RIGHT HERE
WITH YOU.
COLONY
BANKCORP, INC.
2018 Annual Report to Shareholders

THE RAYNOR COMPANIES
FITZGERALD, GA

As a lifelong resident of Fitzgerald, Tim Raynor's entrepreneurial spirit has flourished into three distinct businesses. The Raynor Companies began as technical sales representatives selling rubber and plastic goods to original-equipment manufacturers in the automobile, agricultural and manufacturing industries across the United States. Soon, Raynor Companies established a light manufacturing and distribution warehouse to sell component parts used to manufacture cargo trailers. In 2010, as his business thrived, Tim launched a business-banking relationship at his branch in Fitzgerald, where he has always done his personal banking. The Bank also provided financing to help seed Tim's new businesses.

With a penchant to help others, Tim started a third company, TRC Aquaponics, to help address the food crisis in areas of the world experiencing water shortages. Aquaponics is a system for growing fish and vegetables in a more efficient and effective way, allowing the fish waste to feed the plants and the plants to clean the water that flows back to the fish tank. TRC Aquaponics sets up aquaponic systems around the world to help orphans and widows enjoy a better and healthier life and to provide sustainable income to those in need.

Banker Mike Smith, Market President, Fitzgerald, has known Tim since childhood. Raising their families together, Tim not only counts on Mike's friendship, but also relies on his professional and financial advice to cultivate these growing businesses.

Sharron and Tim Raynor together with Mike Smith, Market President, Fitzgerald (front cover, right).

Company Profile

Colony Bankcorp, Inc., with assets of $1.3 billion, is the bank holding company for Colony Bank. Founded in 1975 and headquartered in Fitzgerald, Georgia, Colony operates 27 full-service branches throughout Central, Southern and Coastal Georgia, as well as a full-service website at www.colonybank.com. Colony's common stock is traded on the NASDAQ Global Market under the symbol CBAN. Follow the Company on Facebook or on Twitter @colony_bank.

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)	2018	2017
Financial position at December 31,		
Total assets	$ 1,251,878	$ 1,232,755
Loans (net of unearned income)	781,526	764,788
Allowance for loan losses	7,277	7,508
Deposits	1,085,125	1,067,985
Stockholders' equity	95,692	90,323
Common book value per share	11.33	10.70
Tangible common book value per share	11.24	10.69
Operations for the year ended December 31,		
Net interest income	$ 40,797	$ 39,043
Provision for loan losses	201	390
Net interest income after provision for loan losses	40,596	38,653
Noninterest income	9,621	9,735
Noninterest expense	35,300	33,860
Income before income taxes	14,917	14,528
Income taxes	3,000	6,777
Net income*	11,917	7,751
Preferred stock dividends	–	211
Net income available to common shareholders	$ 11,917	$ 7,540
Basic earnings per share	$ 1.41	$ 0.89
Diluted earnings per share*	$ 1.40	$ 0.87
Cash dividends per share	$ 0.20	$ 0.10
Operating ratios		
Net interest margin	3.56%	3.46%
Return on average assets	0.99%	0.63%
Return on average total equity	13.32%	8.28%
Efficiency	70.05%	69.19%

** The 2017 amounts referenced included an additional charge of $2.04 million to income tax expense for the remeasure of the Company's deferred tax assets caused by the tax reform in December 2017. Excluding this charge, the adjusted net income would have been $9.79 million or $1.11 per diluted share for the year ended December 31, 2017. See additional information in the Company's 2017 Annual Report on Form 10-K.*

TO OUR SHAREHOLDERS

Our message to you regarding the Company's financial performance for 2018 comes from a newly strengthened leadership team. Heath Fountain, our new President and Chief Executive Officer, and I are happy to join in writing our first combined shareholder letter. Heath has established an outstanding career in community banking. For more than 18 years, he has been a part of skillful senior management teams that helped grow several community banks. His knowledge and experience to expand organically, as well as through acquisitions, will be invaluable as we chart a new growth course we call Driving High Performance.

Reporting this year's results to you is made easier by Colony Bankcorp's proud posting of a year of record earnings. Net income available to common shareholders increased 58% to $11.92 million and adjusted earnings per diluted share, which mainly equalizes for the impact of tax reform on 2018 and 2017 results, rose 28% to $1.42. Revenues for 2018 also increased 3% to a record $50.4 million, mostly attributable to a net interest margin improvement of 10 basis points to 3.56%, due to higher rates on loans. Together, this progress provided a return on average assets and average total equity of 0.99% and 13.32%, respectively.

On the balance sheet, total assets grew 2% to $1.25 billion, primarily reflecting an increase in our loan portfolio. Importantly, credit quality remained solid, showing continued improvement from a year ago. Nonperforming assets decreased slightly in 2018 to $11.32 million or 1.44% of total loans and other real estate owned ("OREO") from $11.76 million or 1.53% at December 31, 2017. OREO totaled $1.84 million at December 31, 2018, reflecting a 57% reduction from $4.26 million at December 31, 2017. Net charge-offs for the year ending December 31, 2018, were $431 thousand or 0.06% of average loans, down from $1.81 million or 0.24% for 2017. The loan loss

Heath Fountain, President and Chief Executive Officer, left, and **Mark Massee**, Chairman

Net income available to common shareholders for 2018 increased 58% to a record $11.92 million from $7.54 million for 2017. On a diluted per share basis, net income increased 61% to $1.40 for 2018 from $0.87 for 2017.

reserve for the year remained solid at $7.28 million or 0.93% of total loans compared with $7.51 million or 0.98% at December 31, 2017. Our loan loss provision for 2018 was $201 thousand, down from $390 thousand for 2017.

Driving High Performance

While our culture is deeply rooted in customer service, and we are committed to continuing that tradition, we aspire to be the best in class. Driving high performance begins by initiating new processes and procedures, including talent assessment, proactive business development, and the implementation of a tracking program for our customer-calling efforts. These steps are all focused on top- and bottom-line growth, with you, our shareholders, sharing in the benefits of these plans. Moreover, we intend to realign our balance sheet to increase the return on assets by capitalizing on investments in higher-yielding loans, while reducing our focus on investment securities. Driving high performance begins with our bankers by providing team members with even greater motivation to assist customers with financial solutions that help them realize their goals and ambitions.

SIDE BY FOR NINE

GRIFFIN LUMBER | CORDELE, GA

Griffin Lumber, a fourth-generation family-owned business located in Cordele, is run by Will Griffin and his three brothers. Since 1948, its sawmill has produced the lumber used to build the community and surrounding areas. Over the years, the Griffins have started several other businesses, from land grading to retail building supply stores. The Griffins' strong ties to their employees and the community mirror the solid relationship that exists between Griffin Lumber and our Bank. Jeffrey Hester, Vice President and a 10-year veteran of the Bank, and Bob Evans, Regional President, West Central Region, oversee the account. For 10 years, Will, Jeffrey and Bob have collaborated on the complexities of running these businesses, the challenges that lie ahead, and how Colony can deliver the financial solutions to help Griffin Lumber remain successful in the future.

Will Griffin, left, with Colony banker Jeffrey Hester.

SIDE
YEARS
We're not like
the banks you're
probably used to.
COLONY

Capital Management

In 2017, Colony redeemed its Troubled Asset Relief Program (TARP) preferred securities, which peaked at approximately $34 million in 2014, and in doing so, we eliminated a significant drag on earnings to the benefit of 2018 results. With these securities now retired, the Company's future earnings prospects and its ability to consider strategic opportunities going forward are greatly enhanced.

Supporting this outlook, Colony continues to maintain a strong capital position, with ratios that exceed regulatory minimums required to be classified as "well-capitalized." At December 31, 2018, the Company's tier one leverage ratio, tier one ratio, total risk-based capital ratio and common equity tier one capital ratio were 10.24%, 15.00%, 15.86% and 12.22%, respectively, compared with 9.89%, 14.64%, 15.56% and 11.78%, respectively, at December 31, 2017. This highlights a solid capital base from which we plan to grow.

Given that our 2018 results were quite strong and our outlook remains positive, our Board of Directors voted in January to increase the Company's quarterly cash dividend 50% to $0.075 per share, beginning in 2019, marking the second consecutive year of higher dividend payouts since dividends were reinstated in 2017. At this writing, the Company's forward dividend rate reflects a payout ratio of 21% of 2018 earnings per diluted share.

Expansion

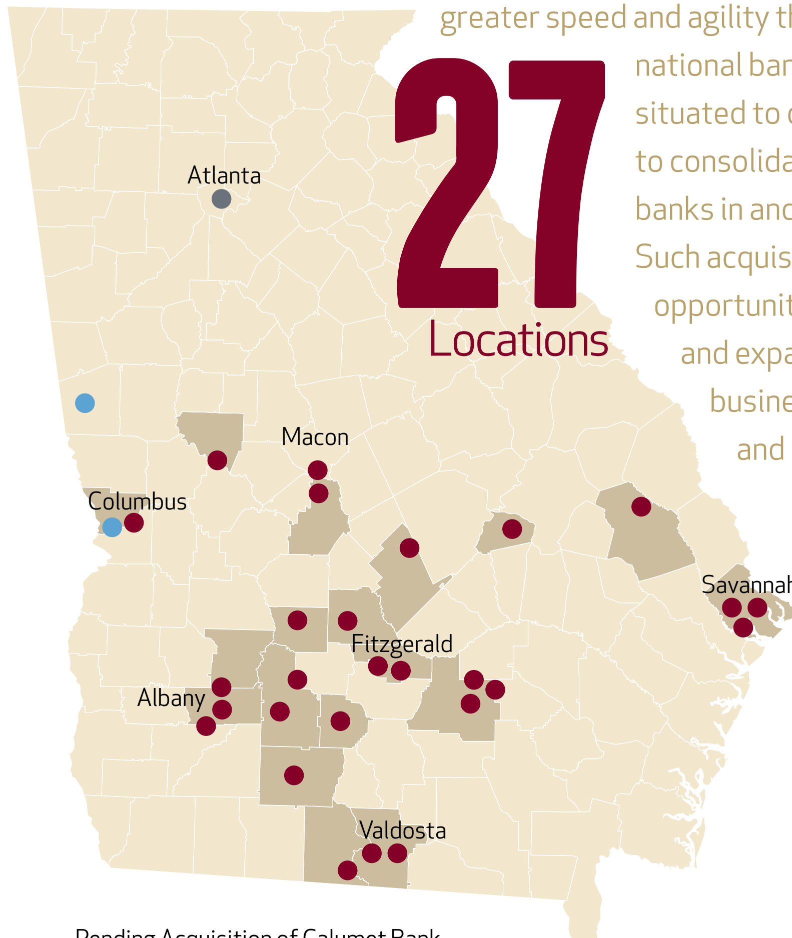
With our solid balance sheet, the repayment of our TARP obligation in 2017, and a strong leadership team in place, our bank is now ready to pursue both organic growth across our markets as well as selective, prudent acquisitions. Last year, we purchased the Albany branch of Planters First Bank, representing our third location in that market. The deal also included land in Albany, a prime market for us, on which we expect to build another branch in the future.

Whole-bank acquisitions are also part of our growth strategy. With greater size and capabilities compared with most community banks and greater speed and agility than regional and national banks, Colony is well situated to consider opportunities to consolidate smaller community banks in and around its footprint. Such acquisitions would provide opportunities to increase scale and expand the reach of our business to new markets and customers.

In December 2018, we announced our planned acquisition of LBC Bancshares, Inc., parent company of Calumet Bank, a Georgia state-chartered bank with two branches in LaGrange and Columbus, as well as a loan production office in Atlanta. As of December 31, 2018, LBC had approximately $207 million in assets, $136 million in loans, $182 million in deposits and $19.7 million in tangible common equity.

GROWING PRESENCE

With 27 locations in Central, South and Coastal Georgia, we are the ninth largest bank in Georgia and the largest community bank headquartered outside of the Atlanta market, yet we continue to aim higher. Offering superior size and capabilities compared with most community banks and greater speed and agility than regional and national banks, Colony is well situated to consider opportunities to consolidate smaller community banks in and around its footprint. Such acquisitions would provide opportunities to increase scale and expand the reach of our business to new markets and customers.



ALIGNED OBJECTIVES

We're a community bank with big resources.

THE MOWRY COMPANIES | SAVANNAH, GA

Having your finger on the pulse of the real estate market is vital to the Mowry's businesses. Having a banker who can react swiftly in today's competitive real estate industry is equally important. The Mowrys are builders, developers and sales agents who began their relationship eight years ago with Colony Bank's Drew Hulsey, Regional President, Coastal Region. It's a special relationship since the Mowrys were one of Drew's first customers with the Bank. As the Mowry's businesses grew, so too did their reliance on the Bank's various products. Now, Homes of Integrity and Simcoe have come to depend on Drew as their lead banker and a "one-stop shop" for their banking needs, both personally and professionally.

Meagan Mowry, right, with Drew Hulsey, Colony Bank's Regional President, Coastal Region.

WE'RE IN OUR COMMUNITIES

and giving back. Savannah-Chatham public choice school, STEM Academy, has rigorous admission standards and demanding multi-disciplinary coursework. Eighth grade students, supported by Colony Bank and its banker, Brent Lowry, Vice President, Market Branch Manager, the PTSA co-president, teacher and "Maker" Stephen Routh, and the Savannah Homeless Association collaborated to design and build a "Tiny House" for homeless veterans in Savannah.

Right here with you.

The Tiny House Project utilized science, technology, engineering, art and math. Teamwork among all involved was pivotal to the successful completion of the project and Colony Bank will continue to sponsor the project for the 2019-2020 school year.

The transaction, already approved by LBC shareholders, is valued at $34.1 million and is expected to close in the second quarter of 2019. We anticipate the acquisition will contribute mid-single digit earnings per share on a full-year basis and will be immediately accretive to our earnings, excluding transaction costs.

When this acquisition is completed, we will welcome the Calumet team and Leonard "Lenny" H. Bateman, Jr., LBC Bancshares President and Chief Executive Officer, to Colony Bank. Initially, Lenny will focus on ensuring a smooth transition in customer relationships and overseeing regional growth strategies, but we fully expect that his role within the Company's corporate structure will expand over time. Considering the shared characteristics of our cultures and core philosophies, Calumet should be an excellent fit with Colony and its integration should go smoothly.

We are excited about this acquisition, as it is a natural expansion into a contiguous market in Western Georgia, providing our bank an entry into LaGrange and giving Colony the third largest deposit market share in the area. We plan to increase Calumet Bank's scale and build on its existing operations, while also taking advantage of an attractive access to the lucrative Atlanta lending market. These prospects portend growth ahead, across existing and new markets, and emerging capabilities.

Conclusion

We believe we have assembled a performance-driven leadership team, with an aligned group of market leaders and senior managers that are poised to forge the next exciting phase for Colony Bankcorp. With 27 locations in Central, South and Coastal Georgia, we are the ninth largest bank in the state and the largest community bank headquartered outside of the Atlanta market. We have a clear strategic vision and solid financial fundamentals to support and guide us. Our entire team is energized and excited about our growth prospects in 2019 and beyond.

We thank you for your continued investment in our company. As always, we remain grateful for your ongoing support and confidence in Colony Bankcorp and your willingness to invest in our future. We look forward to the coming year with great enthusiasm and are eager to capitalize on the opportunities before us.

Sincerely,

T. Heath Fountain
President and Chief Executive Officer

Mark H. Massee
Chairman of the Board

UNDERSTAND AND

DOUBLERUN FARMS ASHBURN, GA

Being fourth-generation farmers, brothers Stewart and Steve Whelchel have been personal and business customers of the bank for more than 30 years. With over 1,000 acres of land in Crisp, Turner and Wilcox Counties, the Whelchels rely on modern equipment and efficient processes to farm their cotton and peanut acreage. Andy Johnson, who has been with Colony Bankcorp for a total of 12 years and is now Market President, Ashburn, provides similar contemporary thinking when it comes to banking and has helped the Whelchels successfully navigate all the financial facets of their lives.

Because of the unique aspects of farming, banking an agricultural client is vastly different from servicing other business relationships. When Andy took over the account, he aligned the Whelchel's particular needs with banking products that assist this very special business. These resources include equipment financing, working capital, real estate lending and personal financial services.

Aside from the usual challenges of harvesting a successful crop, mother nature can be devastating to farmers from time to time. When Hurricane Michael struck in the fall of 2018, the Whelchels' were hit hard, like most Georgia farmers. The state estimates that $2.5-$2.8 billion in farming revenues were lost in that catastrophe. However, with assistance and advice from Andy, who has invaluable insight and a deep understanding of the financial aspects of the farming industry, the Whelchels remain resilient in the field.

Stewart and Steve Whelchel (left and right) with Andy Johnson (center), Market President, Ashburn, for Colony Bank.

ING YOUR GOALS CHALLENGES

We know our customers' businesses.

Board of Directors and Officers

Board of Directors

Mark H. Massee
Chairman
Colony Bankcorp, Inc.
President
Massee Builders, Inc.
Fitzgerald, Georgia

Scott L. Downing
President
SDI Investments
Fitzgerald, Georgia

Michael Frederick (Freddie) Dwozan, Jr.
Vice Chairman
Colony Bankcorp, Inc.
President/CEO/Owner
Medical Center Prescription Shop
Eastman, Georgia

T. Heath Fountain
President/CEO
Colony Bankcorp, Inc.

Terry L. Hester
EVP/Chief Financial Officer
Colony Bankcorp, Inc.

Edward Percy Loomis, Jr.
Retired President and Chief Executive Officer
Colony Bankcorp, Inc.

Meagan M. Mowry
Co-founder and Co-owner
Simcoe Investments
Savanah, Georgia

Matthew D. Reed
Owner and Chief Executive Officer of Georgia CEO/ South Carolina CEO
Albany, Georgia

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

Executive Officers

T. Heath Fountain
President/CEO

J. Stan Cook
EVP/Chief Operating Officer

Kimberly C. Dockery
EVP/Chief Administrative Officer

Terry L. Hester
EVP/Chief Financial Officer

Edward L. Bagwell, III
EVP/Chief Credit Officer

M. Edward Hoyle, Jr.
EVP/Regional Executive Officer

Lee A. Northcutt
EVP/Regional Executive Officer

Bagwell

Cook

Dockery

Fountain

Hester

Hoyle

Northcutt

Management

Jeffery Alton
Market President, Thomaston

Johnny Bryan
Market President, Sylvester

Wayne 'Chip' Carroll,
Market President, Quitman

Chris Carter
Market President, Statesboro

Tommy Clark
Market President, Albany

Mike Davis
Market President, Tifton

Bob Evans
Regional President, Central

Cindy Griffin
Regional President, Southwest

Mike Harris
Market President, Moultrie

Drew Hulsey
Regional President, Coastal

Andy Johnson
Market President, Ashburn

Scott Miller
Market President, Douglas

John Roberts
Market President, Columbus

Kirk Scott
Regional President, Mid-State

Debra Sheffield
Market President, Eastman

Eddie Smith
Regional President, South

Mike Smith
Market President, Fitzgerald

Nic Worthy
Regional President, East

Alton

Bryan

Carroll

Carter

Clark

Davis

Evans

Griffin

Harris

Hulsey

Johnson

Miller

Roberts

Scott

Sheffield

E. Smith

M. Smith

Worthy

Locations, as March 31, 2019

Albany
2609 Ledo Rd
Albany, GA 31707
(229) 430-8080

113 North Westover Blvd
Albany, GA 31707
(229) 317-2157

Ashburn
515 E Washington Ave
Ashburn, GA 31714
(229) 567-4383

Broxton
401 Alabama St North
Broxton, GA 31519
(912) 359-2351

Centerville
200 Gunn Rd
Centerville, Georgia 31028
(478) 953-1010

Columbus
1581 Bradley Park Dr
Columbus, GA 31904
(706) 571-6419

Cordele
1031 E 24th Ave
Cordele, GA 31015
(229) 271-2100

Douglas
625 Ward St W
Douglas, GA 31533
(912) 384-3100

1351A SE Bowens Mill Rd
Douglas, GA 31533
(912) 384-3131

Eastman
5510 Oak St
Eastman, GA 31023
(478) 374-4739

Fitzgerald
Corporate Office
115 South Grant St
Fitzgerald, GA 31750
(229) 426-6000

302 S. Main St
Fitzgerald, Georgia 31750
(229) 423-5446

Hwy 129 South
Fitzgerald, Georgia 31750
(229) 426-6073

Leesburg
137 Robert B Lee Dr
Leesburg, GA 31763
(229) 759-2800

Moultrie
621 Veterans Pkwy N
Moultrie, GA 31768
(229) 985-1380

Quitman
602 E Screven St
Quitman, GA 31643
(229) 263-7538

Rochelle
920 1st Ave
Rochelle, GA 31079
(229) 365-7871

Savannah
241 Drayton St
Savannah, GA 31401
(912) 454-2479

7011 Hodgson Memorial Dr
Savannah, GA 31406
(912) 303-9449

Hwy 17 Office
5987 Ogeechee Rd
Savannah, GA 31419
(912) 927-1277

Soperton
4313 West Main St
Soperton, GA 30457
(912) 529-5000

Statesboro - Loan Production Office
17 Courtland St
Statesboro, GA 30458
(912) 421-4421

Sylvester
601 N Main St
Sylvester, GA 31791
(229) 776-7641

Thomaston
206 N Church St
Thomaston, GA 30286
(706) 647-6601

Tifton
104 2nd St W
Tifton, GA 31794
(229) 386-2265

Valdosta
3774 Old US Highway 41 N
Valdosta, GA 31602
(229) 241-9900

2910 N Ashley St, Suite N
Valdosta, GA 31602
(229) 242-2037

Warner Robins
1290 South Houston Lake Rd
Warner Robins, Georgia 31088
(478) 987-1009

FINANCIAL SECTION

Colony Bankcorp, Inc.

