937,750	5,930,756
Net Interest Income (Loss) After Provision for Loan Losses	**(3,878,720)**	24,436,779	36,527,727
Noninterest Income			
Service Charges on Deposits	**4,198,019**	4,699,616	4,771,239
Other Service Charges, Commissions and Fees	**986,392**	981,124	921,502
Mortgage Fee Income	**447,989**	609,044	966,897
Securities Gains	**2,625,867**	1,195,314	183,656
Other	**1,285,920**	1,520,092	973,687
	9,544,187	9,005,190	7,816,981
Noninterest Expenses			
Salaries and Employee Benefits	**14,483,306**	16,238,080	17,866,304
Occupancy and Equipment	**4,287,006**	4,190,845	4,039,327
Directors’ Fees	**502,575**	578,315	632,547
Legal and Professional Fees	**1,362,536**	1,379,696	1,144,229
Foreclosed Property	**2,270,792**	382,312	149,343
FDIC Assessment	**2,662,042**	603,093	189,635
Goodwill Impairment	**2,412,338**	-	-
Other	**6,863,627**	7,483,574	7,557,904
	34,844,222	30,855,915	31,579,289
Income (Loss) Before Income Taxes	**(29,178,755)**	2,586,054	12,765,419
Income Taxes (Benefits)	**(9,994,881)**	557,230	4,218,463
Net Income (Loss)	**(19,183,874)**	2,028,824	8,546,956
Preferred Stock Dividends	**1,365,000**	-	-
Net Income (Loss) Available to Common Stockholders	**$(20,548,874)**	$ 2,028,824	$ 8,546,956
Net Income (Loss) Per Share of Common Stock			
Basic	**$ (2.85)**	$ 0.28	$ 1.19
Diluted	**$ (2.85)**	$ 0.28	$ 1.19
Cash Dividends Declared Per Share of Common Stock	**$ 0.146**	$ 0.39	$ 0.365
Weighted Average Shares Outstanding	**7,213,430**	7,199,121	7,188,696

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31

	2009	2008	2007
Net Income (Loss)	**$(19,183,874)**	$2,028,824	$8,546,956
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	**1,257,136**	893,158	1,367,910
Reclassification Adjustment	**(1,733,072)**	(788,907)	(121,213)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(475,936)**	104,251	1,246,697
Comprehensive Income (Loss)	**$(19,659,810)**	$2,133,075	$9,793,653

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, 2009, 2008 AND 2007

	Preferred Stock	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Restricted Stock - Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
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 on Common Stock					(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 on 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 on Common Stock					(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
Issuance of Preferred Stock	27,215,218			784,782				28,000,000
Issuance of Restricted Stock		18,850	18,850	132,421		(151,271)		-
Forfeiture of Restricted Stock		(2,000)	(2,000)	(14,050)		16,050		-
Tax Loss on Restricted Stock				(45,923)				(45,923)
Amortization of Unearned Compensation						187,666		187,666
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(475,936)	(475,936)
Accretion of Fair Value of Warrant	141,746				(141,746)			-
Dividends on Preferred Shares					(1,365,000)			(1,365,000)
Dividends on Common Stock					(1,057,464)			(1,057,464)
Net Income (Loss) Available to Common Stockholders					(19,183,874)			(19,183,874)
Balance, December 31, 2009	**$27,356,964**	**7,229,163**	**$7,229,163**	**$25,392,913**	**$29,553,941**	**$(158,548)**	**$ (99,809)**	**$89,274,624**

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

	2009	2008	2007
Cash Flows from Operating Activities			
Net Income (Loss)	**$ (19,183,874)**	$ 2,028,824	$ 8,546,956
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided from Operating Activities			
Depreciation	**2,092,845**	2,028,158	1,875,779
Amortization and Accretion	**3,807,011**	777,051	529,805
Goodwill Impairment	**2,412,338**	-	-
Provision for Loan Losses	**43,445,000**	12,937,750	5,930,756
Deferred Income Taxes	**(5,869,055)**	(250,215)	(1,233,259)
Securities Gains	**(2,625,867)**	(1,195,314)	(183,656)
Gain on Sale of Equipment	**(82,503)**	(857)	(5,813)
Loss on Sale of Other Real Estate and Repossessions	**163,642**	59,623	53,851
Unrealized Loss on Other Real Estate	**467,408**	-	-
Increase in Cash Surrender Value of Life Insurance	**(184,905)**	(235,305)	(15,427)
Change In			
Interest Receivable	**699,018**	2,875,146	362,311
Prepaid Expenses	**(5,785,826)**	18,698	144,931
Interest Payable	**(1,256,460)**	(816,819)	291,225
Accrued Expenses and Accounts Payable	**315,879**	(815,214)	(109,441)
Other	**(3,360,614)**	(121,645)	(1,018,977)
	15,054,037	17,289,881	15,169,041
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	**(6,331,814)**	1,319,703	1,608,791
Purchase of Investment Securities Available for Sale	**(488,257,181)**	(157,485,718)	(60,521,076)
Proceeds from Sale of Investment Securities Available for Sale	**368,575,701**	65,298,695	16,984,665
Proceeds from Maturities, Calls and Paydowns of Investment Securities			
Available for Sale	**58,599,391**	52,666,161	27,603,088
Held to Maturity	**12,688**	13,573	12,054
Proceeds from Sale of Premises and Equipment	**125,512**	29,888	267,120
Net Loans to Customers	**(18,973,081)**	(42,435,526)	(8,333,042)
Purchase of Premises and Equipment	**(1,290,324)**	(3,920,230)	(2,492,797)
Proceeds from Sale of Other Real Estate and Repossessions	**12,158,095**	3,392,500	2,318,696
Federal Home Loan Bank Stock	**(73,000)**	(739,700)	(445,900)
Investment in Capital Trusts	**-**	-	(434,000)
Liquidation of Statutory Trusts	**-**	-	434,000
Other Investments	**-**	-	(420,560)
	(75,454,013)	(81,860,654)	(23,418,961)
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	**43,853,063**	(2,995,624)	(32,620,017)
Noninterest-Bearing Customer Deposits	**6,741,949**	(8,614,892)	8,776,104
Proceeds from Other Borrowed Money	**19,000,000**	122,400,000	41,100,000
Principal Payments on Other Borrowed Money	**(19,000,000)**	(65,000,000)	(29,000,000)
Dividends Paid on Preferred Stock	**(1,190,000)**	-	-
Dividends Paid on Common Stock	**(1,760,665)**	(2,794,520)	(2,556,438)
Proceeds from Issuance of Subordinated Debentures	**-**	-	14,434,000
Principal Payments of Subordinated Debentures	**-**	-	(14,434,000)
Federal Funds Purchased	**(2,274,000)**	928,000	276,000
Proceeds Allocated to Issuance of Preferred Stock	**27,215,218**	-	-
Proceeds Allocated to Warrants Issued	**784,782**	-	-
	73,370,347	43,922,964	(14,024,351)
Net Increase (Decrease) in Cash and Cash Equivalents	**12,970,371**	(20,647,809)	(22,274,271)
Cash and Cash Equivalents, Beginning	**29,458,371**	50,106,180	72,380,451
Cash and Cash Equivalents, Ending	**$ 42,428,742**	$ 29,458,371	$ 50,106,180

The accompanying notes are an integral part of these 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 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. The Company has evaluated subsequent events for potential recognition and/or disclosure through March 15, 2010.

Nature of Operations

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

Use of Estimates

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

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and nonpublic nongovernmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

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 2009. Such reclassifications had no effect on previously reported stockholders' equity or net income.

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2009, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2009. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

The success of the Company is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of the Company 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

The Company classifies its investment securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Currently, no securities are classified as trading. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All securities not classified as trading or held to maturity are considered available for sale.

Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity. 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.

(1) Summary of Significant Accounting Policies (Continued)

Federal Home Loan Bank Stock

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

Loans

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

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

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

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. During the fourth quarter 2009, the Company changed its methodology regarding the look back period for charge-off experience from five years to one year. With the significant net charge-offs during 2009, this change resulted in a significant increase in loan loss provisions.

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

Premises and Equipment

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

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

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

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

Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. Impairment testing of goodwill is performed annually or more frequently if events or circumstances indicate possible impairment. Testing performed during 2009 indicated total impairment of goodwill and, accordingly, $2,412,338 was expensed as an impairment during the current year.

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.

(1) Summary of Significant Accounting Policies (Continued)

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 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.

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated 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. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Routine holding costs and gains or losses upon disposition are included in 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 operations but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income.

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.

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Newly revised standards on *Business Combinations* applies to all transactions and other events in which one entity obtains control over one or more other businesses. An acquirer, upon initially obtaining control of another entity, must 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 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Acquirers must expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case. 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 contingency accounting. The revised standards are expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

Revised standards for *Noncontrolling Interest in Consolidated Financial Statements* establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. 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, consolidated net income (loss) must be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Also required are disclosures, on the face of the consolidated statements of operations, of the amounts of consolidated net income (loss) attributable to the parent and to the noncontrolling interest. Requirements were effective for the Company on January 1, 2009 and did not have a significant impact on the Company's consolidated financial statements.

In April 2009, standards were issued to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The standards are effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 under certain circumstances. Implementation on June 15, 2009 did not have a significant impact on the Company's consolidated financial statements.

