RIGHT HERE WITH YOU.

2020 ANNUAL REPORT TO SHAREHOLDERS

Colony Bankcorp, Inc., with assets of $1.8 billion, is the bank holding company for Colony Bank. Founded in 1975 and headquartered in Fitzgerald, Georgia, Colony operates 29 locations throughout Georgia. Colony offers personal and business services, and also has specialty divisions to meet the needs of its customers. 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 and follow us on social media.

About the cover

Left to right, **Chris Hammond** and **Jim Curington**, co-owners of HBT Company, meet with **Mike Davis**, Market President, Colony Bank. HBT is South Georgia's local farm, plantation, and industrial supply store for hardware, bolts, tools and tillage needs.

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)	**2020**	2019
Financial position at December 31,		
Total assets	$ 1,763,974	$ 1,515,313
Loans (net of unearned income)	1,059,503	968,814
Allowance for loan losses	12,127	6,863
Deposits	1,445,027	1,293,742
Stockholders' equity	144,488	130,506
Common book value per share	15.21	13.74
Tangible common book value per share	13.26	11.68
Operations for the year ended December 31,		
Net interest income	$ 55,245	$ 47,845
Provision for loan losses	6,558	1,104
Net interest income after provision for loan losses	48,687	46,741
Noninterest income	24,244	14,004
Noninterest expense	58,301	48,136
Income before income taxes	14,630	12,609
Income taxes	2,815	2,398
Net income	$ 11,815	$ 10,211
Net income available to common shareholders	$ 11,815	$ 10,211
Basic earnings per share	$ 1.24	$ 1.12
Diluted earnings per share	$ 1.24	$ 1.12
Cash dividends per share	$ 0.40	$ 0.30
Operating ratios		
Net interest margin	3.50%	3.61%
Return on average assets	0.70%	0.72%
Return on average total equity	8.56%	8.73%
Efficiency	73.34%	77.93%

TO OUR SHAREHOLDERS

We are proud to report that despite the highly unprecedented and unpredictable nature of 2020, Colony Bankcorp was able to deliver solid performance for our shareholders. We must first thank each and every one of our team members for their unwavering commitment to provide superior, personalized service despite the challenges presented by the global pandemic. Community banks are the backbone of the financial infrastructure of our nation and, thanks to our team's hard work and dedication, we were able to deliver for our customers when they needed us most.

Despite operating in one of the most difficult economic environments of our generation, Colony Bankcorp continued to grow organically due to our strategic efforts to diversify our revenue streams, while also driving operating efficiencies. Increases in net interest income despite larger provisions due to the economic environment, as well as non-interest income, led by mortgage fee income growth, helped offset declining margins due to the low interest rate environment. We added talented bankers in our markets, whose efforts are showing results. Our expenditures on technological enhancements to stay connected to our customers and our efforts to protect our asset quality allowed us to continue to drive our business forward.

COVID-19 Response

Our team quickly met the challenges of the pandemic by serving customers through enhanced drive-through and drive-up options as well as leveraging our existing technology to provide increased mobile banking options. Banking centers have now been reconfigured in a way to protect the safety of team members and customers, and we are well-prepared to manage any future shutdowns, should they occur.

To assist with the liquidity needs of our community, we originated 1,672 loans totaling $137.8 million through the Small Business Administration Paycheck Protection Program ("PPP"). Colony Bank brought on new customers under the program who did not previously have a relationship with us. Moreover, these customers executed new non-PPP loans, increased our deposits, and will generate additional fee income in the future.

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

WE ARE CALLED TO SERVE.

PERRY CHIROPRACTIC HEALTH GROUP

PERRY, GA

When the pandemic struck, in-patient medical visits stopped, which meant that revenues for providers like Perry Chiropractic also stopped. Dr. Brian Gillis turned to Colony Bank, which had financed the startup of his second location in 2019, to help him apply for a loan under the federal Paycheck Protection Program to cover salaries of other doctors and staff until patient volume began to rebound. Within two weeks, the funds arrived. Dr. Gillis credits his local banker, Kent Jordan, for being "always willing to go above and beyond." Kent credits the Colony team. "It was an all-hands-on-deck approach," he says. "Everybody just came together."

DR. BRIAN GILLIS

DR. BRIAN GILLIS, LEFT,
AND **KENT JORDAN**
VP COMMERCIAL LENDER
COLONY BANK

The Colony Manifesto

Our mission is to build a sustainable, high-performing independent bank. Core to achieving this goal are our team members and, as they showed during the challenging year, they are up to the task. The framework that guides us towards our mission, The Colony Manifesto, will be a key focus for our staff in 2021. The core tenant of The Colony Manifesto is that we all act as BEES –

B: Bank with Passion
E: Engaged Team
E: Exceed Expectations

Bees work in unison in colonies; they work arduously to build something larger than themselves. Bees represent what we at Colony can achieve together when enterprising, industrious people are matched with the resources to build their dreams.

Our mantra is simple: We are called to serve. Bank with passion.
Go out and make it happen.

How do we live this out each day? We do this by focusing on our team members. Senior leadership has been charged to help team members find their passion, to empower staff to do the right thing, to provide meaningful growth opportunities,

1,672

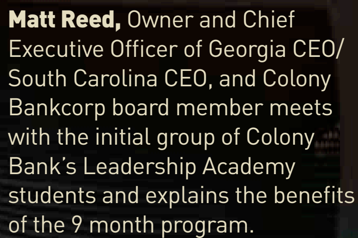
Colony Bank provided 1,672 SBA PPP loans representing $137.8 million dollars.

Leadership Academy Established

The program, which is available in all of Colony's markets, is designed for high school juniors during the last half of their junior year through the first half of their senior year. The curriculum encourages students to become familiar with all aspects of their community and to develop skills enabling them to take an active leadership role in their community. Colony Leadership Academy utilizes professional leadership trainers through UGA's Fanning Institute while also utilizing community resources for courses such as Health and Recreation, Economic Development, Arts and Culture, Public Safety, Social Services, Education and Government Affairs.

40

Anticipated first year enrollment



Matt Reed, Owner and Chief Executive Officer of Georgia CEO/ South Carolina CEO, and Colony Bankcorp board member meets with the initial group of Colony Bank's Leadership Academy students and explains the benefits of the 9 month program.

and to have fun at work. By focusing on our culture and working as a team, we will be able to deliver solutions that exceed our customers' expectations and execute on our strategic initiatives, thereby delivering value to our communities and shareholders alike.

Strategic Initiatives

Focusing on our mission and the core tenets of The Colony Manifesto will allow us to continue to build upon the strides we made during 2020. We drove organic growth in our checking and money market accounts, which were up 12% in 2020, and will continue to increase market share through several strategies including: a continued focus on relationship building, improved targeted marketing, providing educational and consultative advice for our customers, hiring key personnel and empowering existing team members, and deeply weaving ourselves into the fabric of the communities we serve by lending our time, talents, and financial resources where they are needed most.

Industry consolidation is creating opportunities to acquire customers and talent, and we intend to continue our focus on finding expansion opportunities in logical and contiguous markets. In 2020, we expanded our Savannah and Augusta footprint through the acquisition of Cadence Bank's East Georgia Homebuilder

Our new **Albany Northwest Banking Center** features a modern, open concept design allowing for a more personalized customer experience.

BANK WITH PASSION.

RAWLS DISTRIBUTING COMPANY

SAVANNAH, GA

Rawls Distributing Company, now the largest vending company in Southeast Georgia, saw revenues triple over the past decade. But the Covid pandemic was unlike any challenge the company had faced. Amid so much uncertainty last April, Colony helped them obtain assistance quickly under the Paycheck Protection Program. Owner Robin Rawls sent a note to express his gratitude. "From personal experience," he wrote, "I know you and your employees at Colony truly care about your customers." With the note came photos of several Rawls employees. "There are 20 more people just like these managers," Rawls said, "that have jobs and paychecks because of Colony Bank."

"THERE ARE 20 MORE PEOPLE THAT HAVE JOBS AND PAYCHECKS BECAUSE OF COLONY BANK."

ROBIN RAWLS
OWNER,
PRESIDENT

LEFT TO RIGHT, **TINA BURNS**–OFFICE MANAGER, **ROBIN RAWLS**–PRESIDENT, OF RAWLS DISTRIBUTING COMPANY AND **WESLEY OLLIFF** MARKET PRESIDENT, COLONY BANK

Finance Division – adding to our team and our loan portfolio. We will continue to actively seek opportunities to increase our scale and leverage our existing operations.

2020 Financial Results

Despite the challenging operating environment, we were able to achieve solid financial results for the year. Net income increased to $11.8 million, or $1.24 per diluted share, compared to $10.2 million, or $1.12 per diluted share in 2019. We reported operating net income of $12.1 million, or $1.28 per diluted share, in 2020, compared with $12.8 million, or $1.35 per diluted share, for 2019.

Net interest income grew 15% to $55.2 million from $47.8 million last year. This growth was partially offset by higher provisions for loan losses due to the global pandemic as well as increases in non-interest expense mostly related to salaries, occupancy, and technology expenses. Our efforts to diversify our revenue streams resulted in noninterest income increasing 73% to $24.2 million in 2020 from $14.0 million in 2019, primarily driven by gains in mortgage fee income as well as positive revenue contribution from our Small Business Specialty Lending Division. Additionally, growing our deposits 12% year over year will lead to increases in service charges.