Selected Financial Data

(Dollars in Thousands, except per share data)	**Years Ended December 31,** 2018	2017	2016	2015	2014
Selected Balance Sheet Data					
Total Assets	**$ 1,251,878**	$ 1,232,755	$1,210,442	$ 1,174,149	$1,146,898
Total Loans, Net of Unearned Interest and Fees	**781,526**	764,788	753,922	758,279	745,733
Total Deposits	**1,085,125**	1,067,985	1,044,357	1,011,554	979,303
Investment Securities	**353,066**	354,247	323,658	296,149	274,624
Federal Home Loan Bank Stock	**2,978**	3,043	3,010	2,731	2,831
Stockholders' Equity	**95,692**	90,323	93,388	95,457	99,027
Selected Income Statement Data					
Interest Income	**49,022**	45,916	44,589	44,275	44,762
Interest Expense	**8,225**	6,873	6,483	6,569	6,799
Net Interest Income	**40,797**	39,043	38,106	37,706	37,963
Provision for Loan Losses	**201**	390	1,062	866	1,308
Other Income	**9,621**	9,735	9,553	9,045	9,125
Other Expense	**35,300**	33,860	34,073	33,724	34,980
Income Before Tax	**14,917**	14,528	12,524	12,161	10,800
Income Tax Expense	**3,000**	6,777	3,851	3,788	3,268
Net Income	**11,917**	7,751	8,673	8,373	7,532
Preferred Stock Dividends	**–**	211	1,493	2,375	2,689
Net Income Available to Common Stockholders	**$ 11,917**	$ 7,540	$ 7,180	$ 5,998	$ 4,843
Weighted Average					
Common Shares Outstanding, Basic	**8,439**	8,439	8,439	8,439	8,439
Common Shares Outstanding, Diluted	**8,539**	8,634	8,513	8,458	8,439
Shares Outstanding	**8,445**	8,439	8,439	8,439	8,439
Intangible Assets	**$ 759**	$ 45	$ 81	$ 116	$ 152
Dividends Declared	**1,688**	844	–	–	–
Average Assets	**1,201,874**	1,200,631	1,163,863	1,146,984	1,128,052
Average Stockholders' Equity	**89,478**	91,045	100,114	101,710	94,751
Net Charge-Offs	**431**	1,805	743	1,064	4,312
Reserve for Loan Losses	**7,277**	7,508	8,923	8,604	8,802
OREO	**1,841**	4,256	6,439	8,839	10,402
Nonperforming Loans	**9,482**	7,503	12,350	14,416	18,341
Nonperforming Assets	**11,323**	11,759	18,789	23,255	28,743
Average Interest-Earning Assets	**1,149,036**	1,133,700	1,090,967	1,074,556	1,057,608
Noninterest-Bearing Deposits	**192,847**	190,928	159,059	133,886	128,340

Selected Financial Data

(Dollars in Thousands, except per share data)	Years Ended December 31, **2018**	2017	2016	2015	2014
Per Share Data:					
Net Income Per Common Share (Diluted)	**$ 1.40**	$ 0.87	$ 0.84	$ 0.71	$ 0.57
Common Book Value Per Share	**11.33**	10.70	9.96	9.18	8.42
Tangible Common Book Value Per Share	**11.24**	10.69	9.95	9.16	8.40
Dividends Per Common Share	**0.20**	0.10	0.00	0.00	0.00
Profitability Ratios:					
Net Income to Average Assets	**0.99%**	0.63%	0.62%	0.52%	0.43%
Net Income to Average Stockholders' Equity	**13.32**	8.28	7.17	5.90	5.11
Net Interest Margin	**3.56**	3.46	3.51	3.52	3.60
Loan Quality Ratios:					
Net Charge-Offs to Total Loans	**0.06**	0.24	0.10	0.14	0.58
Reserve for Loan Losses to Total Loans and OREO	**0.93**	0.98	1.17	1.12	1.16
Nonperforming Assets to Total Loans and OREO	**1.44**	1.53	2.47	3.03	3.80
Reserve For Loan Losses to Nonperforming Loans	**76.74**	100.06	72.25	59.68	47.99
Reserve For Loan Losses to Total Nonperforming Assets	**64.27**	63.85	47.49	37.00	30.62
Liquidity Ratios:					
Loans to Total Deposits (1)	**72.02**	71.61	72.19	74.96	76.15
Loans to Average Interest-Earning Assets (1)	**68.02**	67.46	69.11	70.57	70.51
Noninterest-Bearing Deposits to Total Deposits	**17.77**	17.88	15.23	13.24	13.11
Capital Adequacy Ratios:					
Common Stockholders' Equity to Total Assets	**7.64**	7.33	6.94	6.60	6.20
Total Stockholders' Equity to Total Assets	**7.64**	7.33	7.72	8.13	8.63
Dividend Payout Ratio	**14.18**	11.24	0.00	0.00	0.00

1. Total loans, net of unearned interest and fees.

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 subsidiaries must comply;

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

- 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; and
- 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.

Future Outlook

During the recent financial crisis, the financial 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 developments throughout the country. We have accomplished a considerable amount of work in bringing our problem assets to an acceptable level. With these challenges behind us, we are now focusing on increasing our deposits along with solid loan growth. We continue to explore opportunities to improve core non-interest income. Revenue enhancement initiatives to accomplish this include new product lines and services.

As we look forward to 2019, we are committed to improving earnings. Given the improved condition of the company, we are also considering product and market expansion. In January 2017, the Company opened its third office in Savannah. In February 2018, the Company purchased a property in Statesboro, Georgia for a new office to open in the second quarter of 2019. In May 2018, the Company closed one branch office in Albany, Georgia to improve operating efficiencies.

In October 2018, the Bank closed on a transaction to purchase a branch in Albany, Georgia from Planters First Bank. The transaction resulted in additional $20.7 million in loans and an additional $12.0 million in deposits for the Bank. In addition, the Bank purchased a vacant lot of real estate in Albany, Georgia with this transaction in which the Bank intends to build a new branch office in the future.

In December 2018, the Company and LBC Bancshares, Inc., a Georgia corporation ("LBC"), entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which LBC will merge into the Company. Immediately thereafter, Calumet Bank, a Georgia bank wholly owned by LBC, will be merged into Colony Bank. Calumet Bank operates two full-service banking locations, one each in LaGrange, Georgia and Columbus, Georgia, as well as a loan production office in Atlanta, Georgia. Under the terms of the Merger Agreement, each LBC shareholder will have the option to receive either $23.50 in cash or 1.3239 shares of the Company's Common Stock in exchange for each share of LBC common stock, subject to customary proration and allocation procedures, such that 55% of LBC shares will receive the stock consideration and 45% will receive the cash consideration, and at least 50% of the merger consideration will be paid in the Company stock. The aggregate consideration is valued at approximately $34.1 million, based upon the $16.10 per share closing price of the Company's common stock as of December 17, 2018. The merger is subject to customary closing conditions, including the receipt of regulatory approvals and the approval of LBC's shareholders. The transaction is expected to close during the first half of 2019. As of December 31, 2018, LBC reported assets of $207 million, gross loans of $136 million and deposits of $182 million. The purchase price will be allocated among the net assets of LBC acquired as appropriate, with the remaining balance being reported as goodwill.

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The Company reinstated dividend payments during the first quarter of 2017 and have continued throughout 2017 and 2018 on a quarterly basis. In 2017, we had a quarterly dividend of $0.025 per common stock and in 2018, we paid a quarterly dividend of $0.05 per common stock.

In July 2018, the Company announced the retirement of its President and Chief Executive Officer, Edward P. Loomis, Jr. and named Mr. T. Heath Fountain as his replacement. Mr. Fountain previously served as President and Chief Executive Officer of Planters First Bank for three years and Chief Financial Officer of Heritage Financial Group and Heritage Bank of the South for eight years.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to generally accepted accounting principles (GAAP) in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of our performance. These include the fully-taxable equivalent measures: tax-equivalent net interest income, tax-equivalent net interest margin and tax-equivalent net interest spread, which include the effects of taxable-equivalent adjustments using a federal income tax rate of 21% in 2018 and 34% in prior years to increase tax-exempt interest income to a tax-equivalent basis. Tax-equivalent adjustments are reported in Notes 1 and 2 to the Average Balances with Average Yields and Rates table under Rate/Volume Analysis. Tangible book value per common share is also a non-GAAP measure used in the selected Financial Data Section.

Tax-equivalent net interest income, net interest margin and net interest spread. Net interest income on a tax-equivalent basis is a non-GAAP measure that adjusts for the tax-favored status of net interest income from loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. The most directly comparable financial measure calculated in accordance with GAAP is our net interest income. Net interest margin on a tax-equivalent basis is net interest income on a tax-equivalent basis divided by average interest-earning assets on a tax-equivalent basis. The most directly comparable financial measure calculated in accordance with GAAP is our net interest margin. Net interest spread on a tax-equivalent basis is the difference in the average yield on average interest-earning assets on a tax equivalent basis and the average rate paid on average interest-bearing liabilities. The most directly comparable financial measure calculated in accordance with GAAP is our net interest spread.

These non-GAAP financial measures should not be considered alternatives to GAAP-basis financial statements, and other bank holding companies may define or calculate these non-GAAP measures or similar measures differently.

A reconciliation of these performance measures to GAAP performance measures is included in the tables below.

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Non-GAAP Performance Measures Reconciliation

	Years Ended December 31,				
(Dollars in Thousands, except per share data)	**2018**	2017	2016	2015	2014
Interest Income Reconciliation					
Interest Income – Taxable Equivalent	**$ 49,109**	$ 46,079	$ 44,762	$ 44,407	$ 44,879
Tax Equivalent Adjustment	**(87)**	(163)	(173)	(132)	(117)
Interest Income (GAAP)	**$ 49,022**	$ 45,916	$ 44,589	$ 44,275	$ 44,762
Net Interest Income Reconciliation					
Net Interest Income – Taxable Equivalent	**$ 40,884**	$ 39,206	$ 38,279	$ 37,838	$ 38,080
Tax Equivalent Adjustment	**(87)**	(163)	(173)	(132)	(117)
Net Interest Income (GAAP)	**$ 40,797**	$ 39,043	$ 38,106	$ 37,706	$ 37,963
Net Interest Margin Reconciliation					
Net Interest Margin – Taxable Equivalent	**3.56%**	3.46%	3.51%	3.52%	3.60%
Tax Equivalent Adjustment	**(0.01)**	(0.02)	(0.02)	(0.01)	(0.01)
Net Interest Margin (GAAP)	**3.55%**	3.44%	3.49%	3.51%	3.59%
Interest Rate Spread Reconciliation					
Interest Rate Spread – Taxable Equivalent	**3.39%**	3.34%	3.40%	3.41%	3.49%
Tax Equivalent Adjustment	**–**	(0.02)	(0.02)	(0.01)	(0.01)
Interest Rate Spread (GAAP)	**3.39%**	3.32%	3.38%	3.40%	3.48%
Selected Financial Data					
Tangible Book Value Per Common Share	**$ 11.24**	$ 10.69	$ 9.95	$ 9.16	$ 8.40
Effect of Other Intangible Assets	**0.09**	0.01	0.01	0.02	0.02
Book Value Per Common Share (GAAP)	**$ 11.33**	$ 10.70	$ 9.96	$ 9.18	$ 8.42

The Company

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

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2018 and 2017, and results of operations for each of the years in the three-year period ended December 31, 2018. 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.

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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 21 percent federal tax rate for 2018 and 34 percent federal tax rate for 2017 and 2016, 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 interest-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 interest-earning assets. Net income available to common shareholders totaled $11.92 million, or $1.40 per diluted shares in 2018, compared to $7.54 million, or $0.87 per diluted common share in 2017 and compared to $7.18 million, or $0.84 per diluted common share in 2016.

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

	2018	2017	**$ Variance**	**% Variance**	2017	2016	$ Variance	% Variance
Taxable-equivalent net interest income	**$ 40,884**	$ 39,206	**$ 1,678**	**4.28%**	$ 39,206	$38,279	$ 927	2.42%
Taxable-equivalent adjustment	**87**	163	**(76)**	**(46.63)**	163	173	(10)	(5.78)
Net interest income	**40,797**	39,043	**1,754**	**4.49**	39,043	38,106	937	2.46
Provision for loan losses	**201**	390	**(189)**	**(48.46)**	390	1,062	(672)	63.28
Noninterest income	**9,621**	9,735	**(114)**	**(1.17)**	9,735	9,553	182	1.91
Noninterest expense	**35,300**	33,860	**1,440**	**4.25**	33,860	34,073	(213)	(0.63)
Income before income taxes	**$ 14,917**	$ 14,528	**$ 389**	**2.68%**	$ 14,528	$ 12,524	$ 2,004	16.00%
Income Taxes	**3,000**	6,777	**(3,777)**	**(55.73)**	6,777	3,851	2,926	75.98
Net income	**$ 11,917**	$ 7,751	**$ 4,166**	**53.75%**	$ 7,751	$ 8,673	$ (922)	(10.63)%
Preferred stock dividends	**$ –**	$ 211	**$ (211)**	**(100.00)%**	$ 211	$ 1,493	$ (1,282)	(85.87)%
Net income available to common shareholders	**$ 11,917**	$ 7,540	**$ 4,377**	**58.05%**	$ 7,540	$ 7,180	$ 360	5.01%
Net income available to common shareholders:								
Basic	**$ 1.41**	$ 0.89	**$ 0.52**	**58.43%**	$ 0.89	$ 0.85	$ 0.04	4.71%
Diluted	**$ 1.40**	$ 0.87	**$ 0.53**	**60.92%**	$ 0.87	$ 0.84	$ 0.03	3.57%
Return on average assets [1]	**0.99%**	0.63%	**0.36%**	**57.14%**	0.63%	0.62%	0.01%	1.61%
Return on average common equity [1]	**13.32%**	8.28%	**5.04%**	**60.87%**	8.28%	7.17%	1.11%	15.48%

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

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 80.92 percent of total revenue during 2018, 80.04 percent of total revenue during 2017, and 79.96 percent of total revenue during 2016.

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

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The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, is currently 5.50 percent. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. The prime interest rate increased 25 basis points during the fourth quarter of 2016. During 2017, the prime interest rate increased overall by 75 basis points. During 2018, the prime interest rate increased overall by 100 basis points. Given that the federal funds rate moves in accordance with the movement of the prime interest rate, we anticipate in 2019 that the federal funds rate will remain the same from its current 2.4 percent.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of interest-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 Rate/Volume Analysis.

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 2017 to 2018 (a)			Changes From 2016 to 2017 (a)		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest Income						
Loans, Net-Taxable	**$ 496**	**$ 1,510**	**$ 2,006**	$ 72	$ (407)	$ (335)
Investment Securities						
Taxable	**(8)**	**840**	**832**	769	770	1,539
Tax-Exempt	**(9)**	**(14)**	**(23)**	(5)	(9)	(14)
Total Investment Securities	**(17)**	**826**	**809**	764	761	1,525
Interest-Bearing Deposits in Other Banks	**68**	**110**	**178**	(12)	120	108
Federal Funds Sold	**–**	**–**	**–**	–	–	–
Other Interest - Earning Assets	**5**	**32**	**37**	12	7	19
Total Interest Income	**552**	**2,478**	**3,030**	836	481	1,317
Interest Expense						
Interest-Bearing Demand and Savings Deposits	**63**	**810**	**873**	174	28	202
Time Deposits	**(221)**	**647**	**426**	(240)	15	(225)
Total Interest Expense on Deposits	**(158)**	**1,457**	**1,299**	(66)	43	(23)
Other Interest-Bearing Liabilities						
Subordinated Debentures	**–**	**241**	**241**	–	126	126
Other Debt	**(41)**	**(149)**	**(190)**	231	54	285
Federal Funds Purchased	**1**	**1**	**2**	4	(2)	2
Total Interest Expense	**(198)**	**1,550**	**1,352**	169	221	390
Net Interest Income (Loss)	**$ 750**	**$ 928**	**$ 1,678**	$ 667	$ 260	$ 927

(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.

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The Company maintains about 24.2 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 non-maturing core deposits and short term certificates of deposit that mature within one year. The Federal Reserve rates have steadily increased since 2016 with a 25 basis point increase in 2016 followed by a 75 basis point increase during 2017 and a 100 basis point increase during 2018. We have seen the net interest margin change to 3.56 percent for 2018, compared to 3.46 percent for 2017 and 3.51 percent for 2016. We have seen our net interest margin reach a low of 3.55 percent in the first and fourth quarter of 2018 to a high of 3.57 percent in the second and third quarters 2018.

Taxable-equivalent net interest income for 2018 increased by $1.68 million, or 4.28 percent, compared to 2017 while taxable-equivalent net interest income for 2017 increased by $927 thousand, or 2.42 percent compared to 2016. The average volume of interest-earning assets during 2018 increased $15.34 million compared to 2017 while over the same period the net interest margin increased to 3.56 percent from 3.46 percent. The average volume of interest-earning assets during 2017 increased $42.73 million compared to 2016 while over the same period the net interest margin dropped to 3.46 percent from 3.51 percent. The change in the net interest margin in 2018 was primarily driven by a higher level of low yielding assets offset by an increase in the cost of funds. The change in the net interest margin in 2017 was primarily driven by a higher level of low yielding assets offset by an increase in the cost of funds. The increase in average interest-earning assets in 2018 was primarily in loans and interest bearing deposits. The increase in average interest-earning assets in 2017 was in investments.

The average volume of loans increased $9.77 million in 2018 compared to 2017 and increased $1.41 million in 2017 compared to 2016. The average yield on loans increased 20 basis points in 2018 compared to 2017 and decreased 5 basis points in 2017 compared to 2016. The average volume of deposits increased $4.33 million in 2018 compared to 2017. The average volume of deposits increased $36.78 million in 2017 compared to 2016. Demand deposits made up $14.76 million of the increase in average deposits in 2018 compared to $18.59 million of the increase in average deposits in 2017.

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 83.2 percent in 2018, 84.6 percent in 2017 and 85.9 percent in 2016. For 2018, this deposit mix, combined with a general increase in interest rates, had the effect of (i) increasing the average cost of total deposits by 13 basis points in 2018 compared to 2017 and (ii) offset a portion of the impact of increasing yields on interest-earning assets on the Company's net interest income. When comparing 2017 to 2016, the deposit mix had the effect of (i) decreasing the average cost of total deposits by 2 basis points and (ii) mitigating a portion of the impact of decreasing yields on interest-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 interest-earning assets and the average rate paid on interest-bearing liabilities, was 3.39 percent in 2018 compared to 3.34 percent in 2017 and 3.40 percent in 2016. 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 *Market Risk and Interest Rate Sensitivity* included elsewhere in this report.