In April 2009, standards were issued for *Recognition and Presentation of Other-Than-Temporary Impairments.* These standards amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the consolidated financial statements. The existing recognition and measurement guidance related to other-than-temporary impairments of equity securities is not amended. Changes are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of the other-than-temporary impairment amendments on June 15, 2009 did not have a significant impact on the Company's consolidated financial statements.

(1) Summary of Significant Accounting Policies (Continued)

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

In April 2009, new standards were issued providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The standard is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Adoption on June 15, 2009 did not have a significant impact on the Company's consolidated financial statements.

New requirements for subsequent events establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The standards define (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its consolidated financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The effective date for the Company's consolidated financial statements is for periods ending after June 15, 2009. Implementation resulted in no significant impact on the Company's consolidated financial statements.

In June 2009, standards were issued for *Transfers and Servicing*, which enhances reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The guidance also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. The guidance will be effective for all reporting periods beginning after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Revised standards for *Earnings per Share* became effective for the Company on January 1, 2009. These standards provide 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. Adoption of the new guidance did not 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:

	2009	2008
Cash on Hand and Cash Items	**$ 8,773,237**	$ 9,227,763
Noninterest-Bearing Deposits with Other Banks	**17,222,249**	20,199,667
	$25,995,486	$29,427,430

(3) Investment Securities

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

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	**$258,432,952**	**$1,535,588**	**$(1,059,532)**	**$258,909,008**
State, County and Municipal	**4,027,322**	**74,749**	**(34,843)**	**4,067,228**
Corporate Obligations	**4,458,376**	**64,810**	**(385,176)**	**4,138,010**
Asset-Backed Securities	**479,249**	**-**	**(346,822)**	**132,427**
	$267,397,899	**$1,675,147**	**$(1,826,373)**	**$267,246,673**
Securities Held to Maturity				
State, County and Municipal	**$ 53,906**	**$ 3,093**	**$ -**	**$ 56,999**

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

(3) Investment Securities (Continued)

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ 100,505	$ 100,997	$ -	$ -
Due After One Year Through Five Years	2,813,820	2,588,480	-	-
Due After Five Years Through Ten Years	3,553,063	3,676,447	53,906	56,999
Due After Ten Years	2,497,559	1,971,741	-	-
	8,964,947	8,337,665	53,906	56,999
Mortgage-Backed Securities	258,432,952	258,909,008	-	-
	$267,397,899	$267,246,673	$53,906	$56,999

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
	$207,074,689	$2,061,338	$(1,491,448)	$207,644,579
Securities Held to Maturity				
State, County and Municipal	$ 59,886	$ 3,368	$ -	$ 63,254

Proceeds from sales of investments available for sale were $368,575,701 in 2009, $65,298,695 in 2008 and $16,984,665 in 2007. Gross realized gains totaled $3,204,669 in 2009, $1,201,896 in 2008 and $211,676 in 2007. Gross realized losses totaled $578,802 in 2009, $6,582 in 2008 and $28,020 in 2007.

Investment securities having a carrying value approximating $157,868,000 and $145,647,000 as of December 31, 2009 and 2008, respectively, were pledged to secure public deposits and for other purposes.

(3) Investment Securities (Continued)

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2009						
U.S. Government Agencies Mortgage-Backed	**$114,222,812**	**$(1,056,502)**	**$ 419,159**	**$ (3,030)**	**$114,641,971**	**$(1,059,532)**
State, County and Municipal	**-**	**-**	**1,424,697**	**(34,843)**	**1,424,697**	**(34,843)**
Corporate Obligations	**-**	**-**	**3,073,200**	**(385,176)**	**3,073,200**	**(385,176)**
Asset-Backed Securities	**-**	**-**	**132,427**	**(346,822)**	**132,427**	**(346,822)**
	$114,222,812	**$(1,056,502)**	**$5,049,483**	**$(769,871)**	**$119,272,295**	**$(1,826,373)**
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)
	$ 63,018,732	$(1,440,514)	$ 800,129	$ (50,934)	$ 63,818,861	$(1,491,448)

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, 2009, the debt securities with unrealized losses have depreciated 1.51 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, 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:

	2009	2008
Commercial, Financial and Agricultural	**$ 80,984,410**	$ 86,378,778
Real Estate-Construction	**113,117,056**	160,373,797
Real Estate-Farmland	**54,965,260**	54,158,907
Real Estate-Other	**626,993,440**	600,653,523
Installment Loans to Individuals	**38,382,831**	44,163,516
All Other Loans	**16,948,629**	15,308,004
	$931,391,626	$961,036,525

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 $33,535,160 and $35,123,955 as of December 31, 2009 and 2008, respectively, and total recorded investment in loans past due 90 days or more and still accruing interest approximated $31,200 and $250,500, respectively. Foregone interest on nonaccrual loans approximated $2,318,100 in 2009, $1,328,600 in 2008 and $576,000 in 2007. During its review of impaired loans, the Company determined the majority of its exposures on these loans were known losses. As a result, the exposures were charged off, reducing the specific allowances on impaired loans.

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

	2009	2008
Total Investment in Impaired Loans	**$33,535,160**	$35,123,955
Less Allowance for Impaired Loan Losses	**(17,000)**	(1,721,131)
Net Investment, December 31	**$33,518,160**	$33,402,824
Average Investment during the Year	**$36,394,731**	$24,291,239
Income Recognized during the Year	**$ 684,940**	$ 1,301,500
Income Collected during the Year	**$ 913,255**	$ 1,496,785

(5) Allowance for Loan Losses

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

	2009	2008	2007
Balance, Beginning	**$ 17,015,883**	$ 15,512,940	$ 11,989,359
Provision Charged to Operating Expenses	**43,445,000**	12,937,750	5,930,756
Loans Charged Off	**(29,493,324)**	(11,966,439)	(3,908,011)
Loan Recoveries	**433,082**	531,632	1,500,836
Balance, Ending	**$ 31,400,641**	$ 17,015,883	$ 15,512,940

(6) Premises and Equipment

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

	2009	2008
Land	**$ 7,805,167**	$ 7,805,167
Building	**23,642,043**	23,460,842
Furniture, Fixtures and Equipment	**14,365,687**	13,529,356
Leasehold Improvements	**993,086**	990,198
Construction in Progress	**6,775**	127,155
	46,812,758	45,912,718
Accumulated Depreciation	**(17,986,408)**	(16,240,837)
	$ 28,826,350	$ 29,671,881

Depreciation charged to operations totaled $2,092,845 in 2009, $2,028,158 in 2008 and $1,875,779 in 2007.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $365,000 for 2009, $374,000 for 2008 and $360,000 for 2007.

Future minimum rental payments as of December 31, 2009 are as follows:

Year Ending December 31	**Amount**
2010	$129,138
2011	125,918
2012	122,813
2013	88,658
2014 and Thereafter	10,139
	$476,666

(7) Goodwill and Intangible Assets

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

	2009	2008
Goodwill		
Balance, Beginning	**$ 2,412,338**	$2,412,338
Goodwill Impairment Expense	**(2,412,338)**	-
Balance, Ending	**$ -**	$2,412,338

	Core Deposit Intangible	**Accumulated Amortization**	**Net Core Deposit Intangible**
Core Deposit Intangible			
Balance, December 31, 2008	$1,056,693	$ (690,188)	$ 366,505
Amortization Expense	-	(35,749)	(35,749)
Balance, December 31, 2009	**$1,056,693**	**$ (725,937)**	**$ 330,756**

Amortization expense related to the core deposit intangible was $35,749, $35,748 and $36,461 for the years ended December 31, 2009, 2008 and 2007, respectively.

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

2010	$ 35,749
2011	35,749
2012	35,749
2013	35,749
2014 and Thereafter	187,760
	$330,756

(8) Income Taxes

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

	2009	2008	2007
Current Federal (Benefit) Expense	**$(4,075,442)**	$ 861,723	$ 5,339,925
Deferred Federal (Benefit) Expense	**(5,869,055)**	(250,215)	(1,233,259)
Federal Income Tax (Benefit) Expense	**(9,944,497)**	611,508	4,106,666
Current State Income Tax (Benefit) Expense	**(50,384)**	(54,278)	111,797
	$(9,994,881)	$ 557,230	$ 4,218,463

The federal income tax (benefit) expense of $(9,944,497) in 2009, $611,508 in 2008 and $4,106,666 in 2007 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:

	2009	2008	2007
Statutory Federal Income Taxes	**$(9,920,776)**	$ 879,258	$ 4,340,243
Tax-Exempt Interest	**(185,775)**	(239,097)	(234,863)
Interest Expense Disallowance	**16,729**	35,869	46,847
Premiums on Officers' Life Insurance	**(58,906)**	(54,464)	(47,369)
Meal and Entertainment Disallowance	**32,068**	13,810	14,488
State Income Taxes	**-**	-	(2,281)
Goodwill	**58,507**	-	-
Other	**113,656**	(23,868)	(10,399)
Actual Federal Income Taxes	**$(9,944,497)**	$ 611,508	$ 4,106,666

(8) Income Taxes (Continued)

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

	2009	2008
Deferred Tax Assets		
Allowance for Loan Losses	**$10,676,218**	$ 5,785,400
Deferred Compensation	**441,514**	381,896
Restricted Stock	**475,045**	411,238
Goodwill	**486,077**	-
Other	**606,391**	298,390
	12,685,245	6,876,924
Deferred Tax Liabilities		
Premises and Equipment	**(1,340,773)**	(1,237,807)
Vested Restricted Stock	**(337,039)**	(269,014)
Other	**(4,185)**	(236,107)
	(1,681,997)	(1,742,928)
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	**51,417**	(193,763)
Net Deferred Tax Assets	**$11,054,665**	$ 4,940,233

As discussed in Note 1, certain positions taken in the Company's tax returns may be subject to challenge by the taxing authorities. An analysis of activity related to unrecognized tax benefits follows as of December 31, 2009.

