COLONY
BANKCORP, INC.

2019 ANNUAL REPORT TO SHAREHOLDERS

MYRICK MARINE

SAVANNAH, GA

When a ship in the Savannah River shipping channel lost control and had to cut its anchor, impeding navigation, the port authorities knew who to call: Bob Myrick. His company, Myrick Marine, raised the massive anchor and chain so one of America's largest ports could re-open. "We still have that anchor chain in the yard," Mr. Myrick says. From a small company that built residential docks, Myrick Marine has grown to become a full-service marine contractor that owns and operates one of the most extensive fleets of floating marine construction equipment in the Southeast. Colony Bank has played a part in that growth. "In the early days, I didn't have any waterfront property or a place to put tugboats," says Mr. Myrick, a graduate of the University of Georgia School of Pharmacy and four-time winner of the "Bulldog 100," awarded annually by the university to the 100 fastest growing Bulldog-owned businesses. "I had the opportunity to buy some property on an island in the Savannah River and develop a barge terminal. Colony was there with me to do the financing of the purchase and the development of the infrastructure. It was a monumental game-changer for my business."

Bob and Jim Myrick together with Drew Hulsey Colony Bank's Regional President/Coastal (front cover, right)

Company Profile

Colony Bankcorp, Inc., with assets of $1.5 billion, is the bank holding company for Colony Bank. Founded in 1975 and headquartered in Fitzgerald, Georgia, Colony operates 33 locations throughout Georgia. The Homebuilder Finance Division helps the local construction industry with building and construction loans, and the Small Business Specialty Lending Division assists small businesses with government guaranteed loans. The Bank also helps its customers achieve their goal of home ownership through Colony Bank Mortgage. Colony's common stock is traded on the NASDAQ Global Market under the symbol "CBAN." For more information, please visit www.Colony.Bank. You can also follow the Company on Facebook or on Twitter @colony_bank.

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)	**2019**	2018
Financial position at December 31,		
Total assets	**$ 1,515,313**	$ 1,251,878
Loans (net of unearned income)	**968,814**	781,526
Allowance for loan losses	**6,863**	7,277
Deposits	**1,293,742**	1,085,125
Stockholders' equity	**130,506**	95,692
Common book value per share	**13.74**	11.33
Tangible common book value per share	**11.68**	11.24
Operations for the year ended December 31,		
Net interest income	**$ 47,845**	$ 40,797
Provision for loan losses	**1,104**	201
Net interest income after provision for loan losses	**46,741**	40,596
Noninterest income	**14,762**	9,621
Noninterest expense	**48,894**	35,300
Income before income taxes	**12,609**	14,917
Income taxes	**2,398**	3,000
Net income	**$ 10,211**	$ 11,917
Net income available to common shareholders	**$ 10,211**	$ 11,917
Basic earnings per share	**$ 1.12**	$ 1.41
Diluted earnings per share	**$ 1.12**	$ 1.40
Cash dividends per share	**$ 0.30**	$ 0.20
Operating ratios		
Net interest margin	**3.59 %**	3.56 %
Return on average assets	**0.72 %**	0.99 %
Return on average total equity	**8.73 %**	13.32 %
Efficiency	**77.93 %**	70.05 %

TO OUR SHAREHOLDERS

We are pleased to report that 2019 was a solid year for Colony Bankcorp. We saw strong increases in loan growth, net interest income and non-interest income. Our assets grew significantly to a record $1.52 billion. Our new growth course implemented in 2019, Driving High Performance, has been successful, and we want to thank all our customers and team members for their contributions. With significant new hires and a successful integration of LBC Bancshares, we are on track for another strong year.

While we reported a decrease in net income available to common shareholders to $10.2 million or $1.12 earnings per share, these results do not adequately represent the work and investments we have made for long-term profitability and earnings growth. We acquired PFB Mortgage, the secondary mortgage business of Planters First Bank, and LBC Bancshares, Inc., and we invested in startup costs for our new division, the Small Business Specialty Lending Group, with the hiring of two veteran bankers. Further, we have made substantial progress in business development initiatives by realigning our regional loan production structure and adding new, experienced bankers. These initiatives will drive our business model as we begin a new decade and our 45th year in business.

Adjusted net income increased 1% to $12.3 million or $1.35 adjusted earnings per diluted share, which excludes charges for acquisition related expenses as well as gains on other real estate owned ("OREO") property held for sale. Revenues for 2019 were strong, increasing 24% to a record $62.6 million, attributable to a net interest margin improvement of five basis points to 3.61% and strong growth in non-interest income of 53%, a testament to the success of our strategy to diversify our earnings. While our competitors have been reporting decreases in their net interest margin, primarily

> We saw strong increases in loan growth, net interest income and non-interest income. Our assets grew significantly to a record $1.52 billion. Our new growth course implemented in 2019, Driving High Performance, has been successful…

attributable to the Federal Reserve Bank cutting interest rates three times in 2019, we are proud that we are able to report such an increase. Combined, this provided a return on average assets and average total equity of 0.72% and 8.72%, respectively.

Turning to the balance sheet, total assets grew 21% to $1.52 billion, primarily reflecting a solid 11% increase in our organic loan portfolio and a 24% increase in our total loan portfolio, which also reflects our acquisition of LBC Bancshares. Credit quality remained solid. Non-performing assets decreased slightly in 2019 to $11.1 million or 1.15% of total loans and other real estate owned ("OREO") from $11.3 million or 1.45% at December 31, 2019. OREO totaled $1.3 million at December 31, 2019, reflecting a 28% reduction from $1.8 million at December 31, 2018. Net charge-offs for the year ended December 31, 2019, were $1.5 million or 0.17% of average loans, up from $431 thousand or 0.06% for 2018. The loan loss reserve for the year was $6.9 million or 0.71% of total loans, decreasing from $7.3 million or 0.93% at December 31, 2018. Our loan loss provision for 2019 was $1.1 million, up from $201 thousand for 2018.

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

CLARY LOGGING
CORDELE, GA

Robert Clary got his start in logging at a time when timber was still harvested with chain saws and winches. He's never looked back. "There's nothing I'd rather do," he says. Now, 54 years later, Clary Logging is a family operation in the fullest sense of the word, involving Mr. Clary's children, grandchildren, in-laws and many employees who have been with him since they finished high school. They follow a simple rule: "We take care of the land so it will take care of us." It's a complicated business that must deal with challenges ranging from weather and markets to driver training, government regulation, land investments and equipment financing, "That's why we have to have a good bank," Mr. Clary says. Colony's Bob Evans and Terry Ann Brake — Bob is a neighbor and Terry Ann and Mr. Clary go to church together — are right there with him. "My daughter, who takes the lead in running the business, can call Terry Ann and Bob," says Mr. Clary, "and whatever it is, 99 percent of the time they can handle it with one phone call."

Robery Clary, left, and Bob Evans
Colony Bank's Regional President/West Central

We know our customers.

“THEY HANDLE IT WITH ONE PHONE CALL.”

Capital Management

The Company's future earnings prospects and its ability to consider strategic opportunities going forward add to the strong momentum we saw in 2019. Colony continues to maintain a strong capital position, with ratios that exceed regulatory minimums required to be classified as "well capitalized." At December 31, 2019, the Company's tier one leverage ratio, tier one ratio, total risk-based capital ratio and common equity tier one capital ratio were 9.04%, 12.52%, 13.17% and 10.33%, respectively, compared with 10.24%, 15.00%, 15.86% and 12.22%, respectively, at December 31, 2018.

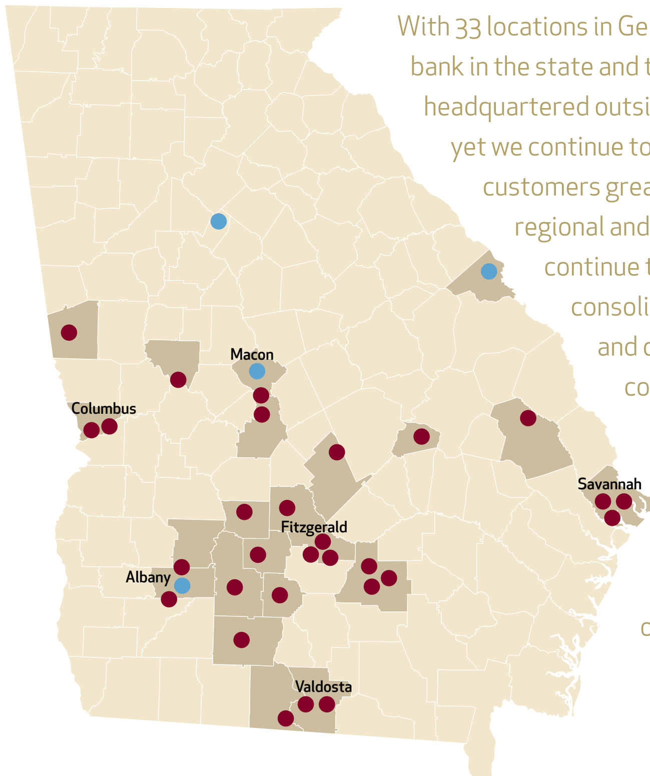
With strong 2019 results and a strong pipeline, our Board of Directors voted in January to increase the Company's quarterly cash dividend 33% to $0.10 per share, beginning in 2020, marking the third consecutive year of higher dividend payouts since dividends were reinstated in 2017. The Board's decision was based on the ongoing strength of the Company's earnings, improvement in asset quality and an outlook for long-term earnings growth. At a rate of $0.10 per share, the new rate represents an indicated annual rate of $0.40 per share.

Strategic Initiatives

As part of our growth strategy, Colony is well positioned to consider opportunities to acquire whole banks as well as sector specific financial services divisions. Geographic expansion opportunities is also something we consider. With our strong balance sheet, the repayment of our TARP obligation in 2017, and a strong leadership team in place, we purchased last year the LBC Bancshares parent company of Calumet Bank and PFB Mortgage, the secondary market mortgage business of Planters First Bank. Calumet Bank has two branches, one each in LaGrange and Columbus, and we strategically expanded our reach in West Georgia. PFB Mortgage, which had originators in Albany, Athens, Macon, and Warner Robins, was complementary to our 2019 opening of a mortgage loan origination office in LaGrange. This transaction will add considerable scale and momentum to our mortgage loan business.

Further, the Small Business Specialty Lending Group expands our services on SBA and other government guaranteed loans, builds total loan volume and grows fee income. We expect to use these resources throughout the Bank's footprint and into new markets to assist both our current customers and new clients in financing their dreams.

EXPANDING REACH— NOW GEORGIA'S 6TH LARGEST BANK



With 33 locations in Georgia, we are the sixth largest bank in the state and the largest community bank headquartered outside of the Atlanta market, yet we continue to strive for more. We offer our customers greater speed and agility then regional and national banks. Colony will continue to consider opportunities to consolidate smaller community banks and divisions of banks that are complementary to our business. Such acquisitions would provide opportunities to increase the size and scope of our business and be the "one-stop" shop for all our customers.

CRITTER FIXER

WARNER ROBINS, GA

When Drs. Vernard Hodges and Terrence Ferguson opened their veterinary practice in Byron, Georgia, they did it all. "It was only the two of us," Dr. Ferguson recalls with a laugh. "We were the vets, receptionists, dog walkers, dog bathers and everything in between." As the practice grew, Colony was right there with them, refinancing both the initial building and a second office in Bonaire and assisting with capital improvements. "They believed in us from the start," Dr. Hodges says. The relationship with Colony has meant so much that Dr. Hodges even wrote about Brandi Shipes, the banker with whom he talks most often, in his best-selling book, *Bet on Yourself*. "I make a phone call," he says, "and she's always there." Besides being local heroes, now the docs are national TV presences, too, thanks to the new series, "Critter Fixer Country Vets," on National Geographic Wild. They're fielding questions on Facebook Live from viewers as far away as South Africa and Sweden. How do they find time? "It was just us for 19 years," Dr. Hodges says. "Now we've hired three other vets. We couldn't have done this three years ago."

Left to right, Dr. Vernard Hodges, Dr. Terrence Ferguson with Kirk Scott, Colony Bank's Regional President/ Mid-State

"THEY BELIEVED IN US."

You don't have to deal with big bureaucracies at Colony.

WHERE WE WORK, *IS* WHERE WE CALL "HOME." #RightHereWithYou

1 The Colony Bank Ward Street and Broxton branches show off their socks in support of ***World Down Syndrome Day***. **2** "Colony Cuties" ALL GIRL Skeet team, sponsored by Colony Bank, raise funds at the the ***Home Builders Association of South Georgia*** Clay Shoot. **3** ***Read United***, an initiative of United Way of Central Georgia, addresses the literacy challenges facing Central Georgia. Colony Bank's Kirk Scott, along with other members of the Rotary Club of Centerville, volunteer with Read United by reading to local 3rd graders at Centerville Elementary School. **4** Albany Realtor Jamye Cobb conducts ***"Unlocking the Doors to Home Ownership"*** seminar. The informative session broke down the entire home purchasing process. Colony Bank's Patrick Williams discussed the entire loan process, personal requirements for each type of loan, how to begin the process and how to get pre-qualified. **5** Colony Bank's Johnny Bryan, Andy Johnson, and Wes Ehlers donate to ***Pink Heals***, a program that supports partnerships with the public safety officers, medical professionals, and local businesses.

Right here with you.

More recently, we announced the acquisition of Cadence Bank's East Georgia Homebuilder Finance loan portfolio. Coupled with our announcement to enter the Augusta Market, this acquisition will expand our presence in the Savannah and Augusta markets, creating a 'one stop shop' for homebuilders with our mortgage business. Increasing our fee income and interest income has been a priority for us as we seek to further diversify our loan portfolio and utilize our balance sheet to enhance our earnings.

Driving High Performance was undertaken to boost organic growth through increased accountability and proactive business development. This 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, without sacrificing customer service. We needed to realign our balance sheet to increase the return on assets by capitalizing on investments in higher-yielding loans, while reducing our reliance on earnings from investment securities. We have seen the results of these strategic initiatives in our balance sheet growth and margin increases, as well as increases in non-interest income streams of revenue. We are always striving for excellence and ways to increase our productivity and reward our shareholders.

Conclusion

Our next phase of growth is an exciting one. We believe that we have assembled a top-tier management team with best-of-breed team members, but we will not rest. In order to compete in our regions, we need not only 'smart' bankers, but those who are active in our local communities. With 33 locations in Georgia, we are the sixth largest bank in the state and the largest community bank headquartered outside of Atlanta. The economic vibrancy across our footprint remains healthy and supportive of our business. We continue to diversify our streams of revenue, loan production, net interest income and non interest income. The 2019 results reflect our emphasis upon the organic growth of our bank and its revenue streams, alongside continued expansion throughout our footprint. While our commitment to you, our shareholders, remains steadfast, our business is ever evolving.

We thank you for your continued investment in our company. As always, we remain grateful for your continued 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

"RIGHT THERE AS OUR PARTNER."

We focus on solving problems for customers.

KIMBLE'S
LAGRANGE, GA

When Kimble Carter launched his business in 1985, preparing food for vending machines in a manufacturing plant, he could hardly have imagined how diversified it would become. The vending segment has mostly given way to micromarkets — mini-convenience stores located everywhere from hotel lobbies to workers' break rooms, stocked with Kimble's freshly prepared foods. Simple commissary services in correctional facilities have grown into a technologically sophisticated operation that Mr. Carter describes as "the banker, Amazon and BellSouth for inmates" – a single source for everything from a bar of soap, a candy bar, Mother's Day cards and email correspondence. Kimble's Old School Cornflake Chewies — a Southern confection like Mr. Carter remembers from elementary school in LaGrange, Georgia, is shipped all over the country (orders spiked after QVC featured the candy). Then there's Kimble Foods' catering and special events business, which serves an area extending from Middle Georgia down to Columbus and Auburn, Alabama. Mr. Carter credits Colony Bank with helping Kimble's Foods more than double its sales since 2016. "For everything from capital to help us grow to anything with banking," he says, "they've been right there as our partner."