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Average Balance Sheets

	2018			2017			2016		
	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)]	**$ 772,327**	**$ 40,755**	**5.28%**	$ 762,554	$ 38,749	5.08%	$ 761,149	$ 39,084	5.13%
Investment Securities									
Taxable	**344,369**	**7,699**	**2.24**	344,790	6,867	1.99	301,357	5,328	1.77
Tax-Exempt [(2)]	**2,046**	**58**	**2.83**	2,310	81	3.51	2,440	95	3.89
Total Investment Securities	**346,415**	**7,757**	**2.24**	347,100	6,948	2.00	303,797	5,423	1.79
Interest-Bearing Deposits	**27,072**	**410**	**1.51**	20,920	232	1.11	23,167	124	0.54
Federal Funds Sold	**–**	**–**	**–**	–	–	–	–	–	–
Other Interest-Earning Assets	**3,222**	**187**	**5.80**	3,126	150	4.80	2,854	131	4.59
Total Interest-Earning Assets	**1,149,036**	**49,109**	**4.27%**	1,133,700	46,079	4.06%	1,090,967	44,762	4.10
Noninterest-Earning Assets									
Cash	**14,578**			20,587			19,208		
Allowance for Loan Losses	**(7,335)**			(8,442)			(9,372)		
Other Assets	**45,595**			54,786			63,060		
Total Noninterest-Earning Assets	**52,838**			66,931			72,896		
Total Assets	**$ 1,201,874**			$ 1,200,631			$ 1,163,863		
Liabilities and Stockholders' Equity									
Interest-Bearing Liabilities									
Interest-Bearing Demand and Savings	**$ 534,887**	**$ 2,769**	**0.52%**	$ 517,974	$ 1,896	0.37%	$ 469,740	$ 1,694	0.36%
Other Time	**326,243**	**3,288**	**1.01**	353,587	2,862	0.81	383,628	3,087	0.80
Total Interest-Bearing Deposits	**861,130**	**6,057**	**0.70**	871,561	4,758	0.55	853,368	4,781	0.56
Other Interest-Bearing Liabilities									
Other Borrowed Money	**49,859**	**1,195**	**2.40**	51,388	1,385	2.70	42,470	1,100	2.59
Subordinated Debentures	**24,229**	**968**	**4.00**	24,229	727	3.00	24,229	601	2.48
Federal Funds Purchased and Repurchase Agreements	**261**	**5**	**1.92**	178	3	1.69	35	1	2.86
Total Other Interest-Bearing Liabilities	**74,349**	**2,168**	**2.92**	75,795	2,115	2.79	66,734	1,702	2.55
Total Interest-Bearing Liabilities	**935,479**	**8,225**	**0.88**	947,356	6,873	0.73	920,102	6,483	0.70
Noninterest-Bearing Liabilities and Stockholders' Equity									
Demand Deposits	**173,688**			158,924			140,338		
Other Liabilities	**3,229**			3,306			3,309		
Stockholders' Equity	**89,478**			91,045			100,114		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	**266,395**			253,275			243,761		
Total Liabilities and Stockholders' Equity	**$ 1,201,874**			$ 1,200,631			$ 1,163,863		
Interest Rate Spread			**3.39%**			3.34%			3.40%
Net Interest Income		**$ 40,884**			$ 39,206			$ 38,279	
Net Interest Margin			**3.56%**			3.46%			3.51%

(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 $73, $135 and $141 for 2018, 2017 and 2016, respectively, are included in interest on loans. The adjustments are based on a federal tax rate of 21 percent for 2018 and 34 percent for 2017 and 2016.

(2) Taxable-equivalent adjustments totaling $14, $28 and $32 for 2018, 2017 and 2016, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 21 percent for 2018 and 34 percent for 2017 and 2016 with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

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Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled $201 thousand in 2018 compared to $390 thousand in 2017 and $1.06 million in 2016. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Noninterest Income

The components of noninterest income were as follows:

	2018	2017	**$ Variance**	**% Variance**	2017	2016	$ Variance	% Variance
Service Charges on Deposit Accounts	**$ 4,374**	$ 4,467	**$ (93)**	**2.08%**	$ 4,467	$ 4,307	$ 160	3.71%
Other Charges, Commissions and Fees	**3,254**	3,049	**205**	**6.72**	3,049	2,803	246	8.78
Mortgage Fee Income	**652**	859	**(207)**	**(24.10)**	859	682	177	25.95
Securities Gains (Losses)	**116**	–	**116**	**100.00**	–	385	(385)	(100.00)
Other	**1,225**	1,360	**(135)**	**(9.93)**	1,360	1,377	(17)	(1.23)
Total	**$ 9,621**	$ 9,735	**$ (114)**	**(1.17)%**	$ 9,735	$ 9,554	$ 181	1.89%

Other Charges, Commissions and Fees. Significant amounts impacting the comparable periods was primarily attributed to ATM and debit card interchange fees which increased $219 thousand in 2018 compared to 2017 and $209 thousand in 2017 compared to 2016.

Mortgage Fee Income. The decrease in mortgage fee income in 2018 compared to the same period in 2017 is due to a decrease in the volume of mortgage loans.

Securities Gains (Losses). The increase in 2018 is attributable to a gain on sale of securities in 2018 compared to no sale of securities in 2017.

Other. The decrease in other income is attributable to a decrease in revenue from cash surrender life insurance policies which decreased $124 thousand in 2018 compared to 2017 and increased $48 thousand in 2017 compared to 2016. The Bank did not have any significant changes for 2017 compared to 2016.

Noninterest Expense

The components of noninterest expense were as follows:

	2018	2017	**$ Variance**	**% Variance**	2017	2016	$ Variance	% Variance
Salaries and Employee Benefits	**$ 20,123**	$ 19,223	**$ 900**	**4.68%**	$ 19,223	$18,483	$ 740	4.00%
Occupancy and Equipment	**4,180**	3,948	**232**	**5.88**	3,948	3,970	(22)	(0.55)
Directors' Fees	**291**	298	**(7)**	**(2.35)**	298	349	(51)	(14.61)
Legal and Professional Fees	**1,321**	1,170	**151**	**12.91**	1,170	1,068	102	9.55
Foreclosed Property	**205**	363	**(158)**	**(43.53)**	363	1,143	(780)	(68.24)
FDIC Assessment	**358**	387	**(29)**	**(7.49)**	387	604	(217)	(35.93)
Advertising	**338**	350	**(12)**	**(3.43)**	350	610	(260)	(42.62)
Software and Data Processing	**1,421**	1,192	**229**	**19.21**	1,192	1,112	80	7.19
Telephone	**738**	814	**(76)**	**(9.34)**	814	737	77	10.45
ATM/Card Processing	**1,510**	1,467	**43**	**2.93**	1,467	1,136	331	29.14
Other	**4,815**	4,648	**167**	**3.59**	4,648	4,861	(213)	(4.38)
Total	**$ 35,300**	$ 33,860	**$ 1,440**	**4.25%**	$ 33,860	$34,073	$ (213)	(0.63)%

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Salaries and Employee Benefits. The increase in salary and employee benefits for 2018 and 2017 is due to merit pay increases and an increase in number of employees.

Occupancy and Equipment. The increase in occupancy and equipment is primarily attributable to an increase in depreciation expense in 2018 and an increase in maintenance on equipment and building in 2018 when compared to 2017. The Company did not have any significant changes for 2017 compared to 2016.

Foreclosed Property. The decrease in foreclosed property and repossession expense for 2018 and 2017 is primarily attributable to the decrease in the volume of OREO.

Advertising. The Bank did not have any significant changes for 2018 compared to 2017. The decrease in advertising expense for 2017 is due to management changing its approach to advertising by decreasing its television ads.

Software and Data Processing. The increase in software and data processing is primarily attributable to the Company changing its information technology processes from an in-house approach to outsourcing with our core processing provider during the first quarter of 2018. With this change, the company has shown a decrease of $400 thousand in software expense in 2018 that was offset by an increase of $629 thousand in data processing expense in 2018 compared to 2017. The Company did not have any significant changes for 2017 compared to 2016.

ATM/Card Processing. The increase is proportional to the Bank's increase in deposits and to ATM and debit card interchange fees.

Other. The increase in other expenses is primarily attributable to conversion expenses of $225 thousand for 2018. These expenses stem from our branch acquisition of the Albany, Georgia branch from Planters First Bank and from our pending acquisition of LBC Bancshares. The Company did not have any significant changes for 2017 compared to 2016.

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 $1.20 billion in 2018 compared to $1.20 billion in 2017 and $1.16 billion in 2016.

	2018		2017		2016	
Sources of Funds:						
Deposits:						
Noninterest-Bearing	**$ 173,688**	**14.45%**	$ 158,924	13.24%	$ 140,338	12.1%
Interest-Bearing	**861,130**	**71.65%**	871,561	72.59%	853,368	73.3%
Federal Funds Purchased						
and Repurchase Agreements	**261**	**0.02%**	178	0.01%	35	–%
Subordinated Debentures						
and Other Borrowed Money	**74,088**	**6.17%**	75,617	6.30%	66,699	5.7%
Other Noninterest-Bearing Liabilities	**3,229**	**0.27%**	3,306	0.28%	3,309	0.3%
Equity Capital	**89,478**	**7.44%**	91,045	7.58%	100,114	8.6%
Total	**$ 1,201,874**	**100.00%**	$ 1,200,631	100.00%	$ 1,163,863	100.0%
Uses of Funds:						
Loans (Net of Allowance)	**$ 764,992**	**63.65%**	$ 754,112	62.81%	$ 751,777	64.6%
Investment Securities	**346,415**	**28.82%**	347,100	28.91%	303,797	26.1%
Federal Funds Sold	**–**	**–%**	–	–%	–	–%
Interest-Bearing Deposits	**27,072**	**2.25%**	20,920	1.74%	23,167	2.0%
Other Interest-Earning Assets	**3,222**	**0.27%**	3,126	0.26%	2,854	0.2%
Other Noninterest-Earning Assets	**60,173**	**5.01%**	75,373	6.28%	82,268	7.1%
Total	**$ 1,201,874**	**100.00%**	$ 1,200,631	100.00%	$ 1,163,863	100.0%

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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 83.22 percent of total average deposits in 2018 compared to 84.6 percent in 2017 and 85.9 percent in 2016.

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 increased in 2018 as total loans were $782.0 million at December 31, 2018, up 2.19 percent, compared to loans of $765.3 million at December 31, 2017, which increased 1.46 percent, compared to loans of $754.3 million at December 31, 2016. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" on the following page. The majority of funds provided by deposits have been invested in loans and securities.

Loans

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

	2018	2017	2016	2015	2014
Commercial and Agricultural					
Commercial	**$ 57,410**	$ 48,122	$ 47,025	$ 47,782	$ 50,960
Agricultural	**16,799**	16,443	17,080	19,193	16,689
Real Estate					
Commercial Construction	**47,849**	45,214	30,358	40,107	51,259
Residential Construction	**12,500**	8,583	11,830	9,413	11,221
Commercial	**373,534**	351,172	349,090	346,262	332,231
Residential	**187,714**	194,049	195,580	197,002	203,753
Farmland	**62,709**	67,768	66,877	61,780	49,951
Consumer and Other					
Consumer	**18,485**	18,956	19,695	20,605	22,820
Other	**5,027**	14,977	16,748	16,492	7,210
	782,027	765,284	754,283	758,636	746,094
Unearned Interest and Fees	**(501)**	(495)	(361)	(357)	(362)
Allowances for Loan Losses	**(7,277)**	(7,508)	(8,923)	(8,604)	(8,802)
Loans	**$ 774,249**	$ 757,281	$ 744,999	$ 749,675	$ 736,930

The following table presents total loans as of December 31, 2018 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

One Year or Less	**$ 292,508**
After One Year through Three Years	**291,464**
After Three Years through Five Years	**153,625**
Over Five Years	**44,430**
	$ 782,027

Overview. Loans totaled $782.0 million at December 31, 2018 up 2.19 percent from 765.3 million at December 31, 2017. The majority of the Company's loan portfolio is comprised of the real estate loans. Commercial and residential real estate which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 71.77 percent and 71.24 percent of total loans, real estate construction loans made up 7.72 percent and 7.03 percent while commercial and agricultural loans made up 9.49 percent and 8.44 percent of total loans at December 31, 2018 and December 31, 2017, respectively.

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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 both an Executive Loan Committee and a Director 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 agricultural loans are underwritten similarly to how other loans are underwritten throughout the Company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. In addition, the Company restricts total loans to $10 million per borrower, subject to exception and approval by the Director Loan Committee. 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 monthly 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.

The Company utilizes an independent third party company for loan review and validation of the credit risk program on an ongoing quarterly 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 and Agricultural. Commercial and agricultural loans at December 31, 2018 increased 14.94 percent to $74.2 million from December 31, 2017 at $64.6 million. The Company's commercial and agricultural 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.

Real Estate. Commercial and residential construction loans increased by $6.5 million, or 12.18 percent, at December 31, 2018 to $60.3 million from $53.8 million at December 31, 2017. This increase is partially due to new construction loans being financed during the year that were not completed by the end of the year. Commercial real estate increased $22.3 million or 6.37 percent at December 31, 2018 to $373.5 million from $351.2 million at December 31, 2017.

Other. Other loans at December 31, 2018 decreased 66.44 percent to $5.0 million from $15.0 million at December 31, 2017.

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Industry Concentrations. As of December 31, 2018 and December 31, 2017, 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. The Company has established industry-specific guidelines with respect to maximum loans permitted for each industry with which the Company does 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, 2018, approximately 87.50 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. 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. In the recent year, we have seen real estate values stabilizing in our markets. The stabilization of rates has resulted in a decrease in the number of loans being classified as impaired over the past several years.

Large Credit Relationships. The Company is currently in eighteen counties in central, south and coastal Georgia and includes 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, 2018 and December 31, 2017.

	December 31, 2018			December 31, 2017		
	Number of	**Period End Balances**		Number of	Period End Balances	
	Relationships	**Committed**	**Outstanding**	Relationships	Committed	Outstanding
Large Credit Relationships:						
$10 million or greater	**3**	**$ 35,394**	**$ 32,445**	1	$ 11,541	$ 8,718
$5 million to $9.9 million	**24**	**123,331**	**103,124**	15	98,718	89,556

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, 2018. 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	**$ 202,593**	**$ 236,263**	**$ 120,338**	**$ 33,294**	**$ 592,488**
Loans with floating interest rates	**89,915**	**55,201**	**33,287**	**11,136**	**189,539**
Total	**$ 292,508**	**$ 291,464**	**$ 153,625**	**$ 44,430**	**$ 782,027**

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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:

	2018	2017	2016	2015	2014
Loans Accounted for on Nonaccrual	**$ 9,482**	$ 7,503	$ 12,350	$ 14,408	$ 18,334
Loans Accruing Past Due 90 Days or More	**–**	–	–	8	7
Other Real Estate Foreclosed	**1,841**	4,256	6,439	8,839	10,402
Securities Accounted for on Nonaccrual	**–**	–	–	–	–
Total Nonperforming Assets	**$ 11,323**	$ 11,759	$ 18,789	$ 23,255	$ 28,743
Nonperforming Assets by Segment					
Construction and Land Development	**$ 883**	$ 2,630	$ 3,376	$ 7,106	$ 9,655
1-4 Family Residential	**3,299**	3,309	4,375	4,197	8,237
Multifamily Residential	**–**	–	–	–	173
Nonfarm Residential	**3,821**	3,796	9,182	9,908	8,375
Farmland	**2,053**	839	800	1,103	1,449
Commercial and Consumer	**1,267**	1,185	1,056	941	854
Total Nonperforming Assets	**$ 11,323**	$ 11,759	$ 18,789	$ 23,255	$ 28,743
Nonperforming Assets as a Percentage of:					
Total Loans and Foreclosed Assets	**1.44%**	1.53%	2.47%	3.03%	3.80%
Total Assets	**0.90%**	0.95%	1.55%	1.98%	2.51%
Nonperforming Loans as a Percentage of:					
Total Loans	**1.21%**	0.98%	1.64%	1.90%	2.46%
Supplemental Data:					
Trouble Debt Restructured Loans In Compliance with Modified Terms	**$ 14,128**	$ 18,363	$ 17,992	$ 19,375	$ 19,229
Trouble Debt Restructured Loans Past Due 30-89 Days	**864**	131	319	344	757
Accruing Past Due Loans:					
30-89 Days Past Due	**8,234**	4,558	4,469	10,959	9,701
90 or More Days Past Due	**–**	–	–	8	7
Total Accruing Past Due Loans	**$ 8,234**	$ 4,558	$ 4,469	$ 10,967	$ 9,708
Allowance for Loan Losses	**$ 7,277**	$ 7,508	$ 8,923	$ 8,604	$ 8,802
ALLL as a Percentage of:					
Total Loans	**0.93%**	0.98%	1.18%	1.13%	1.18%
Nonperforming Loans	**76.74%**	100.06%	72.25%	59.68%	47.99%

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Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2018 decreased 3.71 percent from December 31, 2017.

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 nonaccrual 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 nonaccrual 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 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 Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with 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 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 the result of management's quarterly review of substandard loans with an outstanding balance of $250,000 or more. This review process usually involves regional credit officers along with local lending officers reviewing the loans for impairment. 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. In the case of collateral dependent loans, collateral shortfall is most often based upon local market real estate value estimates. This review process is performed at the subsidiary bank level and is reviewed at the parent Company level.

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Once the loan becomes impaired, it is removed from the pool of loans covered by the general reserve and reviewed individually for exposure as described above. In cases where the individual review reveals no exposure, no reserve is recorded for that loan, either through an individual reserve or through a general reserve. If, however, the individual review of the loan does indicate some exposure, management often charges off this exposure, rather than recording a specific reserve. In these instances, a loan which becomes nonperforming could actually reduce the allowance for loan losses. Those loans deemed uncollectible are transferred to our problem loan department for workout, foreclosure and/or liquidation. The problem loan department obtains a current appraisal on the property in order to record the fair market value (less selling expenses) when the property is foreclosed on and moved into other real estate.

The allowances established for the remainder of the loan portfolio are based on historical loss factors, adjusted for certain qualitative factors, which are applied to groups of loans with similar risk characteristics. Loans are segregated into fifteen separate groups based on call codes. Most of the Company's charge-offs during the past two years have been real estate dependent loans. The historical loss ratios applied to these groups of loans are updated quarterly based on actual charge-off experience. The historical loss ratios are further adjusted by qualitative factors.

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. Additional information about the Company's allowance for loan losses is provided in the Notes to the Consolidated Financial Statements for Allowance for Loan Losses.

The following table sets forth the breakdown of the allowance for loan losses by loan category for the periods indicated. The allocation of the allowance to each category is subjective and is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other category.

	2018		2017		2016		2015		2014	
	Reserve	**%***	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Commercial and Agricultural										
Commercial	**$ 370**	**7%**	$ 447	6%	$ 456	6%	$ 855	6%	$ 497	7%
Agricultural	**248**	**2%**	186	2%	168	2%	203	3%	304	2%
Real Estate										
Commercial Construction	**115**	**6%**	1,216	6%	323	4%	691	5%	1,223	7%
Residential Construction	**16**	**2%**	–	1%	13	2%	20	1%	138	1%
Commercial	**4,549**	**48%**	3,874	46%	5,751	46%	3,851	46%	3,665	45%
Residential	**1,181**	**24%**	968	25%	1,396	26%	1,990	26%	2,425	27%
Farmland	**702**	**8%**	780	9%	722	9%	912	8%	104	7%
Consumer and Other										
Consumer	**86**	**2%**	34	3%	80	3%	63	3%	67	3%
Other	**10**	**1%**	3	2%	14	2%	19	2%	379	1%
	$ 7,277	**100%**	$ 7,508	100%	$ 8,923	100%	$ 8,604	100%	$ 8,802	100%

* Percentage represents the loan balance in each category expressed as a percentage of total end of period loans.