29

Locations throughout Georgia

378

Total number of Colony Bank team members company-wide

Delivering solutions that exceed our customer's expectations

Tri-County Gin serves small family farmers across a growing swath of South Georgia. And since 1999 Colony Bank has served Tri-County Gin. Buying, ginning and marketing cotton is a complicated business, affected by the ebb and flow of commodity prices, unpredictable weather, the need for seasonal lines of credit to buy farmers' crops, and financing for equipment and warehouses. "Colony can meet the financial needs for whatever we require," says Tri-County's Gene Waldron. "A lot of banks can't do that." For Colony's Scott Miller, who counts Waldron as a close friend, the formula is simple. "You just take care of the people you serve."

Right here with you.

Scott Miller, Regional President/SE Central and **Gene Waldron** meet at the customer's warehouse to discuss their operation expansion

While growing our various income streams is critical, we must also focus on increasing operating efficiency. The strategic realignment of our branch network announced in December 2020 will deliver a reduction in operating expenses of over $1 million per year alone, as well as savings from the sale of our Thomaston branch announced in September 2020. We also look to utilize technology to lower operating costs through investment in our popular digital banking channels as well as align our staffing and procedures to adhere to industry best practices for service and efficiency.

We saw solid growth in our balance sheet metrics in 2020 including record total loans, total deposits, and total assets. Asset quality remained strong throughout the year and we are pleased that most loans for which payments were deferred for borrowers in response to the global pandemic are back to current status. We ended the year with total interest earning assets of $1.6 billion, up $258.0 million, or 19%, propelling total assets to a record $1.8 billion. Total loans, including acquisition activity and loans from the PPP, increased 9% year-over-year, while legacy loan growth increased 3%. Nonperforming assets have increased year-over-year primarily because of increased traditional loan production yet asset quality remains strong with overall improvement year-over-year.

Capital Management

Colony continues to maintain a strong capital position with ratios that exceed regulatory minimums required to be classified as "well-capitalized." Tier one leverage ratio, tier one capital ratio, total risk-based capital ratio and common

Company-wide hours donated by employees to community service

GO OUT AND MAKE IT HAPPEN.

Over their regular weekday breakfast last March, Joe Waldrep mentioned to five fellow businesspeople how much difficulty his mid-sized law firm had encountered, working through a large regional bank, in obtaining a loan under the Paycheck Protection Program. At the table was Colony's Mike Welch, who offered to help. One week later, the loan was approved by the Small Business Administration. The firm had not been a Colony Bank customer previously. They are one now. "Colony guided us through the entire process, often answering questions before we knew to ask them," says attorney David Rayfield. "When we really needed them, only one bank actually came through for us."

WALDREP, MULLIN & CALLAHAN, LLC

COLUMBUS, GA

MIKE WELCH
MARKET PRESIDENT
COLONY BANK

"WHEN WE REALLY NEEDED THEM, ONLY ONE BANK ACTUALLY CAME THROUGH FOR US."

DAVID RAYFIELD
ATTORNEY AT LAW

equity tier one capital ratio were 8.49%, 12.71%, 13.78% and 10.62%, respectively. This compares to 8.92%, 12.52%, 13.17%, and 10.33%, respectively, at December 31, 2019.

With solid 2020 results and a positive outlook for the future, our Board of Directors voted in January 2020 to increase the Company's quarterly cash dividend to $0.1025 per share. This marks the fourth consecutive year of higher dividend payouts since dividends were reinstated in 2017.

In Conclusion

Since our founding in 1975, our mission has been to provide the alternative to traditional banking that our customers deserve. By focusing on relationships, we can deliver solutions that exceed our customers' expectations. We strive to be trusted advisors and remain nimble and responsive to customer needs. Our ability to deliver value to both our communities and shareholders during an exceptionally challenging year speaks volumes about our people and is a testament to the strength of our business model and operating strategies.

We are unwavering in our focus to drive sustained growth and rewarding our shareholders in 2021 and beyond. Thank you for your continued investment in our company.

Mark H. Massee
Chairman of the Board

T. Heath Fountain
President and Chief Executive Officer

Board of Directors and Officers

Board of Directors

Mark H. Massee
Chairman
Colony Bankcorp, Inc.
Retired 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/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
Savannah, 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

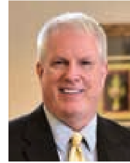
Edward L. Bagwell, III
Executive Vice President/General Counsel/Chief Risk Officer

Leonard H Bateman, Jr.
Executive Vice President/ Chief Credit Officer

Kimberly C. Dockery
Executive Vice President/ Chief Administrative Officer

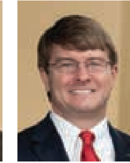
M. Edward Hoyle, Jr.
Executive Vice President/ Chief Banking Officer

Tracie Youngblood
Executive Vice President/ Chief Financial Officer


Bagwell

Bateman

Dockery


Fountain

Hoyle

Youngblood

Market and Division Leaders

Stephen Browning
Market President/Eastman

Johnny Bryan
Market President/Sylvester

Chris Carter
Market President/Statesboro

Tommy Clark
Regional President/Southwest

Darren Davis
President/Small Business Specialty Lending

Mike Davis
Market President/Tifton

Bob Evans
Regional President/West Central

Cindy Griffin
Director of Commercial Banking

Hugh Hollar
President/Home Builder Finance

Drew Hulsey
Regional President/Coastal

Andy Johnson
Market President/Ashburn

Jesse Kight
President/Mortgage Division

Joe Little
Market President/LaGrange

Scott Miller
Regional President/SE Central

Wesley Olliff
Market President/Savannah

John Roberts
Regional President/West Georgia

Kirk Scott
Regional President/Mid-State

Eddie Smith
Regional President/South

Mike Smith
Market President/Fitzgerald

Mike Welch
Market President/Columbus

Nic Worthy
Market President/Rochelle

Browning

Bryan

Carter

Clark

D. Davis

M. Davis

Evans

Griffin

Hollar

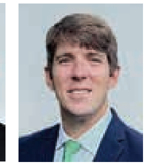
Hulsey

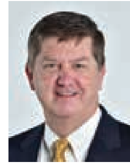
Johnson

Kight

Little

Miller


Olliff


Roberts

Scott

E. Smith

M. Smith

Welch

Worthy

Locations, as of March 31, 2021

Albany
2900 Old Dawson Rd
Albany, GA 31721
(229) 430-8080

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

Athens
Loan Production Office
1586 Mars Hill Rd
Suite C
Watkinsville, GA 30677
478-273-3199 Ext. 4111

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

Canton
Loan Production Office
341 E Main St
Canton, GA 30114
229-426-6000 ext. 6174

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

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

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

Loan Production Office
241 Drayton Street
Savannah, GA 31401
(912) 454-2479

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

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

Valdosta
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

The following table sets forth selected historical consolidated financial data of the Company as of and for each of the years ended December 31, 2020, and 2019, and is derived from our audited consolidated financial statements. This information should be read in conjunction with "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 – Financial Statements and Supplementary Data" of this report. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years Ended December 31,	
(Dollars in thousands, except per share data)	**2020**	2019
Earnings Summary		
Net interest income	**$ 55,245**	$ 47,845
Provision for loan losses	**6,558**	1,104
Non-interest income	**24,244**	14,004
Non-interest expense	**58,301**	48,136
Income taxes	**2,815**	2,398
Net income	**$ 11,815**	$ 10,211
Performance Measures		
Per common share:		
Common shares outstanding	**9,498,783**	9,498,783
Weighted average basic shares	**9,498,783**	9,129,705
Weighted average diluted shares	**9,498,783**	9,129,705
Earnings per basic share	**$ 1.24**	$ 1.12
Earnings per diluted share	**1.24**	1.12
Adjusted earnings per diluted share (1)	**1.28**	1.35
Cash dividends declared per share	**0.40**	0.30
Common book value per share	**15.21**	13.74
Tangible common book value per share	**13.26**	11.68
Performance ratios:		
Net interest margin (2)	**3.50%**	3.61%
Return on average assets	**0.70**	0.72
Return on average total equity	**8.56**	8.73
Dividend payout ratio	**32.16**	26.82
Average equity to average assets	**8.16**	8.30
Asset Quality		
Nonperforming loans (NPLs)	**$ 9,128**	$ 9,827
Other real estate foreclosed assets	**1,006**	1,320
Total nonperforming assets (NPAs)	**$ 10,134**	$ 11,147
Classified loans	**30,404**	21,084
Criticized loans	**75,633**	51,182
Net loan charge-offs	**1,294**	1,518
Allowance for loan losses to total loans	**1.14%**	0.71%
Allowance for loan losses to total NPLs	**132.85**	69.85
Allowance for loan losses to total NPAs	**119.31**	61.57
Net charge-offs to average loans	**0.12**	0.17
NPLs to total loans	**0.86**	1.01
NPAs to total assets	**0.58**	0.74
NPAs to total loans and other real estate owned	**0.96**	1.15

Selected Financial Data

Average balances		
Total assets	**$ 1,691,235**	$ 1,411,331
Loans, net	**1,092,009**	896,098
Deposits	**1,386,412**	1,209,819
Total stockholders' equity	**137,954**	117,118

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

(2) Compute using fully taxable-equivalent net income.

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

On February 26, 2020, the Company acquired the East Georgia Homebuilder Finance loan portfolio of Cadence. This acquisition expanded our presence in the Savannah and Augusta markets, creating a 'one-stop-shop' for homebuilders coupled with our mortgage business.