Left to right, Mike Speight, Colony Bank's Market President/LaGrange and Kimble Carter

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/Chief Executive Officer/Owner
Medical Center Prescription Shop
Eastman, Georgia

T. Heath Fountain
President/Chief Executive Officer
Colony Bankcorp, Inc.

Terry L. Hester
Retired Executive Vice President/Chief Financial Officer
Colony Bankcorp, Inc.

Edward Percy Loomis, Jr.
Retired President/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/Chief Executive Officer

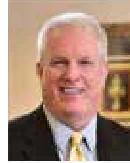
Edward L. Bagwell, III
Executive Vice President/General Counsel/Chief Risk Officer

J. Stan Cook
Executive Vice President/ Chief Credit Officer

Kimberly C. Dockery
Executive Vice President/ Chief Administrative Officer

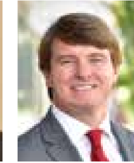
M. Edward Hoyle, Jr.
Executive Vice President/ Chief Banking Officer

Tracie Youngblood
Executive Vice President/ Chief Financial Officer


Bagwell

Cook

Dockery


Fountain

Hoyle

Youngblood

Market and Division Leaders

Jeffery Alton
Market President/Thomaston

Stephen Browning
Market President/Eastman

Johnny Bryan
Market President/Sylvester

Wayne 'Chip' Carroll,
Market President/Quitman

Chris Carter
Market President/Statesboro

Tommy Clark
Market President/Albany

Darren Davis
President/Small Business Specialty Lending

Mike Davis
Market President/Tifton

Bob Evans
Regional President/West Central

Cindy Griffin
Regional President/Southwest

Mike Harris
Market President/Moultrie

Hugh Hollar
President/Home Builder Finance

Drew Hulsey
Regional President/Coastal

Andy Johnson
Market President/Ashburn

Jesse Kight
President/Mortgage Division

Scott Miller
Regional President/SE Central

Wesley Olliff
Market President/Savannah

John Roberts
Market President/Columbus

Kirk Scott
Regional President/Mid-State

Eddie Smith
Regional President/South

Mike Smith
Market President/Fitzgerald

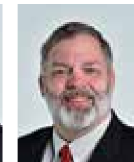
Mike Speight
Market President/LaGrange

Nic Worthy
Market President/Rochelle

Alton

Browning

Bryan


Carroll

Carter

Clark

D. Davis

M. Davis

Evans

Griffin

Harris

Hollar

Hulsey

Johnson

Kight

Miller

Olliff

Roberts

Scott

E. Smith

M. Smith

Speight

Worthy

Locations, as March 31, 2020

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

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

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

Augusta
Loan Production Office
1201 Town Park Lane
Evans, GA 30809
(706) 294-4682

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

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

Columbus
2921 Airport Thruway
Columbus, GA 31909
(706) 256-4650

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

Conyers
Small Business Specialty Lending - Loan Production Office
620 Sigman Road, NE
Suite 300
Conyers, GA 30013
(470) 207-3376

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

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

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

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

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

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

302 South Main St
Fitzgerald, GA 31750
(229) 423-5446

LaGrange
101 Calumet Center Rd
LaGrange, GA 30241
(706) 884-6000

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

Macon
Loan Production Office
1515 Bass Road Suite E
Macon, GA 31210
(478) 845-4430

Moultrie
621 Veterans Pkwy N
Moultrie, GA 31788
(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

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

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

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

Statesboro
104 Springhill Drive
Statesboro, GA 30458
(912) 225-1460

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

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

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

FINANCIAL SECTION

Colony Bankcorp, Inc.

Selected Financial Data

(Dollars in thousands, except per share data)	Years Ended December 31, **2019**	2018	2017	2016	2015
Selected balance sheet data					
Total assets	**$ 1,515,313**	$ 1,251,878	$ 1,232,755	$ 1,210,442	$ 1,174,149
Total loans, net of unearned interest and fees	**968,814**	781,526	764,788	753,922	758,279
Total deposits	**1,293,742**	1,085,125	1,067,985	1,044,357	1,011,554
Investment securities	**347,332**	353,066	354,247	323,658	296,149
Federal Home Loan Bank stock	**4,288**	2,978	3,043	3,010	2,731
Stockholders' equity	**130,506**	95,692	90,323	93,388	95,457
Selected income statement data					
Interest income	**60,483**	49,022	45,916	44,589	44,275
Interest expense	**12,638**	8,225	6,873	6,483	6,569
Net interest income	**47,845**	40,797	39,043	38,106	37,706
Provision for loan losses	**1,104**	201	390	1,062	866
Other income	**14,762**	9,621	9,735	9,553	9,045
Other expense	**48,894**	35,300	33,860	34,073	33,724
Income before tax	**12,609**	14,917	14,528	12,524	12,161
Income tax expense	**2,398**	3,000	6,777	3,851	3,788
Net income	**10,211**	11,917	7,751	8,673	8,373
Preferred stock dividends	–	–	211	1,493	2,375
Net income available to common stockholders	**$ 10,211**	$ 11,917	$ 7,540	$ 7,180	$ 5,998
Weighted average basic shares outstanding	**9,130**	8,439	8,439	8,439	8,439
Weighted average diluted shares outstanding	**9,130**	8,539	8,634	8,513	8,458
Common shares outstanding	**9,499**	8,445	8,439	8,439	8,439
Intangible assets	**$ 19,533**	$ 758	$ 45	$ 81	$ 116
Dividends declared	**2,692**	1,688	844	–	–
Average assets	**1,413,758**	1,201,874	1,200,631	1,163,863	1,146,984
Average stockholders' equity	**117,118**	89,478	91,045	100,114	101,710
Net charge-offs	**1,518**	431	1,805	743	1,064
Reserve for loan losses	**6,863**	7,277	7,508	8,923	8,604
OREO	**1,320**	1,841	4,256	6,439	8,839
Nonperforming loans	**9,826**	9,482	7,503	12,350	14,416
Nonperforming assets	**1,320**	11,323	11,759	18,789	23,255
Average interest-earning assets	**1,336,676**	1,149,036	1,133,700	1,090,967	1,074,556
Noninterest-bearing deposits	**232,635**	192,847	190,928	159,059	133,886

Selected Financial Data

(Dollars in thousands, except per share data)	Years Ended December 31, 2019	2018	2017	2016	2015
Per share data:					
Net income per common share (diluted)	**$ 1.12**	$ 1.40	$ 0.87	$ 0.84	$ 0.71
Common book value per share	**13.74**	11.33	10.70	9.96	9.18
Tangible common book value per share[2]	**11.68**	11.24	10.69	9.95	9.16
Dividends per common share	**0.30**	0.20	0.10	0.00	0.00
Profitability ratios:					
Net income to average assets	**0.72%**	0.99%	0.63%	0.62%	0.52%
Net income to average stockholders' equity	**8.72**	13.32	8.28	7.17	5.90
Net interest margin	**3.59**	3.56	3.46	3.51	3.52
Loan quality ratios:					
Net charge-offs to total loans	**0.16**	0.06	0.24	0.10	0.14
Allowance for loan losses to total loans and OREO	**0.71**	0.93	0.98	1.17	1.12
Nonperforming assets to total loans and OREO	**1.15**	1.44	1.53	2.47	3.03
Allowance for loan losses to nonperforming loans	**69.85**	76.74	100.06	72.25	59.68
Allowance for loan losses to nonperforming assets	**61.57**	64.27	63.85	47.49	37.00
Liquidity ratios:					
Loans to total deposits[1]	**74.88**	72.02	71.61	72.19	74.96
Loans to average interest-earning assets[1]	**72.48**	68.02	67.46	69.11	70.57
Noninterest-bearing deposits to total deposits	**17.98**	17.77	17.88	15.23	13.24
Capital adequacy ratios:					
Common stockholders' equity to total assets	**8.61**	7.64	7.33	6.94	6.60
Total stockholders' equity to total assets	**8.61**	7.64	7.33	7.72	8.13
Dividend payout ratio	**24.36**	14.16	11.24	0.00	0.00

1. Total loans, net of unearned interest and fees.
2 Non-GAAP measure - see "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for more information and a reconciliation to GAAP.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. - Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and, assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors," and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected in the forward looking statements. We assume no obligation to update any of these forward-looking statements.

The Company

Colony Bankcorp, Inc. 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.

Recent Developments

In May 2019, the Company opened its first full service banking office in Statesboro, Georgia. In October 2018, the Bank purchased a vacant lot of real estate in Albany, Georgia from the branch acquisition transaction with Planters First Bank. The Bank intends to build a new branch office in the future.

On May 1, 2019, the Bank completed its purchase of the mortgage division from Planters First Bank, PFB Mortgage, which added several mortgage originators within the following markets in Georgia: Albany, Athens, Macon and Warner Robins. In addition, the Bank established a new mortgage loan origination office in LaGrange, Georgia in March 2019.

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc. and its banking subsidiary, Calumet Bank, which has merged with and into the Company and the Bank, respectively. The acquisition expanded the Company's market presence in LaGrange, Georgia and Columbus, Georgia, as well as adding a loan production office in Atlanta, Georgia. The Company issued 1,053,875 common shares at a fair value of $18.7 million and paid $15.3 million in cash to the former shareholders of LBC as merger consideration.

On May 20, 2019, the Company announced the retirement of Terry L. Hester, Executive Vice President and Chief Financial Officer of the Company, and announced the hiring of Tracie Youngblood as the new Executive Vice President and Chief Financial Officer. Ms. Youngblood joined the Company on June 24, 2019. In addition, the Company announced the realignment of roles within the senior management team with M. Eddie Hoyle being appointed to Chief Banking Officer, Edward Lee Bagwell being appointed to Chief Risk Officer and General Counsel, J. Stan Cook being appointed to Chief Credit Officer, and the addition of Lance Whitley as Chief People Officer.

In July 2019, the Bank announced the startup of a Small Business Specialty Lending Group and the hiring of two veteran bankers to lead the group. This new unit will expand the Bank's participation in government guaranteed loans and expand its footprint into new markets, provide the Bank with an opportunity to service new clients and provide additional fee income.

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

In July 2019, a new subsidiary of the Company was incorporated under the name Colony Risk Management, Inc. Colony Risk Management, Inc. is a captive insurance subsidiary which insures various liability and property damage policies for the Company and its related subsidiaries. Colony Risk Management is located in Las Vegas, Nevada and is regulated by the State of Nevada Division of Insurance.

The Company reinstated dividend payments during the first quarter of 2017 and has continued to pay dividends to its shareholders throughout 2018 and 2019 on a quarterly basis. In 2019, we had a quarterly dividend of $0.075 per common stock and in 2018, we paid a quarterly dividend of $0.05 per common stock.

GAAP Reconciliation and Management Explanation of 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 common 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.

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

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

Non-GAAP Performance Measures Reconciliation

(Dollars in thousands, except per share data)	Years Ended December 31, 2019	2018	2017	2016	2015
Interest income reconciliation					
Interest income – taxable equivalent	**$ 60,494**	$ 49,034	$ 45,943	$ 44,762	$ 44,407
Tax equivalent adjustment	**(11)**	(12)	(27)	(173)	(132)
Interest income (GAAP)	**$ 60,483**	$ 49,022	$ 45,916	$ 44,589	$ 44,275
Net interest income reconciliation					
Net interest income – taxable equivalent	**$ 47,856**	$ 40,809	$ 39,070	$ 38,279	$ 37,838
Tax equivalent adjustment	**(11)**	(12)	(27)	(173)	(132)
Net interest income (GAAP)	**$ 47,845**	$ 40,797	$ 39,043	$ 38,106	$ 37,706
Net interest margin reconciliation					
Net interest margin – taxable equivalent	**3.59%**	3.56%	3.46%	3.51%	3.52%
Tax equivalent adjustment	**(0.01)**	(0.01)	(0.02)	(0.02)	(0.01)
Net interest margin (GAAP)	**3.58%**	3.55%	3.44%	3.49%	3.51%
Interest rate spread reconciliation					
Interest rate spread – taxable equivalent	**3.37%**	3.39%	3.34%	3.40%	3.41%
Tax equivalent adjustment	**–**	–	(0.02)	(0.02)	(0.01)
Interest rate spread (GAAP)	**3.37%**	3.39%	3.32%	3.38%	3.40%
Selected financial data					
Tangible common book value per common share	**$ 11.68**	$ 11.24	$ 10.69	$ 9.95	$ 9.16
Effect of other intangible assets	**2.06**	0.09	0.01	0.01	0.02
Common book value per common share (GAAP)	**$ 13.74**	$ 11.33	$ 10.70	$ 9.96	$ 9.18

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of December 31, 2019 and 2018, and results of operations for each of the three year-periods ended December 31, 2019. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 21% federal tax rate for 2019 and 2018 and 34% federal tax rate for 2017, thus making tax-exempt yields comparable to taxable asset yields.

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

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

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 $10.2 million, or $1.12 per diluted shares in 2019, compared to $11.9 million, or $1.40 per diluted shares in 2018 and compared to $7.54 million, or $0.87 per diluted common share in 2017.

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

(Dollars in thousands, except per share data)	**2019**	2018	**$ Variance**	**% Variance**	2018	2017	$ Variance	% Variance
Taxable-equivalent net interest income [(1)]	**$ 47,856**	$ 40,809	**$ 7,048**	**17.27%**	$ 40,809	$39,070	$ 1,739	4.09%
Taxable-equivalent adjustment	**(11)**	(12)	**–**	**0.00%**	(12)	(27)	15	-55.56%
Net interest income	**47,845**	40,797	**7,048**	**17.28%**	40,797	39,043	1,754	4.49%
Provision for loan losses	**1,104**	201	**903**	**449.25%**	201	390	(189)	-48.46%
Noninterest income	**14,762**	9,621	**5,141**	**53.44%**	9,621	9,735	(114)	-1.17%
Noninterest expense	**48,894**	35,300	**13,594**	**38.51%**	35,300	33,860	1,440	4.25%
Income before income taxes	**$ 12,609**	$ 14,917	**$ (2,308)**	**-15.47%**	$ 14,917	$14,528	$ 389	2.68%
Income Taxes	**2,398**	3,000	**(602)**	**-20.07%**	3,000	6,777	(3,777)	-55.73%
Net income	**$ 10,211**	$ 11,917	**$ (1,706)**	**-14.32%**	$ 11,917	$ 7,751	$ 4,166	53.75%
Preferred stock dividends	**$ –**	$ –	**$ –**	**0.00%**	$ –	$ 211	$ (211)	-100.00%
Net income available to common shareholders	**$ 10,211**	$ 11,917	**$ (1,706)**	**-14.32%**	$ 11,917	$ 7,540	$ 4,377	58.05%
Net income available to common shareholders:								
Basic	**$ 1.12**	$ 1.41	**$ (0.29)**	**-20.57%**	$ 1.41	$ 0.89	$ 0.52	58.05%
Diluted	**$ 1.12**	$ 1.40	**$ (0.28)**	**-20.00%**	$ 1.40	$ 0.87	$ 0.53	60.92%
Return on average assets	**0.72%**	0.99%	**-0.27%**	**-27.04%**	0.99%	0.63%	0.36%	0.57%
Return on average common equity [(1)]	**8.73%**	13.32%	**-4.59%**	**-34.46%**	13.32%	8.28%	5.04%	60.87%

(1) Non-GAAP measure - see "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for more information and a reconciliation to GAAP.

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 76.4% of total revenue during 2019, 80.9% of total revenue during 2018 and 80.0% of total revenue during 2017.

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.

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

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, was 4.75% and 5.25% as of December 31, 2019 and 2018, respectively. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. During 2017, the prime interest rate increased overall by 75 basis points. During 2018, the prime interest rate increased overall by 100 basis points. During 2019, the prime interest rate decreased overall by 50 basis points.