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

	2018	2017	2016	2015	2014
Allowance for Loan Losses at Beginning of Year	**$ 7,508**	$ 8,923	$ 8,604	$ 8,802	$ 11,806
Charge-Offs					
Commercial	**124**	299	305	455	625
Agricultural	**123**	159	19	5	–
Commercial Construction	**–**	52	25	98	1,543
Residential Construction	**–**	–	–	–	–
Commercial	**257**	966	992	275	1,327
Residential	**162**	1,048	362	930	1,034
Farmland	**–**	61	120	40	233
Consumer	**299**	330	265	255	342
Other	**–**	–	–	25	–
	$ 965	$ 2,915	$ 2,088	$ 2,083	$ 5,104
Recoveries					
Commercial	**139**	137	67	52	76
Agricultural	**22**	4	4	3	3
Commercial Construction	**155**	266	814	486	485
Residential Construction	**–**	–	–	–	–
Commercial	**40**	527	206	270	90
Residential	**91**	82	50	110	31
Farmland	**12**	17	145	20	20
Consumer	**72**	75	53	62	72
Other	**2**	2	6	16	15
	533	1,110	1,345	1,019	792
Net Charge-Offs	**432**	1,805	743	1,064	4,312
Provision for Loans Losses	**201**	390	1,062	866	1,308
Allowance for Loan Losses at End of Year	**$ 7,277**	$ 7,508	$ 8,923	$ 8,604	$ 8,802
Ratio of Net Charge-Offs to Average Loans	**0.06%**	0.24%	0.10%	0.14%	0.58%

The allowance for loan losses decreased from $7.51 million, or 0.98 percent of total loans at December 31, 2017 to $7.28 million, or 0.93 percent of total loans at December 31, 2018. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. Significant changes in the allowance during 2018 was the reduction in the net charge-offs in 2018 to $432 thousand from $1.81 million in 2017, or a decrease of $1.37 million. Significant changes in the allowance during 2017 was the increase in the net charge-offs in 2017 to $1.81 million from $743 thousand in 2016. The Company believes that collection efforts have reduced impaired loans and the reduction in net charge-offs runs parallel with the improvement in the substandard assets. As we have seen stabilization in the economy and the housing and real estate market, we expect continued improvement in our substandard assets, including net charge-offs. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

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Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2018, 2017 and 2016.

	2018	2017	2016
State, County and Municipal	**$ 3,989**	$ 4,493	$ 4,561
Mortgage-Backed Securities	**346,205**	346,723	319,097
Corporate	**2,872**	2,060	–
Asset-Backed	**–**	971	–
Total Investment Securities and Mortgage-Backed Securities	**$ 353,066**	$ 354,247	$ 323,658

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2018. (Mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	**$ 19,993**	**3.21%**	**$ 183,040**	**2.12%**	**$ 121,252**	**2.63%**	**$21,920**	**3.18%**
Obligations of State and Political Subdivisions	**1,003**	**2.44**	**2,730**	**2.39**	**–**	**–**	**256**	**4.03**
Corporate	**–**	**–**	**2,872**	**3.75**	**–**	**–**	**–**	**–**
Total Investment Portfolio	**$ 20,996**	**3.17%**	**$ 188,642**	**2.15%**	**$121,252**	**2.63%**	**$22,176**	**3.19%**

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 100 percent of its portfolio classified as available for sale.

At December 31, 2018, 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 stockholders' equity.

The average yield of the securities portfolio was 2.24 percent in 2018 compared to 2.00 percent in 2017 and 1.79 percent in 2016. The increase in the average yield from 2017 to 2018 was primarily attributed to the purchase of new securities which have a higher yield. The increase in the average yield from 2016 to 2017 was primarily attributed to the purchase of new securities which have a higher yield.

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Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2018, 2017 and 2016.

	2018		2017		2016	
	Average Amount	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	**$ 173,688**		$ 158,924		$ 140,338	
Interest-Bearing Demand and Savings	**534,887**	**0.52%**	517,974	0.37%	469,740	0.36%
Time Deposits	**326,243**	**1.01%**	353,587	0.81%	383,628	0.80%
Total Deposits	**$ 1,034,818**	**0.59%**	$ 1,030,485	0.46%	$ 993,706	0.48%

The following table presents the maturities of the Company's time deposits as of December 31, 2018.

	Time Deposits $250,000 or Greater	**Time Deposits Less Than $250,000**	**Total**
Months to Maturity			
3 or Less	**$ 6,779**	**$ 53,625**	**$ 60,404**
Over 3 through 6	**7,658**	**43,084**	**50,742**
Over 6 through 12	**26,667**	**103,553**	**130,220**
Over 12 Months	**12,777**	**86,888**	**99,665**
	$ 53,881	**$ 287,150**	**$ 341,031**

Average deposits increased $4.33 million in 2018 compared to 2017 and increased $36.78 million in 2017 compared to 2016. The increase in 2018 included $16.91 million, or 3.27 percent in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $14.76 million, or 9.29 percent and time deposits decreased $27.34 million, or 7.73 percent. The increase in 2017 included $48.23 million, or 10.27 percent in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $18.59 million, or 13.24 percent and time deposits decreased $30.04 million, or 7.83 percent. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 16.78 percent in 2018, 15.42 percent in 2017 and 14.12 percent in 2016. The general increase in market rates in 2018 had the effect of (i) increasing the average cost of interest-bearing deposits by 13 basis points in 2018 compared to 2017 and (ii) offset a portion of the impact of increasing yields on interest-earning assets on the Company's net interest income in 2018. The general decrease in market rates in 2017 had the effect of (i) decreasing the average cost of interest-bearing deposits by 2 basis points in 2017 compared to 2016 and (ii) mitigating a portion of the impact of decreasing yields on interest-earning assets in the Company's net interest income in 2017.

Total average interest-bearing deposits decreased $10.43 million, or 1.20 percent in 2018 compared to 2017 and increased $18.19 million, or 2.13 percent in 2017 compared to 2016. The decrease in 2018 was primarily attributable to the decrease in time deposits, and for 2017, the increase was primarily attributable to the increase in interest-bearing demand and savings accounts.

The Company supplements deposit sources with brokered deposits. As of December 31, 2018, the Company had $80.54 million, or 7.42 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additional information is provided in the Notes to Consolidated Financial Statements for Deposits.

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

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

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of December 31, 2018. 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. The off-balance-sheet arrangements for loan commitments consist of approximately $12 million in 1-4 residential home equity and construction loans, $22 million in commercial real estate construction loans, $22 million in commercial/industrial loans and $43 million in the overdraft privilege program.

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Contractual Obligations:					
Subordinated Debentures	$ 24,229	$ –	$ –	$ –	$ 24,229
Federal Home Loan Bank Advances	44,000	5,000	2,500	24,000	12,500
Operating Leases	186	63	84	39	–
Deposits with Stated Maturity Dates	341,031	241,366	82,412	17,212	41
	409,446	246,429	84,996	41,251	36,770
Other Commitments:					
Loan Commitments	98,736	98,736	–	–	–
Standby Letters of Credit	1,525	1,525	–	–	–
	100,261	100,261	–	–	–
Total Contractual Obligations and Other Commitments	$ 509,707	$ 346,690	$ 84,996	$ 41,251	$ 36,770

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments which are not reflected in the consolidated financial statements. These instruments include commitments to extend credit, standby letters of credit, performance letters of credit, guarantees and liability for assets held in trust.

Such financial instruments are recorded in the financial statements when funds are disbursed or the instruments become payable. The Company uses the same credit policies for these off-balance sheet financial instruments as they do for instruments that are recorded in the consolidated financial statements.

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for loan losses. Loan commitments outstanding at December 31, 2018 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, 2018 are included in the preceding table.

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

Capital and Liquidity

At December 31, 2018, shareholders' equity totaled $95.69 million compared to $90.32 million at December 31, 2017. In addition to net income of $11.92 million, other significant changes in shareholders' equity during 2018 included $1.69 million of dividends declared on common stock, $3.17 million for repurchase of warrants and the issuance of approximately $6 thousand in shares of restricted stock. The accumulated other comprehensive loss component of stockholders' equity totaled $(8.19) million at December 31, 2018 compared to $(6.49) million at December 31, 2017. 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 and disallowed deferred tax assets. 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, 2018 was 15.00 percent and total Tier 1 and 2 risk-based capital was 15.86 percent. Both of these measures compare favorably with the regulatory minimum of 6 percent for Tier 1 and 8 percent for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2018 was 12.22, which exceeds the regulatory minimum of 4.50 percent. The Company's Tier 1 leverage ratio as of December 31, 2018 was 10.24 percent, which exceeds the required ratio standard of 4 percent.

For 2018, average capital was $89.48 million, representing 7.44 percent of average assets for the year. This compares to 7.58 percent for 2017.

For 2018, the Company did not have any material commitments for capital expenditures.

On August 23, 2018, the Company granted 5,650 restricted shares of common stock to T. Heath Fountain, President and Chief Executive Officer, as part of his employment agreement. The restricted shares will vest over a three year period.

The Company reinstated payment of common stock dividends in 2017. A cash dividend of $1.69 million paid in 2018 and a cash dividend of $844 thousand paid in 2017.

The Company declared dividends of $211 thousand on preferred stock during 2017. The Company redeemed the remaining $9.36 million in preferred stock in 2017. In 2018, the Company repurchased $3.17 million of warrants. Additional information is provided in the Notes to the Consolidated Financial Statements for Preferred Stock.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2018, the available for sale bond portfolio totaled $353.1 million. At December 31, 2017, the available for sale bond portfolio totaled $354.2 million. Only marketable investment grade bonds are purchased.

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

Although approximately half of the Bank's bond portfolio is encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for 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 72.0 percent as of December 31, 2018 and 71.6 percent as of December 31, 2017. 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, 2018 and December 31, 2017 were 69.2 percent and 68.6 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, 2018 and December 31, 2017, the Bank had $53.9 million and $38.9 million, respectively, in certificates of deposit of $250,000 or more. These larger deposits represented 5.0 percent and 3.6 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.

The Company supplemented deposit sources with brokered deposits. As of December 31, 2018, the Company had $80.5 million or 7.42 percent of total deposits in CDARS. Additional information is provided in the Notes to the Consolidated Financial Statements regarding these brokered deposits. Additionally, the Company uses external deposit listing services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. The deposits obtained from listing services are often referred to as wholesale or Internet CDs. As of December 31, 2018, the Company had $7.3 million, or 0.7 percent of total deposits, in internet certificates of deposit obtained through deposit listing services.

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

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

Asset liquidity is provided by liquid assets which are readily marketable or pledgeable or which will mature in the near future. Liquid assets include cash, interest-bearing deposits in banks, securities available for sale 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.

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

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, though given recent economic conditions, the Company has not experienced any material effects of inflation during the last three fiscal years. 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 borrowings 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 the Consolidated Financial Statements.

Market Risk and Interest Rate Sensitivity

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 Risk Management Committee which includes senior management representatives. The Risk Management Committee 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.

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

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 by our Risk Management Committee. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates. In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. The Company has engaged FTN Financial to run a quarterly asset/liability model for interest rate risk analysis. We are generally focusing our investment activities on securities with terms or average lives in the 3 ½ - 5 ½ year range.

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. This risk of loss can be reflected in either reduced current market values or reduced current and potential net income. Colony's most significant market risk is interest rate risk. This risk arises primarily from Colony's extension of loans and acceptance of deposits.

Managing interest rate risk is a primary goal of the asset liability management function. Colony attempts to achieve stability in net interest income while limiting volatility arising from changes in interest rates. Colony seeks to achieve this goal by balancing the maturity and repricing characteristics of assets and liabilities. Colony manages its exposure to fluctuations in interest rates through policies established by the Risk Management Committee and approved by the Board of Directors. The Risk Management Committee meets at least quarterly and has responsibility for developing asset liability management policies, reviewing the interest rate sensitivity of Colony, and developing and implementing strategies to improve balance sheet structure and interest rate risk positioning.

Colony measures the sensitivity of net interest income to changes in market interest rates through the utilization of Asset/Liability simulation modeling. On at least a quarterly basis, the following twenty-four month time period is simulated to determine a baseline net interest income forecast and the sensitivity of this forecast to changes in interest rates. These simulations include all of Colony's earning assets and liabilities. Forecasted balance sheet changes, primarily reflecting loan and deposit growth and forecasts, are included in the periods modeled. Projected rates for loans and deposits are based on management's outlook and local market conditions.

The magnitude and velocity of rate changes among the various asset and liability groups exhibit different characteristics for each possible interest rate scenario; additionally, customer loan and deposit preferences can vary in response to changing interest rates. Simulation modeling enables Colony to capture the expected effect of these differences. Assumptions utilized in the model are updated on an ongoing basis and are reviewed and approved by the Risk Management Committee of the Board of Directors.

Colony has modeled its baseline net interest income forecast assuming a flat interest rate environment with the federal funds rate at the Federal Reserve's current targeted range of 2.25% to 2.50% and the current prime rate of 5.50%. Colony has modeled the impact of a gradual increase in short-term rates of 100 and 200 basis points and a decline of 100 basis points to determine the sensitivity of net interest income for the next twelve months. As illustrated in the table below, the net interest income sensitivity model indicates that, compared with a net interest income forecast assuming stable rates, net interest income is projected to increase by 1.46% and increase by 2.36% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 2.86% if interest rates decreased by 100 basis points. These changes were within Colony's policy limit of a maximum 15% negative change.

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

Twelve Month Net Interest Income Sensitivity

	Estimated Change in Net Interest Income As of December 31,	
Change in Short-term Interest Rates (in basis points)	**2018**	2017
+200	**2.36%**	0.27%
+100	**1.46%**	0.58%
Flat	**–%**	–%
-100	**-2.86%**	-2.57%

The measured interest rate sensitivity indicates an asset sensitive position over the next year, which could serve to improve net interest income in a rising interest rate environment. The actual realized change in net interest income would depend on several factors, some of which could serve to reduce or eliminate the asset sensitivity noted above. These factors include a higher than projected level of deposit customer migration to higher cost deposits, such as certificates of deposit, which would increase total interest expense and serve to reduce the realized level of asset sensitivity. Another factor which could impact the realized interest rate sensitivity in a rising rate environment is the repricing behavior of interest bearing non-maturity deposits. Assumptions for repricing are expressed as a beta relative to the change in the prime rate. For instance, a 25% beta would correspond to a deposit rate that would increase 0.25% for every 1% increase in the prime rate. Projected betas for interest bearing non-maturity deposit repricing are a key component of determining the Company's interest rate risk position. Should realized betas be higher than projected betas, the expected benefit from higher interest rates would be reduced.

The net interest income simulation model is the primary tool utilized to evaluate potential interest rate risks over a shorter term time horizon. Colony also evaluates potential longer term interest rate risk through modeling and evaluation of economic value of equity (EVE). This EVE modeling allows Colony to capture longer-term repricing risk and options risk embedded in the balance sheet. Simulation modeling is utilized to measure the economic value of equity and its sensitivity to immediate changes in interest rates. These simulations value only the current balance sheet and do not incorporate growth assumptions used in the net interest income simulation. The economic value of equity is the net fair value of assets and liabilities derived from the present value of future cash flows discounted at current market interest rates. From this baseline valuation, Colony evaluates changes in the value of each of these items in various interest rate scenarios to determine the net impact on the economic value of equity. Key assumptions utilized in the model, namely loan prepayments, deposit pricing betas, and non-maturity deposit durations have a significant impact on the results of the EVE simulations.

As illustrated in the table below, the economic value of equity model indicates that, compared with a valuation assuming stable rates, EVE is projected to increase by 7.32% and 12.20%, assuming an immediate and sustained increase in interest rates of 100 and 200 basis points, respectively. The primary reason for the increase in asset sensitivity from the prior year is a more aggressive assumption regarding non-maturity deposit durations. Assuming an immediate 100 basis point decline in rates, EVE is projected to be -10.74%. These changes were within Colony's policy except in the -100 basis point change, which limits the maximum negative change in EVE to 10% of the base EVE. We believe this projection outside of policy is mitigated by the unlikely reduction in interest rates due to the current rate environment.

	Estimated Change in EVE As of December 31,	
Immediate Change in Interest Rates (in basis points)	**2018**	2017
+200	**12.20%**	13.13%
+100	**7.32%**	7.93%
-100	**-10.74%**	-11.73%

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

Colony is also subject to market risk in certain of its fee income business lines. Mortgage banking income is subject to market risk. Mortgage loan originations are sensitive to levels of mortgage interest rates and therefore, mortgage banking income could be negatively impacted during a period of rising interest rates. The extension of commitments to customers to fund mortgage loans also subjects Colony to market risk. This risk is primarily created by the time period between making the commitment and closing and delivering the loan. Colony seeks to minimize this exposure by utilizing various risk management tools, the primary of which are forward sales commitments and best efforts commitments.

The following table is an analysis of the Company's interest rate-sensitivity position at December 31, 2018. 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
Interest-Earning Assets:						
Interest-Bearing Deposits	$ 49,779	$ –	$ 49,779	$ –	$ –	$ 49,779
Investment Securities	5,348	3,789	9,137	176,889	167,040	353,066
Loans, Net of Unearned Income	156,826	135,181	292,007	445,089	44,430	781,526
Other Interest- Earning Assets	2,978	–	2,978	–	–	2,978
Total Interest-Earning Assets	$ 214,931	$ 138,970	$ 353,901	$ 621,978	$ 211,470	$ 1,187,349
Interest-Bearing Liabilities:						
Interest-Bearing Demand Deposits [1]	471,794	–	471,794	–	–	471,794
Savings [1]	79,453	–	79,453	–	–	79,453
Time Deposits	60,404	180,962	241,366	99,624	41	341,031
Other Borrowings	–	5,000	5,000	26,500	12,500	44,000
Subordinated Debentures	24,229	–	24,229	–	–	24,229
Total Interest-Bearing Liabilities	635,880	185,962	821,842	126,124	12,541	960,507
Interest Rate-Sensitivity Gap	(420,949)	(46,992)	(467,941)	495,854	198,929	$ 226,842
Cumulative Interest-Sensitivity Gap	$ (420,949)	$ (467,941)	$ (467,941)	$ 27,913	$ 226,842	
Interest Rate-Sensitivity Gap as a Percentage of Interest-Earning Assets	(35.45)%	(3.96)%	(39.41)%	41.76%	16.75%	
Cumulative Interest Rate-Sensitivity as a Percentage of Interest-Earning Assets	(35.45)%	(39.41)%	(39.41)%	2.35%	19.10%	

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

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

The foregoing table indicates that we had a one year negative gap of $467.9 million, or 39.41 percent of total interest-earning assets at December 31, 2018. In theory, this would indicate that at December 31, 2018, $467.9 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 interest-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. 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 has established its one year gap to be 80 percent to 120 percent. The most recent analysis as of December 31, 2018 indicates a one year gap of 1.14 percent. The analysis reflects slight net interest margin compression in both a declining and increasing interest rate environment. Given that interest rates have shown a gradual increase with the Federal Reserve actions since 2015, the Company is anticipating interest rates to increase in the future though we believe that interest rates will increase slightly in 2019. 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 certificates of deposit for longer terms and focusing on reduction of nonperforming assets.

The Company utilizes FTN Financial Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established policies for rate shock per basis point (bp) for earnings at risk for net interest income and for equity at risk. The following table shows the policy limits with the rate shock for earnings at risk and equity at risk as of December 31, 2018.

	Rate Shock	Policy Limit	Immediate Shock (-) decrease bp	Immediate Shock (+) increase bp
Net Interest Income – Earnings at Risk	+/- 100 bp	+/- 10%	-2.66%	1.24%
	+/- 200 bp	+/- 15%	-7.89	2.36
	+/- 300 bp	+/- 20%	-11.31	2.17
	+/- 400 bp	+/- 25%	-13.29	3.39
Equity at Risk	+/- 100 bp	+/- 10%	-10.74	7.32
	+/- 200 bp	+/- 20%	-25.58	12.20
	+/- 300 bp	+/- 30%	-37.50	15.02
	+/- 400 bp	+/- 40%	-37.34	16.48

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

Return on Assets and Stockholders' Equity

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

	Years Ended December 31		
	2018	2017	2016
Return on Average Assets [1]	**0.99%**	0.63%	0.62%
Return on Average Equity [1]	**13.32%**	8.28%	7.17%
Equity to Assets	**7.64%**	7.33%	7.72%
Common Stock Dividends Declared	**$ 0.20**	$ 0.10	$ 0.00

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Colony Bankcorp, Inc.

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Colony Bankcorp, Inc. and subsidiary (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively, the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included under Item 9A, Controls and Procedures, in the Company's Annual Report or Form 10-K. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

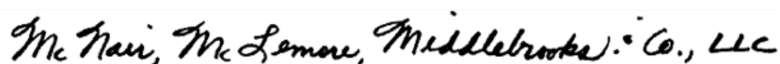
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

We have served as the Company's auditor since 1995.