On December 10, 2020, the Company announced the strategic realignment of its branch network. As part of the realignment, select Colony Bank branches will be consolidated, resulting in the closure of five branches, or a total of 18% of the Bank's branch network. The branches to be closed consist of one branch located in each of the Columbus, Douglas, Fitzgerald, Savannah and Valdosta markets, by April 30, 2021. After the closures, Colony will continue to operate one branch location in each of the aforementioned markets except for the Savannah market, where Colony will operate two branch locations.

On December 30, 2020, the Company completed the sale of its Thomaston branch to SouthCrest Financial Group. Inc. The transaction resulted in the transfer of approximately $3 million in fully performing loans and approximately $40 million in deposits, with a deposit premium of 3%.

The Company paid dividends to its shareholders throughout 2020 and 2019 on a quarterly basis. In 2020, we had a quarterly dividend of $0.10 per common stock and in 2019, we had a quarterly dividend of $0.075 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% 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 and adjusted earnings per diluted share are also non-GAAP measures used in the Selected Financial Data section. Management believes that non-GAAP financial measures provide additional useful information that allows investors to evaluate the ongoing performance of the company and provide meaningful comparisons to its peers. Management believes these non-GAAP financial measures also enhance investors' ability to compare period-to-period financial results and allow investors and company management to view our operating results excluding the impact of items that are not reflective of the underlying operating performance.

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

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.

Tangible common book value per share, adjusted earning per diluted shares. Tangible common book value per share is a non-GAAP measure that excludes the effect of goodwill and other intangibles from book value per common share. The most directly comparable financial measure calculated in accordance with GAAP is our book value per common share. Adjusted earnings per diluted share excludes acquisition-related expenses, gain on the sale of the Thomaston branch, a building writedown, and the income tax benefits related to such items from earnings per diluted share. The most directly comparable financial measure calculated in accordance with GAAP is our earnings per diluted share.

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

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

Non-GAAP Performance Measures Reconciliation

	Years Ended December 31,	
(Dollars in thousands, except per share data)	**2020**	2019
Operating noninterest expense reconciliation		
Operating net income reconciliation		
Net income (GAAP)	**$ 11,815**	$ 10,211
Acquisition-related expenses	**862**	2,733
Gain on sale of Thomaston branch	**(1,026)**	–
Writedown of Building	**582**	–
Income tax benefit of expenses	**(88)**	(574)
Operating net income	**$ 12,145**	$ 12,370
Weighted average diluted shares	**9,498,783**	9,129,705
Adjusted earnings per diluted share	**$ 1.28**	$ 1.35
Tangible book value per common share reconciliation		
Book value per common share (GAAP)	**$ 15.21**	$ 13.74
Effect of goodwill and other intangibles	**(1.95)**	(2.06)
Tangible book value per common share	**13.26**	11.68

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

COVID-19 Pandemic

During March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic in response to the rapidly growing outbreak of the virus. COVID-19 has significantly impacted local, national and global economies due to stay-at-home orders and social distancing guidelines, and has caused economic and social disruption on an unprecedented scale. While some industries have been impacted more severely than others, all businesses have been impacted to some degree. This disruption has resulted in the shuttering of businesses across the country, significant job loss, and aggressive measures by the federal government.

Congress, the President, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law on March 27, 2020 as a $2 trillion legislative package. The goal of the CARES Act was to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The package also included extensive emergency funding for hospitals and providers. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts have had and continue to have a material impact on our operations.

In response to the COVID-19 pandemic, the Company has prioritized the health and safety of its employees and customers, and continues to take protective measures during the ongoing COVID-19 pandemic, such as implementing remote work arrangements to the full extent possible and by adjusting banking center hours and operational measures to promote social distancing, and it will continue to do so throughout the duration of the pandemic. At the same time, the Company is closely monitoring the effects of the COVID-19 pandemic on our loan and deposit customers, and is assessing the risks in our loan portfolio and working with our customers to reduce the pandemic's impact on them while minimizing losses for the Company. Meanwhile, the Company remains focused on improving shareholder value, managing credit exposure, challenging expenses, enhancing the customer experience and supporting the communities it serves.

We have implemented loan programs to allow customers who are experiencing hardships from the COVID-19 pandemic to defer loan principal and interest payments for up to 90 days. The Small Business Administration (SBA) has also guaranteed the principal and interest payments of all our SBA loan customers for six months. As of December 31, 2020, we had one commercial customer with outstanding loan balances totaling $1.9 million who had active payment deferrals. One loan totaling $1.9 million was in the hotel industry, which is one of the industries heavily impacted by the COVID-19 pandemic.

In addition, we have been participating in the Paycheck Protection Program created under the CARES Act and implemented by the SBA to help provide loans to our business customers in need. As of December 31, 2020, the Company closed or approved with the SBA 1,630 PPP loans for an aggregate amount of funds in excess of $137.8 million. We have used our current cash balances and available liquidity from the Paycheck Protection Program Liquidity Facility ("PPPLF") to fund these PPP loans. Loan fees collected related to these loans was approximately $2.8 million. In accordance with U.S. generally accepted accounting principles (GAAP), these fees will be deferred and recognized over the life of the loans. As of February 28, 2021, the SBA had granted forgiveness for PPP loans totaling $58.5 million.

The Economic Aid Act, signed into law on December 27, 2020, authorized an additional $284.5 billion in new PPP funding and extends the authority of lenders to make PPP loans through March 31, 2021. We are participating in this new round of PPP loan funding by offering first and second draw loans. As of February 28, 2021, the Company had approved and funded 410 PPP loans totaling $30.4 million under this new round of PPP loan funding.

Despite improvements in certain economic indicators, significant constraints to commerce remain in place, and significant uncertainty remains over the timing of an effective and widely available coronavirus vaccine and the timing and scope of additional government stimulus packages. The duration and extent of the downturn and speed of the related recovery on our business, customers, and the economy as a whole remains uncertain.

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

Overview

The following discussion and analysis present the more significant factors affecting the Company's financial condition as of December 31, 2020 and 2019 and results of operations for each of the two year-periods ended December 31, 2020. 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 2020 and 2019 and, thus making tax-exempt yields comparable to taxable asset yields.

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average interest-earning assets. Net income available to common shareholders totaled $11.8 million, or $1.24 per diluted shares in 2020, compared to $10.2 million, or $1.12 per diluted shares in 2019.

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 66.8% of total revenue during 2020 and 76.4% of total revenue during 2019.

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.

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 3.25% and 4.75% as of December 31, 2020 and 2019, respectively. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. During 2020, the prime interest rate decreased by 150 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.

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

Rate/Volume Analysis

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

	Changes From 2019 to 2020 [(a)]		
(Dollars in thousands)	**Volume**	**Rate**	**Total**
Interest income			
Loans, net of unearned fees	$ 11,033	$ (5,695)	$ 5,338
Investment securities, taxable	(937)	(1,292)	(2,229)
Investment securities, exempt	494	(219)	275
Interest-bearing deposits	1,573	(2,191)	(618)
Total interest income	12,163	(9,397)	2,766
Interest expense			
Interest-bearing demand and savings deposits	980	(3,384)	(2,404)
Time deposits	(894)	(1,152)	(2,046)
FHLB advances	(277)	(26)	(303)
PPPLF	–	205	205
Other borrowings	197	(406)	(209)
Total interest expense	6	(4,763)	(4,757)
Net interest income	$ 12,157	$ (4,634)	$ 7,523

(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.

The Company maintains about 18.41% 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. During 2020, Federal Reserve rates decreased 150 basis points. The Federal Reserve rates decreased 50 basis points in 2019. We have seen the net interest margin decrease to 3.50% for 2020, compared to 3.61% for 2019.

Taxable-equivalent net interest income for 2020 increased by $7.5 million or 15.7%, compared to 2019, due to an increase in loan fee income generated through PPP loan originations during 2020, which was approximately $2.8 million. The average volume of interest-earning assets during 2020 increased $257.4 million compared to 2019 while over the same period the net interest margin decreased 11 basis points to 3.50% from 3.61%. The change in the net interest margin in 2020 and 2019 was primarily driven by a higher level of low yielding assets offset by a decrease in the cost of funds, as well as downward pressure exerted from lower yielding PPP loans offset by lowering our borrowing costs during the year as well as lower interest on the level of deposits on our balance sheet. Growth in average earning assets during 2020 was primarily in loans and interest-bearing deposits in other banks related to the PPP loans originated and the acquisition of Home Builder Finance.

The average volume of loans increased $195.9 million in 2020 compared to 2019, which reflects both organic loan growth and growth in PPP loans. The increase in average volume for loans was funded primarily through an increase in Paycheck Protection Program Liquidity Facility and average customer deposits. The average yield on loans decreased 52 basis points in 2020 compared to 2019, due to lower yielding PPP loans originated and the reduction in prime rate of 150 points in 2020. The average volume of interest-bearing deposits increased $90.9 million in 2020 compared to 2019. Average demand deposits increased $146.9 million while average time deposits decreased $55.9 million in 2020 compared to 2019.

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

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 78.8% in 2020 and 82.6% in 2019. For 2020, this deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 49 basis points in 2020 compared to 2019 and (ii) offsetting a portion of the impact of decreasing yields on interest-earning assets on the Company's net interest income.

The Company's net interest spread, which represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities, was stable at 3.37% and 3.39% in 2020 and 2019, respectively. 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.