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 2018 to 2019 (a)			Changes From 2017 to 2018 (a)		
(Dollars in thousands)	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Interest income						
Loans, net of unearned fees	**$ 6,945**	**$ 2,651**	**$ 9,596**	$ 515	$ 1,554	$ 2,069
Investment securities, taxable	**719**	**454**	**1,173**	(9)	841	832
Investment securities, exempt	**(10)**	**10**	**–**	(7)	(18)	(25)
Interest-bearing deposits	**496**	**86**	**582**	93	85	178
Federal funds sold	**64**	**–**	**64**	–	–	–
Interest-bearing other assets	**6**	**39**	**45**	39	(2)	37
Total interest income	**$ 8,220**	**$ 3,240**	**$ 11,460**	$ 552	$ 2,461	$ 3,091
Interest expense						
Interest-bearing demand and savings deposits	**703**	**802**	**1,505**	88	785	873
Time deposits	**561**	**1,927**	**2,488**	(276)	702	426
FHLB advances	**(107)**	**(42)**	**(149)**	(37)	(153)	(190)
Other borrowed money	**494**	**(954)**	**(460)**	2	–	2
Subordinated debentures	**–**	**1,029**	**1,029**	–	241	241
Total interest expense	**1,651**	**2,762**	**4,413**	(223)	1,575	1,352
Net interest income	**$ 6,569**	**$ 478**	**$ 7,047**	$ 854	$ 885	$ 1,739

(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.

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

The Company maintains about 20.1% 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 increased 75 basis points in 2017 followed by a 100 basis point increase during 2018. During 2019 Federal Reserve rates decreased 50 basis points. We have seen the net interest margin change to 3.59% for 2019, compared to 3.55% for 2018 and 3.45% for 2017.

Taxable-equivalent net interest income for 2019 increased by $7.0 million, or 17.3%, compared to 2018 while taxable-equivalent net interest income for 2018 increased by $1.7 million, or 4.5% compared to 2017. The average volume of interest-earning assets during 2019 increased $183.7 million compared to 2018 while over the same period the net interest margin increased to 3.59% from 3.55%. The average volume of interest-earning assets during 2018 increased $16.1 million compared to 2017 while over the same period the net interest margin increased to 3.55% from 3.45%. The change in the net interest margin in 2019 and 2018 was primarily driven by a higher level of low yielding assets offset by an increase in the cost of funds. Growth in average earning assets during 2019 was primarily in loans, investments and interest-bearing deposits in other banks. These increases mostly stem from the acquisition of LBC Bancshares, Inc. that occurred in the second quarter of 2019.

The average volume of loans increased $123.8 million in 2019 compared to 2018 and $9.77 million in 2018 compared to 2017. The average yield on loans increased 34 basis points in 2019 compared to 2018 and increased 21 basis points in 2018 compared to 2017. The average volume of deposits increased $178.4 million in 2019 compared to 2018. The average volume of deposits increased $4.1 million in 2018 compared to 2017. Demand deposits made up $38.0 million of the increase in average deposits in 2019 compared to $14.5 million of the increase in average deposits in 2018.

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 82.6% in 2019, 83.2% in 2018 and 84.6% in 2017. For 2019, this deposit mix, combined with a general increase in interest rates, had the effect of (i) increasing the average cost of total deposits by 30 basis points in 2019 compared to 2018 and (ii) offset a portion of the impact of increasing yields on interest-earning assets on the Company's net interest income. 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 15 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.

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 3.37% in 2019 compared to 3.39% in 2018 and 3.32% in 2017. 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.

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

Average Balance Sheets

(Dollars in thousands)	2019 Average Balances	2019 Income/ Expense	2019 Yields/ Rates	2018 Average Balances	2018 Income/ Expense	2018 Yields/ Rates	2017 Average Balances	2017 Income/ Expense	2017 Yields/ Rates
Assets:									
Loans, net of unearned fees [1] [2]	**$ 896,098**	**$ 50,278**	**5.61%**	$ 772,327	$ 40,682	5.27%	$ 762,554	$ 38,613	5.06%
Investment securities, taxable	**374,718**	**8,872**	**2.37%**	344,369	7,699	2.24%	344,790	6,867	1.99%
Investment securities, exempt [3]	**1,737**	**56**	**3.22%**	2,046	56	3.18%	2,310	81	3.51%
Interest-bearing deposits	**54,166**	**992**	**1.83%**	27,072	410	.51%	20,920	232	1.11%
Federal funds sold	**2,725**	**64**	**2.35%**	–	–	0.00%	–	–	0.00%
Other investments	**4,064**	**232**	**5.71%**	3,951	187	4.73%	3,126	150	4.80%
Total interest-earning assets	**$1,333,508**	**$ 60,494**	**4.54%**	$ 1,149,765	$ 49,034	4.27%	$ 1,133,700	$ 45,943	4.05%
Total noninterest-earning assets	**80,251**			51,784			66,931		
Total assets	**$ 1,413,759**			$ 1,201,549			$ 1,200,631		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Savings and interest-bearing demand deposits	**$ 640,180**	**$ 4,274**	**0.67%**	$ 534,887	$ 2,769	0.52%	$ 517,974	$ 1,896	0.37%
Time deposits	**361,319**	**5,776**	**1.60%**	326,243	3,288	1.01%	353,587	2,862	0.81%
Total interest-bearing deposits	**1,001,499**	**10,050**	**1.00%**	861,130	6,057	0.70%	871,561	4,758	0.55%
FHLB advances	**45,233**	**1,046**	**2.31%**	49,845	1,195	2.40%	51,388	1,385	2.70%
Other borrowings	**9,930**	**508**	**5.12%**	275	5	1.82%	178	3	1.69%
Subordinated deferrable interest debentures	**24,229**	**1,034**	**4.27%**	24,229	968	4.00%	24,229	727	2.79%
Total interest-bearing liabilities	**1,080,891**	**12,638**	**1.17%**	935,479	8,225	0.88%	75,795	6,873	0.73%
Noninterest-bearing demand deposits	**211,462**			173,442			158,924		
Other liabilities	**4,437**			3,222			3,306		
Stockholders' equity	**116,969**			89,406			91,045		
Total liabilities and stockholders' equity	**$ 1,413,759**			$ 1,201,549			$ 1,200,631		
Interest rate spread			**3.37%**			3.39%			3.32%
Net interest income		**$ 47,856**			$ 40,809			$ 39,070	
Net interest margin			**3.59%**			3.55%			3.45%

(1) Includes loans held for sale.
(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.
(3) Taxable-equivalent adjustments totaling $11,000 for 2019, $12,000 for 2018 and $27,000 for 2017, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 21% for 2019 and 2018 and 34% for 2017 with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled $1.1 million in 2019 compared to $201,000 in 2018 and $390,000 in 2017. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

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Noninterest Income

The components of noninterest income were as follows:

(Dollars in thousands)	**2019**	2018	**$ Variance**	**% Variance**	2018	2017	$ Variance	% Variance
Service charges on deposit accounts	**$ 4,783**	$ 4,374	**$ 409**	**9.35%**	$ 4,374	$ 4,467	$ (93)	-2.08%
Other charges, commissions and fees	**4,263**	3,254	**1,009**	**31.01%**	3,254	3,049	205	6.72%
Mortgage fee income	**3,199**	652	**2,547**	**390.64%**	652	859	(207)	-24.10%
Securities gains (losses)	**97**	116	**(19)**	**-16.38%**	116	–	116	100.00%
Other	**2,420**	1,225	**1,195**	**97.55%**	1,225	1,360	(135)	-9.93%
Total	**$ 14,762**	$ 9,621	**$ 5,141**	**53.44%**	$ 9,621	$ 9,735	$ (114)	-1.17%

Other charges, commissions and fees. Significant amounts impacting the comparable periods was primarily attributed to ATM and debit card interchange fees which increased $978,000 in 2019 compared to 2018 and $219,000 in 2018 compared to 2017.

Mortgage fee income. The increase in 2019 was primarily attributed to the acquisition of the PFB Mortgage division in May 2019. In addition, the Bank opened a new mortgage location in LaGrange in March 2019. The decrease in mortgage fee income in 2018 compared to the same period in 2017 was due to a decrease in the volume of mortgage loans.

Other. The increase in 2019 was primarily attributed to the gain on sale of other real estate owned. During the second quarter of 2019, the Bank realized a gain of approximately $1.0 million from the sale of several other real estate owned properties within one relationship. The decrease in other income in 2018 was attributable to a decrease in revenue from cash surrender life insurance policies which decreased $124 thousand in 2018 compared to 2017.

Noninterest Expense

The components of noninterest expense were as follows:

(Dollars in thousands)	**2019**	2018	**$ Variance**	**% Variance**	2018	2017	$ Variance	% Variance
Salaries and employee benefits	**$ 26,218**	$ 20,123	**$ 6,095**	**30.29%**	$ 20,123	$ 19,223	$ 900	4.68%
Occupancy and equipment	**4,850**	4,180	**670**	**16.03%**	4,180	3,948	232	5.88%
Acquisition related expenses	**2,733**	224	**2,509**	**1120.09%**	224	–	224	100.00%
Deposit intangible expenses	**600**	48	**552**	**1150.00%**	48	–	48	100.00%
Other	**14,493**	10,725	**3,768**	**35.13%**	10,725	10,689	36	0.34%
Total	**$ 48,894**	$ 35,300	**$ 13,594**	**38.51%**	$ 35,300	$ 33,860	$ 1,440	4.25%

Salaries and employee benefits. The increase in 2019 was primarily attributable to merit pay increases and increase in head count mostly from the two acquisitions completed in May 2019 of LBC Bancshares, Inc and PFB Mortgage. In addition, the Company hired several key employees during the second quarter of 2019 as part of the strategic changes that are being made to enhance its profitability in line with the Company's growth initiatives. The increase in salary and employee benefits for 2018 was due to merit pay increases and an increase in number of employees.

Occupancy and equipment. The increase in 2019 was primarily attributable to the new locations stemming from the acquisitions of LBC Bancshares, Inc. and PFB Mortgage. The increase in 2018 was 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.

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

Acquisition related eexpenses. The increase in 2019 was primarily attributable to the acquisition of LBC Bancshares, Inc. The largest expense the Company has incurred from the acquisition relates to the contract buyout of Calumet's data processing system which was approximately $1.08 million. Other expenses incurred relating to the acquisition were legal expenses and broker expenses. The increase in 2018 was primarily attributable to conversion expenses of $224,000 related to the 2018 purchase of a branch in Albany, Georgia from Planters First Bank.

Deposit intangible expenses. The Bank recognized a core deposit intangible related to the Planters First Bank Albany branch acquisition in October 2018 and the LBC Bancshares, Inc. acquisition in May 2019. The deposit intangible expense increased to account for the amortization of the core deposit intangibles that is being amortized over the average remaining life of each acquired customers' deposits.

Other. The increase in 2019 was primarily attributable to legal, business development and data processing expenses. The increase in 2018 was primarily attributable to software and data processing as the Bank changed 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 showed a decrease of $400,000 in software expense in 2018 that was offset by an increase of $629,000 in data processing expense in 2018 compared to 2017.

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 $1.4 billion in 2019 compared to $1.2 billion in 2018 and $1.2 billion in 2017.

(Dollars in thousands)	**2019**		2018		2017	
Sources of funds:						
Noninterest-bearing deposits	**$ 211,462**	**14.96%**	$ 173,422	14.43%	$ 158,924	13.24%
Interest-bearing deposits	**1,001,499**	**70.84%**	861,130	71.67%	871,561	72.59%
FHLB advances	**45,233**	**3.20%**	49,845	4.15%	–	0.00%
Other borrowings	**9,930**	**0.70%**	275	0.02%	178	0.01%
Subordinated debentures	**24,229**	**1.71%**	24,229	2.02%	75,617	6.30%
Other noninterest-bearing liabilities	**4,437**	**0.31%**	3,222	0.27%	3,306	0.28%
Equity capital	**116,969**	**8.28%**	89,406	7.44%	91,045	7.58%
Total	**$ 1,413,759**	**100.00%**	$ 1,201,549	100.00%	$ 1,200,631	100.00%
Uses of funds:						
Loans (net of allowance)	**$ 896,098**	**63.38%**	$ 772,327	64.28%	$ 762,554	63.51%
Investment securities	**376,455**	**26.63%**	346,415	28.83	347,100	28.91%
Federal funds sold	**2,725**	**0.19%**	–	0.00%	–	0.00%
Interest-bearing deposits	**54,166**	**3.83%**	27,072	2.25%	20,920	1.75%
Other interest-earning assets	**4,064**	**0.29%**	3,951	0.33%	3,126	0.26%
Other noninterest-earning assets	**80,251**	**5.68%**	51,784	4.31%	66,931	5.57%
Total	**$ 1,413,759**	**100.00%**	$ 1,201,549	100.00%	$ 1,200,631	100.00%

Deposits continue to be the Company's primary source of funding. Over the comparable periods, interest-bearing deposits continues to be the largest component of the Company's mix of deposits. Interest-bearing deposits totaled 82.6% of total average deposits in 2019 compared to 83.2% in 2018 and 84.6% in 2017.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. The Company acquired $130.6 million of loans as part of the acquisition of LBC Bancshares, Inc. in May 2019. This acquisition combined with increases

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in organic loan growth resulted in loans of $968.8 million at December 31, 2019, up 24.0%, compared to loans of $781.5 million at December 31, 2018, which increased 2.2%, compared to loans of $764.8 million at December 31, 2017. 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.

(Dollars in thousands)	**2019**	2018	2017	2016	2015
Construction, land and land development	**$ 96,097**	$ 60,310	$ 53,762	$ 42,168	$ 49,497
Other commercial real estate	**540,239**	435,961	418,669	415,768	407,850
Total commercial real estate	**636,336**	496,271	472,431	457,936	457,347
Residential real estate	**194,796**	187,592	193,924	195,486	196,909
Commercial, financial, and agricultural	**114,360**	74,166	64,523	64,074	66,943
Consumer and other	**23,322**	23,497	33,911	36,426	37,080
Total loans, net of unearned fees	**968,814**	781,526	764,789	753,922	758,279
Allowance for loan losses	**(6,863)**	(7,277)	(7,508)	(8,923)	(8,604)
Loans, net	**$ 961,951**	$ 774,249	$ 757,281	$ 744,999	$ 749,675

The following table presents total loans as of December 31, 2019 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

Maturity and Repricing Opportunity

(Dollars in thousands)	**One Year or Less**	**After One Year Through Three Years**	**After Three Years Through Five years**	**Over Five Years**	**Total**
Construction, land and land development	**$ 51,215**	**$ 21,767**	**$ 14,553**	**$ 8,562**	**$ 96,097**
Other commercial real estate	**99,384**	**198,078**	**77,461**	**165,316**	**540,239**
Total commercial real estate	**150,599**	**219,845**	**92,014**	**173,878**	**636,336**
Residential real estate	**32,823**	**54,361**	**29,453**	**78,159**	**194,796**
Commercial, financial, and agricultural	**37,406**	**23,828**	**23,565**	**29,561**	**114,360**
Consumer and other	**5,200**	**10,222**	**6,023**	**1,877**	**23,322**
Total loans, net of unearned fees	**$ 226,028**	**$ 308,256**	**$ 151,055**	**$ 283,475**	**$ 968,814**

Overview. Loans totaled $968.8 million at December 31, 2019 up 24.0% from $781.5 million at December 31, 2018. 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, nonfarm nonresidential properties and real estate construction loans made up 85.8% and 87.5% of total loans at December 31, 2019 and December 31, 2018, 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, financial and agricultural. Commercial and agricultural loans at December 31, 2019 increased 54.2% to $114.4 million from December 31, 2018 at $74.2 million. This increase was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. 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.

Construction, land and land development. Construction, land and land development loans increased by $35.8 million, or 59.3%, at December 31, 2019 to $96.1 million from $60.3 million at December 31, 2018. This increase was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019 and partially due to new construction loans being financed during the year that were not completed by the end of the year.

Other commercial real estate. Other commercial real estate loans increased by $104.3 million, or 23.9%, at December 31, 2019 to $540.2 million from $436.0 million at December 31, 2018. This increase was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. This portion of our loan portfolio consists primarily of loans secured by farmland, multi-family residential properties and nonfarm, nonresidential real estate properties.

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Residential real estate loans. Residential real estate loans increased by $7.2 million, or 3.8%, at December 31, 2019 to $194.8 million from $187.6 million at December 31, 2018. This increase was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. Residential real estate loans consist of revolving, open-end and closed-end loans as well as those secured by closed-end first and junior liens.

Consumer and other. Consumer and other loans include loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer and other loans at December 31, 2019 decreased 0.7% to $23.3 million from $23.5 million at December 31, 2018.