Macon, Georgia
March 15, 2019

Consolidated Balance Sheets

	December 31,	
	2018	2017
Cash and Cash Equivalents		
Cash and Due from Banks	**$ 10,376,876**	$ 23,145,136
Interest-Bearing Deposits	**49,778,576**	34,667,715
Investment Securities		
Available for Sale, at Fair Value	**353,066,166**	354,246,904
Federal Home Loan Bank Stock, at Cost	**2,977,900**	3,042,900
Loans	**782,027,368**	765,283,855
Allowance for Loan Losses	**(7,276,806)**	(7,507,508)
Unearned Interest and Fees	**(501,300)**	(495,500)
	774,249,262	757,280,847
Premises and Equipment	**28,831,272**	27,639,430
Other Real Estate (Net of Allowance of $876,177 and $1,451,492 in 2018 and 2017, Respectively)	**1,840,743**	4,256,469
Goodwill	**202,244**	–
Other Intangible Assets	**556,573**	44,766
Other Assets	**29,998,856**	28,431,150
Total Assets	**$ 1,251,878,468**	$ 1,232,755,317
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-Bearing	**$ 192,847,392**	$ 190,927,928
Interest-Bearing	**892,278,066**	877,057,477
	1,085,125,458	1,067,985,405
Borrowed Money		
Subordinated Debentures	**24,229,000**	24,229,000
Other Borrowed Money	**44,000,000**	47,500,000
	68,229,000	71,729,000
Other Liabilities	**2,831,615**	2,718,249
Commitments and Contingencies		
Stockholders' Equity		
Common Stock, Par Value $1; 20,000,000 Shares Authorized, 8,444,908 and 8,439,258 Shares Issued and Outstanding as of December 31, 2018 and 2017, respectively	**8,444,908**	8,439,258
Paid-In Capital	**25,978,334**	29,145,094
Retained Earnings	**69,459,243**	59,230,260
Accumulated Other Comprehensive Loss, Net of Tax	**(8,190,090)**	(6,491,949)
	95,692,395	90,322,663
Total Liabilities and Stockholders' Equity	**$ 1,251,878,468**	$ 1,232,755,317

See accompanying notes which are an integral part of these financial statements.

Consolidated Statements of Operations

	For The Years Ended December 31,		
	2018	2017	2016
Interest Income			
Loans, Including Fees	**$ 40,681,853**	$ 38,613,540	$ 38,942,503
Federal Funds Sold	–	3	–
Deposits with Other Banks	**409,732**	232,397	124,459
Investment Securities			
U.S. Government Agencies	**7,528,962**	6,717,827	5,263,741
State, County and Municipal	**102,719**	115,097	127,379
Corporate	**111,763**	87,387	-
Dividends on Other Investments	**187,117**	150,172	131,007
	49,022,146	45,916,423	44,589,089
Interest Expense			
Deposits	**6,057,066**	4,758,073	4,781,228
Federal Funds Purchased	**5,305**	2,639	581
Borrowed Money	**2,163,148**	2,112,017	1,701,522
	8,225,519	6,872,729	6,483,331
Net Interest Income	**40,796,627**	39,043,694	38,105,758
Provision for Loan Losses	**200,500**	390,000	1,062,000
Net Interest Income After Provision for Loan Losses	**40,596,127**	38,653,694	37,043,758
Noninterest Income			
Service Charges on Deposits	**4,373,854**	4,466,997	4,307,214
Other Service Charges, Commissions and Fees	**3,253,922**	3,048,601	2,802,651
Mortgage Fee Income	**651,985**	858,658	681,806
Securities Gains (Losses)	**115,909**	–	385,223
Other	**1,225,660**	1,360,309	1,376,860
	9,621,330	9,734,565	9,553,754
Noninterest Expenses			
Salaries and Employee Benefits	**20,122,843**	19,222,594	18,482,693
Occupancy and Equipment	**4,180,396**	3,947,941	3,970,244
Directors' Fees	**291,400**	298,100	348,755
Legal and Professional Fees	**1,320,653**	1,169,938	1,067,563
Foreclosed Property	**204,705**	363,519	1,143,518
FDIC Assessment	**358,222**	386,823	603,654
Advertising	**337,527**	349,722	609,892
Software and Data Processing	**1,420,482**	1,192,025	1,112,065
Telephone	**738,193**	813,592	737,063
ATM/Card Processing	**1,510,322**	1,467,411	1,136,122
Other	**4,815,044**	4,648,163	4,861,400
	35,299,787	33,859,828	34,072,969
Income Before Income Taxes	**14,917,670**	14,528,431	12,524,543
Income Taxes	**3,000,270**	6,777,453	3,851,333
Net Income	**11,917,400**	7,750,978	8,673,210
Preferred Stock Dividends	–	210,600	1,493,310
Net Income Available to Common Stockholders	**$ 11,917,400**	$ 7,540,378	$ 7,179,900
Net Income Per Share of Common Stock			
Basic	**$ 1.41**	$ 0.89	$ 0.85
Diluted	**$ 1.40**	$ 0.87	$ 0.84
Cash Dividends Declared Per Share of Common Stock	**$ 0.20**	$ 0.10	$ 0.00
Weighted Average Shares Outstanding, Basic	**8,439,454**	8,439,258	8,439,258
Weighted Average Shares Outstanding, Diluted	**8,538,608**	8,633,581	8,513,295

See accompanying notes which are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

	For The Years Ended December 31,		
	2018	2017	2016
Net Income	**$ 11,917,400**	$ 7,750,978	$ 8,673,210
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	**(2,033,636)**	(608,355)	(505,367)
Tax Effect	**427,063**	206,841	171,825
Realized (Gains) Losses on Sale of AFS Securities	**(115,909)**	–	(385,223)
Tax Effect	**24,341**	–	130,976
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(1,698,141)**	(401,514)	(587,789)
Comprehensive Income	**$ 10,219,259**	$ 7,349,464	$ 8,085,421

See accompanying notes which are an integral part of these financial statements.

Consolidated Statements of Changes in Stockholders' Equity

	Preferred Shares Issued	Preferred Stock	Common Shares Issued	Common Stock	Paid-In Capittal	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	18,021	$ 18,021,000	8,439,258	$ 8,439,258	$ 29,145,094	$ 44,285,621	$ (4,434,351)	$ 95,456,622
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(587,789)	(587,789)
Dividends on Preferred Shares						(1,493,310)		(1,493,310)
Redemption of Preferred Stock	(8,661)	(8,661,000)						(8,661,000)
Net Income						8,673,210		8,673,210
Balance, December 31, 2016	9,360	$ 9,360,000	8,439,258	$ 8,439,258	$ 29,145,094	$ 51,465,521	$ (5,022,140)	$ 93,387,733
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							(401,514)	(401,514)
Dividends on Common Shares						(843,934)		(843,934)
Dividends on Preferred Shares						(210,600)		(210,600)
Redemption of Preferred Stock	(9,360)	(9,360,000)						(9,360,000)
TCJ Act Reclassification						1,068,295	(1,068,295)	–
Net Income						7,750,978		7,750,978
Balance, December 31, 2017	–	$ –	8,439,258	$ 8,439,258	$ 29,145,094	$ 59,230,260	$ (6,491,949)	$ 90,322,663
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects							**(1,698,141)**	**(1,698,141)**
Dividends on Common Shares						**(1,688,417)**		**(1,688,417)**
Issuance of Restricted Stock			**5,650**	**5,650**	**(5,650)**		**–**	**–**
Stock-based Compensation Expense					**13,890**			**13,890**
Repurchase of Warrants					**(3,175,000)**			**(3,175,000)**
Net Income						**11,917,400**		**11,917,400**
Balance, December 31, 2018	**–**	**$ –**	**8,444,908**	**$ 8,444,908**	**$ 25,978,334**	**$ 69,459,243**	**$ (8,190,090)**	**$ 95,692,395**

See accompanying notes which are an integral part of these financial statements.

Consolidated Statements of Cash Flows

	For The Years Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities			
Net Income	**$ 11,917,400**	$ 7,750,978	$ 8,673,210
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities			
Depreciation	**1,786,652**	1,647,813	1,574,249
Amortization and Accretion	**1,176,224**	1,449,111	1,645,088
Provision for Loan Losses	**200,500**	390,000	1,062,000
Share-based Compensation Expense	**13,890**	–	–
Deferred Income Taxes	**273,176**	2,833,958	222,120
Securities (Gains) Losses	**(115,909)**	–	(385,223)
(Gain) Loss on Sale of Premises and Equipment	**(305)**	(10,735)	80,329
(Gain) Loss on Sale of Other Real Estate and Repossessions	**(309,077)**	(208,329)	160,682
Provision for Losses on Other Real Estate	**262,041**	333,767	501,736
Increase in Cash Surrender Value of Life Insurance	**(508,946)**	(1,669,424)	(589,408)
Provision for Losses on Premises & Equipment	**172,143**	–	–
Change In			
Interest Receivable	**(217,491)**	(90,204)	176,766
Prepaid Expenses	**266,806**	139,382	(372,380)
Interest Payable	**38,573**	21,188	(46,284)
Accrued Expenses and Accounts Payable	**1,418**	361,005	(252,617)
Other	**(45,858)**	(403,375)	938,223
	14,911,237	12,545,135	13,388,491
Cash Flows from Investing Activities			
Interest-Bearing Deposits in Other Banks	**(15,110,861)**	11,677,144	(7,729,560)
Purchase of Investment Securities Available for Sale	**(63,682,791)**	(87,160,178)	(109,634,793)
Proceeds from Sale of Investment Securities Available for Sale	**11,267,642**	–	25,209,851
Proceeds from Maturities, Calls and Paydowns of Investment Securities Available for Sale	**50,422,396**	54,587,986	54,868,726
Proceeds from Sale of Premises and Equipment	**22,581**	37,650	89,551
Net Loans to Customers	**2,395,928**	(14,459,526)	(2,167,126)
Purchase of Premises and Equipment	**(2,762,585)**	(1,344,898)	(3,259,859)
Proceeds from Sale of Other Real Estate and Repossessions	**3,002,508**	3,863,576	7,529,131
Proceeds from Sale of Federal Home Loan Bank Stock	**65,000**	–	–
Purchase of Federal Home Loan Bank Stock	**–**	(32,900)	(279,500)
Net Cash and Cash Equivalents Paid in Acquisition	**(10,043,452)**	–	–
	(24,423,634)	(32,831,146)	(35,373,579)
Cash Flows from Financing Activities			
Interest-Bearing Customer Deposits	**(445,146)**	(8,240,418)	7,629,930
Noninterest-Bearing Customer Deposits	**5,552,700**	31,869,295	25,172,362
Proceeds from Other Borrowed Money	**44,007,500**	10,015,500	10,000,000
Principal Payments on Other Borrowed Money	**(47,507,500)**	(8,515,500)	(4,000,000)
Dividends Paid on Preferred Stock	**–**	(315,900)	(1,590,746)
Redemption of Preferred Stock	**–**	(9,360,000)	(8,661,000)
Repurchase of Warrants	**(3,175,000)**	–	–
Dividends Paid on Common Stock	**(1,688,417)**	(843,934)	–
	(3,255,863)	14,609,043	28,550,546
Net Increase (Decrease) in Cash and Cash Equivalents	**(12,768,260)**	(5,676,968)	6,565,458
Cash and Cash Equivalents, Beginning	**23,145,136**	28,822,104	22,256,646
Cash and Cash Equivalents, Ending	**$ 10,376,876**	$ 23,145,136	$ 28,822,104

See accompanying notes which are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Nature of Operations

The Company provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in central, south and coastal Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Quitman, Rochelle, Savannah, Soperton, Statesboro, 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 and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

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 2018. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly if an economic downturn occurred in the real estate market. At December 31, 2018, approximately 88 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. Collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have started showing signs of stabilization in values in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

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 federal deposit insurance limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

Notes to Consolidated Financial Statements

Investment Securities

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

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Loans Modified in a Troubled Debt Restructuring (TDR)

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the

Notes to Consolidated Financial Statements

modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status. Once a loan is modified in a troubled debt restructuring, it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

Allowance for Loan Losses

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

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

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The historical component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (1) changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio and terms of loans, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the organization's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and (9) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

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

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether to obtain an external third-party appraisal usually depends on the type of property being evaluated. External

Notes to Consolidated Financial Statements

appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff. When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are “as is” or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals may not be obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management’s knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the initial appraisal was performed.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of collateral underlying impaired loans and because of the relationship between fair value and general economic conditions, we consider the fair value of impaired loans to be highly sensitive to changes in market conditions.

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

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. Goodwill is assigned to reporting units and tested for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value.

Other Intangible Assets

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on 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.

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.

Notes to Consolidated Financial Statements

Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold and securities purchased under agreement to resell. Cash flows from demand deposits, interest-bearing checking accounts, savings accounts, loans and certificates of deposit are reported net.

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 basis. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

The Company's federal and state income tax returns for tax years 2018, 2017, 2016 and 2015 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing.

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 operations.

Other Real Estate

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

Bank-Owned Life Insurance

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other

Notes to Consolidated Financial Statements

income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of $17,597,639 and $17,088,693 as of December 31, 2018 and 2017, respectively.

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. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* On January 1, 2018, the Company adopted ASU 2014-09 and all subsequent amendments to the ASU and ASC 606 which (1) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (2) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Company's revenues came from interest income and other sources, including loans and investment securities, that are outside the scope of ASC 606. With the exception of gain/losses on the sale of other real estate owned, the Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligations to the customer. Services within the scope of ASC 606 reported in noninterest income include service charges on deposit accounts, debit card interchange fees, and ATM fees. The net of gains and losses on the sale of other real estate owned are recorded in other noninterest expenses in the Company's consolidated statements of income for the year ended December 31, 2017 and 2016. For the year ended December 31, 2018, the net of gains and losses on the sale of other real estate owned is recorded in other noninterest income in the Company's consolidated statements of income. The adoption of ASC 606 did not change the timing or amount of revenue recognized for the Company. Accordingly, no cumulative effect adjustment was recorded under the modified retrospective transition method. See Note 26 for further discussion on the Company's accounting policies for revenue source within the scope of ASC 606.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective for the Company on January 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Notes to Consolidated Financial Statements

ASU 2016-02, *Leases (Topic 842).* This ASU requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the impact of this ASU on its financial statements and disclosures.

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* This ASU sets forth a "current expected credit loss" (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supported forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

ASU 2017-04, *Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The standard must be adopted using a prospective basis and the nature and reason for the change in accounting principle should be disclosed upon transition. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. The Company is currently evaluating the impact this ASU will have on the Company's Consolidated Financial Statements, but it is not expected to have a material impact.

ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities.* This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220). Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This ASU allows an entity to elect a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting

Notes to Consolidated Financial Statements

from the Tax Cuts and Jobs Act (TCJ Act). ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt the provisions of ASU 2018-02 in the fourth quarter of 2017 and, as a result, reclassified $1,068,295 from AOCI to retained earnings as of December 31, 2017.

ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820).* This ASU modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods after December 15, 2019; early adoption is permitted. The Company is currently evaluating the provisions of ASU 2018-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

2. BUSINESS COMBINATION

Planters First Bank Branch Acquisition

On October 22, 2018, the Bank purchased one branch from Planters First Bank ("PFB") located in Albany, Georgia. Pursuant to the transaction, the Bank acquired $20.4 million in loans and $12.0 million in deposits, as well as the branch equipment. In addition, the Bank purchased a vacant lot owned by PFB in Albany for $725 thousand, on which it plans to build a new branch office. In addition to the premium paid on deposits, other costs associated with the acquisition totaled $113 thousand. This acquisition provides the Bank with the opportunity to enhance its footprint in the Albany, Georgia market.

The Company has accounted for the branch purchases under the acquisition method of accounting in accordance with FASB ASC topic 805, "Business Combinations," whereby the acquired assets and liabilities were recorded by the Bank at their estimated fair values as of their acquisition date.

The acquired assets and assumed liabilities of the PFB branch were measured at estimated fair value. Management made significant estimates and exercised significant judgement in accounting for the acquisition of the PFB branch. Management evaluated expected cash flows and estimated loss factors to measure fair values for loans. Deposits were valued based upon interest rates, original and remaining terms and maturities, as well as current rates for similar funds in the same markets. The vacant lot was based on recent appraised value, whereas equipment was acquired based on the remaining book value from PFB, which approximated fair value. Management engaged independent outside experts to provide the fair value estimates.

The following table provides the purchase price as of acquisition date, the identifiable assets acquired and liabilities assumed at their estimated fair values, and the resulting goodwill of $202 thousand recorded from the acquisition:

Purchase Price Consideration:	
Cash Consideration	**$ 10,237,789**
Total purchase price for PFB branch acquisition	**$ 10,237,789**
Assets acquired at fair value:	
Cash and cash equivalents	**$ 194,337**
Loans	**20,430,271**
Premises and equipment, net	**772,727**
Core deposit intangible	**560,000**
Other assets	**123,363**
Total fair value of assets acquired	**$ 22,080,698**
Liabilities assumed at fair value:	
Deposits	**$ 12,032,500**
Other liabilities	**12,653**
Total fair value of liabilities assumed	**$ 12,045,153**
Net Assets acquired at fair value:	**$ 10,035,545**
Amount of goodwill resulting from acquisition	**$ 202,244**

Notes to Consolidated Financial Statements

The total amount of goodwill arising from this transaction of $202 thousand is expected to be deductible for tax purposes, pursuant to section 197 of the Internal Revenue Code.

Acquired Loans

The following table outlines the contractually required payments receivable, cash flows we expect to receive and the discounted yield for all PFB loans as of the acquisition date.

	Contractually Required Payments Receivable	Cash Flows Expected To Be Collected	Discounted FMV Adjustments	Carrying Value of Loans Receivable
Performing loans acquired	**$ 20,749,515**	**20,749,515**	**319,244**	**$ 20,430,271**

The Bank recorded all loans acquired at the estimated fair value on the purchase date with no carryover of the related allowance for loan losses. The Bank only acquired loans which were deemed to be performing loans with no signs of credit deterioration.

The Bank determined the net discounted value of cash flows on approximately 89 performing loans totaling $20.4 million. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, current market rates, loss exposure and remaining balances. These performing loans were segregated into pools based on loan and payment type. The effect of this fair valuation process was a net discount adjustment of $319 thousand at acquisition.

Pending Acquisition

On December 17, 2018, the Company and LBC Bancshares, Inc., a Georgia corporation ("LBC"), entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which LBC will merge into the Company. Immediately thereafter, Calumet Bank, a Georgia bank wholly owned by LBC, will be merged into Colony Bank. Calumet Bank operates two full-service banking locations, one each in LaGrange, Georgia and Columbus, Georgia, as well as a loan production office in Atlanta, Georgia. Under the terms of the Merger Agreement, each LBC shareholder will have the option to receive either $23.50 in cash or 1.3239 shares of the Company's Common Stock in exchange for each share of LBC common stock, subject to customary proration and location procedures, such that 55% of LBC shares will receive the stock consideration and 45% will receive the cash consideration, and at least 50% of the merger consideration will be paid in the Company stock. The aggregate consideration is valued at approximately $34.1 million, based upon the $16.10 per share closing price of the Company's common stock as of December 17, 2018. The merger is subject to customary closing conditions, including the receipt of regulatory approvals and the approval of LBC's shareholders. The transaction is expected to close during the first half of 2019. As of December 31, 2018, LBC reported assets of $207 million, gross loans of $136 million and deposits of $182 million. The purchase price will be allocated among the net assets of LBC acquired as appropriate, with the remaining balance being reported as goodwill.

3. CASH AND BALANCES DUE FROM BANKS

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

	2018	2017
Cash on Hand and Cash Items	**$ 9,359,924**	$ 9,746,132
Noninterest-Bearing Deposits with Other Banks	**1,016,952**	13,399,004
	$ 10,376,876	$ 23,145,136

Notes to Consolidated Financial Statements

The Company is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Reserve balances totaled approximately $1,979,000 and $1,515,000 at December 31, 2018 and 2017, respectively.