Balance, Beginning	$296,821
Positions Taken During the Current Year	22,222
Reductions Resulting from Lapse of Statutes of Limitation	(97,459)
Balance, Ending	$221,584

(9) Fair Value Measurements

Generally accepted accounting principles related to *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value 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.

(9) Fair Value Measurements (Continued)

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

Assets

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

Impaired loans - Fair value accounting principles also apply to loans measured for impairment, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

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

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, 2009 aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair Value Measurements at Reporting Date Using		
	December 31, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$258,909,008	$ -	$258,909,008	$ -
State, County and Municipal	4,067,228	-	4,067,228	-
Corporate Obligations	4,138,010	-	3,288,010	850,000
Asset-Backed Securities	132,427	-	-	132,427
	$267,246,673	$ -	$266,264,246	$ 982,427
Nonrecurring				
Impaired Loans	$ 33,518,160	$ -	$ -	$33,518,160
Other Real Estate	$ 19,705,044	$ -	$ 19,705,044	$ -

(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, 2009.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Available for Sale Securities
Balance, Beginning	$1,426,220
Total Realized/Unrealized Gains (Losses) Included In	
Loss on OTTI Impairment	(520,751)
Other Comprehensive Income	76,958
Purchases, Sales, Issuances and Settlements, Net	-
Transfers In and (Out) of Level 3	-
Balance, Ending	$ 982,427

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $231,993 and $321,931 as of December 31, 2009 and 2008, respectively.

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

	2009	2008
Interest-Bearing Demand	**$220,168,255**	$194,210,807
Savings	**34,850,882**	33,349,191
Time, $100,000 and Over	**364,064,083**	333,498,421
Other Time	**354,264,422**	368,436,158
	$973,347,642	$929,494,577

At December 31, 2009 and 2008, the Company had brokered deposits of $136,453,418 and $131,957,550, respectively. Of the $136,453,418 brokered deposits at December 31, 2009, $26,883,859 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 $109,569,559 at December 31, 2009. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was approximately $316,896,500 and $301,151,000 as of December 31, 2009 and 2008, respectively.

(10) Deposits (Continued)

As of December 31, 2009, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2010	$620,164,923
2011	40,162,422
2012	53,891,905
2013	2,576,112
2014 and Thereafter	1,533,143
	$718,328,505

(11) Securities Sold Under Repurchase Agreements

The Company has securities sold under repurchase agreements in the amount of $40,000,000 at December 31, 2009. 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, 2009, the floating interest rate was 0.71 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:

	2009	2008
Federal Home Loan Bank Advances	**$91,000,000**	$91,000,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2010 to 2019 and interest rates ranging from 0.36 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, 2009, the Company had available line of credit commitments totaling $193,230,000, of which $102,170,000 was available.

(12) Other Borrowed Money (Continued)

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

Year	Amount
2010	$20,000,000
2011	-
2012	41,000,000
2013	-
2014 and Thereafter	30,000,000
	$91,000,000

The Company also has available federal funds lines of credit with various financial institutions totaling $42,000,000, of which there were none outstanding at December 31, 2009.

(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, 2009, the floating rate securities had a 2.93 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, 2009, the floating rate securities had a 1.75 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, 2009, the floating rate securities had a 1.90 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, 2009, the floating rate securities had a 1.68 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.

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

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

(14) Preferred Stock

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

The Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at a rate of 5 percent per annum for the first five years, and 9 percent per annum thereafter. The Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Preferred Stock. The Preferred Stock may be redeemed by the Company on or after February 15, 2012 at the liquidation preference of $1,000 per share plus any accrued and unpaid dividends. Prior to this date, the Preferred Stock may not be redeemed unless the Company has received aggregate gross proceeds from one or more qualified equity offerings of any Tier 1 perpetual preferred or common stock of the Company equal to $7.0 million. Subject to certain limited exceptions, until January 9, 2012, or such earlier time as all Preferred Stock has been redeemed, the Company will not, without the Treasury's consent, be able to increase its dividend rate per share of common stock or repurchase its common stock.

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

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

(15) 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, 2009. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(15) Restricted Stock - Unearned Compensation (Continued)

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, 53,256 shares have been issued under this plan and 11,348 shares have been forfeited; thus, remaining shares which may be issued are 101,592 at December 31, 2009. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(16) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was $(19,411) for 2009, $206,179 for 2008 and $583,690 for 2007.

(17) Commitments and Contingencies

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

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

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

	Contract Amount	
	2009	2008
Commitments to Extend Credit	**$56,100,000**	$73,610,000
Standby Letters of Credit	**1,475,000**	2,710,000

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.

(17) Commitments and Contingencies (Continued)

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.

(18) Deferred Compensation Plan

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

Liabilities accrued under the plans totaled $1,298,572 and $1,123,223 as of December 31, 2009 and 2008, respectively. Benefit payments under the contracts were $187,655 in 2009 and $211,816 in 2008. Provisions charged to operations totaled $361,171 in 2009, $178,542 in 2008 and $238,003 in 2007.

Fee income recognized with deferred compensation plans totaled $173,253 in 2009, $160,187 in 2008 and $139,322 in 2007.

(19) Interest Income and Expense

Interest income of $267,553, $426,779 and $506,896 from state, county and municipal bonds was exempt from regular income taxes in 2009, 2008 and 2007, respectively.

Interest on deposits includes interest expense on time certificates of $100,000 or more totaling $9,598,455, $14,596,774 and $18,700,653 for the years ended December 31, 2009, 2008 and 2007, respectively.

(20) Supplemental Cash Flow Information

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

	2009	2008	2007
Interest Expense	**$27,537,602**	$38,739,489	$47,409,625
Income Taxes	**$ -**	$ 1,875,000	$ 6,380,000

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

	2009	2008	2007
Acquisitions of Real Estate Through Loan Foreclosures	**$19,258,910**	$14,748,105	$ 2,576,332
Unrealized (Gain) Loss on Investment Securities	**$ 721,116**	$ (157,957)	$ (1,888,934)

(21) 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 $6,473,238 as of December 31, 2009 and $7,641,037 as of December 31, 2008. 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:

	2009	2008
Balance, Beginning	**$ 7,641,037**	$ 16,544,057
New Loans	**4,829,291**	5,871,138
Repayments	**(5,997,090)**	(4,282,192)
Transactions Due to Changes in Directors	**-**	(10,491,966)
Balance, Ending	**$ 6,473,238**	$ 7,641,037

(22) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

(22) 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:

	2009		2008	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
	(in Thousands)			
Assets				
Cash and Short-Term Investments	**$ 48,908**	**$ 48,908**	$ 29,605	$ 29,605
Investment Securities Available for Sale	**267,247**	**267,247**	207,645	207,645
Investment Securities Held to Maturity	**54**	**57**	60	63
Federal Home Loan Bank Stock	**6,345**	**6,345**	6,272	6,272
Loans, Net	**899,851**	**908,638**	943,841	959,613
Liabilities				
Deposits	**1,057,586**	**1,059,037**	1,006,991	1,009,967
Federal Funds Purchased	**-**	**-**	2,274	2,274
Subordinated Debentures	**24,229**	**24,229**	24,229	24,229
Securities Sold Under Agreements to Repurchase	**40,000**	**40,671**	40,000	40,765
Other Borrowed Money	**91,000**	**91,703**	91,000	94,067

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.