Industry concentrations. As of December 31, 2019 and December 31, 2018, there were no concentrations of loans within any single industry in excess of 10% 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, 2019, approximately 85.8% 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 recent years, 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, 2019 and December 31, 2018.

	December 31, 2019			December 31, 2018		
	Number of	**Period End Balances**		Number of	Period End Balances	
(Dollars in thousands)	**Relationships**	**Committed**	**Outstanding**	Relationships	Committed	Outstanding
Large credit relationships:						
$10 million or greater	**7**	**$ 77,391**	**$ 70,006**	3	$ 35,394	$ 32,445
$5 million to $9.9 million	**13**	**$ 97,366**	**$ 86,215**	24	$ 123,331	$ 103,124

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, 2019. 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.

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(Dollars in thousands)	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	$ 186,391	$ 282,123	$ 144,577	$ 161,230	$ 774,321
Loans with floating interest rates	39,709	25,948	6,426	122,410	194,493
Total	$ 226,100	$ 308,071	$ 151,003	$ 283,640	$ 968,814

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:

(Dollars in thousands)	**2019**	2018	2017	2016	2015
Loans accounted for on nonaccrual	**$ 9,827**	$ 9,482	$ 7,503	$ 12,350	$ 14,408
Loans accruing past due 90 days or more	**–**	–	–	–	8
Other real estate foreclosed	**1,320**	1,841	4,256	6,439	**8,839**
Total nonperforming assets	**$ 11,146**	$ 11,323	$ 11,759	$ 18,789	$ 23,255
Nonperforming loans by segment					
Construction, land and land development	**$ 128**	$ 883	$ 2,630	$ 3,376	$ 7,106
Commercial real estate	**3,772**	5,874	4,635	9,982	11,011
Residential real estate	**3,728**	3,299	3,309	4,375	4,197
Commercial, financial and agricultural	**2,061**	1,051	997	844	762
Consumer and other	**138**	216	188	212	179
Total nonperforming loans	**$ 9,827**	$ 11,323	$ 11,759	$ 18,789	$ 23,255
Nonperforming assets as a percentage of:					
Total loans and foreclosed assets	**1.15%**	1.44%	1.53%	2.47%	3.03%
Total assets	**0.74%**	0.90%	0.95%	1.55%	1.98%
Nonperforming loans as a percentage of:					
Total loans	**1.01%**	1.21%	0.98%	1.64%	1.90%
Supplemental data:					
Trouble debt restructured loans in compliance with modified terms	**$ 12,337**	$ 14,128	$ 18,363	$ 17,992	$ 19,375
Trouble debt restructured loans Past due 30-89 days	**–**	864	131	319	344
Accruing past due loans:					
30-89 days past due	**$ 1,914**	$ 8,234	$ 4,558	$ 4,469	$ 10,959
90 or more days past due	**–**	–	–	–	8
Total accruing past due loans	**$ 1,914**	$ 8,234	$ 4,558	$ 4,469	$ 10,967
Allowance for loan losses	**$ 6,863**	$ 7,277	$ 7,508	$ 8,923	$ 8,604
Allowance for loan losses as a percentage of:					
Total loans	**0.71%**	0.93%	0.98%	1.18%	1.13%
Nonperforming loans	**69.85%**	76.74%	100.06%	72.25%	59.68%

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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, 2019 decreased 1.56% from December 31, 2018, primarily due to the sale of other real estate owned property. Nonperforming assets at December 31, 2018 decreased 3.71% 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 collectability 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, collectability 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.

	December 31,									
	2019		2018		2017		2016		2015	
(Dollars in thousands)	**Reserve**	**%***	Reserve	%*	Reserve	%*	Reserve	%*	Reserve	%*
Construction, land and land development	**$ 215**	**9.9%**	$ 131	7.7%	$ 1,216	7.0%	$ 336	5.6%	$ 711	6.5%
Commercial real estate	**3,908**	**55.8%**	5,251	55.8%	4,654	54.7%	6,473	55.2%	4,763	53.8%
Residential real estate	**980**	**20.1%**	1,181	24.0%	968	25.4%	1,396	25.9%	1,990	26.0%
Commercial, financial, and agricultural	**1,657**	**11.8%**	618	9.5%	633	8.5%	624	8.5%	1,058	8.8%
Consumer and other	**103**	**2.4%**	96	3.0%	37	4.4%	94	4.8%	82	4.9%
	$ 6,863	**100.0%**	$ 7,277	100.0%	$ 7,508	100.0%	$ 8,923	100.0%	$ 8,604	100.0%

* 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.

(Dollars in thousands)	**2019**	2018	2017	2016	2015
Allowance for loan losses at beginning of year	**$ 7,277**	$ 7,508	$ 8,923	$ 8,604	$ 8,802
Charge-offs					
Construction, land and land development	**29**	–	52	25	98
Commercial real estate	**119**	257	1,027	1,112	315
Residential real estate	**758**	162	1,048	362	930
Commercial, financial, and agricultural	**403**	247	458	324	460
Consumer and other	**784**	299	330	265	280
Total charge-offs	**$ 2,093**	$ 965	$ 2,915	$ 2,088	$ 2,083
Recoveries					
Construction, land and land development	**82**	155	266	814	486
Commercial real estate	**218**	52	544	351	290
Residential real estate	**174**	91	82	50	110
Commercial financial, and agricultural	**36**	161	141	71	55
Consumer and other	**65**	74	77	59	62
Total recoveries	**575**	533	1,110	1,345	1,003
Net charge-offs	**1,518**	432	1,805	743	1,080
Provision for loans losses	**1,104**	201	390	1,062	866
Allowance for loan losses at end of year	**$ 6,863**	$ 7,277	$ 7,508	$ 8,923	$ 8,588
Ratio of net charge-offs to average loans	**0.17%**	0.06%	0.24%	0.10%	0.14%

The allowance for loan losses decreased from $7.3 million, or 0.93% of total loans at December 31, 2018 to $6.9 million, or 0.71% of total loans at December 31, 2019. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The decline in 2019 was primarily due to the acquisitions of LBC Bancshares, Inc, which had over $130 million in total loans. Applicable accounting guidance did not allow us to record an allowance for loan losses upon the acquisition of loans – instead the acquired loans were recorded at their discounted fair value, which included the consideration of any expected losses. No allowance for loan losses will be recorded for the acquired loans until the expected credit losses exceed the remaining unamortized discounts – based on an individual basis for purchased credit impaired loans and on a pooled basis for performing acquired loans. Significant changes in the allowance during 2018 was the reduction in the net charge-offs in 2018 to $432,000 from $1.8 million in 2017, or a decrease of $1.4 million. Significant changes in the allowance during 2017 was the increase in the net charge-offs in 2017 to $1.8 million from $743,000 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. During 2019, we have continued to see stabilization in the economy, housing and the real estate market, as such 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, 2019, 2018 and 2017.

(Dollars in thousands)	**2019**	2018	2017
State, county and municipal securities	**$ 5,115**	$ 3,989	$ 4,493
Corporate debt securities	**2806**	2,872	2,060
Mortgage-backed securities	**339,411**	346,205	347,694
Total debt securities	**$ 347,332**	$ 353,066	$ 354,247

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2019 (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**	
(Dollars in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
State, county and municipal securities	**$ 150**	**2.03%**	**$ 1,193**	**2.38%**	**$ 744**	**3.15%**	**$ 3,028**	**2.57%**
Corporate debt securities	**–**	**–**	**2,022**	**4.03**	**–**	**–**	**784**	**3.12**
Mortgage-backed securities	**–**	**–**	**1,935**	**3.35**	**61,933**	**2.70**	**275,543**	**2.17**
Total debt securities	**$ 150**	**2.03%**	**$ 5,150**	**3.39%**	**$ 62,677**	**2.71%**	**$ 279,355**	**2.18%**

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% of its portfolio classified as available for sale.

At December 31, 2019, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of the Company's stockholders' equity.

The average yield of the securities portfolio was 2.37% in 2019 compared to 2.24% in 2018 and 2.00% in 2017. The increase in the average yield from 2018 to 2019 and from 2017 to 2018 was primarily attributed to the purchase of new securities which have a higher yield.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2019, 2018 and 2017.

	2019		2018		2017	
(Dollars in thousands)	**Average Amount**	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-bearing demand deposits	**$ 211,462**	**–**	$ 173,442	–	$ 158,924	–
Interest-bearing demand and savings deposits	**640,180**	**0.67%**	534,887	0.52%	517,974	0.37%
Time deposits	**361,319**	**1.60%**	326,243	1.01%	353,587	0.81%
Total deposits	**$ 1,212,961**	**0.83%**	$ 1,034,572	0.59%	$ 1,030,485	0.46%

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The following table presents the maturities of the Company's time deposits as of December 31, 2019.

(Dollars in thousands)	Time Deposits $250,000 or Greater	Time Deposits Less Than $250,000	Total
Months to maturity			
3 or Less	**$ 8,179**	**$ 61,724**	**$ 69,903**
Over 3 through 6	**12,212**	**88,926**	**101,138**
Over 6 through 12	**17,675**	**58,542**	**76,217**
Over 12 months	**17,611**	**82,610**	**100,221**
	$ 55,677	**$ 291,802**	**$ 347,479**

Average deposits increased $178.4 million in 2019 compared to 2018 and increased $4.1 million in 2018 compared to 2017. The increase in 2019 included $105.3 million, or 19.7% in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $38.0 million, or 21.9% and time deposits increased $35.1 million, or 10.8%. The 2019 increases were primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. The increase in 2018 included $16.9 million, or 3.3% in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $14.5 million, or 9.1% and time deposits decreased $27.3 million, or 7.7%. Accordingly, the ratio of average noninterest-bearing deposits to total average deposits was 17.4% in 2019, 16.8% in 2018 and 15.4% in 2017. The general increase in market rates in 2019 had the effect of (i) increasing the average cost of interest-bearing deposits by 30 basis points in 2019 compared to 2018 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 increase in market rates in 2018 had the effect of (i) increasing the average cost of interest-bearing deposits by 15 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.

Total average interest-bearing deposits increased $140.4 million, or 16.3% in 2019 compared to 2018 and decreased $10.4 million, or 1.20% in 2018 compared to 2017. The increase in 2019 was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019 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, 2019, the Company had $2.0 million, or 0.2% 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.

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

In the ordinary course of business, our Bank has granted commitments to extend credit to approved customers. Generally, these commitments to extend credit have been granted on a temporary basis for seasonal or inventory requirements or for construction period financing and have been approved within the Bank's credit guidelines. Our Bank has also granted commitments to approved customers for financial standby letters of credit. These commitments are recorded in the financial statements when funds are disbursed or the financial instruments become payable. The Bank uses the same credit policies for these off-balance-sheet commitments as it does for financial instruments that are recorded in the consolidated financial statements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitment amounts expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

The following table summarizes commitments and contractual obligations outstanding at December 31, 2019.

	Payments Due by Period				
(Dollars in thousands)	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Contractual obligations:					
Subordinated debentures	$ 24,229	$ –	$ –	$ –	$ 24,229
Other borrowed money	61,563	3,500	23,313	3,000	31,750
Operating lease liabilities	587	186	183	90	128
Time deposits	347,479	246,342	87,068	13,702	367
	433,858	250,028	110,564	16,792	56,474
Other commitments:					
Loan commitments	102,890	102,890	–	–	–
Standby letters of credit	1,576	1,576	–	–	–
	104,466	104,466	–	–	–
Total contractual obligations and other commitments	$ 538,324	$ 354,494	$ 110,564	$ 16,792	$ 56,474

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, 2019 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, 2019 are included in the preceding table.

Capital Requirements

The Bank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's

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

ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. For more information, see "Item 1. Business – Supervision and Regulation – Regulation of the Company – Capital Requirements."

At December 31, 2019, shareholders' equity totaled $130.5 million compared to $95.7 million at December 31, 2018. In addition to net income of $10.2 million, other significant changes in shareholders' equity during 2019 included $2.7 million of dividends declared on common stock and $18.7 million of common stock issued as part of the LBC Bancshares, Inc. acquisition. The accumulated other comprehensive loss component of stockholders' equity totaled $362,000 at December 31, 2019 compared to $(8.2) million at December 31, 2018. 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% 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, 2019 was 12.52% and total Tier 1 and 2 risk-based capital was 13.17%. Both of these measures compare favorably with the regulatory minimum of 6% for Tier 1 and 8% for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2019 was 10.33%, which exceeds the regulatory minimum of 4.50%. The Company's Tier 1 leverage ratio as of December 31, 2019 was 8.92%, which exceeds the required ratio standard of 4%.

For 2019, average capital was $117.0 million, representing 8.3% of average assets for the year. This compares to average capital of 89.4 million, representing 7.4% of average assets for 2018.

For 2019, 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 $2.7 million was paid in 2019 and a cash dividend of $1.69 million was paid in 2018.

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 and Warrants.

Liquidity

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.

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The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2019, the available for sale bond portfolio totaled $347.3 million. At December 31, 2018, the available for sale bond portfolio totaled $353.1 million. Only marketable investment grade bonds are purchased. 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 74.9% as of December 31, 2019 and 72.0% as of December 31, 2018. 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, 2019 and December 31, 2018 were 71.5% and 69.2%, 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, 2019 and December 31, 2018, the Bank had $55.7 million and $53.9 million, respectively, in certificates of deposit of $250,000 or more. These larger deposits represented 4.3% and 5.0% of total deposits as of December 31, 2019 and 2018, respectively. 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, 2019, the Company had $2.0 million or 0.2% 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, 2019, the Company had $6.0 million, or 0.5% 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.

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

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

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

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs, 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 included in the Notes to the Consolidated Financial Statements.

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

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.

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 3½ - 5½ 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.

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

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 targeted range of 1.50% to 1.75% and the prime rate of 4.75% at December 31, 2019. 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 2.54% and 3.87% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 4.12% if interest rates decreased by 100 basis points. These changes were within Colony's policy limit of a maximum 15% negative change.

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)	**2019**	2018
+200	**3.87%**	2.36%
+100	**2.54%**	1.46%
Flat	**–%**	–%
-100	**-4.12%**	-2.86%

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.

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.