4. INVESTMENT SECURITIES

Investment securities as of December 31, 2018 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	**$ 356,498,339**	**$ 303,360**	**$ (10,596,527)**	**$ 346,205,172**
State, County and Municipal	**4,007,883**	**17,858**	**(36,632)**	**3,989,109**
Corporate	**2,927,147**	**–**	**(55,262)**	**2,871,885**
	$ 363,433,369	**$ 321,218**	**$ (10,688,421)**	**$ 353,066,166**

The amortized cost and fair value of investment securities as of December 31, 2018, by contractual maturity, are shown hereafter. Expected maturities may differ from contractual maturities for certain investments because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in One Year or Less	**$ 354,440**	**$ 353,794**
Due After One Year Through Five Years	**4,294,198**	**4,237,813**
Due After Five Years Through Ten Years	**1,133,881**	**1,150,770**
Due After Ten Years	**1,152,511**	**1,118,617**
	$ 6,935,030	**$ 6,860,994**
Mortgage-Backed Securities	**356,498,339**	**346,205,172**
	$ 363,433,369	**$ 353,066,166**

Investment securities as of December 31, 2017 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$ 354,931,318	$ 258,049	$ (8,465,948)	$ 346,723,419
State, County and Municipal	4,493,085	22,835	(23,094)	4,492,826
Corporate	2,047,517	12,483	–	2,060,000
Asset-Backed	992,641	–	(21,982)	970,659
	$ 362,464,561	$ 293,367	$ (8,511,024)	$ 354,246,904

Notes to Consolidated Financial Statements

Proceeds from sales of investments available for sale were $11,267,642 in 2018, $0 in 2017 and $25,209,851 in 2016. Gross realized gains totaled $115,909 in 2018, $0 in 2017 and $391,976 in 2016. Gross realized losses totaled $0 in 2018, $0 in 2017 and $6,753 in 2016.

Investment securities having a carrying value totaling $178,978,383 and $175,484,021 as of December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017 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, 2018						
U.S. Government Agencies						
Mortgage-Backed	**$ 39,082,750**	**$ (504,496)**	**$ 255,747,472**	**$(10,092,031)**	**$ 294,830,222**	**$(10,596,527)**
State, County and Municipal	**611,882**	**(2,668)**	**1,882,249**	**(33,964)**	**2,494,131**	**(36,632)**
Corporate	**2,009,080**	**(20,847)**	**862,805**	**(34,415)**	**2,871,885**	**(55,262)**
	$ 41,703,712	**$ (528,011)**	**$ 258,492,526**	**$ (10,160,410)**	**$ 300,196,238**	**$ (10,688,421)**
December 31, 2017						
U.S. Government Agencies						
Mortgage-Backed	$ 120,139,340	$ (1,655,223)	$ 190,196,101	$ (6,810,725)	$ 310,335,441	$ (8,465,948)
State, County and Municipal	2,598,344	(23,094)	–	–	2,598,344	(23,094)
Asset – Backed	970,659	(21,982)	–	–	970,659	(21,982)
	$ 123,708,343	$ (1,700,299)	$ 190,196,101	$ (6,810,725)	$ 313,904,444	$ (8,511,024)

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, 2018, 145 securities have unrealized losses which have depreciated 3.44 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. However, the Company owns one asset-backed security at December 31, 2018 which was completely written off during prior years. This investment is comprised of one issuance of a trust preferred security and has no book value.

Notes to Consolidated Financial Statements

5. LOANS

The following table presents the composition of loans, segregated by class of loans, as of December 31:

	2018	2017
Commercial and Agricultural		
Commercial	**$ 57,410,473**	$ 48,122,263
Agricultural	**16,798,743**	16,442,581
Real Estate		
Commercial Construction	**47,848,754**	45,213,960
Residential Construction	**12,499,744**	8,583,446
Commercial	**373,533,562**	351,171,668
Residential	**187,714,372**	194,048,945
Farmland	**62,708,998**	67,767,655
Consumer and Other		
Consumer	**18,485,199**	18,956,028
Other	**5,027,523**	14,977,309
Total Loans	**$ 782,027,368**	$ 765,283,855

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

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (1) the risk grade assigned to commercial and consumer loans, (2) the level of classified commercial loans, (3) net charge-offs, (4) nonperforming loans, and (5) the general economic conditions in the Company's geographic markets.

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

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

- Grades 3 and 4 - Loans assigned these "pass" risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.

Notes to Consolidated Financial Statements

- Grade 5 - This grade includes "special mention" loans on management's watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.

- Grade 6 - This grade includes "substandard" loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.

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

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

	Pass	Special Mention	Substandard	Total Loans
2018				
Commercial and Agricultural				
Commercial	**$ 55,808,422**	**$ 729,088**	**$ 872,963**	**$ 57,410,473**
Agricultural	**15,664,048**	**636,666**	**498,029**	**16,798,743**
Real Estate				
Commercial Construction	**47,087,255**	**44,306**	**717,193**	**47,848,754**
Residential Construction	**12,499,744**	**–**	**–**	**12,499,744**
Commercial	**358,139,315**	**7,661,667**	**7,732,580**	**373,533,562**
Residential	**170,050,484**	**7,106,793**	**10,557,095**	**187,714,372**
Farmland	**58,712,452**	**1,912,338**	**2,084,208**	**62,708,998**
Consumer and Other				
Consumer	**18,103,792**	**59,073**	**322,334**	**18,485,199**
Other	**5,018,095**	**5,475**	**3,953**	**5,027,523**
Total Loans	**$ 741,083,607**	**$ 18,155,406**	**$ 22,788,355**	**$ 782,027,368**
2017				
Commercial and Agricultural				
Commercial	$ 46,468,726	$ 825,607	$ 827,930	$ 48,122,263
Agricultural	15,868,191	174,356	400,034	16,442,581
Real Estate				
Commercial Construction	41,282,295	577,765	3,353,900	45,213,960
Residential Construction	8,583,446	–	–	8,583,446
Commercial	338,775,805	7,662,637	4,733,226	351,171,668
Residential	177,962,870	4,864,893	11,221,182	194,048,945
Farmland	66,334,906	444,095	988,654	67,767,655
Consumer and Other				
Consumer	18,495,798	52,970	407,260	18,956,028
Other	14,968,677	8,632	–	14,977,309
Total Loans	$ 728,740,714	$ 14,610,955	$ 21,932,186	$ 765,283,855

Notes to Consolidated Financial Statements

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of $250,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired. In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether such loans are considered past due.

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

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
2018						
Commercial and Agricultural						
Commercial	$ 282,116	$ –	$ 282,116	$ 637,085	$ 56,491,272	$ 57,410,473
Agricultural	117,087	–	117,087	413,254	16,268,402	16,798,743
Real Estate						
Commercial Construction	88,371	–	88,371	462,841	47,297,542	47,848,754
Residential Construction	–	–	–	–	12,499,744	12,499,744
Commercial	679,387	–	679,387	2,965,546	369,888,629	373,533,562
Residential	6,881,632	–	6,881,632	2,734,179	178,098,561	187,714,372
Farmland	75,548	–	75,548	2,052,604	60,580,846	62,708,998
Consumer and Other						
Consumer	110,340	–	110,340	212,524	18,162,335	18,485,199
Other	–	–	–	3,953	5,023,570	5,027,523
Total Loans	$ 8,234,481	$ –	$ 8,234,481	$ 9,481,986	$ 764,310,901	$ 782,027,368
2017						
Commercial and Agricultural						
Commercial	$ 328,483	$ –	$ 328,483	$ 598,305	$ 47,195,475	$ 48,122,263
Agricultural	110,482	–	110,482	398,509	15,933,590	16,442,581
Real Estate						
Commercial Construction	27,062	–	27,062	477,043	44,709,855	45,213,960
Residential Construction	119,443	–	119,443	–	8,464,003	8,583,446
Commercial	918,997	–	918,997	2,172,229	348,080,442	351,171,668
Residential	2,482,276	–	2,482,276	2,829,966	188,736,703	194,048,945
Farmland	318,329	–	318,329	838,577	66,610,749	67,767,655
Consumer and Other						
Consumer	246,175	–	246,175	188,073	18,521,780	18,956,028
Other	7,158	–	7,158	–	14,970,151	14,977,309
Total Loans	$ 4,558,405	$ –	$ 4,558,405	$ 7,502,702	$ 753,222,748	$ 765,283,855

Notes to Consolidated Financial Statements

Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $226,000, $205,000 and $387,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table details impaired loan data as of December 31, 2018:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 595,323	$ 595,323	$ –	$ 525,463	$ 21,350	$ 23,985
Agricultural	433,915	413,254	–	382,978	17,949	24,825
Commercial Construction	132,366	132,366	–	69,396	7,806	7,966
Residential Construction	–	–	–	–	–	–
Commercial Real Estate	12,163,915	12,163,915	–	11,039,755	581,836	582,893
Residential Real Estate	4,214,354	4,129,876	–	4,067,529	208,138	212,509
Farmland	2,054,137	2,052,604	–	1,361,278	52,974	81,962
Consumer	212,524	212,524	–	197,225	13,614	14,373
Other	3,953	3,953	–	791	204	233
	$ 19,810,487	$ 19,703,815	$	$ 17,644,415	$ 903,871	$ 948,746
With An Allowance Recorded						
Commercial	$ 41,762	$ 41,762	$ 6,264	$ 8,352	$ 2,154	$ 2,247
Agricultural	–	–	–	–	–	–
Commercial Construction	398,930	398,930	38,930	465,929	–	–
Residential Construction	–	–	–	–	–	–
Commercial Real Estate	3,691,010	3,691,010	1,275,837	5,120,933	135,042	141,978
Residential Real Estate	274,198	274,198	60,716	97,902	8,187	8,180
Farmland	363,566	363,566	35,984	367,425	24,075	24,415
Consumer	–	–	–	–	–	–
Other	–	–	–	–	–	–
	$ 4,769,466	$ 4,769,466	$ 1,417,731	$ 6,060,541	$ 169,458	$ 176,820
Total						
Commercial	$ 637,085	$ 637,085	$ 6,264	$ 533,815	$ 23,504	$ 26,232
Agricultural	433,915	413,254	–	382,978	17,949	24,825
Commercial Construction	531,296	531,296	38,930	535,325	7,806	7,966
Residential Construction	–	–	–	–	–	–
Commercial Real Estate	15,854,925	15,854,925	1,275,837	16,160,688	716,878	724,871
Residential Real Estate	4,488,552	4,404,074	60,716	4,165,431	216,325	220,689
Farmland	2,417,703	2,416,170	35,984	1,728,703	77,049	106,377
Consumer	212,524	212,524	–	197,225	13,614	14,373
Other	3,953	3,953	–	791	204	233
	$ 24,579,953	$ 24,473,281	$ 1,417,731	$ 23,704,956	$ 1,073,329	$ 1,125,566

Notes to Consolidated Financial Statements

The following table details impaired loan data as of December 31, 2017:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 598,305	$ 598,305	$	$ 633,528	$ 33,283	33,868
Agricultural	485,132	398,509	–	296,578	11,046	19,376
Commercial Construction	54,306	54,306	–	141,396	3,526	3,836
Residential Construction	–	–	–	79,295	–	–
Commercial Real Estate	12,637,057	12,637,057	–	12,808,414	559,601	549,825
Residential Real Estate	4,977,769	4,579,614	–	4,566,041	211,318	226,684
Farmland	840,110	838,577	–	790,967	54,367	58,085
Consumer	188,073	188,073	–	186,348	8,576	9,452
	$ 19,780,752	$ 19,294,441	$ –	$ 19,502,567	$ 881,717	$ 901,126
With An Allowance Recorded						
Commercial	$ –	$ –	$ –	$ –	$ –	$ –
Agricultural	–	–	–	–	–	–
Commercial Construction	493,067	493,067	65,635	241,063	22,626	32,922
Residential Construction	–	–	–	–	–	–
Commercial Real Estate	5,729,300	5,729,300	1,712,557	6,599,144	228,745	237,066
Residential Real Estate	108,859	108,859	27,123	482,228	4,261	7,446
Farmland 371,376	371,376	21,369	375,595	22,121	22,021	
Consumer	–	–	–	–	–	–
	$ 6,702,602	$ 6,702,602	$1,826,684	$ 7,698,030	$ 277,753	$ 299,455
Total						
Commercial	$ 598,305	$ 598,305	$ –	$ 633,528	$ 33,283	$ 33,868
Agricultural	485,132	398,509	–	296,578	11,046	19,376
Commercial Construction	547,373	547,373	65,635	382,459	26,152	36,758
Residential Construction	–	–	–	79,295	–	–
Commercial Real Estate	18,366,357	18,366,357	1,712,557	19,407,558	788,346	786,891
Residential Real Estate	5,086,628	4,688,473	27,123	5,048,269	215,579	234,130
Farmland	1,211,486	1,209,953	21,369	1,166,562	76,488	80,106
Consumer	188,073	188,073	–	186,348	8,576	9,452
	$ 26,483,354	$ 25,997,043	$1,826,684	$ 27,200,597	$ 1,159,470	$ 1,200,581

Notes to Consolidated Financial Statements

The following table details impaired loan data as of December 31, 2016:

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 634,955	$ 634,955	$ –	$ 539,099	$ 24,563	$ 27,142
Agricultural	229,182	208,522	–	210,372	8,794	12,412
Commercial Construction	190,494	190,494	–	697,893	6,630	7,127
Commercial Real Estate	14,357,601	14,276,688	–	14,274,719	567,349	560,354
Residential Real Estate	4,261,558	3,952,139	–	4,553,322	73,099	190,373
Farmland	920,666	799,556	–	1,016,395	21,526	26,012
Consumer	212,376	212,026	–	213,309	9,599	12,036
	$ 20,806,832	$ 20,274,380	$ –	$ 21,505,109	$ 711,560	$ 835,456
With An Allowance Recorded						
Commercial	$ –	$ –	$ –	$ 30,270	$ –	$ –
Agricultural	–	–	–	–	–	–
Commercial Construction	72,296	72,296	21,135	74,098	1,532	1,416
Commercial Real Estate	8,557,582	8,467,135	3,021,943	8,339,666	238,684	235,749
Residential Real Estate	1,475,594	1,467,833	362,521	1,042,750	27,759	32,260
Farmland	379,851	379,851	29,173	384,056	21,098	21,310
Consumer	–	–	–	–	–	–
	$ 10,485,323	$ 10,387,115	$ 3,434,772	$ 9,870,840	$ 289,073	$ 290,735
Total						
Commercial	$ 634,955	$ 634,955	$ –	$ 569,369	$ 24,563	$ 27,142
Agricultural	229,182	208,522	–	210,372	8,794	12,412
Commercial Construction	262,790	262,790	21,135	771,991	8,162	8,543
Commercial Real Estate	22,915,183	22,743,823	3,021,943	22,614,385	806,033	796,103
Residential Real Estate	5,737,152	5,419,972	362,521	5,596,072	100,858	222,633
Farmland	1,300,517	1,179,407	29,173	1,400,451	42,624	47,322
Consumer	212,376	212,026	–	213,309	9,599	12,036
	$ 31,292,155	$ 30,661,495	$ 3,434,772	$ 31,375,949	$ 1,000,633	$ 1,126,191

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms of the loan have been modified in favor of the borrower due to deterioration in the borrower's financial condition. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether a loan is classified as a TDR include:

- *Interest rate reductions* - Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.
- *Amortization or maturity date changes* - Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.

Notes to Consolidated Financial Statements

- *Principal reductions* - These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon the Company's normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged off during modification, there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2018. The following tables present the number of loan contracts restructured during the 12 months ended December 31, 2018, 2017 and 2016. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous 12 months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due. A TDR may cease being classified as impaired if the loan is subsequently modified at market terms, has performed according to the modified terms for at least six months, and has not had any prior principal forgiveness on a cumulative basis.

Troubled Debt Restructurings

	# of Contracts	Pre-Modification	Post-Modification
2018			
Commercial Real Estate	**1**	**402,430**	**$ 402,430**
2017			
Commercial Real Estate	–	$ –	$ –
Residential Real Estate	–	–	–
Total Loans	–	–	–
2016			
Commercial Real Estate	1	$ 91,280	$ 91,097
Residential Real Estate	1	354,784	354,784
Total Loans	2	$ 446,064	$ 445,881

Troubled debt restructurings that subsequently defaulted as of December 31 are as follows:

	2018		2017		2016	
	# of Contracts	**Recorded Investment**	**# of Contracts**	**Recorded Investment**	**# of Contracts**	**Recorded Investment**
Residential Real Estate	**1**	**$ 131,067**	–	$ –	1	$ 89,297
Total Loans	**1**	**$ 131,067**	–	$ –	1	$ 89,297

During 2018, a restructured loan totaling $131,067 failed to continue to perform as agreed and was moved to non-accrual status. At December 31, 2017, all restructured loans were performing as agreed. During December 2016, a restructured loan totaling $89,297 failed to continue to perform as agreed and was charged off in June 2016.

Notes to Consolidated Financial Statements

6. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2018	2017	2016
Balance, Beginning of Year	**$ 7,507,508**	$ 8,923,293	$ 8,603,905
Provision for Loan Losses	**200,500**	390,000	1,062,000
Loans Charged Off	**(965,447)**	(2,915,753)	(2,087,850)
Recoveries of Loans Previously Charged Off	**534,245**	1,109,968	1,345,238
Balance, End of Year	**$ 7,276,806**	$ 7,507,508	$ 8,923,293

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

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
2018					
Commercial and Agricultural					
Commercial	**$ 446,675**	**$ (123,528)**	**$ 139,466**	**$ (93,049)**	**$ 369,564**
Agricultural	**185,904**	**(122,873)**	**22,031**	**163,188**	**248,250**
Real Estate					
Commercial Construction	**1,216,015**	**–**	**155,272**	**(1,256,413)**	**114,874**
Residential Construction	**–**	**–**	**–**	**16,530**	**16,530**
Commercial	**3,873,959**	**(257,424)**	**40,052**	**892,523**	**4,549,110**
Residential	**968,101**	**(162,235)**	**90,703**	**284,483**	**1,181,052**
Farmland	**779,531**	**–**	**12,228**	**(90,210)**	**701,549**
Consumer and Other					
Consumer	**33,993**	**(299,387)**	**72,386**	**279,121**	**86,113**
Other	**3,330**	**–**	**2,107**	**4,327**	**9,764**
	$ 7,507,508	**$ (965,447)**	**$ 534,245**	**$ 200,500**	**$ 7,276,806**
2017					
Commercial and Agricultural					
Commercial	$ 456,197	$ (299,079)	$ 136,499	$ 153,058	$ 446,675
Agricultural	167,692	(159,500)	3,963	173,749	185,904
Real Estate					
Commercial Construction	322,725	(51,977)	266,459	678,808	1,216,015
Residential Construction	13,491	–	–	(13,491)	–
Commercial	5,750,998	(966,014)	527,150	(1,438,175)	3,873,959
Residential	1,396,099	(1,048,337)	82,079	538,260	968,101
Farmland	722,331	(60,902)	16,750	101,352	779,531
Consumer and Other					
Consumer	80,265	(329,944)	74,933	208,739	33,993
Other	13,495	–	2,135	(12,300)	3,330
	$ 8,923,293	$ (2,915,753)	$1,109,968	$ 390,000	$ 7,507,508

Notes to Consolidated Financial Statements

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
2016					
Commercial and Agricultural					
Commercial	$ 855,364	$ (304,918)	$ 66,738	$ (160,987)	$ 456,197
Agricultural	203,091	(19,258)	4,150	(20,291)	167,692
Real Estate					
Commercial Construction	690,766	(25,318)	814,586	(1,157,309)	322,725
Residential Construction	19,890	–	–	(6,399)	13,491
Commercial	3,850,527	(992,067)	206,154	2,686,384	5,750,998
Residential	1,990,355	(361,630)	49,660	(282,286)	1,396,099
Farmland	911,692	(119,576)	145,000	(214,785)	722,331
Consumer and Other					
Consumer	63,377	(265,083)	52,629	229,342	80,265
Other	18,843	–	6,321	(11,669)	13,495
	$ 8,603,905	$ (2,087,850)	$ 1,345,238	$ 1,062,000	$ 8,923,293

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

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of $250,000 or more, regardless of the loans impairment classification.

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is $8,875,310 and $9,470,621 as of December 31, 2018 and 2017, respectively. Specific allowance allocations were made for these loans totaling $1,312,154 and $1,510,868 as of December 31, 2018 and 2017, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the "Collectively Evaluated for Impairment" column of the following tables.