(23) Regulatory Capital Matters

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

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

(23) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of December 31, 2009 and 2008 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**
As of December 31, 2009			(In Thousands)			
Total Capital to Risk-Weighted Assets						
Consolidated	**$118,848**	**13.07%**	**$72,768**	**8.00%**	**N/A**	**N/A**
Colony Bank	**117,756**	**12.97**	**72,622**	**8.00**	**$90,777**	**10.00%**
Tier I Capital to Risk-Weighted Assets						
Consolidated	**107,231**	**11.79**	**36,384**	**4.00**	**N/A**	**N/A**
Colony Bank	**106,161**	**11.69**	**36,311**	**4.00**	**54,466**	**6.00**
Tier I Capital to Average Assets						
Consolidated	**107,231**	**8.30**	**51,708**	**4.00**	**N/A**	**N/A**
Colony Bank	**106,161**	**8.22**	**51,641**	**4.00**	**64,551**	**5.00**
As of December 31, 2008						
Total Capital to Risk-Weighted Assets						
Consolidated	115,604	12.06	76,684	8.00	N/A	N/A
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	N/A	N/A
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	N/A	N/A
Colony Bank	102,522	8.33	49,205	4.00	61,506	5.00

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

The parent company's balance sheets as of December 31, 2009 and 2008 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

	2009	2008
Cash	**$ 556,209**	$ 2,227
Premises and Equipment, Net	**1,553,652**	1,542,040
Investment in Subsidiary, at Equity	**111,450,651**	105,506,392
Other	**257,252**	1,293,424
Total Assets	**$113,817,764**	$108,344,083

LIABILITIES AND STOCKHOLDERS' EQUITY

	2009	2008
Liabilities		
Dividends Payable	**$ 175,000**	$ 703,201
Other	**139,140**	196,727
	314,140	899,928
Subordinated Debt	**24,229,000**	24,229,000
Stockholders' Equity		
Preferred Stock, No Par Value; Authorized 10,000,000 Shares, Issued 28,000 Shares	**27,356,964**	-
Common Stock, Par Value $1; Authorized 20,000,000 Shares, Issued 7,229,163 and 7,212,313 Shares as of December 31, 2009 and 2008, Respectively	**7,229,163**	7,212,313
Paid-In Capital	**25,392,913**	24,535,683
Retained Earnings	**29,553,940**	51,302,025
Restricted Stock – Unearned Compensation	**(158,547)**	(210,993)
Accumulated Other Comprehensive Income, Net of Tax	**(99,809)**	376,127
	89,274,624	83,215,155
Total Liabilities and Stockholders' Equity	**$113,817,764**	$108,344,083

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

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

	2009	2008	2007
Income			
Dividends from Subsidiary	**$ 2,170,827**	$5,038,854	$5,662,500
Management Fees	**227,620**	-	-
Other	**100,157**	92,111	281,885
	2,498,604	5,130,965	5,944,385
Expenses			
Interest	**659,456**	1,270,942	2,005,971
Amortization	**2,250**	2,250	295,093
Salaries and Employee Benefits	**848,076**	876,166	974,524
Goodwill Impairment	**172,029**	-	-
Other	**799,924**	1,240,339	889,093
	2,481,735	3,389,697	4,164,681
Income Before Taxes and Equity in Undistributed Earnings of Subsidiary	**16,869**	1,741,268	1,779,704
Income Tax Benefits	**608,062**	979,911	1,213,835
Income Before Equity in Undistributed Earnings of Subsidiary	**624,931**	2,721,179	2,993,539
Equity in Undistributed Earnings (Losses) of Subsidiary	**(19,808,805)**	(692,355)	5,553,417
Net Income (Loss)	**(19,183,874)**	2,028,824	8,546,956
Preferred Stock Dividends	**1,365,000**	-	-
Net Income (Loss) Available to Common Stockholders	**$(20,548,874)**	$2,028,824	$8,546,956

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

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

	2009	2008	2007
Net Income (Loss)	**$(19,183,874)**	$2,028,824	$8,546,956
Other Comprehensive Income, Net of Tax			
Gains on Securities			
Arising During the Year	**1,257,136**	893,158	1,367,910
Reclassification Adjustment	**(1,733,072)**	(788,907)	(121,213)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(475,936)**	104,251	1,246,697
Comprehensive Income (Loss)	**$(19,659,810)**	$2,133,075	$9,793,653

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

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

	2009	2008	2007
Cash Flows from Operating Activities			
Net Income (Loss)	**$(19,183,874)**	$ 2,028,824	$ 8,546,956
Adjustments to Reconcile Net Income (Loss) to			
Net Cash Provided from Operating Activities			
Depreciation and Amortization	**295,209**	275,299	294,121
Goodwill Impairment	**172,029**	-	-
Equity in Undistributed			
(Earnings) Losses of Subsidiary	**19,808,805**	692,355	(5,553,417)
Other	**31,634**	720,701	(436,928)
	1,123,803	3,717,179	2,850,732
Cash Flows from Investing Activities			
Capital Infusion in Subsidiary	**(25,500,000)**	(1,500,000)	(1,500,000)
Purchases of Premises and Equipment	**(119,156)**	(393,392)	(44,915)
Investment in Capital Trusts	**-**	-	(434,000)
Liquidation of Statutory Trusts	**-**	-	434,000
	(25,619,156)	(1,893,392)	(1,544,915)
Cash Flows from Financing Activities			
Dividends Paid on Preferred Stock	**(1,190,000)**	-	-
Dividends Paid on Common Stock	**(1,760,665)**	(2,794,520)	(2,556,438)
Principal Payments on Notes and Debentures	**-**	-	(14,434,000)
Proceeds from Notes and Debentures	**-**	-	14,434,000
Proceeds Allocated to Issuance of Preferred Stock	**27,215,218**	-	-
Proceeds Allocated to Warrants Issued	**784,782**	-	-
	25,049,335	(2,794,520)	(2,556,438)
Increase (Decrease) in Cash	**553,982**	(970,733)	(1,250,621)
Cash, Beginning	**2,227**	972,960	2,223,581
Cash, Ending	**$ 556,209**	$ 2,227	$ 972,960

(25) Earnings Per Share

Basic and diluted earnings per share are computed and presented hereafter. 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, 2009, 2008 and 2007 under the requirements of Statement 128:

December 31, 2009	Income Numerator	Common Shares Denominator	EPS
Basic EPS			
Income (Loss) Available to Common Stockholders	**$(20,548,874)**	**7,213,430**	**$(2.85)**
Dilutive Effect of Potential Common Stock			
Restricted Stock		**-**	
Diluted EPS			
Income (Loss) Available to Common Stockholders After Assumed Conversions of Dilutive Securities	**$(20,548,874)**	**7,213,430**	**$(2.85)**
December 31, 2008			
Basic EPS			
Income Available to Common Stockholders	$ 2,028,824	7,199,121	$ 0.28
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	$ 0.28
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

(26) Subsequent Event

The Company began a private placement offering of its common stock to accredited investors on March 1, 2010. Up to 1,216,545 common shares are being offered to investors at a price of $4.11 per share. The offering is scheduled to end on March 31, 2010; however, the Company reserves the right to extend the offering for additional periods.

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.

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 or complete.

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

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

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

Goodwill and Other Intangibles – The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value. 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. Goodwill impairment of $2.4 million was recognized during 2009 that resulted in a goodwill balance of $0 at December 31, 2009.

Overview

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

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income (loss) available to common shareholders totaled $(20.55) million, or $(2.85) diluted per common share in 2009 compared to $2.03 million, or $0.28 diluted per common share in 2008 and $8.55 million, or $1.19 diluted per common share in 2007.

Part II (Continued)
Item 7 (Continued)

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

	2009	2008	2007
Taxable-Equivalent Net Interest Income	**$ 39,848**	$ 37,740	$42,817
Taxable-Equivalent Adjustment	**282**	365	359
Net Interest Income	**39,566**	37,375	42,458
Provision for Possible Loan Losses	**43,445**	12,938	5,931
Noninterest Income	**9,544**	9,005	7,817
Noninterest Expense	**34,844**	30,856	31,579
Income (Loss) Before Income Taxes	**(29,179)**	2,586	12,765
Income Taxes (Benefits)	**(9,995)**	557	4,218
Net Income (Loss)	**$(19,184)**	$ 2,029	$ 8,547
Preferred Stock Dividends	**1,365**	---	---
Net Income (Loss) Available to Common Stockholders	**$(20,549)**	$ 2,029	$ 8,547
Basic per Common Share:			
Net Income (Loss)	**$ (2.85)**	$ 0.28	$ 1.19
Diluted per Common Share:			
Net Income (Loss)	**$ (2.85)**	$ 0.28	$ 1.19
Return on Average Assets:			
Net Income (Loss)	**(1.60)%**	0.17%	0.71%
Return on Average Equity:			
Net Income (Loss)	**(19.45)%**	2.40%	10.60%

Net income (loss) available to common shareholders for 2009 decreased $22.58 million, or 1112.85 percent, compared to 2008. The decrease was primarily the result of a $30.51 million increase in provision for loan losses, an increase of $3.99 million in noninterest expense, and $1.37 million in preferred stock dividends. The impact of these items was partly offset by a $2.19 million increase in net interest income, an increase of $540 thousand in noninterest income and a decrease of $10.55 million in income tax expense. The decrease in income tax expense resulted in an income tax benefit of $10 million.

Net income (loss) available to common shareholders 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 $720 thousand in noninterest expense and a decrease of $3.66 million in income tax expense.

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 80.57 percent of total revenue during 2009 and 80.58 percent during 2008.

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 7.75 percent during 2007 to 2009. At year end 2007, the prime rate was 7.25 percent and with the 400 basis point reduction during 2008 the prime rate ended the year at 3.25 percent and remained at 3.25 percent for all of 2009. The federal funds rate moved similar to prime rate with interest rates ranging from 0.25 percent to 4.75 percent during 2007 to 2009. At year end 2007, the federal funds rate was 4.25 percent and with the 400 basis point reduction during 2008 the federal funds rate ended the year at 0.25 percent and remained at 0.25 percent for all of 2009. We anticipate the Federal Reserve tightening interest rate policy in 2010, 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.