Return on Assets and Stockholders' Equity

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

	Years Ended December 31,		
	2019	2018	2017
Return on average assets [1]	**0.72%**	0.99%	0.63%
Return on average equity [1]	**8.73%**	13.32%	8.28%
Equity to assets	**8.61%**	7.64%	7.33%
Common stock dividends declared	**$ 0.30**	$ 0.20	$ 0.10

(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

Opinions on the Financial Statements and Internal Control Over Financial Reporting
We have audited the accompanying consolidated balance sheets of Colony Bankcorp, Inc. and its subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years ended December 31, 2019, and the related notes (collectively, the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, 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, 2019, 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 in the accompanying Management's Report on Internal Control Over Financial Reporting. 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

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

Macon, Georgia
March 30, 2020

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	**$ 15,570**	$ 10,377
Fed funds sold and interest-bearing deposits in banks	**88,522**	49,779
Cash and cash equivalents	**104,092**	60,156
Investment securities available for sale, at fair value	**347,332**	353,066
Other investments, at cost	**4,288**	2,978
Loans held for sale	**10,076**	–
Loans	**968,814**	781,526
Allowance for loan losses	**(6,863)**	(7,277)
Net loans	**961,951**	774,249
Premises and equipment	**32,482**	28,831
Other real estate owned	**1,320**	1,841
Goodwill	**16,477**	202
Other intangible assets	**3,056**	556
Bank-owned life insurance	**21,629**	17,598
Deferred income taxes, net	**1,505**	3,472
Other assets	**11,105**	8,929
Total assets	**$ 1,515,313**	$ 1,251,878
Liabilities and stockholders' equity		
Deposits		
Noninterest-bearing	**$ 232,635**	$ 192,847
Interest-bearing	**1,061,107**	892,278
Total deposits	**1,293,742**	1,085,125
Subordinated debentures	**24,229**	24,229
Other borrowed money	**61,563**	44,000
Other liabilities	**5,273**	2,832
Total liabilities	**1,384,807**	1,156,186
Commitments and contingencies (Note 16)		
Stockholders' equity		
Preferred stock, stated value $1,000; 10,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2019 and 2018	–	–
Common stock, par value $1; 20,000,000 shares authorized, 9,498,783 and 8,444,908 shares issued and outstanding as of December 31, 2019 and 2018, respectively	**9,499**	8,445
Paid-in capital	**43,667**	25,978
Retained earnings	**76,978**	69,459
Accumulated other comprehensive income/(loss), net of tax	**362**	(8,190)
Total stockholders' equity	**130,506**	95,692
Total liabilities and stockholders' equity	**$ 1,515,313**	$ 1,251,878

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

Consolidated Statements of Income

(Dollars in thousands, except per share data)	For The Years Ended December 31, 2019	2018
Interest income		
Loans, including fees	**$ 50,278**	$ 40,682
Deposits with other banks	**992**	410
Investment securities	**8,917**	7,743
Federal funds sold	**64**	–
Dividends on other investments	**232**	187
Total interest income	**60,483**	49,022
Interest expense		
Deposits	**10,050**	6,057
Federal funds purchased	**1**	5
Borrowed money	**2,587**	2,163
Total interest expense	**12,638**	8,225
Net interest income	**47,845**	40,797
Provision for loan losses	**1,104**	201
Net interest income after provision for loan losses	**46,741**	40,596
Noninterest income		
Service charges on deposits	**4,783**	4,374
Other service charges, commissions and fees	**4,263**	3,254
Mortgage fee income	**3,199**	652
Securities gains	**97**	116
Other	**2,420**	1,225
Total noninterest income	**14,762**	9,621
Noninterest expenses		
Salaries and employee benefits	**26,218**	20,123
Occupancy and equipment	**4,850**	4,180
Acquisition related expenses	**2,733**	224
Deposit intangible expenses	**600**	48
Other	**14,493**	10,725
Total noninterest expense	**48,894**	35,300
Income before income taxes	**12,609**	14,917
Income taxes	**2,398**	3,000
Net income	**$ 10,211**	$ 11,917
Net income per share of common stock		
Basic	**$ 1.12**	$ 1.41
Diluted	**$ 1.12**	$ 1.40
Cash dividends declared per share of common stock	**$ 0.30**	$ 0.20
Weighted average shares outstanding, basic	**9,129,705**	8,439,454
Weighted average shares outstanding, diluted	**9,129,705**	8,538,608

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

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	For The Years Ended December 31, 2019	2018
Net income	**$ 10,211**	$ 11,917
Other comprehensive income:		
Gains (losses) on securities arising during the year	**10,922**	(2,033)
Tax effect	**(2,293)**	427
Realized (gains) losses on sale of securities available for sale	**(97)**	(116)
Tax effect	**20**	24
Change in unrealized gains (losses) on securities available for sale, net of reclassification adjustment and tax effects	**8,552**	(1,698)
Comprehensive income	**$ 18,763**	$ 10,219

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

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in thousands)	Preferred Stock Share	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	–	$ –	8,439,258	$ 8,439	$ 29,145	$ 59,230	$ (6,492)	$ 90,322
Other comprehensive income	–	–	–	–	–	–	(1,698)	(1,698)
Dividends on common shares	–	–	–	–	–	(1,688)	–	(1,688)
Issuance of restricted stock	–	–	5,650	6	(6)	–	–	–
Stock-based compensation expense	–	–	–	–	14	–	–	14
Repurchase of warrants	–	–	–	–	(3,175)	–	–	(3,175)
Net income	–	–	–	–	–	11,917	–	11,917
Balance, December 31, 2018	–	$ –	8,444,908	$ 8,445	$ 25,978	$ 69,459	$ (8,190)	$ 95,692
Other comprehensive income	–	–	–	–	–	–	8,552	8,552
Dividends on common shares	–	–	–	–	–	(2,692)	–	(2,692)
Issuance of common stock	–	–	1,053,875	1,054	17,655	–	–	18,709
Stock-based compensation expense	–	–	–	–	34	–	–	34
Net income	–	–	–	–	–	10,211	–	10,211
Balance, December 31, 2019	**–**	**$ –**	**9,498,783**	**$ 9,499**	**$ 43,667**	**$ 76,978**	**$ 362**	**$ 130,506**

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

Consolidated Statements of Cash Flows

(Dollars in thousands)	For The Years Ended December 31, 2019	2018
Cash flows from operating activities		
Net income	**$ 10,211**	$ 11,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,104**	201
Loan discount accretion	**(763)**	27
Other purchase accounting accretion and amortization, net	**(254)**	–
Accretion and amortization of securities discounts and premiums, net	**1,250**	1,149
Depreciation	**2,063**	1,787
Amortization of intangible assets	**600**	48
(Gains) losses on securities available for sale	**(97)**	(116)
Share-based compensation expense	**34**	14
Increase (decrease) in unearned loan fees	**109**	6
(Gain) on sale of other real estate and repossessions and write-downs	**(780)**	(42)
(Gain) loss on sale of premises & equipment	**168**	173
(Increase) in bank-owned life insurance	**(588)**	(509)
Gain on sale of loans held for sale	**(1,823)**	–
Origination of loans held for sale	**(69,576)**	–
Proceeds from sale of loans held for sale	**61,323**	–
(Increase) decrease in other assets	**573**	271
Increase (decrease) in other liabilities	**379**	(9)
Net cash provided by operating activities	**3,933**	14,917
Cash flows from investing activities		
Purchases of investment securities available for sale	**(72,482)**	(63,683)
Proceeds from maturities, calls, and paydowns of investment securities available for sale	**73,313**	50,422
Proceeds from sale of investment securities available for sale	**65,513**	11,268
Net loans to customers	**(58,593)**	2,390
Purchase of premises and equipment	**(3,485)**	(2,763)
Proceeds from sale of other real estate and repossessions	**2,553**	3,002
Proceeds from bank-owned life insurance	**535**	–
Redemption (purchase of) Federal Home Loan Bank stock	**(831)**	65
Proceeds from sale of premises and equipment	**690**	23
Net cash and cash equivalents paid in acquisition	**(467)**	(10,043)
Net cash (used in) provided by investing activities	**6,746**	(9,319)
Cash flows from financing activities		
Noninterest-bearing customer deposits	**8,753**	5,553
Interest-bearing customer deposits	**10,633**	(445)
Dividends paid for common stock	**(2,692)**	(1,688)
Repurchase of warrants	**–**	(3,175)
Net increase (decrease) in Federal Home Loan Bank advances	**2,000**	(3,500)
Net increase (decrease) in other borrowed money	**14,563**	–
Net cash (used in) provided by financing activities	**33,257**	(3,255)
Net increase in cash and cash equivalents	**43,936**	2,343
Cash and cash equivalents at beginning of period	**60,156**	57,813
Cash and cash equivalents at end of period	**$ 104,092**	$ 60,156
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	**$ 12,245**	$ 8,197
Cash paid during the period for income taxes	**2,000**	2,695
Noncash investing and financing activities		
Change in unrealized (gains) losses on securities available for sale	**$ 10,825**	$ (2,149)
Acquisition of real estate through foreclosure	**1,009**	792
Change in goodwill due to acquisition	**16,275**	202
Initial recognition of operating lease right-of-use assets and lease liability	**676**	–

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

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Colony Bankcorp, Inc. and subsidiaries (the "Company") is a financial holding company headquartered in Fitzgerald, Georgia, whose primary business is presently conducted by Colony Bank, its wholly owned banking subsidiary (the "Bank"). Through the Bank, the Company offers a broad range of retail and commercial banking services to its customers concentrated in central, south and coastal Georgia. The Bank also engages in mortgage banking and SBA lending, and, as such originates, acquires, sells and services one-to-four family residential mortgage loans and SBA loans in the Southeast. The Company is subject to the regulations of certain state and federal agencies and are periodically examined by those regulatory agencies.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and Colony Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Acquisition Accounting

Acquisitions are accounted for under the acquisition method of accounting. Purchased assets and assumed liabilities are recorded at their estimated fair values as of the purchase date. Any identifiable intangible assets are also recorded at fair value. When the consideration given is less than the fair value of the net assets received, the acquisition results in a "bargain purchase gain". If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as additional information regarding the closing date fair values becomes available.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity).

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and carryover of the seller's related allowance for loan losses is prohibited. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and adjust accretable discount if no prior provisions have been made or have been fully reversed. This increase in accretable discount will have a positive impact on future interest income.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 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

Cash and Cash Equivalents

For purposes of reporting cash flow, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from banks, interest-bearing deposits in banks and federal funds sold.

The bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. The reserve requirement as of December 31, 2019 and 2018 was $2.7 million and $1.9 million, respectively, and was met by cash on hand which is reported on the Company's consolidated balance sheets in cash and due from banks.

Investment Securities

The Company classifies its investment securities in one of three categories: (i) trading, (ii) held to maturity or (iii) available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold until maturity. All other investment securities are classified as available for sale. At December 31, 2019 and 2018, all securities were classified as available for sale.

Trading securities are carried at fair value. Unrealized gains and losses on trading securities are recorded in earnings as a component of other noninterest income. Held to maturity securities are recorded initially at cost and subsequently adjusted for paydowns and amortization of purchase premium or accretion of purchase discount. Available for sale securities are carried at fair value. Unrealized holding gains and losses, net of the related deferred tax effect, on available for sale securities are excluded from earnings and are reported in other comprehensive income as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available for sale are recorded as a separate component of shareholders' equity. These unrealized holding gains or losses are amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the expected life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the trade date. A decline in the market value of any available for sale or held to maturity investment below cost that is deemed other than temporary establishes a new cost basis for the security. Other than temporary impairment deemed to be credit related is charged to earnings. Other than temporary impairment attributed to non-credit related factors is recognized in other comprehensive income.

In determining whether other-than-temporary impairment losses exist, management considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer or underlying collateral of the security and (iii) the Company's 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.

Other Investments

Other investments include Federal Home Loan Bank ("FHLB") stock. These investments do not have a readily determinable market value due to restrictions placed on transferability and therefore are carried at cost. These investments are periodically evaluated for impairment based on ultimate recovery of par value or cost basis. Both cash and stock dividends are reported as income.

Notes to Consolidated Financial Statements

Loans

Loans are reported at their outstanding principal balances less unearned income, net of deferred fees and origination costs. Interest income is accrued on the outstanding principal balance. For all classes of loans, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due, unless the loan is well secured and in the process of collection. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest income on nonaccrual loans is applied against principal until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 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 loan balance to be uncollectable. 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 collectability 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,

Notes to Consolidated Financial Statements

(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 . The decision whether to obtain an external third-party appraisal usually depends on the type of property being evaluated. External 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.

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. Concessions may include interest rate reductions to below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company's policy requires a restructure request to be supported by a current, well-documented credit evaluation of the borrower's financial condition and a collateral evaluation that is no older than six months from the date of the restructure. The Company's policy states in the event a loan has been identified as a troubled debt restructuring, it should be assigned a grade of substandard and placed on nonaccrual status until such time that the borrower has demonstrated the ability to service the loan payments based on the restructured terms – generally defined as six months of satisfactory payment history. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when (i) none of its principal and interest is due and

Notes to Consolidated Financial Statements

unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment, approved by the Company's Chief Credit Officer. In the normal course of business, the Company renews loans with a modification of the interest rate or terms that are not deemed as troubled debt restructurings because the borrower is not experiencing financial difficulty.

Loan Commitments and Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Other premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. In general, estimated lives for buildings are up to 40 years, furniture and equipment useful lives range from five to 10 years and the lives of software and computer related equipment range from three to five years. Leasehold improvements are amortized over the life of the related lease, or the related assets, whichever is shorter. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Minor repairs, maintenance and improvements are charged to operations as incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Goodwill and Intangible Assets

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.

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 acquisition date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits.

Cash Value of Bank Owned Life Insurance

The Company has purchased life insurance policies on certain officers. The life insurance is 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 other amounts due that are probable at settlement.

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.

Notes to Consolidated Financial Statements

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 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing.

The Company believes that its income tax filing positions taken or expected to be taken on its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Earnings Per Share

Basic earnings per share are computed by dividing net income allocated to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income allocated to common shareholders by the sum of the weighted-average number of shares of common stock outstanding and the effect of the issuance of potential common shares that are dilutive. Potential common shares consist of stock warrants and restricted shares for the years ended December 31, 2019 and 2018, and are determined using the treasury stock method. The Company has determined that its outstanding non-vested stock awards are participating securities, and all dividends on these awards are paid similar to other dividends.

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).

Fair Value Measures

Fair values of assets and liabilities are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Notes to Consolidated Financial Statements

Operating Segments

The Company has three reportable segments, the Banking Division, the Retail Mortgage Division and the Small Business Specialty Lending Division. The Banking Division derives its revenues from the delivery of full service financial services to include commercial loans, consumer loans and deposit accounts. The Retail Mortgage Division derives its revenues from the origination, sales and servicing of one-to-four family residential mortgage loans. The Small Business Specialty Lending Division derives its revenues from origination, sales and servicing of SBA and USDA government guaranteed loans.

The Banking, Retail Mortgage and Small Business Specialty Lending Divisions are managed as separate business units because of the different products and services they provide. The Company evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers.

Reclassifications

Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on stockholders' equity or net income.

Accounting Standards Adopted in 2019

ASU 2016-02, Leases (Topic 842). This ASU amends the existing standards for lease accounting effectively requiring that most leases be carried on the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability. This includes qualitative and quantitative disclosure requirements intended to provide greater insight into the nature of the Company's leasing activities. This ASU may be adopted using a modified retrospective transition method with a cumulative effect adjustment to equity as of the beginning of the period in which it is adopted. Alternatively, this ASU may be adopted using an optional transition method where initial application of the provisions of this standard are applied as of the date of adoption, resulting in no adjustment to amounts reported in prior periods. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods therein. ASU 2016-02 was effective for the Company on January 1, 2019 with the optional transition method elected. The Company also elected the package of practical expedients provided in the guidance which permits the Company to not reassess under the new standard the prior conclusions about lease identification, lease classification and initial direct costs. The adoption of this standard resulted in the recognition of a right-of-use asset of $483 thousand and a lease liability of $483 thousand in 2019. The right-of-use asset and lease liability are recorded in the consolidated balance sheets in other assets and other liabilities, respectively.

ASU 2019-07, Codification Updates to SEC Sections – Amendments to SEC Paragraphs Pursuant to SEC final rule releases No. 33-10532, disclosure update and simplification, and nos. 33-10231 and 33-10442, investment company reporting modernization, and miscellaneous updates. This standard updates various SEC financial statement disclosure requirements, including disclosures related to bank holding companies. The standard was effective immediately, and did not have a material impact on disclosures.

ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities. This update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application. The adoption of this update on January 1, 2019 did not have a material impact on the consolidated financial statements.

Notes to Consolidated Financial Statements

Accounting Standards Updates Pending Adoption

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. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements. In November 2019, the ASU 2019-10 was issued which delayed the effective date of CECL for smaller reporting companies. The new effective date is for fiscal years beginning after December 15, 2022.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This update removes several exceptions related to intraperiod tax allocation when there is a loss from continuing operations and income from other items, foreign subsidiaries becoming equity method investments and vice versa, and calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The guidance also amends requirements related to franchise tax that is partially based on income, a step up in the tax basis of goodwill, allocation of consolidated tax expense to a legal entity not subject to tax in its separate financial statements, the effects of enacted changes in tax laws and other minor codification improvements regarding employee stock ownership plans and investments in qualified affordable housing projects. For public entities, this guidance is effective for fiscal years beginning after December 15, 2020. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force). This update clarifies whether an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative and how to account for certain forward contracts and purchased options to purchase securities. For public entities, this guidance is effective for fiscal years beginning after December 15, 2020. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

2. BUSINESS COMBINATIONS

Acquisition of Albany, Georgia Branch from Planters First Bank

On October 22, 2018, the Bank completed its acquisition of one branch office and a vacant lot from Planters First Bank ("PFB") located in Albany, Georgia for a total cash consideration of $10.2 million. The assets and liabilities as of the effective date of the transaction were recorded at their respective estimated fair values. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill. In the periods following the acquisition, the financial statements will include the results attributable to the Albany branch purchase beginning on the date of purchase.