At December 31, 2018, there were 148 impaired loans totaling $4,257,258 below the $250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the Bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Likewise, at December 31, 2017 and 2016, impaired loans totaling $4,335,524 and $4,204,156, respectively, were below the $250,000 review threshold and were subject to the Bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables.

Notes to Consolidated Financial Statements

	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2018						
Commercial and Agricultural						
Commercial	**$ 6,264**	**$ 363,300**	**$ 369,564**	**$ 83,309**	**$ 57,327,164**	**$ 57,410,473**
Agricultural	**–**	**248,250**	**248,250**	**27,031**	**16,771,712**	**16,798,743**
Real Estate						
Commercial Construction	**38,930**	**75,944**	**114,874**	**467,384**	**47,381,370**	**47,848,754**
Residential Construction	**–**	**16,530**	**16,530**	**–**	**12,499,744**	**12,499,744**
Commercial	**1,275,837**	**3,273,273**	**4,549,110**	**15,413,112**	**358,120,450**	**373,533,562**
Residential	**60,716**	**1,120,336**	**1,181,052**	**2,067,906**	**185,646,466**	**187,714,372**
Farmland	**35,984**	**665,565**	**701,549**	**2,157,281**	**60,551,717**	**62,708,998**
Consumer and Other						
Consumer	**–**	**86,113**	**86,113**	**–**	**18,485,199**	**18,485,199**
Other	**–**	**9,764**	**9,764**	**–**	**5,027,523**	**5,027,523**
Total End of Year Balance	**$ 1,417,731**	**$ 5,859,075**	**$ 7,276,806**	**$ 20,216,023**	**$ 761,811,345**	**$ 782,027,368**
2017						
Commercial and Agricultural						
Commercial	$ –	$ 446,675	$ 446,675	$ 77,599	$ 48,044,664	$ 48,122,263
Agricultural	–	185,904	185,904	5,121	16,437,460	16,442,581
Real Estate						
Commercial Construction	65,635	1,150,380	1,216,015	493,067	44,720,893	45,213,960
Residential Construction	–	–	–	–	8,583,446	8,583,446
Commercial	1,712,557	2,161,402	3,873,959	18,010,035	333,161,633	351,171,668
Residential	27,123	940,978	968,101	2,040,125	192,008,820	194,048,945
Farmland	21,369	758,162	779,531	1,035,572	66,732,083	67,767,655
Consumer and Other						
Consumer	–	33,993	33,993	–	18,956,028	18,956,028
Other	–	3,330	3,330	–	14,977,309	14,977,309
Total End of Year Balance	$ 1,826,684	$ 5,680,824	$ 7,507,508	$ 21,661,519	$ 743,622,336	$ 765,283,855
2016						
Commercial and Agricultural						
Commercial	$ –	$ 456,197	$ 456,197	$ 6,671	$ 47,018,207	$ 47,024,878
Agricultural	–	167,692	167,692	–	17,079,579	17,079,579
Real Estate						
Commercial Construction	21,135	301,590	322,725	72,296	30,286,066	30,358,362
Residential Construction	–	13,491	13,491	–	11,830,447	11,830,447
Commercial	3,021,943	2,729,055	5,750,998	22,422,451	326,667,580	349,090,031
Residential	362,522	1,033,577	1,396,099	2,911,874	192,668,093	195,579,967
Farmland	29,172	693,159	722,331	1,044,047	65,833,150	66,877,197
Consumer and Other						
Consumer	–	80,265	80,265	–	19,695,241	19,695,241
Other	–	13,495	13,495	–	16,747,861	16,747,861
Total End of Year Balance	$ 3,434,772	$ 5,488,521	$ 8,923,293	$ 26,457,339	$ 727,826,224	$ 754,283,563

Notes to Consolidated Financial Statements

7. PREMISES AND EQUIPMENT

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

	2018	2017
Land	**$ 10,934,885**	$ 9,668,722
Building	**26,544,689**	26,893,354
Furniture, Fixtures and Equipment	**12,782,042**	13,090,366
Leasehold Improvements	**696,529**	655,166
Construction in Progress	**581,389**	68,253
	51,539,534	50,375,861
Accumulated Depreciation	**(22,708,262)**	(22,736,431)
	$ 28,831,272	$ 27,639,430

Depreciation charged to operations totaled $1,786,652 in 2018, $1,647,813 in 2017 and $1,574,249 in 2016.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $443,000 for 2018, $427,000 for 2017 and $437,000 for 2016.

Future minimum rental payments as of December 31, 2018 are as follows:

Year Ending December 31	**Amount**
2019	**$ 63,480**
2020	**42,000**
2021	**42,000**
2022	**38,500**
2023 and Thereafter	**–**
	$ 185,980

8. OTHER REAL ESTATE OWNED

The aggregate carrying amount of Other Real Estate Owned (OREO) at December 31, 2018, 2017 and 2016 was $1,840,743, $4,256,469 and $6,439,226, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO during 2018, 2017 and 2016 as of December 31:

	2018	2017	2016
Balance, Beginning of Year	**$ 4,256,469**	$ 6,439,226	$ 8,839,103
Additions	**792,459**	1,724,936	5,664,554
Sales of OREO	**(2,949,283)**	(3,786,567)	(7,416,293)
Transfer to Bank Premises	**(300,000)**	–	–
Gain/(Loss) on Sale	**303,139**	212,641	(146,402)
Provision for Losses	**(262,041)**	(333,767)	(501,736)
Balance, End of Year	**$ 1,840,743**	$ 4,256,469	$ 6,439,226

At December 31, 2018, the Company held $564,748 of residential real estate property as foreclosed property. Also at December 31, 2018, $25,069 of consumer mortgage loans collateralized by residential real estate property was in the process of foreclosure according to local requirements of the applicable jurisdictions.

Notes to Consolidated Financial Statements

9. OTHER INTANGIBLE ASSETS

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

	Core Deposit Intangible	Accumulated Amortization	Net Core Deposit Intangible
Core Deposit Intangible			
Balance, December 31, 2016	$ 1,056,693	$ (976,178)	$ 80,515
Amortization Expense	–	(35,749)	(35,749)
Balance, December 31, 2017	$ 1,056,693	$ (1,011,927)	$ 44,766
Addition	**560,000**	**–**	**560,000**
Amortization Expense	**–**	**(48,193)**	**(48,193)**
Balance, December 31, 2018	**$ 1,616,693**	**$ (1,060,120)**	**$ 556,573**

Amortization expense related to the core deposit intangible was $48,193, $35,749 and $35,749 for the years ended December 31, 2018, 2017 and 2016. The estimated future amortization expense for intangible assets remaining as of December 31, 2018 is as follows:

Year Ending December 31	Amount
2019	**$ 83,684**
2020	**74,667**
2021	**74,667**
2022	**74,667**
2023	**74,667**
Thereafter	**174,221**
	$ 556,573

10. INCOME TAXES

The Tax Cuts and Jobs Act (the "TCJ Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate to 21 percent. As a result of the enactment of the TCJ Act we remeasured our deferred tax assets and liabilities based upon the new U.S. statutory federal income tax rate of 21 percent, which is the tax rate at which these assets and liabilities are expected to reverse in the future. Nonetheless, we recognized additional income tax expense of $2,040,946 in the fourth quarter of 2017 related to the remeasurement of our deferred tax assets and liabilities.

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

	2018	2017	2016
Current Federal Expense	**$ 2,727,094**	$ 3,943,495	$ 3,629,213
Deferred Federal Expense	**273,176**	793,012	222,120
Deferred Tax Expense from Tax Rate Changes	**–**	2,040,946	–
Federal Income Tax Expense	**3,000,270**	6,777,453	3,851,333
Current State Income Tax Expense	**–**	–	–
Federal and State Income Tax Expense	**$ 3,000,270**	$ 6,777,453	$ 3,851,333

Notes to Consolidated Financial Statements

The federal income tax expense of $3,000,270 in 2018, $6,777,453 in 2017 and $3,851,333 in 2016 is different than the income taxes computed by applying the federal statutory rates to income before income taxes. The reasons for the differences are as follows:

	2018	2017	2016
Statutory Federal Income Taxes	**$ 3,132,711**	$ 4,954,199	$ 4,283,394
Tax-Exempt Interest	**(57,271)**	(102,345)	(109,759)
Income from Cash Value Life Insurance, Net of Premiums	**(96,733)**	(198,730)	(182,532)
Meal and Entertainment Disallowance	**9,578**	14,354	16,813
Other	**11,985**	69,029	(156,583)
Tax Expense from Tax Rate Changes	**–**	2,040,946	–
Actual Federal Income Taxes	**$ 3,000,270**	$ 6,777,453	$ 3,851,333

Deferred taxes, which are included in Other Assets, in the accompanying consolidated balance sheets as of December 31 include the following:

	2018	2017
Deferred Tax Assets		
Allowance for Loan Losses	**$ 1,528,129**	$ 1,576,577
Other Real Estate	**183,997**	304,813
Deferred Compensation	**148,402**	161,000
Core Deposit Intangible	**1,307**	–
Investments	**210,000**	210,000
Goodwill	**48,086**	76,058
Restricted Stock	**2,917**	–
Other	**201,574**	237,591
	$ 2,324,412	$ 2,566,039
Deferred Tax Liabilities		
Premises and Equipment	**(1,023,090)**	(995,190)
Other	**(6,234)**	(2,585)
	(1,029,324)	(997,775)
Deferred Tax Assets (Liabilities) on Unrealized Securities Gains (Losses)	**2,177,113**	1,725,708
Net Deferred Tax Assets	**$ 3,472,201**	$ 3,293,972

11. DEPOSITS

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $476,182 and $475,161 as of December 31, 2018 and 2017, respectively.

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

	2018	2017
Interest-Bearing Demand	**$ 471,794,491**	$ 458,717,332
Savings	**79,452,705**	78,172,441
Time, $250,000 and Over	**53,881,417**	38,919,469
Other Time	**287,149,453**	301,248,235
	$ 892,278,066	$ 877,057,477

Notes to Consolidated Financial Statements

At December 31, 2018 and 2017, the Company had brokered deposits of $80,535,032 and $46,328,995 respectively. All of these brokered deposits represent Certificate of Deposit Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $250,000 was $53,881,417 and $38,919,469 as of December 31, 2018 and December 31, 2017, respectively.

As of December 31, 2018, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2019	**$ 241,365,987**
2020	**45,279,800**
2021	**37,132,339**
2022	**8,423,379**
2023	**8,788,583**
Thereafter	**40,782**
	$ 341,030,870

12. OTHER BORROWED MONEY

Other borrowed money at December 31 is summarized as follows:

	2018	2017
Federal Home Loan Bank Advances	**$ 44,000,000**	$ 46,000,000
Other Borrowings	**–**	1,500,000
	$ 44,000,000	$ 47,500,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2019 to 2028 and interest rates ranging from 0.98 percent to 3.51 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At December 31, 2018, the book value of those loans pledged is $108,634,687. At December 31, 2018, the Company had remaining credit availability from the FHLB of $252,071,000. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The Company borrowed $5,000,000 during the first quarter of 2017 as a short term loan to be paid off within one year with an interest rate of prime plus 0.75 percent, currently 5.25 percent. The Company paid down $3,500,000 during November 2017. The remaining amount was paid off during January 2018.

The aggregate stated maturities of other borrowed money at December 31, 2018 are as follows:

Year	Amount
2019	**$ 5,000,000**
2020	**2,500,000**
2021	**–**
2022	**18,000,000**
2023	**6,000,000**
2024 and Thereafter	**12,500,000**
	$ 44,000,000

Notes to Consolidated Financial Statements

At December 31, 2018, $10,500,000 of FHLB advances are subject to fixed rates of interest, while the remaining $33,500,000 is subject to floating interest rates which will convert to fixed rates of interests in the next few years.

The Company also has available federal funds lines of credit with various financial institutions totaling $43,500,000, of which there were none outstanding at December 31, 2018.

The Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At December 31, 2018, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

13. SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

Description	Date	3-Month Amount	Added Libor Rate	Points	Total Interest Rate	Maturity	5-Year Call Option
				(In Thousands)			
Colony Bankcorp Statutory Trust III	6/17/2004	$ 4,640	2.78819	2.68	5.46819	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	2.80300	1.50	4.30300	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	2.80300	1.65	4.45300	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	2.52038	1.40	3.92038	9/14/2037	9/14/2012

The Trust Preferred Securities are recorded as subordinated debentures on the consolidated balance sheets, and subject to certain limitations, qualify as Tier 1 Capital for regulatory capital purposes. The proceeds from these offerings were used to fund certain acquisitions, pay off holding company debt and inject capital into the Bank subsidiary. The Trust Preferred Securities pay interest quarterly.

14. PREFERRED STOCK AND WARRANT

The Company redeemed 9,360 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) outstanding with private investors as of March 31, 2017. The Company redeemed 8,661 shares of Preferred Stock at $1,000 per share in 2016. The Company redeemed 9,979 shares of Preferred Stock at $1,000 per share during 2015. The Company currently has no outstanding shares of Preferred Stock. The Company also had a warrant (the Warrant) to purchase up to 500,000 shares of the Company's common stock outstanding with private investors. The Warrant was repurchased by the Company on June 5, 2018, for $3,175,000. Both the Preferred Stock and the Warrant originated in 2009 through transactions with the United States Department of the Treasury and were subsequently sold to the public through an auction process during 2013. The Company currently has no outstanding warrants as of December 31, 2018.

15. EMPLOYEE BENEFIT PLAN

The Company offers a defined contribution 401(k) Profit Sharing Plan (the Plan) which covers substantially all employees who meet certain age and service requirements. The Plan allows employees to make voluntary pre-tax salary deferrals to the Plan. The Company, at its discretion, may elect to make an annual contribution to the Plan equal to a percentage of each participating employee's salary. Such discretionary contributions must be approved by the Company's board of directors. Employees are fully vested in the Company contributions after six years of service. In 2018, 2017 and 2016, the Company made total contributions of $709,723, $686,580 and $408,303 to the Plan, respectively.

Notes to Consolidated Financial Statements

16. COMMITMENTS AND CONTINGENCIES

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

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

At December 31, 2018 and 2017, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2018	2017
Commitments to Extend Credit	**$ 98,736,000**	$ 96,374,000
Standby Letters of Credit	**1,525,000**	1,536,000

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

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

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

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

17. DEFERRED COMPENSATION PLAN

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

Notes to Consolidated Financial Statements

Liabilities accrued under the plans totaled $706,677 and $766,667 as of December 31, 2018 and 2017, respectively. Benefit payments under the contracts were $107,850 in 2018 and $110,080 in 2017.

Provisions charged to operations totaled $52,285 in 2018, $55,572 in 2017 and $57,125 in 2016.

The Company has purchased life insurance policies on the plans' participants and uses the cash flow from these policies to partially fund the plan. Fee income recognized with these plans totaled $135,218 in 2018, $233,064 in 2017 and $165,128 in 2016.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2018	2017	2016
Interest Expense	**$ 8,186,946**	$ 6,851,541	$ 6,529,615
Income Taxes	**$ 2,695,000**	$ 4,000,000	$ 3,365,000

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

	2018	2017	2016
Acquisitions of Real Estate Through Loan Foreclosures	**$ 792,459**	$ 1,724,936	$ 5,664,554
Change in Unrealized Gain (Loss) on AFS Investment Securities	**$ (2,149,545)**	$ (608,355)	$ (890,590)

19. RELATED PARTY TRANSACTIONS

The following table reflects the activity and aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company. 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:

	2018	2017
Balance, Beginning	**$ 744,637**	$ 1,025,543
New Loans	**97,690**	1,050,393
Repayments	**(166,997)**	(1,106,606)
Transactions Due to Changes in Directors	**–**	(224,693)
Balance, Ending	**$ 675,330**	$ 744,637

20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

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.

Notes to Consolidated Financial Statements

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

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

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 and is classified Level 1.

Investment Securities - Fair values for investment securities are based on quoted market prices where available and classified as Level 1. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and classified as Level 2. If a comparable is not available, the investment securities are classified as Level 3.

Federal Home Loan Bank Stock - The fair value of Federal Home Loan Bank stock approximates carrying value and is classified as Level 1.

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. Most loans are classified as Level 2, but impaired loans with a related allowance are classified as Level 3.

Bank-Owned Life Insurance - The carrying value of bank-owned life insurance policies approximates fair value and is classified as Level 1.

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 and is classified as Level 1. 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 and is classified as Level 2.

Subordinated Debentures - The fair value of subordinated debentures is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. Subordinated debentures are classified as Level 2.

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. Other borrowed money is classified as Level 2 due to their expected maturities.

Notes to Consolidated Financial Statements

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

(In Thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
2018					
Assets					
Cash and Short-Term Investments	**$ 60,155**	**$ 60,155**	**$ 60,155**	**$ –**	**$ –**
Investment Securities Available for Sale	**353,066**	**353,066**	**–**	**348,788**	**4,278**
Federal Home Loan Bank Stock	**2,978**	**2,978**	**2,978**	**–**	**–**
Loans, Net	**774,249**	**769,809**	**–**	**766,457**	**3,352**
Bank-Owned Life Insurance	**17,598**	**17,598**	**17,598**	**–**	**–**
Liabilities					
Deposits	**1,085,125**	**1,086,503**	**744,094**	**342,409**	**–**
Subordinated Debentures	**24,229**	**24,229**	**–**	**24,229**	**–**
Other Borrowed Money	**44,000**	**44,032**	**–**	**44,032**	**–**
2017					
Assets					
Cash and Short-Term Investments	$ 57,813	$ 57,813	$ 57,813	$ –	$ –
Investment Securities Available for Sale	354,247	354,247	–	346,950	7,297
Federal Home Loan Bank Stock	3,043	3,043	3,043	–	–
Loans, Net	757,281	757,163	–	752,287	4,876
Bank-Owned Life Insurance	17,089	17,089	17,089	–	–
Liabilities					
Deposits	1,067,985	1,068,392	727,818	340,574	–
Subordinated Debentures	24,229	24,229	–	24,229	–
Other Borrowed Money	47,500	47,626	–	47,626	–

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.

Notes to Consolidated Financial Statements

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

Assets

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

Impaired Loans - Impaired loans are those loans which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate - Other real estate owned assets are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Typically, an external, third-party appraisal is performed on the collateral upon transfer into the other real estate owned account to determine the asset's fair value. Subsequent adjustments to the collateral's value may be based upon either updated third-party appraisals or management's knowledge of the collateral and the current real estate market conditions. Appraised amounts used in determining the asset's fair value, whether internally or externally prepared, are discounted 10 percent to account for selling and marketing costs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of other real estate owned assets and because of the relationship between fair value and general economic conditions, we consider the fair value of other real estate owned assets to be highly sensitive to changes in market conditions.