Average Balance Sheets

	2020			2019		
(Dollars in thousands)	**Average Balances**	**Income/ Expense**	**Yields/ Rates**	Average Balances	Income/ Expense	Yields/ Rates
Assets						
Loans, net of unearned fees [1]	**$ 1,092,009**	**$ 55,802**	**5.11%**	$ 896,098	$ 50,464	5.63%
Investment securities, taxable	**336,140**	**6,875**	**2.05**	374,719	9,104	2.43
Investment securities, exempt [2]	**17,070**	**331**	**1.94**	1,737	56	3.22
Deposits in banks and short term investments	**141,641**	**438**	**0.31**	56,891	1,056	1.86
Total interest-earning assets	**1,586,860**	**63,446**	**4.00**	1,329,445	60,680	4.56
Total noninterest-earning assets	**104,375**			81,886		
Total assets	**$ 1,691,235**			$ 1,411,331		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Savings and interest-bearing demand deposits	**787,030**	**1,870**	**0.24%**	640,180	4,274	0.67%
Time deposits	**305,374**	**3,729**	**1.22**	361,319	5,775	1.60
Total interest-bearing deposits	**$ 1,092,404**	**$ 5,599**	**0.51**	$1,001,499	$ 10,049	1.00
FHLB advances	**33,249**	**743**	**2.23**	45,233	1,046	2.31
Paycheck protection program liquidity facility	**90,768**	**205**	**0.23**	–	–	–
Other borrowings	**38,527**	**1,333**	**3.46**	34,159	1,542	4.51
Total interest-bearing liabilities	**1,254,948**	**7,880**	**0.63**	1,080,891	12,637	1.17
Noninterest-bearing demand deposits	**294,008**			208,320		
Other liabilities	**4,325**			5,002		
Stockholders' equity	**137,954**			117,118		
Total liabilities and stockholders' equity	**$ 1,691,235**			$ 1,411,331		
Interest rate spread			**3.37%**			3.39%
Net interest income		**$ 55,566**			$ 48,043	
Net interest margin			**3.50 %**			3.61%

(1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable-equivalent adjustments totaling $252,000 and $182,000 for the year ended December 31, 2020 and 2019, respectively, are included in income and fees on loans. Accretion income of $763,000 and $583,000 for the year ended December 31, 2020 and 2019 are also included in income and fees on loans.

(2) Taxable-equivalent adjustments totaling $69,000 and $11,000 for the year ended December 31, 2020 and 2019, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on federal tax rate of 21% with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

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

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 $6.6 million in 2020 compared to $1.1 million in 2019. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses. The increase in provision for loan losses for the year ended December 31, 2020 compared to the same periods in 2019 is largely due to the unprecedented economic disruptions and uncertainty surrounding the COVID-19 pandemic. Net charge-offs for the year ended December 31, 2020 were $1.3 million compared to $1.5 million for the same period in 2019. As of December 31, 2020, Colony's allowance for loan losses was $12.1 million, or 1.14% of total loans, compared to $6.9 million, or 0.71% of total loans, at December 31, 2019. At December 31, 2020 and 2019, nonperforming assets were $10.1 million and $11.1 million, or 0.58% and 0.74% of total assets, respectively. While asset quality remains stable period over period, social and economic disruption in response to the COVID-19 pandemic continued to result in business closures and job losses during the year ended 2020.

Noninterest Income

The components of noninterest income were as follows:

(Dollars in thousands)	2020	2019	$ Variance	% Variance
Service charges on deposit accounts	$ 5,293	$ 5,593	$ (300)	(5.36)%
Mortgage fee income	9,149	3,199	5,950	186.00
Gain on sale of SBA loans	1,600	–	1,600	100.00
Gain on sale of securities	926	97	829	854.64
Gain on sale of assets	1,082	–	1,082	100.00
Interchange fees	4,988	3,768	1,220	32.38
BOLI income	743	536	207	38.62
Other	463	811	(348)	(42.94)
Total	$ 24,244	$ 14,004	$ 10,240	73.12%

Noninterest income increased $10.2 million, or 73.12% from 2019. The Company saw considerable increases in mortgage fee income, gain on sale of SBA loans, and interchange fees, off-set with a slight decrease in service charges on deposit accounts. The slight decrease in service charges on deposit accounts was partially attributable to a decrease in overdraft and service charge income as a result of continued lower customer spending due to the COVID-19 pandemic. The increase in mortgage fee income is primarily attributed to the opening of a new mortgage location in LaGrange and the acquisition of the PFB Mortgage division of Planters First Bank, both of which occurred in the first half of 2019. As such, these divisions were fully operational in 2020, increasing the volume of mortgage loans. Furthermore, during the year ended December 31, 2020, there was an increase in the demand for mortgage rate locks and mortgage closings due to a historically low interest rate environment. The decrease in mortgage rates was partially attributable to the 150 basis point decrease in the national federal funds rate during the year ended December 31, 2020 in response to the COVID-19 pandemic. The increase of $1.2 million in interchange fees was a result of the perks program the Company offered from Discover®. The increase from gain on sale of SBA loans grew as the Bank was fully operational in this line of business in 2020.

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

Noninterest Expense

The components of noninterest expense were as follows:

(Dollars in thousands)	2020	2019	$ Variance	% Variance
Salaries and employee benefits	**$ 34,141**	$ 26,218	**$ 7,923**	**30.22%**
Occupancy and equipment	**5,311**	4,850	**461**	**9.51**
Acquisition related expenses	**862**	2,733	**(1,871)**	**(68.46)**
Information technology	**5,746**	4,353	**1,393**	**32.00**
Professional Fees	**2,250**	2,191	**59**	**2.69**
Advertising and public relations	**2,111**	1,991	**120**	**6.03**
Communications	**835**	1,083	**(248)**	**(22.90)**
Writedown of building	**582**	–	**582**	**100.00**
FHLB prepayment penalty	**925**	–	**925**	**100.00**
Other	**5,538**	4,717	**821**	**17.41**
Total	**$ 58,301**	$ 48,136	**$ 10,165**	**21.12%**

Increases in salaries and employee benefits, information technology expenses, the writedown of the Thomaston branch and FHLB prepayment penalties accounted for the majority of the increase in noninterest expense, offset by a decrease in acquisition-related expenses. The increase in salaries and employee benefits of $7.9 million in 2020 was primarily attributable to merit pay increases and a complete year of salaries from the two acquisitions completed in May 2019 of LBC Bancshares, Inc and PFB Mortgage. Information technology expenses increased $1.4 million as the Company continues to invest in the Company's technology infrastructures. Other expense increased due to increases in FDIC insurance due to credits used in 2019, and loan related expenses from PPP loan activity. In order to improve the Company's cost of funds and net income, the Company paid off two higher rate FHLB advances in 2020 which was offset by securities gains recognized in 2020.

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 $1.7 billion in 2020 compared to $1.4 billion in 2019.

(Dollars in thousands)	2020		2019	
Sources of Funds:				
Noninterest-bearing deposits	**$ 294,008**	**17.38%**	$ 208,320	14.76%
Interest-bearing deposits	**1,092,404**	**64.59%**	1,001,499	70.96
FHLB advances	**33,249**	**1.97%**	45,233	3.20
PPPLF	**90,768**	**5.37%**	–	–
Other borrowings	**38,527**	**2.28%**	34,159	2.42
Other noninterest-bearing liabilities	**4,325**	**0.26%**	5,002	0.35
Equity capital	**137,954**	**8.15%**	117,118	8.31
Total	**$ 1,691,235**	**100.00%**	$ 1,411,331	100.00%
Uses of Funds:				
Loans held for sale and loans	**$1,092,009**	**64.57%**	$ 896,098	63.49%
Investment securities	**353,210**	**20.88%**	376,456	26.67
Deposits in banks and short term investments	**141,641**	**8.38%**	56,891	4.03
Other noninterest-bearing assets	**104,375**	**6.17%**	81,886	5.81
Total	**$ 1,691,235**	**100.00%**	$ 1,411,331	100.00%

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

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. Average interest-bearing deposits totaled 78.8% in 2020 compared to 82.6% of total average deposits in 2019.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets.

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)	**2020**	2019	2018	2017	2016
Construction, land and land development	**$ 121,093**	$ 96,097	$ 60,310	$ 53,762	$ 42,168
Other commercial real estate	**520,391**	540,239	435,961	418,669	415,768
Total commercial real estate	**641,484**	636,336	496,271	472,431	457,936
Residential real estate	**183,021**	194,796	187,592	193,924	195,486
Commercial, financial, and agricultural	**213,380**	114,360	74,166	64,523	64,074
Consumer and other	**21,618**	23,322	23,497	33,911	36,426
Total loans, net of unearned fees	**1,059,503**	968,814	781,526	764,789	753,922
Allowance for loan losses	**(12,127)**	(6,863)	(7,277)	(7,508)	(8,923)
Loans, net	**$ 1,047,376**	$ 961,951	$ 774,249	$ 757,281	$ 744,999

Maturity and Repricing Opportunity

The following table presents total loans as of December 31, 2020 according to maturity distribution and/or repricing opportunity on adjustable rate loans.

(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	**$ 73,097**	**$ 28,243**	**$ 3,034**	**$ 16,719**	**$ 121,093**
Other commercial real estate	**105,467**	**122,680**	**76,370**	**215,874**	**520,391**
Total commercial real estate	**178,564**	**150,923**	**79,404**	**232,593**	**641,484**
Residential real estate	**29,779**	**40,645**	**24,607**	**87,990**	**183,021**
Commercial, financial, and agricultural	**34,917**	**122,525**	**22,169**	**33,769**	**213,380**
Consumer and other	**4,660**	**8,668**	**6,214**	**2,076**	**21,618**
Total loans, net of unearned fees	**$ 247,920**	**$ 322,761**	**$ 132,394**	**$ 356,428**	**$1,059,503**

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

Overview. Loans totaled $1.1 billion at December 31, 2020, up 9.4% from $968.8 million at December 31, 2019. 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 77.8% and 85.8% of total loans at December 31, 2020 and December 31, 2019, respectively. Commercial, financial, & agriculture represents another 20.1% of the population of the loans at December 31, 2020 up from 11.8% of the population at December 31, 2019. The reason for the increase is primarily due to the PPP loan production during 2020, which was $101.1 million in gross PPP loans at December 31, 2020. The PPP loans are included in our commercial, financial and agricultural loans.