Notes to Consolidated Financial Statements

The following table presents assets acquired and liabilities assumed of PFB as of October 22, 2018 and their fair value estimates. The fair value estimates were subject to refinement for up to one year after the closing date of the acquisition for new information obtained about the facts and circumstances that existed at the acquisition date. The Company finalized its fair value adjustments during the third quarter of 2019.

(Dollars in thousands)	
Purchase price consideration:	
Cash consideration	$ 10,238
Total purchase price for PFB branch acquisition	$ 10,238
Assets acquired at fair value:	
Cash and cash equivalents	$ 195
Loans	20,430
Premises and equipment, net	773
Core deposit intangible	560
Other assets	123
Total fair value of assets acquired	$ 22,081
Liabilities assumed at fair value:	
Deposits	$ 12,032
Other liabilities	13
Total fair value of liabilities assumed	$ 12,045
Net assets acquired at fair value:	$ 10,036
Amount of goodwill resulting from acquisition	$ 202

Goodwill of $202,000, which is the excess of the purchase price over the fair value of the net assets acquired, was recorded in the PFB acquisition and is expected to be deductible for tax purposes.

Acquired Loans

The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and the fair value of the loans. Of the total loans acquired, there were no loans acquired considered to be credit impaired and accounted for under ASC 310-30.

(Dollars in thousands)	Contractually Required Principal and Interest	Cash Flows Expected to be Collected	Nonaccretable Adjustments	Fair Value of Acquired Loans at Acquisition Date
Performing loans acquired	$ 20,749	20,749	319	$ 20,430

Acquisition of LBC Bancshares, Inc.

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc. ("LBC"), a bank holding company headquartered in LaGrange, Georgia. Upon consummation of the acquisition, LBC was merged with and into the Company, with Colony as the surviving entity in the merger. At that time, LBC's wholly owned bank subsidiary, Calumet Bank, was also merged with and into the Bank. The acquisition expanded the Company's market presence, as Calumet Bank had 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 Agreement and Plan of Merger, each LBC shareholder had 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, such that 55 percent of LBC shares of common stock received the stock consideration and 45 percent received the cash consideration, with at least 50 percent of the merger consideration paid in the Company's common stock. As a result, the Company issued 1,053,875 common shares at a fair value of $18.7 million and paid $15.3 million in cash to the former shareholders of LBC as merger consideration.

Notes to Consolidated Financial Statements

The merger was effected by the issuance of shares of the Company's common stock along with cash consideration to shareholders to LBC. The assets and liabilities of LBC as of the effective date of the merger were recorded at their respective estimated fair values and combined with those of the Company. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill. Goodwill of $15.7 million was recorded as part of the LBC acquisition and is not expected to be deductible for income tax purposes.

The following table presents the assets acquired and liabilities assumed of LBC as of May 1, 2019, and their fair value estimates. The fair value estimates were subject to refinement for up to one year after the closing date of the acquisition for new information obtained about facts and circumstances that existed at the acquisition date. The Company continues its evaluation of the facts and circumstances available as of May 1, 2019, to assign fair values to assets acquired and liabilities assumed, which could result in further adjustments to the fair values presented below.

(Dollars in thousands)	
Purchase price consideration:	
Shares of CBAN common stock issued to LBC shareholders as of May 1, 2019	**1,053,875**
Market price of CBAN common stock on May 1, 2019	**$ 17.75**
Estimated fair value of CBAN common stock issued	**18,706**
Cash consideration paid	**15,315**
Total consideration	**$ 34,021**
Assets acquired at fair value:	
Cash and cash equivalents	**$ 15,678**
Investments securities available for sale	**49,172**
Investments securities held to maturity	**1,766**
Restricted investments	**479**
Loans	**130,568**
Premises and equipment	**3,009**
Core deposit intangible	**3,100**
Other real owned	**243**
Prepaid and other assets	**6,143**
Total fair value of assets acquired	**$ 210,158**
Liabilities assumed at fair value:	
Deposits	**$ (189,896)**
FHLB advances	**(1,000)**
Payables and other liabilities	**(975)**
Total fair value of liabilities assumed	**$ (191,871)**
Net assets acquired at fair value:	**$ 18,287**
Amount of goodwill resulting from acquisition	**$ 15,734**

In the acquisition, the Company purchased $130.6 million of loans at fair value, net of $2.2 million, or 1.63%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified $176,000 that were considered to be credit impaired and are accounted for under ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of the acquisition date for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

Notes to Consolidated Financial Statements

Dollars in thousands)	
Contractually required principal and interest	**$ 695**
Non-accretable difference	**(519)**
Cash flows expected to be collected	**176**
Accretable yield	**–**
Total purchased credit-impaired loans acquired	**$ 176**

The following table presents the acquired loan data for the LBC acquisition.

(Dollars in thousands)	**Fair Value of Acquired Loans at Acquisition Date**	**Contractually Required Principal and Interest Payments**	**Nonaccretable Difference**
Acquired receivables subject to ASC 310-30	**$ 176**	**$ 695**	**$ (519)**
Acquired receivables not subject to ASC 310-30	**$ 130,392**	**$ 132,381**	**$ –**

Acquisition of PFB Mortgage from Planters First Bank

On May 1, 2019, the Bank completed its asset acquisition of PFB Mortgage, the secondary market mortgage business of Planters First Bank for a total cash consideration of $833,000. The assets acquired included premises and equipment as well as all pipeline loans. The assets acquired were recorded at their respective estimated fair values as of the effective date of the transaction. The excess of the purchase price over fair value of net assets acquired was allocated to goodwill.

The following table presents the assets acquired as of May 1, 2019, and their fair value estimates. The fair value estimates were subject to refinement for up to one year after the closing date of the acquisition for new information obtained about facts and circumstances that existed at the acquisition date. The Company continues its evaluation of the facts and circumstances available as of May 1, 2019, to assign fair values to assets acquired and liabilities assumed, which could result in further adjustments to the fair values presented below.

Dollars in thousands)	
Purchase price consideration:	
Cash consideration paid	**$ 833**
Total consideration	**$ 833**
Assets acquired at fair value:	
Premises and equipment	**$ 78**
Premium on loan commitments	**209**
Other assets	**5**
Total fair value of assets acquired	**$ 292**
Liabilities assumed at fair value:	
Total fair value of liabilities assumed	**$ –**
Net assets acquired at fair value:	**$ 292**
Amount of goodwill resulting from acquisition	**$ 541**

Notes to Consolidated Financial Statements

3. INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities available for sale along with gross unrealized gains and losses are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
State, county and municipal securities	**$ 5,133**	**$ 36**	**$ (54)**	**$ 5,115**
Corporate debt securities	**2,811**	**11**	**(16)**	**2,806**
Mortgage-backed securities	**338,930**	**2,669**	**(2,188)**	**339,411**
Total debt securities	**$ 346,874**	**$ 2,716**	**$ (2,258)**	**$ 347,332**
December 31, 2018				
State, county and municipal securities	$ 4,008	$ 18	$ (37)	$ 3,989
Corporate debt securities	2,927	–	(55)	2,872
Mortgage-backed securities	356,498	303	(10,596)	346,205
Total debt securities	$ 363,433	$ 321	$ (10,688)	$ 353,066

The gross unrealized losses and estimated fair value of securities aggregated by category and length of time that securities have been in a continuous unrealized loss position are summarized as follows:

	Less Than 12 Months		12 Months or Greater		Total	
(Dollars in thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2019						
State, county and municipal securities	**$ 3,257**	**$ (54)**	**$ –**	**$ –**	**$ 3,257**	**$ (54)**
Corporate debt securities	**–**	**–**	**784**	**(16)**	**784**	**(16)**
Mortgage-backed securities	**60,860**	**(277)**	**119,110**	**(1,911)**	**179,970**	**(2,188)**
Total debt securities	**$ 64,117**	**$ (331)**	**$ 119,894**	**$ (1,927)**	**$ 184,011**	**$ (2,258)**
December 31, 2018						
State, county and municipal securities	$ 612	$ (3)	$ 1,882	$ (34)	$ 2,494	$ (37)
Corporate debt securities	2,009	(21)	863	(34)	2,872	(55)
Mortgage-backed securities	39,083	(504)	255,747	(10,092)	294,830	(10,596)
Total debt securities	$ 41,704	$ (528)	$ 258,492	$ (10,160)	$ 300,196	$ (10,688)

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, 2019, ninety-eight securities have unrealized losses which have depreciated 1.2 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

Notes to Consolidated Financial Statements

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, 2019 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.

The amortized cost and fair value of investment securities as of December 31, 2019, 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	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	**$ 150**	**$ 150**
Due after one year through five years	**3,195**	**3,215**
Due after five years through ten years	**723**	**744**
Due after ten years	**3,876**	**3,812**
	$ 7,944	**$ 7,921**
Mortgage-backed securities	**338,930**	**339,411**
	$ 346,874	**$ 347,332**

Proceeds from sales of investments available for sale were $65.5 million in 2019 and $11.3 million in 2018. Gross realized gains totaled $416,000 in 2019 and $116,000 in 2018. Gross realized losses totaled $322,000 in 2019 and $0 in 2018.

Investment securities having a carrying value totaling $122.3 million and $179.0 million as of December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes.

4. LOANS

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

	December 31, 2019		
(Dollars in thousands)	**Legacy Loans**	**Purchased Loans**	**Total**
Construction, land and land development	**$ 83,036**	**$ 13,061**	**$ 96,097**
Other commercial real estate	**481,943**	**58,296**	**540,239**
Total commercial real estate	**564,979**	**71,357**	**636,336**
Residential real estate	**171,341**	**23,455**	**194,796**
Commercial, financial, and agricultural	**91,535**	**22,825**	**114,360**
Consumer and other	**19,245**	**4,077**	**23,322**
Total loans	**$ 847,100**	**$ 121,714**	**$ 968,814**

Notes to Consolidated Financial Statements

	December 31, 2018		
(Dollars in thousands)	Legacy Loans	Purchased Loans	Total
Construction, land and land development	$ 58,812	$ 1,498	$ 60,310
Other commercial real estate	429,184	6,777	435,961
Total commercial real estate	487,996	8,275	496,271
Residential real estate	185,577	2,015	187,592
Commercial, financial, and agricultural	66,131	8,035	74,166
Consumer and other	23,435	62	23,497
Total loans	$ 763,139	$ 18,387	$ 781,526

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.

- 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.

Notes to Consolidated Financial Statements

- 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, excluding purchased loans, by credit quality indicator (risk grade) as of December 31, 2019. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes. For the periods ending December 31, 2019, the Company did not have any loans classified as "doubtful" or a "loss".

(Dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Total Loans**
Construction, land and land development	**$ 82,322**	**$ 445**	**$ 269**	**$ 83,036**
Other commercial real estate	**459,064**	**13,438**	**9,441**	**481,943**
Total commercial real estate	**541,386**	**13,883**	**9,710**	**564,979**
Residential real estate	**159,194**	**4,632**	**7,515**	**171,341**
Commercial, financial, and agricultural	**86,558**	**1,973**	**3,004**	**91,535**
Consumer and other	**18,883**	**148**	**214**	**19,245**
Total loans	**$ 806,021**	**$ 20,636**	**$ 20,443**	**$ 847,100**

The following table presents the purchased loan portfolio by credit quality indicator (risk grade) as of December 31, 2019.

(Dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Total Loans**
Construction, land and land development	**$ 12,996**	**$ –**	**$ 65**	**$ 13,061**
Other commercial real estate	**57,881**	**381**	**34**	**58,296**
Total commercial real estate	**70,877**	**381**	**99**	**71,357**
Residential real estate	**23,097**	**249**	**109**	**23,455**
Commercial, financial, and agricultural	**19,443**	**2,949**	**433**	**22,825**
Consumer and other	**4,077**	**–**	**–**	**4,0775**
Total loans	**$ 117,494**	**$ 3,579**	**$ 641**	**$ 121,714**

The following tables present the loan portfolio, excluding purchased loans, by credit quality indicator (risk grade) as of December 31, 2018. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes. For the periods ending December 31, 2018, the Company did not have any loans classified as "doubtful" or a "loss".

(Dollars in thousands)	Pass	Special Mention	Substandard	Total Loans
Construction, land and land development	$ 58,050	$ 45	$ 717	$ 58,812
Other commercial real estate	409,793	9,574	9,817	429,184
Total commercial real estate	467,843	9,619	10,534	487,996
Residential real estate	167,913	7,107	10,557	185,577
Commercial, financial, and agricultural	63,394	1,366	1,371	66,131
Consumer and other	23,045	64	326	23,435
Total loans	$ 722,195	$ 18,156	$ 22,788	$ 763,139

Notes to Consolidated Financial Statements

The following table presents the purchased loan portfolio by credit quality indicator (risk grade) as of December 31, 2018.

(Dollars in thousands)	Pass	Special Mention	Substandard	Total Loans
Construction, land and land development	$ 1,498	$ –	$ –	$ 1,498
Other commercial real estate	6,777	–	–	6,777
Total commercial real estate	8,275	–	–	8,275
Residential real estate	2,015	–	–	2,015
Commercial, financial, and agricultural	8,035	–	–	8,035
Consumer and other	62	–	–	62
Total loans	$ 18,387	$ –	$ –	$ 18,387

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, excluding purchased loans, as of December 31, 2019:

	Accruing Loans					
(Dollars in thousands)	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Accruing Loans Past Due**	**Nonaccrual Loans**	**Current Loans**	**Total Loans**
Construction, land and land development	**$ 50**	**$ –**	**$ 50**	**$ 32**	**$ 82,954**	**$ 83,036**
Other commercial real estate	**335**	**–**	**335**	**3,738**	**477,870**	**481,943**
Total commercial real estate	**385**	**–**	**385**	**3,770**	**560,824**	**564,979**
Residential real estate	**1,296**	**–**	**1,296**	**3,643**	**166,402**	**171,341**
Commercial, financial, and agricultural	**212**	**–**	**212**	**1,628**	**89,695**	**91,535**
Consumer and other	**21**	**–**	**21**	**138**	**19,086**	**19,245**
Total loans	**$ 1,914**	**$ –**	**$ 1,914**	**$ 9,179**	**$ 836,007**	**$ 847,100**

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The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, for purchased loans, as of December 31, 2019:

	Accruing Loans					
(Dollars in thousands)	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Accruing Loans Past Due**	**Nonaccrual Loans**	**Current Loans**	**Total Loans**
Construction, land and land development	**$ –**	**$ –**	**$ –**	**$ 96**	**$ 12,965**	**$ 13,061**
Other commercial real estate	**83**	**–**	**83**	**34**	**58,179**	**58,296**
Total commercial real estate	**83**	**–**	**83**	**130**	**71,144**	**71,357**
Residential real estate	**57**	**–**	**57**	**85**	**23,313**	**23,455**
Commercial, financial, and agricultural	**553**	**–**	**553**	**433**	**21,839**	**22,825**
Consumer and other	**8**	**–**	**8**	**–**	**4,069**	**4,077**
Total loans	**$ 701**	**$ –**	**$ 701**	**$ 648**	**$ 120,365**	**$ 121,714**

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, excluding purchased loans, as of December 31, 2018:

	Accruing Loans					
(Dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Construction, land and land development	$ 88	$ –	$ 88	$ 463	$ 58,349	$ 58,812
Other commercial real estate	755	–	755	5,018	424,166	429,184
Total commercial real estate	843	–	843	5,481	482,515	487,996
Residential real estate	6,882	–	6,882	2,734	182,843	185,577
Commercial, financial, and agricultural	399	–	399	1,050	65,081	66,131
Consumer and other	110	–	110	217	23,218	23,435
Total loans	$ 8,234	$ –	$ 8,234	$ 9,482	$ 753,657	$ 763,139

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, for purchased loans, as of December 31, 2018:

	Accruing Loans					
(Dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Construction, land and land development	$ –	$ –	$ –	$ –	$ 1,498	$ 1,498
Other commercial real estate	–	–	–	–	6,777	6,777
Total commercial real estate	–	–	–	–	8,275	8,275
Residential real estate	–	–	–	–	2,015	2,015
Commercial, financial, and agricultural	–	–	–	–	8,035	8,035
Consumer and other	–	–	–	–	62	62
Total loans	$ –	$ –	$ –	$ –	$ 18,387	$ 18,387

Notes to Consolidated Financial Statements

The following table details impaired loan data, including purchased credit impaired loans, as of December 31, 2019:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land and land development	$ 67	$ 67	$ –	$ 168
Commercial real estate	12,455	11,639	–	13,924
Residential real estate	2,706	2,711	–	3,693
Commercial, financial and agricultural	257	257	–	910
Consumer and other	–	–	–	123
Total impaired loans with no allowance	15,485	14,674	–	18,818
With an allowance recorded				
Construction, land and land development	–	–	–	80
Commercial real estate	6,379	6,385	1,939	3,898
Residential real estate	757	760	137	367
Commercial, financial and agricultural	2,189	1,989	1,073	722
Consumer and other	–	–	–	–
Total impaired loans with allowance	9,325	9,134	3,149	5,067
Purchased credit impaired loans				
Construction, land and land development	65	65	–	80
Commercial real estate	34	34	–	35
Residential real estate	11	11	6	24
Commercial, financial and agricultural	37	37	–	47
Consumer and other	–	–	–	–
Total purchased credit impaired loans	147	147	6	186
Total				
Construction, land and land development	132	132	–	328
Commercial real estate	18,868	18,058	1,939	17,857
Residential real estate	3,474	3,482	143	4,084
Commercial, financial and agricultural	2,483	2,283	1,073	1,679
Consumer and other	–	–	–	123
	$ 24,957	$ 23,955	$ 3,155	$ 24,071

Notes to Consolidated Financial Statements

Interest income recorded on impaired loans during the year ended December 31, 2019 was $175,000, and reflects interest income recorded on nonaccrual loans prior to them being placed on nonaccrual status and interest income recorded on TDRs. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $221,000 for the year ended December 31, 2019.