Part II (Continued)
Item 7 (Continued)

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 2008 to 2009 (a)			Changes From 2007 to 2008 (a)		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest Income						
Loans, Net-taxable	**$ 286**	**$ (9,410)**	**$ (9,124)**	$ 943	$ (15,143)	$(14,200)
Investment Securities						
Taxable	**3,559**	**(3,207)**	**352**	645	132	777
Tax-exempt	**(220)**	**12**	**(208)**	(121)	20	(101)
Total Investment Securities	**3,339**	**(3,195)**	**144**	524	152	676
Interest-Bearing Deposits in Other banks	**(10)**	**(16)**	**(26)**	(82)	(34)	(116)
Federal Funds Sold	**(29)**	**(220)**	**(249)**	(940)	(265)	(1,205)
Other Interest - Earning Assets	**12**	**(290)**	**(278)**	45	(56)	(11)
Total Interest Income	**3,598**	**(13,131)**	**(9,533)**	490	(15,346)	(14,856)
Interest Expense						
Interest-Bearing Demand and Savings Deposits	**236**	**(1,685)**	**(1,449)**	139	(1,509)	(1,370)
Time Deposits	**686**	**(10,396)**	**(9,710)**	(2,017)	(6,542)	(8,559)
Total Interest Expense On Deposits	**922**	**(12,081)**	**(11,159)**	(1,878)	(8,051)	(9,929)
Other Interest-Bearing Liabilities						
Federal Funds Purchased and Repurchase Agreements	**684**	**(322)**	**362**	891	(436)	455
Subordinated Debentures	**---**	**(612)**	**(612)**	(137)	(598)	(735)
Other Debt	**197**	**(430)**	**(233)**	865	(434)	431
Total Interest Expense	**1,803**	**(13,445)**	**(11,642)**	(259)	(9,519)	(9,778)
Net Interest Income (Loss)	**$1,795**	**$ 314**	**$ 2,109**	$ 749	$(5,827)	$(5,078)

(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 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 2-5 year range.

The Company maintains about 32.3 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 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 3.27 percent for 2009 compared to 3.30 percent for 2008 and to 3.75 percent for 2007. 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 and remained the same for all of 2009, we have seen our net interest margin reach a low of 3.06 percent for first quarter of 2009 to a high of 3.38 percent for third quarter 2009.

Taxable-equivalent net interest income for 2009 increased $2.11 million, or 5.59 percent, compared to 2008, while taxable-equivalent net interest income for 2008 decreased by $5.08 million, or 11.86 percent, compared to 2007. The fluctuation between the comparable periods resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during 2009 increased almost $73.23 million compared to 2008 while over the same period the net interest margin decreased to 3.27 from 3.30 percent. Similarly, the average volume of earning assets during 2008 increased $3.28 million compared to 2007 while over the same period the net interest margin decreased to 3.30 percent from 3.75 percent. Growth in average earning assets during 2009 and 2008 was primarily in securities and loans. The reduction in the net interest margin in 2009 was primarily the result of sluggish loan activity in 2009.

The average volume of loans increased $4.1 million in 2009 compared to 2008 and increased $11.0 million in 2008 compared to 2007. The average yield on loans decreased 98 basis points in 2009 compared to 2008 and decreased 158 basis points in 2008 compared to 2007. Funding for this growth was primarily provided by deposits and other borrowings in 2009 and by other borrowings in 2008. The average volume of other borrowings increased $29.3 million in 2009 compared to 2008 while average deposits increased $30.4 million in 2009 compared to 2008. The average volume of deposits decreased $35.0 million while other borrowings increased $35.0 million in 2008 compared to 2007. Interest-bearing deposits made up 106.6 percent of the increase in average deposits in 2009 and 91.6 percent of the decrease in average deposits in 2008. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 93.0 percent in 2009, 92.5 percent in 2008 and 92.5 percent in 2007. This deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 120 basis points in 2009 compared to 2008 and decreasing the average cost of total deposits by 85 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.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.05 percent in 2009 compared to 2.97 percent in 2008 and 3.34 percent in 2007. 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 $43.45 million in 2009 compared to $12.94 million in 2008 and $5.93 million in 2007. See the section captioned "Allowance for Possible Loan Losses" elsewhere in this discussion for further analysis of the provision for possible loan losses.

Part II (Continued)
Item 7 (Continued)

Noninterest Income

The components of noninterest income were as follows:

	2009	2008	2007
Service Charges on Deposit Accounts	**$4,198**	$4,700	$4,771
Other Charges, Commissions and Fees	**986**	981	921
Other	**1,286**	1,520	974
Mortgage Fee Income	**448**	609	967
Securities Gains	**2,626**	1,195	184
	$9,544	$9,005	$7,817

Total noninterest income for 2009 increased $539 thousand, or 5.99 percent, compared to 2008 while total noninterest income for 2008 increased $1.19 million, or 15.20 percent, compared to 2007. The increase in 2009 noninterest income compared to 2008 was primarily in securities gains, while the increase in 2008 noninterest income compared to 2007 was primarily in securities gains and other income. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for 2009 decreased $502 thousand, or 10.68 percent, compared to 2008. The decrease was primarily due to a decrease in volume of consumer and business account overdraft fees. 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 overdraft fees, which were related to consumer and business accounts.

Mortgage Fee Income. Mortgage fee income for 2009 decreased $161 thousand, or 26.44 percent, compared to 2008. The decrease was primarily due to decreased mortgage loan activity with the housing and real estate downturn. Mortgage fee income for 2008 decreased $358 thousand, or 37.02 percent, compared to 2007 due to decreased mortgage loan activity.

All Other Noninterest Income. The aggregate of all other noninterest income accounts increased $1.20 million, or 32.52 percent, compared to 2008. The increase was primarily due to gains realized from the sale of securities of $2.63 million for 2009 compared to $1.20 million for 2008, or an increase of $1.43 million. In 2008 the aggregate of all other noninterest income accounts increased $1.62 million, or 77.78 percent, compared to 2007. The increase was primarily due to gains realized from the sale of securities of $1.20 million for 2008 compared to $184 thousand for 2007, or an increase of $1.01 million. In addition other income increased to $1.52 million 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.

Part II (Continued)
Item 7 (Continued)

Noninterest Expense

The components of noninterest expense were as follows:

	2009	2008	2007
Salaries and Employee Benefits	**$14,483**	$16,238	$17,866
Occupancy and Equipment	**4,287**	4,191	4,039
Other	**16,074**	10,427	9,674
	$34,844	$30,856	$31,579

Total noninterest expense for 2009 increased $3.99 million, or 12.93 percent compared to 2008 while total noninterest expense for 2008 decreased $723 thousand, or 2.29 percent, compared to 2007. Growth in noninterest expense in 2009 was primarily in other noninterest expense and occupancy and equipment while the Company had a decrease in salaries and employee benefits. 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.

Salaries and Employee Benefits. Salaries and employee benefits expense for 2009 decreased $1.76 million, or 10.81 percent, compared to 2008. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition and efficiencies gained with the consolidation efforts initiated in 2008. The Company did not payout any bonuses or profit sharing in 2009 due to Company performance. Salaries and employee benefits expense for 2008 decreased $1.63 million, 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 $1.52 million for 2007, or a reduction of $1.20 million. Reduction of head count and incentive payouts are the primary factors for the reduction in salaries and employee benefits compared to 2007.

Occupancy and Equipment. Net occupancy expense for 2009 increased $96 thousand compared to 2008, or an increase of 2.29 percent. The Company purchased new data processing software and equipment that resulted in additional depreciation expense of $65 thousand compared to 2008. 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 $151 thousand for 2008 compared to 2007.

All Other Noninterest Expense. All other noninterest expense for 2009 increased $5.65 million, or 54.16 percent. Significant changes in noninterest expense were: FDIC insurance assessment fees increased to $2.66 million for 2009 compared to $603 thousand for 2008, or an increase of $2.06 million; foreclosed property and repossession expense increased to $2.27 million for 2009 compared to $382 thousand for 2008, or an increase of $1.89 million and goodwill impairment expense was $2.41 million for 2009 compared to $0 for 2008. 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 $603 thousand for 2008 compared to $190 thousand for 2007, or an increase of $413 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 foreclosed property and repossession expense increased to $382 thousand for 2008 compared to $149 thousand for 2007, or an increase of $233 thousand.

Part II (Continued)
Item 7 (Continued)

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 $1.29 billion in 2009 compared to $1.21 billion in 2008 and $1.20 billion in 2007.

	2009		2008		2007	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	**$ 71,561**	**5.5%**	$ 73,569	6.1%	$ 76,509	6.4%
Interest-Bearing	**945,360**	**73.5**	912,932	75.8	945,028	78.5
Federal Funds Purchased and Repurchase Agreements	**42,452**	**3.3**	18,200	1.5	1,130	--
Subordinated Debentures and Other Borrowed Money	**115,229**	**9.0**	110,141	9.1	92,211	7.7
Other Noninterest-Bearing Liabilities	**6,161**	**0.5**	5,632	0.5	8,692	0.7
Equity Capital	**105,655**	**8.2**	84,372	7.0	80,595	6.7
Total	**$1,286,418**	**100.0%**	$1,204,846	100.0%	$1,204,165	100.0%

	2009		2008		2007	
Uses of Funds:						
Loans	**$ 943,164**	**73.3%**	$ 941,794	78.2%	$ 934,495	77.6%
Investment Securities	**238,968**	**18.6**	168,532	14.0	157,033	13.0
Federal Funds Sold	**9,392**	**0.7**	10,499	0.9	28,863	2.4
Interest-Bearing Deposits	**788**	**0.1**	1,235	0.1	2,879	0.2
Other Interest-Earning Assets	**6,328**	**0.5**	6,079	0.5	5,308	0.5
Other Noninterest-Earning Assets	**87,778**	**6.8**	76,707	6.3	75,587	6.3
Total	**$1,286,418**	**100.0%**	$1,204,846	100.0%	$1,204,165	100.0%

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 92.96 percent of total average deposits in 2009 compared to 92.54 percent in 2008 and 92.51 percent in 2007.