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.

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

Commercial, financial and agricultural. Commercial and agricultural loans at December 31, 2020 increased 86.6% to $213.4 million from December 31, 2019 at $114.4 million. This increase was primarily attributable to the PPP loans which was $101.1 million at December 31, 2020. 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 $25.0 million, or 26.0%, at December 31, 2020 to $121.1 million from $96.1 million at December 31, 2019. This increase was primarily attributable from the purchase of Homebuilder Finance and the continued growth of the business during 2020.

Other commercial real estate. Other commercial real estate loans decreased by $19.8 million, or 3.7%, at December 31, 2020 to $520.4 million from $540.2 million at December 31, 2019. This decrease was primarily attributable due to payoffs and amortization of the portfolio.

Residential real estate loans. Residential real estate loans decreased by $11.8 million, or 6.1%, at December 31, 2020 to $183.0 million from $194.8 million at December 31, 2019. This decrease was primarily attributable to payoffs and amortization of the portfolio. 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, 2020 decreased 7.3% to $21.6 million from $23.3 million at December 31, 2019. This decrease was primarily attributable to payoffs and amortization of the portfolio.

Industry concentrations. As of December 31, 2020 and December 31, 2019, 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, 2020, approximately 77.8% 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.

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

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. At December 31, 2020,our largest 20 relationships consisted of loans and loan commitments, where the committed balance was $169.5 million with $120.8 million outstanding. At December 31, 2019, our largest 20 relationships had a committed balance of $174.8 million with $156.2 million outstanding.

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, 2020. 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.

(Dollars in thousands)	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five, but Within Fifteen Years	After Fifteen Years	Total
Loans with fixed interest rates	$ 188,659	$ 305,720	$ 124,946	$ 230,287	$ 14,885	$ 864,497
Loans with floating interest rates	59,098	17,040	7,448	75,659	35,761	195,006
Total	$ 247,757	$ 322,760	$ 132,394	$ 305,946	$ 50,646	$ 1,059,503

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

Asset quality remained somewhat stable during the year December 31, 2020. The continuing effects of the COVID-19 pandemic will likely have an impact on our asset quality, but it is unknown to what extent at this point. Nonperforming assets include nonaccrual loans, accruing loans contractually past due 90 days or more, repossessed personal property and other real estate owned ("OREO"). Pursuant to the provisions of the CARES Act, loans granted payment deferrals related to the COVID-19 pandemic are not reported as past due or placed on nonaccrual status (provided the loans were not past due or on nonaccrual status prior to the deferral), and there were no loans under these terms deemed past due or nonaccrual as of December 31, 2020. Nonaccrual loans totaled $9.1 million at December 31, 2020, a decrease of $699,000, or 7.1%, from $9.8 million at December 31, 2019. There were no loans contractually past due 90 days or more and still accruing for either period presented. At December 31, 2020, OREO totaled $1.0 million, a decrease of $314,000, or 23.8%, compared with $1.3 million at December 31, 2019. The change in OREO is a combination of sales of assets during 2020 offset by asset additions. At the end of the year ended December 31 2020, total nonperforming assets as a percent of total assets decreased to 0.58% compared with 0.74% at December 31, 2019.

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

At December 31, 2020, 5.2% of the Company's loan portfolio, or $62.7 million, is in the hotel sector which we expect to be the most sensitive to the COVID-19 pandemic. While our entire loan portfolio is being continuously assessed, enhanced monitoring for these sectors is ongoing. We are continuously working with these customers to evaluate how the current economic conditions are impacting, and will continue to impact, their business operations.

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

(Dollars in thousands)	**2020**	2019	2018	2017	2016
Loans accounted for on nonaccrual	**$ 9,128**	$ 9,827	$ 9,482	$ 7,503	$ 12,350
Loans accruing past due 90 days or more	**–**	–	–	–	–
Other real estate foreclosed	**1,006**	1,320	1,841	4,256	6,439
Total nonperforming assets	**$ 10,134**	$ 11,147	$ 11,323	$ 11,759	$ 18,789
Nonperforming loans by segment					
Construction, land & land development	**$ 197**	$ 128	$ 883	$ 2,630	$ 3,376
Commercial real estate	**4,613**	3,772	5,874	4,635	9,982
Residential real estate	**2,958**	3,728	3,299	3,309	4,375
Commercial, financial & agricultural	**1,065**	2,061	1,267	1,185	1,056
Consumer & other	**295**	138	–	–	–
Total nonperforming loans	**$ 9,128**	$ 9,827	$ 11,323	$ 11,759	$ 18,789
Nonperforming assets as a percentage of:					
Total loans and other real estate foreclosed assets	**0.96%**	1.15%	1.44%	1.53%	2.47%
Total assets	**0.58%**	0.74%	0.90%	0.95%	1.55%
Nonperforming loans as a percentage of:					
Total loans	**0.86%**	1.01%	1.21%	0.98%	1.64%
Supplemental data:					
Trouble debt restructured loans in compliance with modified terms [1]	**$ 12,320**	$ 12,337	$ 14,128	$ 18,363	$ 17,992
Trouble debt restructured loans Past due 30-89 days [1]	**273**	–	864	131	319
Accruing past due loans:					
30-89 days past due [1]	**$ 3,092**	$ 2,615	$ 8,234	$ 4,558	$ 4,469
90 or more days past due	**–**	–	–	–	–
Total accruing past due loans	**$ 3,092**	$ 2,615	$ 8,234	$ 4,558	$ 4,469
Allowance for loan losses	**$ 12,127**	$ 6,863	$ 7,277	$ 7,508	$ 8,923
Allowance for loan losses as a percentage of:					
Total loans	**1.14%**	0.71%	0.93%	0.98%	1.18%
Nonperforming loans	**132.85%**	69.84%	76.74%	100.06%	72.25%

(1) Loans granted payment deferrals related to the COVID-19 pandemic are not reported as past due or placed on nonaccrual status (provided the loans were not past due or on nonaccrual status prior to the deferral), there were no loans under these terms deemed past due or nonaccrual as of December 31, 2020.

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2020 decreased 9.1% from December 31, 2019, due to the sale of other real estate owned property and decrease in nonaccrual loans.

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

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.

The restructuring of a loan is considered a "troubled debt restructuring ("TDR")" if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted the borrower a concession that we would not consider otherwise. At December 31, 2020, TDRs totaled $12.6 million, a slight increase from $12.3 million reported December 31, 2019. At December 31, 2020 and 2019, all TDRs were performing according to their modified terms and were therefore not considered to be nonperforming assets.

In March 2020, regulatory agencies issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the COVID–19 pandemic. The agencies confirmed with the staff of the FASB that short–term modifications made on a good faith basis in response to the COVID–19 pandemic to borrowers who were current prior to any relief, are not to be considered TDRs. As of December 31, 2020, the Company had approximately $1.9 million in loans still under their modified terms. The Company's modification program included payment deferrals, interest only, and other forms of modifications. See Notes 1 and 4 to of our consolidated financial statements included in this Annual Report for more information regarding accounting treatment of loan modifications as a response to the COVID-19 pandemic.

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.

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

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.

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,									
	2020		2019		2018		2017		2016	
(Dollars in thousands)	**Reserve**	**%[1]**	Reserve	%[1]	Reserve	%[1]	Reserve	%[1]	Reserve	%[1]
Construction, land and land development	**$ 1,013**	**11.4%**	$ 215	9.9%	$ 131	7.7%	$ 1,216	7.0%	$ 711	6.5%
Commercial real estate	**6,880**	**49.1%**	3,908	55.8%	5,251	55.8%	4,654	54.7%	4,763	53.8%
Residential real estate	**2,278**	**17.3%**	980	20.1%	1,181	24.0%	968	25.4%	1,990	26.0%
Commercial, financial, and agricultural	**1,713**	**20.1%**	1,657	11.8%	618	9.5%	633	8.4%	1,058	8.8%
Consumer and other	**243**	**2.1%**	103	2.4%	96	3.0%	37	4.4%	82	4.9%
	$12,127	**100.0%**	$ 6,863	100.0%	$ 7,277	100.0%	$ 7,508	100.0%	$ 8,604	100.0%

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

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

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

(Dollars in thousands)	**2020**	2019	2018	2017	2016
Allowance for loan losses at beginning of year	**$ 6,863**	$ 7,277	$ 7,508	$ 8,923	$ 8,604
Charge-offs					
Construction, land and land development	**4**	29	–	52	25
Commercial real estate	**226**	119	257	1,027	1,112
Residential real estate	**206**	758	162	1,048	362
Commercial, financial, and agricultural	**242**	403	247	458	324
Consumer and other	**1,103**	784	299	330	265
Total charge-offs	**$ 1,781**	$ 2,093	$ 965	$ 2,915	$ 2,088
Recoveries					
Construction, land and land development	**45**	82	155	266	814
Commercial real estate	**153**	218	52	544	351
Residential real estate	**142**	174	91	82	50
Commercial, financial, and agricultural	**43**	36	161	141	71
Consumer and other	**104**	65	74	77	59
Total recoveries	**487**	575	533	1,110	1,345
Net charge-offs	**1,294**	1,518	432	1,805	743
Provision for loans losses	**6,558**	1,104	201	390	1,062
Allowance for loan losses at end of year	**$ 12,127**	$ 6,863	$ 7,277	$ 7,508	$ 8,923
Ratio of net charge-offs to average loans	**0.12%**	0.11%	0.04%	0.15%	0.06%

The allowance for loan losses increased from $6.9 million, or 0.71% of total loans at December 31, 2019 to $12.1 million, or 1.14% of total loans at December 31, 2020. Excluding outstanding PPP loans of $101.1 million as of December 31, 2020, the allowance for loan losses as a percentage of total loans was 1.27%. The allowance for loan losses allocated 0.10% of the balance to our PPP loan portfolio at December 31, 2020. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors.