The following table details impaired loan data as of December 31, 2018. There were no purchased credit impaired loans and related allowance for loan losses as of December 31, 2018.

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land and land development	$ 132	$ 132	$ –	$ 69
Commercial real estate	14,218	14,216	–	12,401
Residential real estate	4,214	4,130	–	4,067
Commercial, financial and agricultural	1,029	1,008	–	909
Consumer and other	217	217	–	198
	19,810	19,703	–	17,644
With an allowance recorded				
Construction, land and land development	399	399	39	466
Commercial real estate	4,055	4,055	1,312	5,489
Residential real estate	274	274	61	98
Commercial, financial and agricultural	42	42	6	8
Consumer and other	–	–	–	–
	4,770	4,770	1,418	6,061
Total				
Construction, land and land development	531	531	39	535
Commercial real estate	18,273	18,271	1,312	17,890
Residential real estate	4,488	4,404	61	4,165
Commercial, financial and agricultural	1,071	1,050	6	917
Consumer and other	217	217	–	198
	$ 24,580	$ 24,473	$ 1,418	$ 23,705

Interest income recorded on impaired loans during the year ended December 31, 2018 was $320,000, and reflects interest income recorded on nonaccrual loans prior to them being placed on nonaccrual status and interest income recorded on TDRs. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $226,000 for the year ended December 31, 2018.

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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.

- *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, 2019. The Company had no loan contracts restructured during 2019. The Company had one loan contract in the amount of $402,000 restructured during 2018.

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 and, has performed according to the modified terms for at least six months, and there has not been any prior principal forgiveness on a cumulative basis.

During 2019, the Company had one loan totaling $859,000 that subsequently defaulted. This loan failed to continue to perform as agreed and was moved to non-accrual status. During 2018, the Company had one loan $131,000 that subsequently defaulted. This loan failed to continue to perform as agreed and was moved to non-accrual status.

Notes to Consolidated Financial Statements

5. ALLOWANCE FOR LOAN LOSSES

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2019. 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.

(Dollars in thousands)	Construction, Land and Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial Financial, and Agricultural	Consumer and Other	Total
Twelve months ended December 31, 2019						
Beginning balance	$ 131	$ 5,251	$ 1,181	$ 618	$ 96	$ 7,277
Charge-offs	(29)	(119)	(758)	(403)	(784)	(2,093)
Recoveries	82	218	174	36	65	575
Provision	31	(1,442)	383	1,406	726	1,104
Ending balance	$ 215	$ 3,908	$ 980	$ 1,657	$ 103	$ 6,863
Period-end amount allocated to:						
Individually evaluated for impairment	$ –	$ 1,939	$ 137	$ 1,073	$ –	$ 3,149
Collectively evaluated for impairment	215	1,969	837	584	103	3,708
Purchase credit impaired	–	–	6	–	–	6
Ending balance	$ 215	$ 3,908	$ 980	$ 1,657	$ 103	$ 6,863
Loans:						
Loans individually evaluated for impairment	$ 67	$ 18,024	$ 3,471	$ 2,246	$ –	$ 23,808
Loans collectively evaluated for impairment	95,965	522,181	191,314	112,077	23,322	944,859
Purchased credit impaired	65	34	11	37	–	147
Ending balance	$ 96,097	$ 540,239	$ 194,796	$ 114,360	$ 23,322	$ 968,814

Notes to Consolidated Financial Statements

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2018. 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.

(Dollars in thousands)	Construction, Land and Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial Financial, and Agricultural	Consumer and Other	Total
Twelve months ended December 31, 2018						
Beginning balance	$ 1,216	$ 4,653	$ 968	$ 633	$ 37	$ 7,507
Charge-offs	–	(257)	(162)	(246)	(300)	(965)
Recoveries	155	52	91	161	75	534
Provision	(1,240)	803	284	70	284	201
Ending balance	$ 131	$ 5,251	$ 1,181	$ 618	$ 96	$ 7,277
Period-end amount allocated to:						
Individually evaluated for impairment	$ 39	$ 1,312	$ 61	$ 6	$ –	$ 1,418
Collectively evaluated for impairment	92	3,939	1,120	612	96	5,859
Ending balance	$ 131	$ 5,251	$ 1,181	$ 618	$ 96	$ 7,277
Loans:						
Loans individually evaluated for impairment	$ 531	$ 18,271	$ 4,404	$ 1,050	$ 217	$ 24,473
Loans collectively evaluated for impairment	59,779	417,690	183,188	73,116	23,280	757,053
Ending balance	$ 60,310	$ 435,961	$ 187,592	$ 74,166	$ 23,497	$ 781,526

6. PREMISES AND EQUIPMENT

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

(Dollars in thousands)	**2019**	2018
Land	**$ 10,914**	$ 10,935
Building	**30,518**	26,545
Furniture, fixtures and equipment	**13,690**	12,782
Leasehold improvements	**809**	697
Construction in progress	**117**	581
Total cost	**56,048**	51,540
Accumulated depreciation	**(23,566)**	(22,709)
Total premises and equipment	**$ 32,482**	$ 28,831

Depreciation charged to operations totaled $2.1 million in 2019 and $1.8 million in 2018.

Notes to Consolidated Financial Statements

7. OTHER REAL ESTATE OWNED

The following is a summary of the activity in other real estate owned during the years ended December 31, 2019 and 2018:

(Dollars in thousands)	**2019**	2018
Balance, beginning of year	**$ 1,841**	$ 4,256
Loans transferred to other real estate	**1,009**	792
Acquired in acquisitions	**243**	–
Sales proceeds	**(2,553)**	(2,949)
Transfer to premises and equipment	**–**	(300)
Net gain/(loss) on sale and writedowns	**780**	42
Ending balance	**$ 1,320**	$ 1,841

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.

8. GOODWILL AND INTANGIBLE ASSETS

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

	2019		2018	
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Core deposit intangible	**$ 4,716**	**$ 1,660**	$ 1,616	$ 1,060
Total	**4,716**	**1,660**	1,616	1,060
Unamortizable intangible assets:				
Goodwill	**$ 16,477**		$ 202	

Activity related to transactions since January 1, 2018 includes the following:

(1) In connection with the October 22, 2018 acquisition of Albany, Georgia branch from Planters First Bank, the Company recorded $560,000 in a core deposit intangible and $202,000 in goodwill.

(2) In connection with the LBC Bancshares, Inc. acquisition on May 1, 2019, the Company recorded $3.1 million in a core deposit intangible and $15.7 million in goodwill.

(3) In connection with the May 1, 2019 acquisition of PFB Mortgage from Planters First Bank, the Company recorded $541,000 in goodwill.

Amortization expense related to the core deposit intangible was $600,000 and $48,000 at December 31, 2019 and 2018, respectively. The estimated future amortization expense for intangible assets remaining as of December 31, 2019 is as follows:

(Dollars in thousands)	**Amount**
2020	**$ 776**
2021	**665**
2022	**554**
2023	**444**
2024	**333**
Thereafter	**284**
Total	**$ 3,056**

Notes to Consolidated Financial Statements

9. INCOME TAXES

The income tax expense in the consolidated statements of income for the years ended December 31, 2019 and 2018 are as follows:

(Dollars in thousands)	**2019**	2018
Current federal expense	**$ 1,881**	$ 2,727
Deferred federal expense	**517**	273
Federal income tax expense	**2,398**	3,000
Current state income tax expense	**–**	–
Federal and state income tax expense	**$ 2,398**	$ 3,000

The Company's income tax expense differs from amounts computed by applying the federal statutory rates to income before income taxes. A reconciliation of the differences for the years ended December 31, 2019 and 2018 is as follows:

(Dollars in thousands)	**2019**	2018
Tax at federal income tax rate	**$ 2,648**	$ 3,133
Change resulting from:		
Tax-exempt interest	**(130)**	(57)
Income in cash value of bank owned life insurance	**(113)**	(97)
Nondeductible merger expenses	**39**	9
Other	**(46)**	12
Provision for income taxes	**$ 2,398**	$ 3,000

The components of deferred income taxes for the years ended December 31, 2019 and 2018 are as follows:

(Dollars in thousands)	**2019**	2018
Deferred tax assets		
Allowance for loan losses	**$ 1,624**	$ 1,528
Other real estate	**115**	184
Deferred compensation	**163**	148
Core deposit intangible	**–**	1
Unrealized loss on securities available for sale	**–**	2,177
Goodwill	**33**	48
Restricted stock	**9**	2
Purchase accounting adjustments	**633**	–
Other	**401**	411
Nonaccrual interest	**2**	2
Gross deferred tax assets	**2,980**	4,501
Deferred tax liabilities		
Premises and equipment	**839**	1,023
Unrealized gain on securities available for sale	**96**	–
Core deposit intangible	**533**	–
Other	**7**	6
Gross deferred tax liabilities	**1,475**	1,029
Net deferred tax assets	**$ 1,505**	$ 3,472

Notes to Consolidated Financial Statements

10. DEPOSITS

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $718,000 and $476,000 as of December 31, 2019 and 2018, respectively.

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

(Dollars in thousands)	**2019**	2018
Interest-bearing demand	**$ 624,658**	$ 471,795
Savings	**88,970**	79,453
Time, $250,000 and over	**55,677**	53,881
Other time	**291,802**	287,149
Total interest-bearing deposits	**$ 1,061,107**	$ 892,278

At December 31, 2019 and 2018, the Company had brokered deposits of $2.0 million and $5.0 million, 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 $55.7 million and $53.9 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)	**Amount**
Year ending December 31	
2020	**$ 246,342**
2021	**52,165**
2022	**34,903**
2023	**9,555**
2024	**4,147**
Thereafter	**367**
Total time deposits	**$ 347,479**

11. OTHER BORROWED MONEY

The following table presents information regarding the Company's outstanding borrowings at December 31, 2019:

(Dollars in thousands)

Description	**Maturity Date**	**Amount**	**Interest Rate**
FHLB Advances	**March 23, 2020**	**$ 2,500**	**2.17%**
FHLB Advances	**June 1, 2020**	**1,000**	**1.65%**
FHLB Advances	**August 15, 2022**	**18,000**	**2.69%**
FHLB Advances	**February 3, 2023**	**3,000**	**3.51%**
FHLB Advances	**August 15, 2025**	**4,500**	**2.62%**
FHLB Advances	**August 24, 2026**	**3,000**	**1.27%**
FHLB Advances	**March 21, 2028**	**5,000**	**2.67%**
FHLB Advances	**July 30, 2029**	**10,000**	**1.01%**
Term Note	**May 24, 2025**	**9,250**	**4.70%**
Revolving Credit	**May 21, 2021**	**5,313**	**5.15%**
Total other borrowings		**$ 61,563**	
Weighted average rate			**2.86%**

Notes to Consolidated Financial Statements

The following table presents information regarding the Company's outstanding borrowings at December 31, 2018:

(Dollars in thousands)

Description	Maturity Date	Amount	Interest Rate
FHLB Advances	March 23, 2020	$ 2,500	2.17%
FHLB Advances	August 15, 2022	18,000	2.69%
FHLB Advances	February 3, 2023	3,000	3.51%
FHLB Advances	August 23, 2023	3,000	0.98%
FHLB Advances	August 15, 2025	4,500	2.62%
FHLB Advances	August 24, 2026	3,000	1.27%
FHLB Advances	March 21, 2028	5,000	2.67%
Total other borrowings		$ 44,000	
Weighted average rate			2.39%

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, 2019 and 2018, the lendable collateral value of those loans pledged was $111.6 million and $108.6 million, respectively. At December 31, 2019, the Company had remaining credit availability from the FHLB of $321.4 million. At December 31, 2018, the Company had remaining credit availability from the FHLB of $252.1 million. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

At December 31, 2019 and 2018, the Company also has available federal funds lines of credit with various financial institutions totaling $55.0 million and $43.5 million, respectively, of which there were none outstanding at December 31, 2019 and 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, 2019, 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.

On May 1, 2019, the Company completed a borrowing arrangement with a correspondent bank for $10.0 million. The term note is secured by the Bank's stock, expires on May 1, 2024, and bears a fixed interest rate of 4.70 percent. The proceeds were used for the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of December 31, 2019, the outstanding balance totaled $9.3 million.

On May 1, 2019, the Company completed a revolving credit arrangement with a correspondent bank with a maximum line amount of $10.0 million. This line of credit is secured by the Bank's stock, expires on May 1, 2021, and bears a variable interest rate of Wall Street Journal Prime minus 0.40 percent. The Company advanced $5.3 million that was used toward the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of December 31, 2019, the outstanding balance totaled $5.3 million.

Notes to Consolidated Financial Statements

12. SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

The following table presents the information regarding the Company's subordinated debentures at December 31, 2019:

(Dollars in thousands) Description	Date	Amount	3-Month Libor Rate	Added Points	Total Interest Rate	Maturity	5-Year Call Option
Colony Bankcorp Statutory Trust III	6/17/2004	$ 4,640	1.89963%	2.68%	4.57963%	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	1.94463%	1.50%	3.44463%	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	1.96050%	1.65%	3.61050%	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	1.93550%	1.40%	3.33550%	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.

13. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 and all subsequent ASUs that modified this topic (collectively referred to as "Topic 842"). For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Substantially all of the leases in which the Company is the lessee are comprised of real estate for branches and office space with terms extending through 2027. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheet. With the adoption of Topic 842, operating lease arrangements are required to be recognized on the consolidated balance sheet as a right-of-use ("ROU") asset and a corresponding lease liability.

The following table represents the consolidated balance sheet classification of the Company's ROU assets and liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated balance sheet.

(Dollars in thousands)	Classification	December 31, 2019
Assets		
Operating lease right-of-use assets	**Other assets**	**$ 572**
Liabilities		
Operating lease liabilities	**Other liabilities**	**$ 547**

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

Notes to Consolidated Financial Statements

For 2019, operating lease cost was $152,000. Rental expense measured under ASC Topic 840, Leases, was $443,000 for 2018.

As of December 31, 2019, the weighted average remaining lease term was 5.35 years and the weighted average discount rate was 2.06%.

The following table represents the future maturities of the Company's operating lease liabilities and other lease information.