Assets and Liabilities Measured at Fair Value on a Recurring and Nonrecurring Basis - The following table presents the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall. The table below includes only impaired loans with a specific reserve and only other real estate properties with a valuation allowance at December 31, 2018 and 2017. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

Notes to Consolidated Financial Statements

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	**$ 346,205,172**	**$ –**	**$ 342,142,079**	**$ 4,063,093**
State, County and Municipal	**3,989,109**	**–**	**3,774,634**	**214,475**
Corporate	**2,871,885**	**–**	**2,871,885**	**–**
	$ 353,066,166	**$ –**	**$ 348,788,598**	**$ 4,277,568**
Nonrecurring				
Impaired Loans	**$ 3,351,735**	**$ –**	**$ –**	**$ 3,351,735**
Other Real Estate	**$ 1,182,783**	**$ –**	**$ –**	**$ 1,182,783**
2017				
Recurring				
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	$ 346,723,419	$ –	$ 341,701,288	$ 5,022,131
State, County and Municipal	4,492,826	–	4,277,460	215,366
Corporate	2,060,000	–	–	2,060,000
Asset-Backed	970,659	–	970,659	–
	$ 354,246,904	$ –	$ 346,949,407	$ 7,297,497
Nonrecurring				
Impaired Loans	$ 4,875,918	$ –	$ –	$ 4,875,918
Other Real Estate	$ 2,014,904	$ –	$ –	$ 2,014,904

Liabilities

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

Notes to Consolidated Financial Statements

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2018 and 2017. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

December 31, 2018	Fair Value	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Real Estate				
Commercial Construction	**$ 360,000**	Sales Comparison	Adjustment for Differences Between the Comparable Sales	**(6.60)% - 1,975.00%** **984.20%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**0.00% - 10.00%** **5.00%**
Residential Real Estate	**213,482**	Sales Comparison	Adjustment for Differences Between the Comparable Sales	**(10.86)% - 6.70%** **(2.08)%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**0.00% - 25.00%** **12.50%**
Commercial Real Estate	**2,415,174**	Sales Comparison	Adjustment for Differences Between the Comparable Sales	**(60.00)% - 80.00%** **10%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**0.00% - 35.00%** **17.50%**
		Income Approach	Capitalization Rate	**10.13%**
Farmland	**327,581**	Sales Comparison	Adjustment for Differences Between the Comparable Sales	**(71.00)% - (3.50)%** **(37.25)%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**10.00% - 80.00%** **45.00%**
Commercial	**35,498**	Sales Comparison	Adjustment for Estimated Costs to Sell	**0.00% - 0.00%** **(0.00)%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**0.00% - 15.00%** **15.00%**
Other Real Estate Owned	**1,182,783**	Sales Comparison	Adjustment for Differences Between the Comparable Sales	**(30.00)% - 25.02%** **(2.49)%**
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	**9.82% - 99.39%** **35.26%**
		Income Approach	Capitalization Rate	**10.00%**

Notes to Consolidated Financial Statements

December 31, 2017	Fair Value	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Real Estate				
Commercial Construction	$ 427,433	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(16.00)% - 1,975.00% 979.50%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Residential Real Estate	81,736	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(43.30)% - 83.30% (20.00)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% 12.50%
Commercial Real Estate	4,016,742	Sales Comparison	Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
		Income Approach	Capitalization Rate	10.75%
Farmland	350,007	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(71.00)% - 88.70% 8.85%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 75.00% 42.50%
Other Real Estate Owned	2,014,904	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(22.74)% - 15.00% (3.87)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	5.44% - 87.24% 24.44%
		Income Approach	Capitalization Rate	10.00%

The following table 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 years ended December 31, 2018, 2017 and 2016:

	Available for Sale Securities		
	2018	2017	2016
Balance, Beginning	**$ 7,297,497**	$ 576,384	$ 930,311
Transfers out of Level 3	**(2,009,080)**	–	–
Securities Purchased During the Year	**–**	7,069,649	–
Securities Matured During the Year	**–**	(360,000)	(330,000)
Paydowns on Securities	**(885,082)**	–	–
Unrealized Gains(Losses) Included in Other Comprehensive Income	**(125,767)**	11,464	(23,927)
Balance, Ending	**$ 4,277,568**	$ 7,297,497	$ 576,384

Notes to Consolidated Financial Statements

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There was one security totaling $2,009,080 that was transferred from level 3 to level 2 for the year ended December 31, 2018. There were no transfers of securities between level 1 and level 2 or level 3 for the years ended December 31, 2017 or 2016.

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2018 and 2017:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
December 31, 2018				
State, County and Municipal	**$ 214,475**	Discounted Cash Flow	Discount Rate or Yield	N/A*
U. S. Government Agencies				
Mortgage - Backed	**4,063,093**	Fundamental Analysis	Discount Rate or Yield	N/A*
December 31, 2017				
State, County and Municipal	$ 215,366	Discounted Cash Flow	Discount Rate or Yield	N/A*
U. S. Government Agencies				
Mortgage - Backed	5,022,131	Fundamental Analysis	Discount Rate or Yield	N/A*
Corporate	2,060,000	Option Pricing	Discount Rate or Yield	N/A*

* The Company relies on a third-party pricing service to value its securities. The details of the unobservable inputs and other adjustments used by the third-party pricing service were not readily available to the Company.

21. REGULATORY CAPITAL MATTERS

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

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. As of December 31, 2018, the interim final Basel III rules (Basel III) require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2018, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

The Basel III rules also require the implementation of a new capital conservation buffer comprised of common equity Tier 1 capital. The capital conservation buffer was phased in beginning January 1, 2016 at 0.625 percent of risk-weighted assets, with subsequent increases of 0.625 percent each year until reaching its final level of 2.5 percent on January 1, 2019.

Notes to Consolidated Financial Statements

The following table summarizes regulatory capital information as of December 31, 2018 and December 31, 2017 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2018 and 2017 were calculated in accordance with the Basel III rules.

The following table summarizes regulatory capital information as of December 31, 2018 and 2017 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	
(In Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2018						
Total Capital to Risk-Weighted Assets						
Consolidated	**$ 133,900**	**15.86%**	**$ 67,527**	**8.00%**	**N/A**	**N/A**
Colony Bank	**131,723**	**15.63**	**67,418**	**8.00**	**84,272**	**10.00%**
Tier I Capital to Risk-Weighted Assets						
Consolidated	**126,623**	**15.00**	**50,645**	**6.00**	**N/A**	**N/A**
Colony Bank	**124,446**	**14.77**	**50,563**	**6.00**	**67,418**	**8.00**
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	**103,123**	**12.22**	**37,984**	**4.50**	**N/A**	**N/A**
Colony Bank	**124,446**	**14.77**	**37,923**	**4.50**	**54,777**	**6.50**
Tier I Capital to Average Assets						
Consolidated	**126,623**	**10.24**	**49,478**	**4.00**	**N/A**	**N/A**
Colony Bank	**124,446**	**10.08**	**49,396**	**4.00**	**61,745**	**5.00**
As of December 31, 2017						
Total Capital to Risk-Weighted Assets						
Consolidated	$ 127,786	15.56%	$65,718	8.00%	N/A	N/A
Colony Bank	127,470	15.54	65,628	8.00	$82,036	10.00%
Tier I Capital o Risk-Weighted Assets						
Consolidated	120,279	14.64	49,289	6.00	N/A	N/A
Colony Bank	119,963	14.62	49,221	6.00	65,628	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	96,779	11.78	36,967	4.50	N/A	N/A
Colony Bank	119,963	14.62	36,916	4.50	53,323	6.50
Tier I Capital to Average Assets						
Consolidated	120,279	9.89	48,635	4.00	N/A	N/A
Colony Bank	119,963	9.88	48,566	4.00	60,708	5.00

In 2018, the Bank obtained approval of its regulators and paid a $8,300,000 dividend to the Company. The dividend was utilized to pay dividends to shareholders and to repurchase the Warrant, which was for 500,000 shares of the Company's common stock outstanding with private investors. The Warrant was repurchased during the second quarter for $3.2 million. In 2017, the Bank obtained approval of its regulators and paid a $8,725,000 dividend to the Company. The dividend was utilized to pay dividends to shareholders and to redeem 9,360 shares of Preferred Stock. In 2016, the Bank obtained approval of its regulators and paid a $9,100,000 dividend to the Company. The dividend was utilized to redeem 8,661 shares of Preferred Stock.

Notes to Consolidated Financial Statements

22. STOCK-BASED COMPENSATION

In August 2018, the Company granted an award of 5,650 restricted shares of the Company's common stock to T. Heath Fountain, the Company's Chief Executive Officer ("CEO"), with a market price of $17.73 per share. The restricted shares vest in equal installments on each of July 30, 2019, July 2020 and July 2021, subject to continued service by Mr. Fountain through each applicable vesting date, or earlier upon the occurrence of a change in control. With the restricted stock, there will be no cash consideration to the Company for the shares. The CEO will have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested.

Compensation expense for restricted stock is based on the market price of the Company stock at the time of the grant and amortized on a straight-line basis over the vesting period. The balance of unearned compensation related to these restricted shares as of December 31, 2018 is $86,115 which is expected to be recognized over a weighted-average of 2.58 years. Total compensation expense recognized for the restricted shares granted for the year ended December 31, 2018 was $13,890.

23. FINANCIAL INFORMATION OF COLONY BANKCORP, INC. (PARENT ONLY)

The parent company's balance sheets as of December 31, 2018 and 2017 and the related statements of operations and comprehensive income (loss) and cash flows for each of the years in the three-year period then ended are as follows:

Balance Sheets

	December 31,	
	2018	2017
Assets		
Cash	**$ 936,808**	$ 910,239
Premises and Equipment, Net	**1,198,006**	1,099,626
Investment in Subsidiary, at Equity	**117,743,674**	114,235,955
Other	**235,878**	24,458
Total Assets	**$ 120,114,366**	$ 116,270,278
Liabilities and Stockholders' Equity		
Liabilities		
Other Borrowed Money	**$ –**	$ 1,500,000
Other	**192,971**	218,615
	$ 192,971	$ 1,718,615
Subordinated Debt	**24,229,000**	24,229,000
Stockholders' Equity		
Common Stock, Par Value $1; 20,000,000 Shares Authorized, 8,444,908 and 8,439,258 Shares Issued and Outstanding as of December 31, 2018 and 2017, respectively	**8,444,908**	8,439,258
Paid-In Capital	**25,978,334**	29,145,094
Retained Earnings	**69,459,243**	59,230,260
Accumulated Other Comprehensive Loss, Net of Tax	**(8,190,090)**	(6,491,949)
	95,692,395	90,322,663
Total Liabilities and Stockholders' Equity	**$ 120,114,366**	$ 116,270,278

Notes to Consolidated Financial Statements

Statements of Operations

	For The Years Ended December 31,		
	2018	2017	2016
Income			
Dividends from Subsidiaries	**$ 8,329,127**	$ 8,746,882	$ 9,118,104
Management Fees	**601,080**	601,080	601,080
Other	**105,968**	97,103	103,612
	$ 9,036,175	$ 9,445,065	$ 9,822,796
Expenses			
Interest	**971,847**	900,113	601,567
Salaries and Employee Benefits	**1,083,960**	917,259	840,130
Other	**691,037**	604,166	554,434
	2,746,844	2,421,538	1,996,131
Income Before Taxes and Equity in Undistributed Earnings of Subsidiary	**6,289,331**	7,023,527	7,826,665
Income Tax Benefits	**422,210**	568,258	457,934
Income Before Equity in Undistributed Earnings of Subsidiary	**6,711,541**	7,591,785	8,284,599
Equity in Undistributed Earnings of Subsidiary	**5,205,859**	159,193	388,611
Net Income	**11,917,400**	7,750,978	8,673,210
Preferred Stock Dividends	**–**	210,600	1,493,310
Net Income Available to Common Stockholders	**$ 11,917,400**	$ 7,540,378	$ 7,179,900

Consolidated Statements of Comprehensive Income

	For The Years Ended December 31,		
	2018	2017	2016
Net Income	**$ 11,917,400**	$ 7,750,978	$ 8,673,210
Other Comprehensive Income (Loss)			
Gains (Losses) on Securities Arising During the Year	**(2,033,636)**	(608,355)	(505,367)
Tax Effect	**427,063**	206,841	171,825
Realized (Gains) Losses on Sale of AFS Securities	**(115,909)**	–	(385,223)
Tax Effect	**24,341**	–	130,976
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**(1,698,141)**	(401,514)	(587,789)
Comprehensive Income	**$ 10,219,259**	$ 7,349,464	$ 8,085,421

Notes to Consolidated Financial Statements

Statements of Cash Flows

	For The Years Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities			
Net Income	**$ 11,917,400**	$ 7,750,978	$ 8,673,210
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities			
Depreciation and Amortization	**84,848**	70,183	66,476
Share-based Compensation Expense	**13,890**	–	–
Equity in Undistributed Earnings of Subsidiary	**(5,205,859)**	(159,193)	(388,611)
Change in Interest Payable	**2,450**	17,887	5,367
Other	**(239,515)**	38,135	108,288
	6,573,214	7,717,990	8,464,730
Cash Flows from Investing Activities			
Purchases of Premises and Equipment	**(183,228)**	(94,925)	(6,836)
Cash Flows from Financing Activities			
Proceeds from Other Borrowed Money	**7,500**	5,000,000	–
Principal Payments on Other Borrowed Money	**(1,507,500)**	(3,500,000)	–
Dividends Paid on Common Stock	**(1,688,417)**	(843,934)	–
Dividends Paid on Preferred Stock	**–**	(315,900)	(1,590,746)
Repurchase of Warrants	**(3,175,000)**	-	–
Redemption of Preferred Stock	**–**	(9,360,000)	(8,661,000)
	(6,363,417)	(9,019,834)	(10,251,746)
Increase (Decrease) in Cash	**26,569**	(1,396,769)	(1,793,852)
Cash, Beginning	**910,239**	2,307,008	4,100,860
Cash, Ending	**$ 936,808**	$ 910,239	$ 2,307,008

24. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of common stock warrants and restricted stock. Net income available to common stockholders represents net income after preferred stock dividends. The following table presents earnings per share for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Numerator			
Net Income Available to Common Stockholders	**$ 11,917,400**	$ 7,540,378	$ 7,179,900
Denominator			
Weighted Average Number of Common Shares			
Outstanding for Basic Earnings Per Common Share	**8,439,454**	8,439,258	8,439,258
Dilutive Effect of Potential Common Stock			
Restricted Stock	**–**	–	–
Stock Warrants	**99,154**	194,323	74,037
Weighted-Average Number of Shares Outstanding for			
Diluted Earnings Per Common Share	**8,538,608**	8,633,581	8,513,295
Earnings Per Share - Basic	**$ 1.41**	$ 0.89	$ 0.85
Earnings Per Share - Diluted	**$ 1.40**	$ 0.87	$ 0.84

Notes to Consolidated Financial Statements

25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for unrealized gains and losses securities available for sale for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Beginning Balance	**$ (6,491,949)**	$ (5,022,140)	$ (4,434,351)
Other Comprehensive Income Before Reclassification	**(1,606,573)**	(401,514)	(333,542)
Amounts Reclassified from Accumulated Other Comprehensive Income	**(91,568)**	–	(254,247)
TCJ Act	**–**	(1,068,295)	–
Net Current Period Other Comprehensive Income	**(1,698,141)**	(1,469,809)	(587,789)
Ending Balance	**$ (8,190,090)**	$ (6,491,949)	$ (5,022,140)

26. REVENUE FROM CONTRACTS WITH CUSTOMERS

With the exception of gains and losses on the sale of other real estate owned, revenue from contracts with customers is recognized in the service charges on deposits category and the other service charges, commissions and fees category in the Company's consolidated statements of operations as part of noninterest income. The following provides information on the Company's sources of noninterest income within the scope of ASC 606 for the periods indicated.

Service Charges on Deposits

Service charges on deposits include both account maintenance fees and overdraft fees. The overdraft fees are recognized at the point in time that the overdraft occurs. For the years ended December 31, 2018, 2017, and 2016, there was $4.4 million, $4.5 million and $4.3 million, respectively, in service charges on deposits.

Other Service Charges, Commissions and Fees

Other service charges, commissions and fees include debit card interchange fees and ATM fees. Debit card interchange fees are earned from debit card holder transactions conducted through various payment networks. Interchange fees from debit card holders transactions represent a percentage of the underlying transaction amount and are recognized daily, concurrently with the transaction processing services provided to the debit cardholder. For the years ended December 31, 2018, 2017 and 2016, there was $2.8 million, $2.6 million and $2.4 million, respectively, for debit card interchange fees. ATM fees are transaction-based fees recognized at the time the transaction is executed as that is the point at which the Company satisfies the performance obligation. For the years ended December 31, 2018, 2017 and 2016, there was $352 thousand, $338 thousand and $307 thousand, respectively, for ATM fees.

Gains/Losses on the Sale of Other Real Estate

The net gains and losses on sales of other real estate owned are recorded in other noninterest expenses in the Company's consolidated statements of operations for the years ended December 31, 2017 and 2016. For the year ended December 31, 2018, the net gains and losses on sales of other real estate owned is recorded in other noninterest income in the Company's consolidated statements of operations. The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. The Company does not provide financing for the sale of other real estate owned property unless these criteria are met and the property can be derecognized. For the years ended December 31, 2018, 2017 and 2016, there was $41 thousand, $(121) thousand and $(648) thousand, respectively, for the gains and losses on the sale of other real estate.

Market and Dividend Information

The common shares of Colony Bankcorp are listed on the NASDAQ Global Market under the symbol CBAN. As of March 20, 2019, the Company estimates that it had approximately 1,900 shareholders, including approximately 925 beneficial owners holding shares in nominee or "street" name.

The following table sets forth the high and low common stock prices and cash dividends paid to public stockholders in 2017 and 2018:

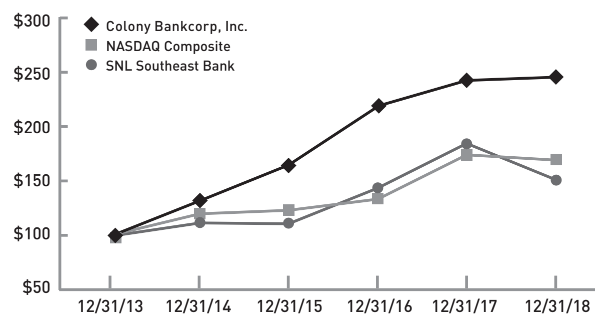
2017	High	Low	Dividends Declared
First quarter	$ 14.55	$ 13.00	$ 0.025
Second quarter	$ 14.00	$ 13.45	$ 0.025
Third quarter	$ 14.20	$ 11.10	$ 0.025
Fourth quarter	$ 14.75	$ 13.00	$ 0.025
2018			
First quarter	**$ 19.50**	**$ 13.50**	**$ 0.05**
Second quarter	**$ 18.00**	**$ 15.00**	**$ 0.05**
Third quarter	**$ 19.20**	**$ 16.50**	**$ 0.05**
Fourth quarter	**$ 18.58**	**$ 12.29**	**$ 0.05**

Like many banks in the wake of the Great Recession, Colony suspended dividend payments in 2009. In 2017, the Company reinstated its cash dividend at a quarterly rate of $0.025 per share, or an annual rate of $0.10 per share, and, in 2018, the Company increased the quarterly rate to $0.05 per share, or an annual rate of $0.20 per share. In January 2019, Colony raised the quarterly rate again to $0.075 per share, which represents an indicated annual rate of $0.30 per share.

The continued payment of dividends will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced or suspended in the future. For information regarding restrictions on the payment of dividends by the Bank to the Company, see Note 21 of Notes to Consolidated Financial Statements.

The following graph shows the cumulative total return on the common stock of the Company over the past five years compared with the SNL Southeast Bank Index and the NASDAQ Composite Index. Cumulative total return on the stock or the index equals the total increase in value since December 31, 2013, assuming reinvestment of all dividends paid into the stock or the index, respectively. The graph was prepared assuming that $100 was invested in the common stock on December 31, 2013, and also in the indices used for comparison purposes. The shareholder returns shown on the performance graph are not necessarily indicative of the future performance of the common stock of the Company or particular index.

Total Return Performance



Period Ending

Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Colony Bankcorp, Inc.	100.00	129.18	156.23	216.39	241.11	244.08
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL Southeast Bank	100.00	112.63	110.87	147.18	182.06	150.42

Corporate Information

Corporate Headquarters
Post Office Box 989
115 South Grant Street
Fitzgerald, Georgia 31750
229-426-6000

Company Website
colonybank.com

Stock Registrar and Transfer Agent
Shareholders should report lost or destroyed stock certificates or direct inquiries concerning dividend payments, change of name, address or ownership, or consolidation of accounts to the Company's transfer agent at:

American Stock Transfer
& Trust Company
Operations Center
6201 15th Avenue
Brooklyn, New York 11219
800-937-5449
www.astfinancial.com

Independent Registered Public Accounting Firm
McNair, McLemore, Middlebrooks
& Co., LLC
P.O. Box One
Macon, Georgia 31202

Special Counsel
Alston & Bird LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309-3424

Annual Report on Form 10-K
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders as of the record date for the 2019 Annual Meeting upon written request to Terry L. Hester, Executive Vice President and Chief Financial Officer, Colony Bankcorp, Inc., 115 South Grant Street, Fitzgerald, Georgia 31750. In addition, the Company makes available free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC. The reports are available as soon as reasonably practical after the Company electronically files such material with the SEC, and may be found on the Internet at www.colonybank.com, under Shareholder Information. Shareholder and other investor-oriented inquiries may be directed to T. Heath Fountain, President and Chief Executive Officer, at the Company's corporate headquarters.

Annual Meeting of Shareholders
The 2019 Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on Tuesday, May 28, 2019, at the Company's corporate headquarters at 115 South Grant Street, Fitzgerald, Georgia. Shareholders as of March 20, 2019, the record date for the meeting, are cordially invited to attend.

Right here with *you*.

Colony Bankcorp, Inc.
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