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 2009 as total loans were $931.4 million at December 31, 2009, down 3.08 percent, compared to loans of $961.0 million at December 31, 2008, while total loans at December 31, 2008 were up 1.66 percent compared to loans of $945.3 million at December 31, 2007. 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.

	2009	2008	2007	2006	2005
Commercial, Financial and Agricultural	**$ 80,984**	$ 86,379	$ 52,323	$ 61,887	$ 48,849
Real Estate					
Construction	**113,117**	160,374	211,484	193,952	152,944
Mortgage, Farmland	**54,965**	54,159	42,439	40,936	37,152
Mortgage, Other	**626,993**	600,653	544,655	549,601	529,599
Consumer	**38,383**	44,163	72,350	76,930	73,473
Other	**16,950**	15,308	22,028	18,967	17,100
	931,392	961,036	945,279	942,273	859,117
Unearned Interest and Fees	**(140)**	(179)	(301)	(501)	(302)
Allowance for Loan Losses	**(31,401)**	(17,016)	(15,513)	(11,989)	(10,762)
Loans	**$899,851**	$943,841	$929,465	$929,783	$848,053

The following table presents total loans as of December 31, 2009 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity	
One Year or Less	$562,946
After One Year through Three Years	305,110
After Three Years through Five Years	53,036
Over Five Years	10,300
	$931,392

Overview. Loans totaled $931.4 million at December 31, 2009, down 3.08 percent from December 31, 2008 loans of $961.0 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, made up 67.32 percent and 62.50 percent of total loans, real estate construction made up 12.15 percent and 16.69 percent while commercial financial and agricultural loans made up 8.70 percent and 8.99 percent of total loans at December 31, 2009 and December 31, 2008, respectively. Real estate loans-other include both commercial and consumer balances.

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the local bank level. The Company utilizes 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 market. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

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

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

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by market. 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.

During fourth quarter 2009, the Company began utilizing an independent third party company for loan review. This third party engagement will be on-going. The Loan Review Company reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at December 31, 2009 decreased 6.25 percent from December 31, 2008 to $81.0 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Industry Concentrations. As of December 31, 2009 and December 31, 2008, 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. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2009, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in increased loan loss provisions in 2009. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Large Credit Relationships. The Company 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 Executive Loan Committee and Director Loan 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, 2009 and December 31, 2008.

	December 31, 2009			December 31, 2008		
	Number of	**Period End Balances**		Number of	Period End Balances	
	Relationships	**Committed**	**Outstanding**	Relationships	Committed	Outstanding
Large Credit Relationships						
$10 Million and Greater	**3**	**$43,142**	**$40,332**	2	$27,605	$21,345
$5 Million to $9.9 Million	**6**	**39,159**	**38,965**	12	74,679	71,215

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, 2009. 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	$267,338	$300,647	$52,895	$ 9,712	$630,592
Loans with Floating Interest Rates	295,608	4,463	141	588	300,800
	$562,946	$305,110	$53,036	$10,300	$931,392

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.

Nonperforming Assets and Potential Problem Loans

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

	2009	2008	2007	2006	2005
Loans Accounted for on Nonaccrual	**$33,535**	$35,124	$ 14,956	$ 8,069	$8,579
Loans Past Due 90 Days or More	**31**	250	60	9	14
Other Real Estate Foreclosed	**19,705**	12,812	1,332	970	2,170
Securities Accounted for on Nonaccrual	**132**	---	---	---	---
Total Nonperforming Assets	**$53,403**	$48,186	$ 16,348	$ 9,048	$10,763
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	**5.62%**	4.95%	1.73%	0.96%	1.25%
Total Assets	**4.09%**	3.85%	1.35%	0.75%	0.97%
Supplemental Data:					
Trouble Debt Restructured Loans In Compliance with Modified Terms	**9,269**	---	---	---	---
Trouble Debt Restructured Loans Past Due 30-89 Days	**459**	---	---	---	---
Accruing Past Due Loans:					
30-89 Days Past Due	**25,547**	18,675	15,681	10,593	6,829
90 or More Days Past Due	**31**	250	60	9	14
Total Accruing Past Due Loans	**$25,578**	$18,925	$15,741	$10,602	$6,843

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2009 increased 10.83 percent from December 31, 2008. 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 and an impaired security that has been put on nonaccrual in 2009.

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.

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

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at 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 current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

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

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

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment. In addition, the Company has also segmented its' real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the Company changed the methodology in calculating its loan loss reserve. Previously the look back period for charge-off experience was the average of the charge-offs for the prior five years, however due to the current housing and real estate downturn, management deemed prudent to lower the look back period for charge-off experience to a one year look back. This change resulted in an approximate $12 million dollar addition to the loan loss reserve during fourth quarter 2009.

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.

	2009		2008		2007		2006		2005	
	Reserve	**%***	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	**$ 4,710**	**9%**	$ 4,254	9%	$ 3,645	6%	$ 3,597	7%	$3,229	6%
Real Estate - Construction	**7,850**	**12**	2,808	17	2,560	22	719	21	646	18
Real Estate – Farmland	**942**	**6**	681	6	621	4	599	4	538	4
Real Estate – Other	**13,816**	**67**	5,955	62	5,430	58	3,896	58	3,498	62
Loans to Individuals	**2,826**	**4**	2,467	4	2,404	8	2,398	8	2,152	8
All other loans	**1,257**	**2**	851	2	853	2	780	2	699	2
Total	**$31,401**	**100%**	$17,016	100%	$15,513	100%	$11,989	100%	$10,762	100%

***** 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.

Part II (Continued)
Item 7 (Continued)

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

	2009	2008	2007	2006	2005
Allowance for Loan Losses at Beginning of Year	**$17,016**	$15,513	$11,989	$10,762	$10,012
Charge-Offs					
Commercial, Financial and Agricultural	**768**	1,680	957	1,351	767
Real Estate	**27,545**	9,190	1,862	854	678
Consumer	**908**	994	793	697	1,369
All Other	**272**	103	296	471	232
	29,493	11,967	3,908	3,373	3,046
Recoveries					
Commercial, Financial and Agricultural	**73**	73	109	420	176
Real Estate	**156**	285	992	20	18
Consumer	**191**	155	312	156	83
All Other	**13**	19	88	17	75
	433	532	1,501	613	352
Net Charge-Offs	**29,060**	11,435	2,407	2,760	2,694
Provision for Loans Losses	**43,445**	12,938	5,931	3,987	3,444
Allowance for Loan Losses at End of Year	**$31,401**	$17,016	$15,513	$11,989	$10,762
Ratio of Net Charge-Offs to Average Loans	**3.02%**	1.19%	0.25%	0.30%	0.33%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased $30.51 million from $12.94 million in 2008 to $43.45 million in 2009. The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at an adequate level to absorb losses inherent in the loan portfolio at year end. The amount each period is dependent upon many factors, including changes in the risk ratings of the loan portfolio, net charge-offs, past due ratios, the value of collateral, and other environmental factors that include portfolio loan quality indicators; portfolio growth and composition of commercial real estate and concentrations; portfolio policies, procedures, underwriting standards, loss recognition, collection and recovery practices; local economic business conditions; and the experience, ability, and depth of lending management and staff. Of significance to changes in the allowance during 2009 was the provision of $43.45 million. Charge-offs largely consisted of nine construction and land development loans totaling $8.13 million in 2009 compared to seven construction and land development loans totaling $4.25 million in 2008, three 1-4 family residence property of $1.61 million in 2009 compared to one 1-4 family residence property of $400 thousand in 2008; three multifamily residential property loans totaling $3.22 million in 2009 compared to one multifamily residential property loan totaling $1.75 million in 2008; and eight nonfarm residential loans totaling $8.50 million in 2009. In 2008, the charge-offs did not include any nonfarm residential loans, but did include one commercial loan of $470 thousand. The remainder of the charge-offs were made up of several small loans, most of which were real estate dependent loans and commercial loans.

Provisions were higher in 2009 compared to 2008 primarily due to the elevated risk of residential real estate and land development loans that began during 2007 with the housing and real estate downturn. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 5.62 percent at December 31, 2009 compared to 4.95 percent at December 31, 2008. Total nonperforming assets at December 31, 2009 were $53.4 million, of which $24.5 million were construction, land development and other land loans; $6.9 million were 1-4 family residential properties; $3.1 million were multifamily residential properties; $16.2 million were nonfarm nonresidential properties; $1.4 million were farmland properties; and the remainder of nonperforming assets totaling $1.3 million were commercial and consumer loans. All of the classified loans greater than $50 thousand, including the nonperforming loans, are reviewed throughout the quarter for impairment review. Total nonperforming assets at December 31, 2008 were $48.2 million, of which $27.2 million were construction, land development and other land loans; $700 thousand were farmland; $5.1 million were 1-4 family residential properties; $8.7 million were multifamily properties; $4.3 million were nonfarm nonresidential properties; and the remainder of nonperforming assets totaling $2.2 million were commercial and consumer loans. The allowance for loan losses of $31.4 million at December 31, 2009 was 3.37 percent of total loans which compares to $17.0 million at December 31, 2008, or 1.77 percent of total loans and to $15.5 million at December 31, 2007, or 1.64 percent. Unusually high levels of loan loss provision have been required as Company management addresses asset quality deterioration. While the nonperforming loans as a percentage of total loans was 3.60 percent, 3.68 percent, and 1.59 percent, respectively as of December 31, 2009, December 31, 2008 and December 31, 2007, the Company's allowance for loan losses as a percentage of nonperforming loans was 93.55 percent, 48.10 percent, and 103.31 percent, respectively as of December 31, 2009, December 31, 2008 and December 31, 2007. We continue to identify new problem loans, though at a slower pace than the previous year.