(Dollars in thousands)	Lease Liability
Year	
2020	**$ 186**
2021	**110**
2022	**73**
2023	**45**
2024	**45**
Thereafter	**128**
Total lease payments	**587**
Less: interest	**(40)**
Present value of lease liabilities	**$ 547**

(Dollars in thousands)	December 31, 2019
Supplemental lease information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases (cash payments)	**$ 151**
Operating cash flows from operating leases (lease liability reduction)	**$ 138**
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	**$ 676**

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 had no outstanding warrants as of December 31, 2019 and 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 2019 and 2018, the Company made total contributions of $674,000 and $710,000 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, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
(Dollars in thousands)	**2019**	2018
Commitments to extend credit	**$ 102,890**	$ 98,736
Standby letters of credit	**1,576**	1,525

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

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

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

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

17. DEFERRED COMPENSATION PLAN

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

Liabilities accrued under the plans totaled $774,000 and $707,000 as of December 31, 2019 and 2018, respectively. Benefit payments under the contracts were $82,000 in 2019 and $108,000 in 2018.

Provisions charged to operations totaled $63,000 in 2019 and $52,000 in 2018.

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 $190,525 in 2019 and $135,000 in 2018.

Notes to Consolidated Financial Statements

18. 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 collectability. A summary of activity of related party loans is shown below:

(Dollars in thousands)	**2019**	2018
Balance, beginning	**$ 692**	$ 745
New loans	**4,777**	114
Repayments	**(3,855)**	(167)
Transactions due to changes in directors	**4,793**	–
Balance, ending	**$ 6,407**	$ 692

19. 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 Bancorp, Inc. and subsidiaries 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.

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.

Notes to Consolidated Financial Statements

Loans held for sale - The fair value of loans held for sale is determined on outstanding commitments from third party investors in the secondary markets and is classified within Level 2 of the valuation hierarchy.

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.

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.

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

The carrying amount, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments are as follows:

	Carrying	Estimated	Level		
(Dollars in thousands)	Amount	Fair Value	1	2	3
December 31, 2019					
Assets					
Cash and short-term investments	**$ 104,092**	**$ 104,092**	**$104,092**	**$ –**	**$ –**
Investment securities available for sale	**347,332**	**347,332**	**–**	**345,310**	**2,022**
Federal Home Loan Bank stock	**4,288**	**4,288**	**–**	**4,288**	**–**
Loans held for sale	**10,076**	**10,076**	**–**	**10,076**	**–**
Loans, net	**961,696**	**938,475**	**–**	**–**	**938,475**
Liabilities					
Deposits	**1,293,742**	**1,294,506**	**–**	**1,294,506**	**–**
Subordinated debentures	**24,229**	**24,229**	**–**	**24,229**	**–**
Other borrowed money	**61,563**	**60,585**	**–**	**60,585**	**–**
December 31, 2018					
Assets					
Cash and short-term investments	$ 60,156	$ 60,156	$ 60,156	$ –	$ –
Investment securities available for sale	353,066	353,066	–	351,057	2,009
Federal Home Loan Bank Stock	2,978	2,978	–	2,978	–
Loans, net	774,249	769,809	–	–	769,809
Liabilities					
Deposits	1,085,125	1,086,503	–	1,086,503	–
Subordinated debentures	24,229	24,229	–	24,229	–
Other borrowed money	44,000	44,032	–	44,032	–

Notes to Consolidated Financial Statements

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.

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.

Notes to Consolidated Financial Statements

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, 2019 and 2018, 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, 2019 and 2018. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

		Fair Value Measurements at Reporting Date Using		
(Dollars in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Recurring				
Securities available for sale				
State, county and municipal securities	**$ 5,115**	**$ –**	**$ 5,115**	**$ –**
Corporate debt securities	**2,806**	**–**	**784**	**2,022**
Mortgage-backed securities	**339,411**	**–**	**339,411**	**–**
Total available for sale securities	**$ 347,332**	**$ –**	**$ 345,310**	**$ 2,022**
Nonrecurring				
Impaired loans	**$ 5,985**	**$ –**	**$ –**	**$ 5,985**
Other real estate	**$ 1,320**	**$ –**	**$ –**	**$ 1,320**
December 31, 2018				
Recurring				
Securities available for sale				
State, county and municipal securities	$ 3,989	$ –	$ 3,989	$ –
Corporate debt securities	2,872	–	863	2,009
Mortgage-backed securities	346,205	–	346,205	–
Total available for sale securities	$ 353,066	$ –	$ 351,057	$ 2,009
Nonrecurring				
Impaired loans	$ 3,352	$ –	$ –	$ 3,352
Other real estate	$ 1,841	$ –	$ –	$ 1,841

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, 2019 and 2018. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

(Dollars in thousands)	**December 31, 2019**	**Valuation Techniques**	**Unobservable Inputs**	**Range Weighted Avg**
Impaired loans	**$ 5,985**	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	**0%-20%**
Other real estate	**$ 1,320**	Appraised value Comparable sales	Discounts to reflect current market conditions and estimated costs to sell	**0%-20%**

(Dollars in thousands)	December 31, 2018	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired loans	$ 3,352	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0%-20%
Other real estate	$ 1,841	Appraised value Comparable sales	Discounts to reflect current market conditions and estimated costs to sell	0%-20%

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, 2019 and 2018:

	Available for Sale Securities	
(Dollars in thousands)	**2019**	2018
Beginning balance	**$ 2,009**	$ 2,068
Sales	**–**	–
Paydowns	**–**	–
Accretion (amortization) of discounts and premiums	**(18)**	(18)
Unrealized gains (loss) included in other comprehensive income (loss)	**31**	(41)
Ending balance	**$ 2,022**	$ 2,009

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 were no transfers of securities between level 1 and level 2 or level 3 for the years ended December 31, 2019 and 2018.

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2019 and 2018:

	December 31, 2019			
(Dollars in thousands)	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
Corporate debt securities	**$ 2,022**	Discounted cash flow	Discount rate or yield	N/A*

	December 31, 2018			
(Dollars in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Corporate debt securities	$ 2,009	Discounted cash flow	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.

Notes to Consolidated Financial Statements

20. 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, 2019, 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, 2019, 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.

The following table summarizes regulatory capital information as of December 31, 2019 and December 31, 2018 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2019 and 2018 were calculated in accordance with the Basel III rules.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Total capital to risk-weighted assets						
Consolidated	**$ 140,973**	**13.17%**	**$ 85,661**	**8.00%**	**N/A**	**N/A**
Colony Bank	**151,444**	**14.19**	**85,407**	**8.00**	**106,758**	**10.00%**
Tier I capital to risk-weighted assets						
Consolidated	**134,110**	**12.52**	**64,246**	**6.00**	**N/A**	**N/A**
Colony Bank	**144,581**	**13.54**	**64,055**	**6.00**	**85,407**	**8.00**
Common equity Tier 1 capital to risk-weighted assets						
Consolidated	**110,610**	**10.33**	**48,185**	**4.50**	**N/A**	**N/A**
Colony Bank	**144,581**	**13.54**	**48,041**	**4.50**	**69,393**	**6.50**
Tier I capital to average assets						
Consolidated	**134,110**	**8.92**	**60,141**	**4.00**	**N/A**	**N/A**
Colony Bank	**144,581**	**9.77**	**59,977**	**4.00**	**74,972**	**5.00**

Notes to Consolidated Financial Statements

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars 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

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 of 2018 for $3.2 million.

21. 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, 2020 and 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, 2019 is $52,000 which is expected to be recognized over a weighted-average of 1.58 years. The balance of unearned compensation related to these restricted shares as of December 31, 2018 is $86,000 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 and 2019 was $34,000 and $14,000, respectively

Notes to Consolidated Financial Statements

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

The parent company's balance sheets as of December 31, 2019 and 2018 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

(Dollars in thousands)	December 31, 2019	December 31, 2018
Assets		
Cash	**$ 2,049**	$ 937
Premises and equipment, net	**1,171**	1,198
Investment in subsidiaries	**165,836**	117,743
Other	**483**	236
Total assets	**$ 169,539**	$ 120,114
Liabilities		
Other borrowed money	**$ 14,563**	$ –
Other	**241**	193
Subordinated debt	**24,229**	24,229
Total liabilities	**$ 39,033**	$ 24,422
Stockholders' equity		
Common stock, par value $1; 20,000,000 shares authorized, 9,498,783 and 8,439,258 shares issued and outstanding as of December 31, 2019 and 2018, respectively	**9,499**	8,445
Paid-in capital	**43,667**	25,978
Retained earnings	**76,978**	69,459
Accumulated other comprehensive income (loss), net of tax	**362**	(8,190)
Total stockholder's equity	**130,506**	95,692
Total liabilities and stockholders' equity	**$ 169,539**	$ 120,114

Statements of Income

(Dollars in thousands)	For The Years Ended December 31, 2019	For The Years Ended December 31, 2018
Income		
Dividends from subsidiaries	**$ 6,731**	$ 8,329
Management fees	**750**	601
Other	**18**	106
Total income	**7,499**	9,036
Expenses		
Interest	**1,541**	972
Salaries and employee benefits	**1,097**	1,084
Other	**1,262**	691
Total expenses	**3,899**	2,747
Income before income taxes and equity in undistributed earnings of subsidiaries	**3,600**	6,289
Income tax benefit	**639**	422
Income before equity in undistributed earnings of subsidiaries	**4,239**	6,711
Equity in undistributed earnings of subsidiaries	**5,972**	5,206
Net income	**$ 10,211**	$ 11,917

Notes to Consolidated Financial Statements

Statements of Cash Flows

(Dollars in thousands)	For The Years Ended December 31, 2019	2018
Cash flows from operating activities		
Net income	**$ 10,211**	$ 11,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**81**	85
Share-based compensation expense	**34**	14
Equity in undistributed earnings of subsidiaries	**(5,972)**	(5,206)
Change in interest payable	**21**	3
Other	**1,065**	(240)
Net cash provided by operating activities	**5,440**	6,573
Cash flows from investing activities		
Purchase of premises and equipment	**(54)**	(183)
Net cash and cash equivalents paid in acquisition	**(16,145)**	–
Net cash (used in) provided by investing activities	**(16,199)**	(183)
Cash flows from financing activities		
Net increase (decrease) in other borrowed money	**14,563**	(1,500)
Dividends paid for common stock	**(2,692)**	(1,688)
Repurchase of warrants	**–**	(3,175)
Net cash (used in) provided by financing activities	**11,871**	(6,363)
Net increase (decrease) in cash and cash equivalents	**1,112**	27
Cash and cash equivalents at beginning of period	**937**	910
Cash and cash equivalents at end of period	**$ 2,049**	$ 937

23. EARNINGS PER SHARE

The following table presents earnings per share for the years ended December 31, 2019 and 2018:

(Dollars in thousands, except per share amounts)	2019	2018
Numerator		
Net income available to common stockholders	**$ 10,211**	$ 11,917
Denominator		
Weighted average number of common shares outstanding for basic earnings per common share	**9,129,705**	8,439,454
Dilutive effect of potential common stock		
Restricted stock	**–**	–
Stock warrants	**–**	99,154
Weighted average number of common shares outstanding for diluted earnings per common share	**9,129,705**	8,538,608
Earnings per share - basic	**$ 1.12**	$ 1.41
Earnings per share - diluted	**$ 1.12**	$ 1.40

Notes to Consolidated Financial Statements

24. 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, 2019 and 2018 are as follows:

(Dollars in thousands)	**2019**	2018
Beginning balance	**$ (8,190)**	$ (6,492)
Other comprehensive loss before reclassification	**8,629**	(1,606)
Amounts reclassified from accumulated other comprehensive income	**(77)**	(92)
Net current period other comprehensive income (loss)	**8,552**	(1,698)
Ending balance	**$ 362**	$ (8,190)

25. SEGMENT INFORMATION

The Company's operating segments include banking, mortgage banking and small business specialty lending division. The reportable segments are determined by the products and services offered, and internal reporting. The Bank segment derives its revenues from the delivery of full-service financial services, including retail and commercial banking services and deposit accounts. The Mortgage Banking segment derives its revenues from the origination and sales of residential mortgage loans held for sale. The Small Business Specialty Lending Division segment derives its revenue from the origination, sales and servicing of Small Business Administration loans and other government guaranteed loans. Segment performance is evaluated using net interest income and noninterest income. Income taxes are allocated based on income before income taxes, and indirect expenses (includes management fees) are allocated based on various internal factors for each segment. Transactions among segments are made at fair value. The following tables present information reported internally for performance assessment as of December 31, 2019 and 2018:

	December 31, 2019				
(Dollars in thousands)	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Holding Company**	**Totals**
Net interest income	**$ 49,162**	**$ 164**	**$ –**	**$ (1,481)**	**$ 47,845**
Provision for loan losses	**1,104**	**–**	**–**	**–**	**1,104**
Noninterest income	**11,224**	**3,139**	**–**	**399**	**14,762**
Noninterest expenses	**42,786**	**3,257**	**1,213**	**1,638**	**48,894**
Income taxes	**3,279**	**10**	**(254)**	**(637)**	**2,398**
Net income/(loss)	**$ 13,217**	**$ 36**	**$ (959)**	**$ (2,083)**	**$ 10,211**
Total assets	**$ 1,499,347**	**$ 11,624**	**$ 405**	**$ 3,937**	**$ 1,515,313**

Notes to Consolidated Financial Statements

	December 31, 2018				
(Dollars in thousands)	Bank	Mortgage Banking	Small Business Specialty Lending Division	Holding Company	Totals
Net interest income	$ 41,194	$ –	$ –	$ (927)	40,797
Provision for loan losses	165	–	–	–	201
Noninterest income	9,614	–	–	–	9,621
Noninterest expenses	33,770	–	–	1,084	35,300
Income taxes	3,411	–	–	(422)	3,000
Net income/(loss)	$ 13,462	$ –	$ –	$ (1,589)	11,917
Total assets	$ 1,249,173	$ –	$ –	$ 2,705	1,251,878

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, 2020, the Company estimates that it had approximately 2,200 shareholders, including approximately 1,200 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 2018 and 2019:

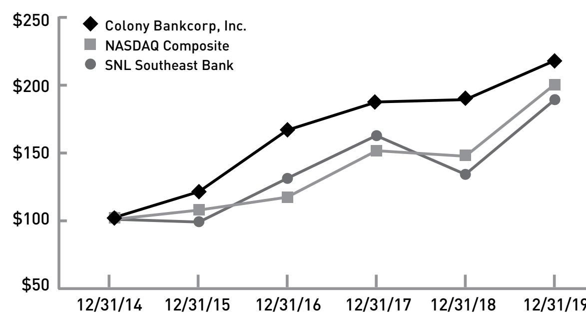
2019	High	Low	Dividends Declared
First quarter	**$ 17.93**	**$ 14.53**	**$ 0.075**
Second quarter	**$ 18.95**	**$ 16.06**	**$ 0.075**
Third quarter	**$ 17.40**	**$ 15.70**	**$ 0.075**
Fourth quarter	**$ 16.50**	**$ 14.95**	**$ 0.075**
2018			
First quarter	$ 19.50	$ 13.50	$ 0.05
Second quarter	$ 18.00	$ 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 quarterly cash dividend at a rate of $0.025 per share, or an annual rate of $0.10 per share. The Company increased its dividend rate to $0.05 per share, or an annual rate of $0.20 per share, in 2018, and to $0.075, or an annual rate of $0.30 per share, in 2019. In January 2020, Colony raised the quarterly rate again to $0.10 per share, which represents an indicated annual rate of $0.40 per share.

The continued payment of dividends will depend on a number of factors, including the Company's capital requirements, its financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that the Company 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 20 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, 2014, 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, 2014, 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	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Colony Bankcorp, Inc.	100.00	120.94	167.51	186.65	188.94	217.51
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
SNL Southeast Bank	100.00	98.44	130.68	161.65	133.56	188.08

Corporate Information

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

Company Website
www.Colony.Bank

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, 2019, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders as of the record date for the 2020 Annual Meeting upon written request to Tracie Youngblood, 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.Colony.Bank, 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 2020 Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on Tuesday, May 26, 2020, at the Company's corporate headquarters at 115 South Grant Street, Fitzgerald, Georgia. Shareholders as of March 20, 2020, the record date for the meeting, are cordially invited to attend.

Right here with *you*.

Colony Bankcorp, Inc.
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