Social and economic disruption in response to the COVID-19 pandemic continue to result in businesses closures and job losses during the year ended 2020. Net charge-off's improved by $224,000 from $1.5 million in 2019 to $1.3 million in 2020, but management believes there continues to be a weakness in certain sectors. As such, additional qualitative measures were incorporated as part of the December 31, 2020 allowance for loan losses calculation for the economic uncertainties caused by the COVID-19 pandemic, which was the primary cause for the increase to the provision for loan losses during the year ended December 31, 2020 compared to the same period 2019. Additional reserves were also allocated to the non-owner occupied commercial real estate pools due to economic impacts in the retail and hospitality sectors. Other changes to the allowance of loan losses were a result of new internal procedures for impairment analysis which appropriately reflect loss potential within the individually tested loans. This change resulted in an increase of $503,000 in required reserves.

Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio as of December 31, 2020. The continuing impact of the COVID-19 pandemic during 2020 leading to significant market changes, high levels of unemployment and increasing degrees of uncertainty in the U.S. economy, the impact on collectability is not currently known, and it is possible that additional provisions for credit losses could be needed in future periods.

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

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2020, 2019 and 2018.

(Dollars in thousands)	**2020**	2019	2018
U.S. treasury securities	**$ 245**	$ –	$ –
U.S agency	**1,004**	–	–
State, county and municipal securities	**62,388**	5,115	3,989
Corporate debt securities	**4,250**	2,806	2,872
Mortgage-backed securities	**312,927**	339,411	346,205
Total debt securities	**$ 380,814**	$ 347,332	$ 353,066

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2020 (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**
U. S. treasury securities	**$ 245**	**1.70%**	**$ –**	**–%**	**$ –**	**–%**	**$ –**	**–%**
U.S. agency	**–**	**–**	**–**	**–**	**1,004**	**0.75**	**–**	**–**
State, county and municipal securities	**141**	**2.11**	**1,968**	**1.58**	**15,246**	**1.49**	**45,033**	**1.88**
Corporate debt securities	**–**	**–**	**2,001**	**4.04**	**2,249**	**5.56**	**–**	**–**
Mortgage-backed securities	**–**	**–**	**7,555**	**3.08**	**92,368**	**2.05**	**213,004**	**1.59**
Total debt securities	**$ 386**	**1.85%**	**$ 11,524**	**2.99%**	**$ 110,867**	**2.03%**	**$ 258,037**	**1.64%**

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, 2020, 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 2.04% in 2020 and 2.43% in 2019. The decrease in the average yield from 2020 to 2019 was primarily attributed to the purchase of new securities which have a lower yield.

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2020, 2019, and 2018.

	2020		2019		2018	
(Dollars in thousands)	**Average Amount**	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-bearing demand deposits	**$ 294,008**	**–**	$ 208,320	–	$ 173,442	–
Interest-bearing demand and savings deposits	**787,030**	**0.24%**	640,180	0.67%	534,887	0.52%
Time deposits	**305,374**	**1.22%**	361,319	1.60%	326,243	1.01%
Total deposits	**$ 1,386,412**	**0.40%**	$ 1,209,819	0.83%	$1,034,572	0.59%

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

The following table presents the maturities of the Company's time deposits as of December 31, 2020.

(Dollars in thousands)	Time Deposits $250,000 or Greater	Time Deposits Less Than $250,000	Total
Months to Maturity			
3 or less	$ 4,886	$ 43,677	$ 48,563
Over 3 through 6	11,069	40,642	51,711
Over 6 through 12	8,731	72,603	81,334
Over 12 Months	10,219	69,787	80,006
	$ 34,905	$ 226,709	$ 261,614

Average deposits increased $176.6 million in 2020 compared to 2019. The increase in 2020 included $146.9 million or 22.9% in interest-bearing demand and savings deposits while, at the same time noninterest bearing deposits increased $85.7 million, or 41.1% and time deposits decreased $55.9 million, or 15.5%. The growth in our deposits is due primarily to the combination of government stimulus programs, the deferral of the tax payment deadline, PPP loan proceeds retained on deposits by corporate borrowers, and customer expense and savings habits in response to the COVID-19 pandemic.

The Company supplements deposit sources with brokered deposits. As of December 31, 2020, the Company had $1.1 million, or 0.1% 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 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.

The following table summarizes commitments and contractual obligations outstanding at December 31, 2020.

	Payments Due by Period				
(Dollars in thousands)	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Contractual obligations:					
Borrowings	$ 167,081	$ 5,313	$ 109,789	$ 12,750	$ 39,229
Operating lease liabilities	517	143	202	90	82
Time Deposits	261,614	181,609	70,793	8,650	562
	429,212	187,065	180,784	21,490	39,873
Other commitments:					
Loan commitments	198,029	148,957	21,512	2,415	25,145
Standby letters of credit	3,634	3,351	283	–	–
	201,663	152,308	21,795	2,415	25,145
Total contractual obligations and other commitments	$ 630,875	$ 339,373	$ 202,579	$ 23,905	$ 65,018

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

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, 2020 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, 2020 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 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, 2020, shareholders' equity totaled $144.5 million compared to $130.5 million at December 31, 2019. In addition to net income of $11.8 million, other significant changes in shareholders' equity during 2020 included $3.8 million of dividends declared on common stock. The accumulated other comprehensive loss component of stockholders' equity totaled $6.8 million at December 31, 2020 compared to $362,000 at December 31, 2019. 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.

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

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2020 was 12.71% and total Tier 1 and 2 risk-based capital was 13.78%. 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, 2020 was 10.62%, which exceeds the regulatory minimum of 4.50%. The Company's Tier 1 leverage ratio as of December 31, 2020 was 8.49%, which exceeds the required ratio standard of 4%.

In addition, the Bank is participating in the PPP and the PPPLF to fund PPP Loans. In accordance with regulatory guidance, PPP loans pledged as collateral for PPPLF, and PPPLF advances, are excluded from leverage capital ratios. PPP loans will also carry a 0% risk-weight for risk-based capital rules.

For the year ended December 31, 2020, average capital was $138.0 million representing 8.2% of average assets for the year. This compares to average capital of $117.1 million, representing 8.3% of average assets for 2019.

For the years ended December 31, 2020 and 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.

A cash dividend of $3.8 million and $2.7 million was paid for the year ended December 31, 2020 and 2019, respectively.

While the Company believes that it has sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted in future periods. 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.

Cash and cash equivalents at December 31, 2020 and 2019 were $183.5 million and $104.1 million, respectively. The increase in cash and cash equivalents since year-end 2019 was largely attributable to the significant increase in deposits, influenced by government stimulus payments and pandemic stay-at-home orders, which reduced spending and increased liquidity of consumers and businesses in these uncertain times, and PPP loan proceeds retained on deposit by corporate borrowers, as well as our own liquidity actions in 2020. Management believes the various funding sources discussed above are adequate to meet the Company's liquidity needs in these unsettled times without any material adverse impact on our operating results.

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.

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2020, the available for sale bond portfolio totaled $380.8 million. At December 31, 2019, the available for sale bond portfolio totaled $347.3 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 73.3% as of December 31, 2020 and 74.9% as of December 31, 2019. 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, 2020 and December 31, 2019 were 66.7% and 71.5%, 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, 2020 and December 31, 2019, the Bank had $34.9 million and $55.7 million, respectively, in certificates of deposit of $250,000 or more. These larger deposits represented 2.4% and 4.3% of total deposits as of December 31, 2020 and 2019, 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, 2020, the Company had $1.1 million or 0.1% 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, 2020, the Company had $100,000 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. At December 31, 2020 and 2019, we had $22.5 million and $47.0 million, respectively, of outstanding advances from the FHLB. Based on the values of loans pledged as collateral, we had $416.1 million and $321.4 million of additional borrowing availability with the FHLB at December 31, 2020 and 2019, respectively.

In addition, on April 20, 2020, the Company completed a Paycheck Protection Program Liquidity Facility credit arrangement with The Federal Reserve Bank. This line of credit is secured by PPP loans and bears a fixed interest rate of 0.35% with a maturity date equal to the maturity date of the related PPP loans, with the PPP loans maturing either two or five years from the origination date of the PPP loans. An advance of $140.7 million obtained through the PPPLF arrangement was used for funding PPP loans during the second quarter of 2020, subsequently, during the same month during the second quarter 2020, a repayment of $6.2 million was made upon the determination of a final number of PPP loans to be funded. As of December 31, 2020, the outstanding balance totaled $106.8 million, and the Company's PPP loans and related PPPLF funding had a weighted average life of approximately 1.35 years.

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

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

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

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

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

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

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.