While the allowance for loan losses increased from $17.02 million, or 1.77 percent of total loans at December 31, 2008 to $31.40 million, or 3.37 percent of total loans at December 31, 2009, the Company also reflected a slight decrease in nonperforming loans from $35.4 million at December 31, 2008 to $33.57 million at December 31, 2009. The allowance for loan losses is inherently judgmental, nevertheless the Company's methodology is consistently applied based on standards for current accounting by creditors for impairment of a loan and allowance allocations determined in accordance with accounting for contingencies. Loans individually selected for impairment review consist of all loans classified substandard that are $50 thousand and over. The remaining portfolio is analyzed based on historical loss data. Loans selected for individual review where no individual impairment amount is identified do not receive any contribution to the allowance for loan losses based on historical data. Historical loss rates are updated annually to provide the annual loss rate which is applied to the appropriate portfolio grades. In addition, the Company has also segmented its' real estate portfolio into thirteen separate categories and captured loan loss experience for each category. Most of the company's charge-offs the past two years have been real estate dependent loans and we believe this segmentation provides more accuracy in determining allowance for loan loss adequacy. During fourth quarter 2009, the company changed its methodology for the look back period for determination of charge-off experience. Previously, the Company utilized the average of the charge-off experience for the preceding five years, but changed to a one year look back. This resulted in approximately $12 million additional loan loss provision, but was considered prudent by management to adhere to guidance by regulatory authorities to lower the look back period in light of current economic conditions. In addition, environmental factors as discussed earlier are evaluated for any adjustments needed to the allowance for loan losses determination produced by individual loan impairment analysis and remaining portfolio segmentation analysis. The allowance for loan losses determination is based on reviews throughout the year and an environmental analysis at year end.

As part of our monitoring and evaluation of collateral values for nonperforming and problem loans in determining adequate allowance for loan losses, regional credit officers along with lending officers submit quarterly problem loan reports for loans greater than $50 thousand in which impairment is identified. This process typically determines collateral shortfall based upon local market real estate value estimates should the collateral be liquidated. Once the loan is deemed uncollectible, it is transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department gets a current appraisal on the property in order to record a fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate. Trends the past several quarters reflect a decrease in collateral values from two to three years ago on improved properties of fifteen to twenty five percent and on land development and land loans of thirty to fifty percent. The significant reduction in collateral values on nonperforming assets has resulted in the increased loan loss provisions and charge-offs, particularly during 2009.

Net charge-offs in 2009 increased $17.63 million compared to the same period a year ago. Net charge-offs were fairly consistent during 2007, 2006 and 2005; however, the net charge-offs increased significantly beginning in 2008 primarily from the write-down of nonperforming credits to appraised values. The increase significantly increased during 2009, particularly with real estate dependent loans as problem credits went through the collection process to resolution.

The allowance for loan losses is $14.4 million more than the prior year end, after factoring in net-charge offs, additional provisions, and the normal determination for an adequate funding level. Management believes the level of the allowance for loan losses was adequate as of December 31, 2009. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2009, 2008 and 2007.

	2009	2008	2007
U.S. Treasuries and Government Agencies	**$ ---**	$ ---	$37,095
Obligations of States and Political Subdivisions	**4,121**	9,110	13,984
Corporate Obligations	**4,138**	6,176	5,787
Asset Backed Securities	**132**	668	1,000
Marketable Equity Securities	**---**	---	2
Investment Securities	**8,391**	15,954	57,868
Mortgage Backed Securities	**258,909**	191,750	109,323
Total Investment Securities and Mortgage Backed Securities	**$267,300**	$207,704	$167,191

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2009. (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**
Mortgage Backed Securities	$11,564	3.07%	$164,577	2.76%	$75,622	3.93%	$ 7,146	4.08%
Obligations of State and Political Subdivisions	1,296	3.97	412	4.57	2,413	3.74	--	--
Corporate Obligations	--	--	2,223	5.41	1,065	5.67	850	3.85
Asset Backed Securities	--	--	--	--	--	--	132	--
Total Investment Portfolio	$12,860	3.16%	$167,212	2.80%	$79,100	3.95%	$ 8,128	3.99%

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, 2009, 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 3.48 percent in 2009 compared to 4.84 percent in 2008 and 4.77 percent in 2007. The decrease in the average yield from 2008 to 2009 primarily resulted from the turnover of the securities portfolio resulting in the investment of new funds at lower rates. 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.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2009, 2008 and 2007.

	2009		2008		2007	
	Average Amount	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	**$ 71,561**		$ 73,569		$ 76,509	
Interest-Bearing Demand and Savings	**237,045**	**0.73%**	220,655	1.44%	214,111	2.13%
Time Deposits	**708,315**	**2.81%**	692,277	4.28%	730,917	5.22%
Total Deposits	**$1,016,921**	**2.13%**	$ 986,501	3.33%	$1,021,537	4.18%

The following table presents the maturities of the Company's other time deposits as of December 31, 2009.

	Other Time Deposits $100,000 or Greater	Other Time Deposits Less Than $100,000	Total
Months to Maturity			
3 or Less	$ 115,159	$ 95,828	$210,987
Over 3 through 12	201,737	207,440	409,177
Over 12 Months	47,168	50,996	98,164
	$364,064	$354,264	$718,328

Average deposits increased $30.4 million in 2009 compared to 2008 and decreased $35.0 million in 2008 compared to 2007. The increase in 2009 included $16.4 million or 7.4 percent in interest-bearing demand and savings and $16.0 million or 2.3 percent in time deposits while at the same time noninterest-bearing deposits decreased $2.0 million or 2.7 percent. The decrease in 2008 included $2.9 million or 3.8 percent, related to noninterest-bearing deposits, and $38.6 million or 5.3 percent in time deposits while at the same time interest-bearing demand and savings deposits increased $6.5 million or 3.06 percent. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.0 percent in 2009 and 7.5 percent in 2008 and 7.5 percent in 2007. The general decrease in market rates in 2009 had the effect of (i) decreasing the average cost of interest-bearing deposits by 130 basis points in 2009 compared to 2008 and (ii) mitigating a portion of the impact of decreasing yields on earning assets in the Company's net interest income in 2009. 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.

Total average interest-bearing deposits increased $32.43 million, or 3.55 percent in 2009 compared to 2008 and decreased $32.10 million, or 3.40 percent, in 2008 compared to 2007. The increase in average deposits in 2009 compared to 2008 was interest-bearing demand, savings, and 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, 2009, the Company had $136.45 million, or 12.90 percent of total deposits, in brokered certificates of deposit attracted by external third parties.

Part II (Continued)
Item 7 (Continued)

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, 2009. 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				
	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	Total
Contractual Obligations:					
Subordinated Debentures	$ ----	$ ----	$ ----	$ 24,229	$ 24,229
Federal Funds Purchased	----	----	----	----	----
Securities Sold Under Agreements to Repurchase	20,000	20,000	----	----	40,000
Federal Home Loan Bank Advances	20,000	41,000	----	30,000	91,000
Operating Leases	129	249	99	----	477
Deposits with Stated Maturity Dates	620,165	94,054	3,963	146	718,328
	660,294	155,303	4,062	54,375	874,034
Other Commitments:					
Loan Commitments	56,100	----	----	----	56,100
Standby Letters of Credit	1,475	----	----	----	1,475
Standby Letters of Credit Issued by Federal Home Loan Bank for Bank	60	----	----	----	60
	57,635	----	----	----	57,635
Total Contractual Obligations and Other Commitments	$717,929	$155,303	$4,062	$54,375	$931,669

In the ordinary course of business, the Banks have 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, 2009 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, 2009 are included in the preceding table.

Capital and Liquidity

At December 31, 2009, shareholders' equity totaled $89.3 million compared to $83.2 million at December 31, 2008. In addition to net loss of $19.2 million, other significant changes in shareholders' equity during 2009 included the sale of $28 million in preferred stock and related warrants to the U. S. Treasury, $2.4 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 $(100) thousand at December 31, 2009 compared to $376 thousand at December 31, 2008. 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, 2009 was 11.79 percent and total Tier 1 and 2 risk-based capital was 13.07 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, 2009 was 8.30 percent, which exceeds the required ratio standard of 4 percent.

For 2009, average capital was $105.7 million, representing 8.21 percent of average assets for the year. This compares to 7.00 percent for 2008.