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

Recently Issued Accounting Pronouncements

See Note 1 - Summary of Significant Accounting Policies included in the Notes to the Consolidated Financial Statements.

Market Risk and Interest Rate Sensitivity

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

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

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earnings assets and interest-bearing liabilities can influence the changes in net interest income. The timing of repriced assets and liabilities is Gap management and our Company has established its policy to maintain a Gap ratio in the one-year time horizon of .80 to 1.20.

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

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

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

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

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

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

Colony has modeled its baseline net interest income forecast assuming a flat interest rate environment with the federal funds rate at the Federal Reserve's targeted range of 0.25% and the prime rate of 3.25% at December 31, 2020. 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 6.71% and 12.55% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 2.91% 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)	**2020**	2019
+200	**12.55%**	3.87%
+100	**6.71%**	2.54%
Flat	**–%**	–%
-100	**-2.91%**	-4.12%

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. In addition to interest rate risk, the recent COVID-19 pandemic and the related stay-at-home and self-distancing mandates will likely expose us to additional market value risk. Protracted closures, furloughs and lay-offs have curtailed economic activity, and will likely continue to curtail economic activity and could result in lower fair values for collateral in our loan portfolio.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Colony Bankcorp, Inc.

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Colony Bankcorp, Inc. and its subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements 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 the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

As described in Notes 1 and 5 to the Company's consolidated financial statements, the Company has a gross loan balance of $1.06 billion and related allowance for loan losses balance of $12.1 million as of December 31, 2020. As described by the Company in Note 1, the evaluation of the allowance for loan losses is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a regular basis and is based upon the Company's 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.

We identified the Company's estimate of the allowance for loan losses as a critical audit matter. The principal considerations for our determination of the allowance for loan losses as a critical audit matter related to the high degree of subjectivity in the Company's judgments in determining the qualitative factors. Auditing these complex judgments and assumptions by the Company involves especially challenging auditor judgement due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included the following:

- We evaluated the relevance and the reasonableness of assumptions related to evaluation of the loan portfolio, current economic conditions, and other risk factors used in development of the qualitative factors for collectively evaluated loans.
- We evaluated the reasonableness of assumptions and data used by the Company in developing the qualitative factors by comparing these data points to internally developed and third-party sources, and other audit evidence gathered.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

Macon, Georgia
March 23, 2021

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2020	2019
Assets		
Cash and due from banks	**$ 17,218**	$ 15,570
Fed Funds sold and interest-bearing deposits in banks	**166,288**	88,522
Cash and cash equivalents	**183,506**	104,092
Investment securities available for sale, at fair value	**380,814**	347,332
Other investments, at cost	**3,296**	4,288
Loans held for sale	**52,386**	10,076
Loans	**1,059,503**	968,814
Allowance for loan losses	**(12,127)**	(6,863)
Net loans	**1,047,376**	961,951
Premises and equipment	**32,057**	32,482
Other real estate owned	**1,006**	1,320
Goodwill	**15,992**	16,477
Other intangible assets	**2,271**	3,056
Bank-owned life insurance	**31,547**	21,629
Deferred income taxes, net	**134**	1,505
Other assets	**13,589**	11,105
Total assets	**$ 1,763,974**	$ 1,515,313
Liabilities and stockholders' equity		
Deposits		
Noninterest-bearing	**$ 326,999**	$ 232,635
Interest-bearing	**1,118,028**	1,061,107
Total deposits	**1,445,027**	1,293,742
Federal Home Loan Bank advances	**22,500**	47,000
Paycheck Protection Program Liquidity Facility	**106,789**	–
Other borrowed money	**37,792**	38,792
Other liabilities	**7,378**	5,273
Total liabilities	**1,619,486**	1,384,807
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock, stated value $1,000; 10,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 2020 and 2019	–	–
Common stock, par value $1; 20,000,000 shares authorized, 9,498,783 shares issued and outstanding as of December 31, 2020 and 2019	**9,499**	9,499
Paid-in capital	**43,215**	43,667
Retained earnings	**84,993**	76,978
Accumulated other comprehensive income, net of tax	**6,781**	362
Total stockholders' equity	**144,488**	130,506
Total liabilities and stockholders' equity	**$ 1,763,974**	$ 1,515,313

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, 2020	2019
Interest income		
Loans, including fees	**$ 55,550**	$ 50,278
Deposits with other banks and short term investments	**438**	1,288
Investment securities	**7,137**	8,917
Total interest income	**63,125**	60,483
Interest expense		
Deposits	**5,599**	10,050
Federal Home Loan Bank advances	**743**	1,046
Paycheck Protection Program Liquidity Facility	**205**	–
Other borrowings	**1,333**	1,541
Total interest expense	**7,880**	12,637
Net interest income	**55,245**	47,845
Provision for loan losses	**6,558**	1,104
Net interest income after provision for loan losses	**48,687**	46,741
Noninterest income		
Service charges on deposits	**5,293**	5,593
Mortgage fee income	**9,149**	3,199
Gain on sale of SBA loans	**1,600**	–
Gain on sale of securities	**926**	97
Gain on sale of assets	**1,082**	–
Interchange fees	**4,988**	3,768
BOLI income	**743**	536
Other	**463**	811
Total noninterest income	**24,244**	14,004
Noninterest expenses		
Salaries and employee benefits	**34,141**	26,218
Occupancy and equipment	**5,311**	4,850
Acquisition related expenses	**862**	2,733
Information technology expense	**5,746**	4,353
Professional fees	**2,250**	2,191
Advertising and public relations	**2,111**	1,991
Communications	**835**	1,083
Writedown of building	**582**	–
FHLB prepayment penalty	**925**	–
Other	**5,538**	4,717
Total noninterest expense	**58,301**	48,136
Income before income taxes	**14,630**	12,609
Income taxes	**2,815**	2,398
Net income	**$ 11,815**	$ 10,211
Net income per share of common stock		
Basic	**$ 1.24**	$ 1.12
Diluted	**$ 1.24**	$ 1.12
Cash dividends declared per share of common stock	**$ 0.40**	$ 0.30
Weighted average shares outstanding, basic	**9,498,783**	9,129,705
Weighted average shares outstanding, diluted	**9,498,783**	9,129,705

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, 2020	2019
Net income	**$ 11,815**	$ 10,211
Other comprehensive income:		
Net unrealized gains on investment securities arising during the period	**9,052**	10,922
Tax effect	**(1,901)**	(2,293)
Reclassification adjustment for gain on sale of securities available for sale included in net income	**(926)**	(97)
Tax effect	**194**	20
Change in unrealized gains on securities available for sale, net of reclassification adjustment and tax effects	**6,419**	8,552
Comprehensive income	**$ 18,234**	$ 18,763

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, 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
Other comprehensive income	–	–	–	–	–	–	6,419	6,419
Dividends on common shares	–	–	–	–	–	(3,800)	–	(3,800)
Goodwill adjustment	–	–	–	–	(485)	–	–	(485)
Stock-based compensation expense	–	–	–	–	33	–	–	33
Net income	–	–	–	–	–	11,815	–	11,815
Balance, December 31, 2020	**–**	**$ –**	**9,498,783**	**$ 9,499**	**$ 43,215**	**$ 84,993**	**$ 6,781**	**$ 144,488**

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, 2020	2019
Cash flows from operating activities		
Net income	**$ 11,815**	$ 10,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**6,558**	1,104
Depreciation, amortization and accretion	**5,859**	2,895
Stock-based compensation expense	**33**	34
Gains on securities available for sale	**(926)**	(97)
Net increase in servicing asset	**(295)**	–
(Gain) loss on sale of other real estate and repossessions and write-downs	**8**	(780)
(Gain) loss on sale of premises & equipment	**(56)**	168
Gain on sale of Thomaston branch	**(1,028)**	–
Writedown on building	**582**	–
Increase in bank owned life insurance	**(743)**	(535)
Gain on sale of loans held for sale	**–**	(1,823)
Gain on sale of SBA loans	**(1,600)**	–
Origination of loans held for sale	**(315,929)**	(69,576)
Proceeds from sale of loans held for sale	**275,219**	61,323
Change in other assets	**(696)**	574
Change in other liabilities	**2,105**	379
Net cash (used in) provided by operating activities	**(19,094)**	3,877
Cash flows from investing activities		
Purchases of investment securities available for sale	**(181,685)**	(72,482)
Proceeds from maturities, calls, and paydowns of investment securities available for sale	**96,999**	73,313
Proceeds from sale of investment securities available for sale	**58,069**	65,513
Net change in loans	**(94,623)**	(58,484)
Purchase of premises and equipment	**(4,241)**	(3,485)
Proceeds from sale of other real estate and repossessions	**2,363**	2,553
Purchase of bank-owned life insurance	**(10,000)**	–
Proceeds from bank owned life insurance	**825**	482
Redemption (purchase of) Federal Home Loan Bank stock	**992**	(831)
Proceeds from sale of premises and equipment	**1,035**	690
Net cash and cash equivalents paid in acquisition	**–**	(467)
Net cash (used in) provided by investing activities	**(130,266)**	6,802
Cash flows from financing activities		
Change in noninterest-bearing customer deposits	**94,364**	8,753
Change in interest-bearing customer deposits	**56,921**	10,633
Dividends paid for common stock	**(3,800)**	(2,692)
Issuance of Paycheck Protection Program Liquidity Fund	**134,500**	–
Payment of Paycheck Protection Program Liquidity Fund	**(27,711)**	–
Proceeds from Federal Home Loan Bank advances	**14,000**	10,000
Payments of Federal Home Loan Bank advances	**(38,500)**	(8,000
Proceeds from other borrowings	**–**	14,563
Payments of other borrowings	**(1,000)**	–
Net cash (used in) provided by financing activities	**228,774**	33,257
Net increase in cash and cash equivalents	**79,414**	43,936
Cash and cash equivalents at beginning of period	**104,092**	60,156
Cash and cash equivalents at end of period	**$ 183,506**	$ 104,092
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	**$ 7,821**	$ 12,245
Cash paid during the period for income taxes	**2,450**	2,000
Noncash investing and financing activities		
Acquisition of real estate through foreclosure	**2,057**	1,009
Change in goodwill	**485**	16,275

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 Colony Bankcorp, Inc. and its wholly owned subsidiaries, Colony Bank and Colony Risk Management. 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.