The Company paid a quarterly dividend of $0.10, $0.05 per common share during the first and second quarter of 2009, respectively, and suspended dividend payments beginning in the third quarter of 2009. The Company paid quarterly dividends of $0.0975, $0.0975, $0.0975 and $0.0975 per common share during the first, second, third and fourth quarters of 2008, respectively. This equates to no meaningful dividend payout ratio in 2009 and a dividend payout ratio of 139.29 percent in 2008.

The Company declared a quarterly dividend of $315 thousand, $350 thousand, $350 thousand and $350 thousand on preferred stock during the first, second, third and fourth quarters of 2009, respectively. The Company had no preferred stock until January 2009 when shares were issued to U.S. Treasury.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2009, the Company held $267.2 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2008, the available for sale bond portfolio totaled $207.6 million. Only marketable investment grade bonds are purchased. Although most of the Banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 88.1 percent as of December 31, 2009 and 95.4 percent at December 31, 2008. 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, 2009 and December 31, 2008 were 78.4 percent and 84.3 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2009 and December 31, 2008, the Banks had $364.1 million and $333.5 million, respectively, in certificates of deposit of $100,000 or more. These larger deposits represented 34.4 percent and 33.1 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, 2009, the Company had $136.45 million, or 12.9 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the banks use external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

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

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

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

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

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

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

Impact of Inflation and Changing Prices

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

Regulatory and Economic Policies

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

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

Recently Issued Accounting Pronouncements

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

Part II (Continued)
Item 7 (Continued)

Quantitative and Qualitative Disclosures About Market Risk
AVERAGE BALANCE SHEETS

	2009			2008			2007		
	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)	**$962,677**	**$57,776**	**6.00%**	$958,582	$66,900	6.98%	$947,569	$81,100	8.56%
Investment Securities									
Taxable	**232,590**	**7,934**	**3.41**	158,287	7,582	4.79	144,591	6,805	4.71
Tax-Exempt (2)	**6,378**	**374**	**5.86**	10,245	582	5.68	12,442	683	5.49
Total Investment Securities	**238,968**	**8,308**	**3.48**	168,532	8,164	4.84	157,033	7,488	4.77
Interest-Bearing Deposits	**788**	**1**	**0.13**	1,235	27	2.19	2,879	143	4.97
Federal Funds Sold	**9,392**	**24**	**0.26**	10,499	273	2.60	28,863	1,478	5.12
Other Interest-Earning Assets	**6,328**	**20**	**0.32**	6,079	298	4.90	5,308	309	5.82
Total Interest-Earning Assets	**1,218,153**	**66,129**	**5.43**	1,144,927	75,662	6.61	1,141,652	90,518	7.93
Noninterest-Earning Assets									
Cash	**21,011**			20,232			21,575		
Allowance for Loan Losses	**(19,513)**			(16,788)			(13,074)		
Other Assets	**66,767**			56,475			54,012		
Total Noninterest-Earning Assets	**68,265**			59,919			62,513		
Total Assets	**$1,286,418**			$1,204,846			$1,204,165		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	**$237,045**	**$1,736**	**0.73%**	$220,655	$3,185	1.44%	$214,111	$4,555	2.13%
Other Time	**708,315**	**19,907**	**2.81**	692,277	29,617	4.28	730,917	38,176	5.22
Total Interest-Bearing Deposits	**945,360**	**21,643**	**2.29**	912,932	32,802	3.59	945,028	42,731	4.52
Other Interest-Bearing Liabilities									
Other Borrowed Money	**91,000**	**3,103**	**3.41**	85,912	3,336	3.88	66,200	2,905	4.39
Subordinated Debentures	**24,229**	**659**	**2.72**	24,229	1,271	5.25	26,011	2,006	7.71
Federal Funds Purchased and Repurchase Agreements	**42,452**	**876**	**2.06**	18,200	514	2.82	1,130	59	5.22
Total Other Interest-Bearing Liabilities	**157,681**	**4,638**	**2.94**	128,341	5,121	3.99	93,341	4,970	5.32
Total Interest-Bearing Liabilities	**1,103,041**	**26,281**	**2.38**	1,041,273	37,923	3.64	1,038,369	47,701	4.59
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	**71,561**			73,569			76,509		
Other Liabilities	**6,161**			5,632			8,692		
Stockholders' Equity	**105,655**			84,372			80,595		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	**183,377**			163,573			165,796		
Total Liabilities and Stockholders' Equity	**$1,286,418**			$1,204,846			$1,204,165		
Interest Rate Spread			**3.05%**			2.97%			3.34%
Net Interest Income		**$39,848**			$37,739			42,817	
Net Interest Margin			**3.27%**			3.30%			3.75%

(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 $155, $168 and $127 for 2009, 2008 and 2007 respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 34 percent.

(2) Taxable-equivalent adjustments totaling $127, $198 and $232 for 2009, 2008, and 2007 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.

Part II (Continued)
Item 7 (Continued)

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, 2009. 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**
EARNING ASSETS:						
Interest-bearing Deposits	$ 6,479	$ ---	$ 6,479	$ ---	$ ---	$ 6,479
Federal Funds Sold	16,433	---	16,433	---	---	16,433
Investment Securities	1,378	9,101	10,479	188,580	68,242	267,301
Loans, Net of Unearned Income	408,967	153,909	562,876	358,076	10,300	931,252
Other Interest-bearing Assets	6,345	---	6,345	---	---	6,345
Total Interest-earning Assets	439,602	163,010	602,612	546,656	78,542	1,227,810
INTEREST-BEARING LIABILITIES:						
Interest-bearing Demand Deposits (1)	220,168	---	220,168	---	---	220,168
Savings (1)	34,851	---	34,851	---	---	34,851
Time Deposits	210,987	409,177	620,164	98,018	146	718,328
Other Borrowings (2)	20,000	---	20,000	41,000	30,000	91,000
Subordinated Debentures	24,229	---	24,229	---	---	24,229
Federal Funds Purchased	---	---	---	---	---	---
Securities Sold Under Agreement To Repurchase	20,000	---	20,000	20,000	---	40,000
Total Interest-bearing Liabilities	530,235	409,177	939,412	159,018	30,146	1,128,576
Interest Rate-Sensitivity Gap	(90,633)	(246,167)	(336,800)	387,638	48,396	99,234
Cumulative Interest-Sensitivity Gap	$(90,633)	$(336,800)	$(336,800)	$50,838	$99,234	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(7.38)%	(20.05)%	(27.43)%	31.57%	3.94%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(7.38)%	(27.43)%	(27.43)%	4.14%	8.08%	

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

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

The foregoing table indicates that we had a one year negative gap of ($337) million, or (27.43) percent of total assets at December 31, 2009. In theory, this would indicate that at December 31, 2009, $337 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. 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, 2009 indicates that net interest income would deteriorate 16.87 percent with a 200 basis point decrease and would improve 5.70 percent with a 200 basis point increase. Though slightly outside policy, the increased exposure to declining rates is mitigated by the low likelihood of a further decline of 200 basis points from the current rate levels. 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, 2009 indicates that net economic value of equity percentage change would decrease 5.92 percent with a 200 basis point increase and would decrease 11.19 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, 2009 indicates a one year gap of 0.82 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.

	Year Ended December 31		
	2009	2008	2007
Return on Assets(1)	**(1.60)%**	0.17%	0.71%
Return on Equity(1)	**(19.45)%**	2.40%	10.60%
Dividend Payout	**NM(2)**	139.29%	30.67%
Equity to Assets	**8.21%**	6.64%	6.93%
Dividends Declared	**$0.146**	$0.39	$0.365

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

(2) Not meaningful due to net loss recorded.

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. 2009 has been a difficult and challenging period as we anticipate to continue working toward resolution of our problem assets in 2010. 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. Focus during 2010 will be directed toward addressing and bringing resolution to problem assets.

Part II (Continued)
Item 7 (Continued)

On January 9, 2009, Colony consummated the sale of $28,000,000 in preferred stock and related warrants to the U.S. Treasury Department in the U.S. Treasury Capital Program ("CPP"). Colony elected to participate to take advantage of the likely one-time opportunity to receive a very low-cost source of capital. Colony's participation in the CPP strengthens its current well-capitalized position and increases liquidity. Colony management believes maintenance of capital at elevated levels during the current challenging economic environment is desirable. In the spirit of the program Colony anticipates using this capital to expand its business through extension of credit to worthy borrowers, to purchase mortgage-backed securities pooled and issued by Freddie Mac, Fannie Mae, and Ginnie Mae to enhance the housing market and to reduce brokered deposits on our books. Utilization of these funds during 2009 were new and renewed loan originations totaling $665 million, of which $266 million represented new loan extensions either funded or committed.

Also during 2009, Colony had a net increase in mortgage-backed securities of $67 million.

Part II (Continued)
Item 7A

Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is located in Item 7 under the heading Interest Rate Sensitivity.

Item 8
Financial Statements and Supplemental Data

The following consolidated financial statements of the Registrant and its subsidiary are included on exhibit 13 of this Annual Report on Form 10-K:

Consolidated Balance Sheets – December 31, 2009 and 2008

Consolidated Statements of Income – Years Ended December 31, 2009, 2008 and 2007

Consolidated Statements of Comprehensive Income – Years Ended December 31, 2009, 2008 and 2007

Consolidated Statements of Stockholders' Equity – Years Ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows – Years Ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

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