Notes to Consolidated Financial Statements

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.

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 daily average cash reserve requirement was temporarily suspended for the year ended December 31, 2020 due to COVID-19 crisis response and was approximately $2.7 million, at December 31, 2019, 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, 2020 and 2019, 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.

Notes to Consolidated Financial Statements

Other Investments

Other investments include Federal Home Loan Bank ("FHLB") and First National Bankers Bank ("FNBB") 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.

Loans Held for Sale

Mortgage and SBA loans held for sale are carried at the lower of aggregate cost or estimated fair value, as determined by outstanding commitments from third party investors in the secondary market. Adjustments to reflect unrealized gains and losses resulting from changes in fair value of mortgage loans held for sale and realized gains and losses upon ultimate sale of the mortgage loans held for sale are classified as mortgage fee income in the consolidated statements of income. Adjustments to reflect unrealized gains and losses resulting from changes in fair value of SBA loans held for sale and realized gains and losses upon ultimate sale of the SBA loans held for sale are classified as gain on sale of SBA loans in the consolidated statements of income.

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.

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

Notes to Consolidated Financial Statements

underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (1) changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio and terms of loans, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the organization's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and (9) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

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

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company. 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.

Notes to Consolidated Financial Statements

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 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. 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.

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.

Notes to Consolidated Financial Statements

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.

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 2020, 2019, 2018 and 2017 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 restricted shares for the years ended December 31, 2020 and 2019, 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.

Notes to Consolidated Financial Statements

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.

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.

Operating, Accounting and Reporting Considerations Related to COVID-19

The COVID-19 pandemic has negatively impacted the global economy, including the Company's market areas. In response to this crisis, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provided an estimated $2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Some of the provisions applicable to the Company include, but are not limited to:

a. *Accounting for loan modifications* - The CARES Act provides that financial institutions may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise by categorized as a troubled debt restructure ("TDR") and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes.
b. *Paycheck Protection Program* - The CARES Act established the Paycheck Protection Program ("PPP"), an expansion of the Small Business Administration's 7(a) loan program and the Economic Injury Disaster Loan Program ("EIDL"), administered directly by the SBA.

Notes to Consolidated Financial Statements

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), the National Credit Union Administration ("NCUA"), the Office of the Comptroller of the Currency ("OCC"), and the Consumer Financial Protection Bureau ("CFPB"), in consultation with the state financial regulators (collectively, the "agencies") issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

a. *Accounting for loan modifications* - Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. The agencies confirmed with the Financial Accounting Standards Board ("FASB") staff that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., three months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payment, as long as such modifications are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due at the time of modification; and (3) executed between March 1, 2020 and the earlier of (a) 60 days after the date of termination of the national emergency declaration or (b) December 31, 2020.
b. *Past due reporting* - With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, these loans would not be considered past due reporting during the period of the deferral.
c. *Nonaccrual status* - During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

Beginning in late March 2020, the Company provided relief programs consisting primarily of 90 to 180 day payment deferral relief of principal and interest to borrowers negatively impacted by COVID-19 and has accounted for these loan modifications in accordance with ASC 310-40.

Accounting Standards Updates Pending Adoption

In March 2020, the FASB issued updated guidance codified within ASU-2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In response to the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable, or transaction based and less susceptible to manipulation. As of December 31, 2020, the Company had $24.2 million of subordinated debentures with rates tied to LIBOR and is currently evaluating the impact of the amended guidance and has not yet determined the effect of the standard on its ongoing financial reporting.

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.

Notes to Consolidated Financial Statements

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.

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.

2. BUSINESS COMBINATIONS

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.

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.

Notes to Consolidated Financial Statements

(Dollars in thousands, except market price)	Initial Fair Value Adjustments	Subsequent Adjustments [1]	Final Balance
Purchase price consideration:			
Shares of CBAN common stock issued to LBC shareholders as of May 1, 2019	1,053,875	1,053,875	1,053,875
Market price of CBAN common stock on May 1, 2019	$ 17.75	$ (0.46)	$ 17.29
Estimated fair value of CBAN common stock issued	18,706	(485)	18,221
Cash consideration paid	15,315	–	15,315
Total consideration	$ 34,021	$ (485)	$ 33,536
Assets acquired at fair value:			
Cash and cash equivalents	$ 15,678	$ –	$ 15,678
Investments securities available for sale	49,172	–	49,172
Investments securities held to maturity	1,766	–	1,766
Restricted investments	479	–	479
Loans	130,568	–	130,568
Premises and equipment	3,009	–	3,009
Core deposit intangible	3,100	–	3,100
Other real owned	243	–	243
Prepaid and other assets	6,143	–	6,143
Total fair value of assets acquired	$ 210,158	$ –	$ 210,158
Liabilities assumed at fair value:			
Deposits	$ (189,896)	$ –	$ (189,896)
FHLB advances	(1,000)	–	(1,000)
Payables and other liabilities	(975)	–	(975)
Total fair value of liabilities assumed	$ (191,871)	$ –	$ (191,871)
Net assets acquired at fair value:	$ 18,287	$ –	$ 18,287
Amount of goodwill resulting from acquisition	$ 15,734	$ (485)	$ 15,249

(1) Subsequent adjustments were done within the one year period allowed after the acquisition.

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.

(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

Notes to Consolidated Financial Statements

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.

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

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, 2020				
U.S. treasury securities	**$ 245**	**$ –**	**$ –**	**$ 245**
U.S. agency	**1,000**	**4**	**–**	**1,004**
State, county and municipal securities	**61,298**	**1,155**	**(65)**	**62,388**
Corporate debt securities	**4,250**	**1**	**(1)**	**4,250**
Mortgage-backed securities	**305,438**	**7,837**	**(348)**	**312,927**
Total debt securities	**$ 372,231**	**$ 8,997**	**$ (414)**	**$ 380,814**

Notes to Consolidated Financial Statements

(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

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, 2020						
State, county and municipal securities	**$ 8,282**	**$ (65)**	**$ –**	**$ –**	**$ 8,282**	**$ (65)**
Corporate debt securities	**999**	**(1)**	**–**	**–**	**999**	**(1)**
Mortgage-backed securities	**28,835**	**(77)**	**3,949**	**(271)**	**32,784**	**(348)**
Total debt securities	**$ 38,116**	**$ (143)**	**$ 3,949**	**$ (271)**	**$ 42,065**	**$ (414)**
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)

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, 2020, twenty securities have unrealized losses from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

Notes to Consolidated Financial Statements

The amortized cost and fair value of investment securities as of December 31, 2020, 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	$ 385	$ 386
Due after one year through five years	3,925	3,969
Due after five years through ten years	18,246	18,499
Due after ten years	44,237	45,033
	$ 66,793	$ 67,887
Mortgage-backed securities	305,438	312,927
	$ 372,231	$ 380,814

Proceeds from sales of investments available for sale were $58.1 million in 2020 and $65.5 million in 2019. Gross realized gains totaled $1,228,000 in 2020 and $418,000 in 2019. Gross realized losses totaled $302,000 in 2020 and $321,000 in 2019.

Investment securities having a carrying value totaling $126.5 million and $122.3 million as of December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes.

4. LOANS

The following table presents the composition of loans segregated by legacy and purchased loans and by class of loans, as of December 31, 2020 and 2019. Purchased loans are defined as loans that were acquired in bank acquisitions.

	December 31, 2020		
(Dollars in thousands)	Legacy Loans	Purchased Loans	Total
Construction, land and land development	$ 109,577	$ 11,516	$ 121,093
Other commercial real estate	477,445	42,946	520,391
Total commercial real estate	587,022	54,462	641,484
Residential real estate	167,714	15,307	183,021
Commercial, financial, and agricultural*	200,800	12,580	213,380
Consumer and other	19,037	2,581	21,618
Total loans	$ 974,573	$ 84,930	$1,059,503

Notes to Consolidated Financial Statements

	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

* Includes $101.1 million in PPP loans as of December 31, 2020.

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.

Notes to Consolidated Financial Statements

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

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

The following tables present the loan portfolio, excluding purchased loans, by credit quality indicator (risk grade) as of December 31, 2020. 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, 2020, the Company did not have any loans classified as "doubtful" or a "loss".

(Dollars in thousands)	Pass	Special Mention	Substandard	Total Loans
Construction, land & land development	$ 99,430	$ 2,940	$ 7,207	$ 109,577
Other commercial real estate	430,515	33,579	13,351	477,445
Total commercial real estate	529,945	36,519	20,558	587,022
Residential real estate	157,927	3,855	5,932	167,714
Commercial, financial, & agricultural	196,749	2,870	1,181	200,800
Consumer & other	18,734	124	179	19,037
Total loans	$ 903,355	$ 43,368	$ 27,850	$ 974,573

The following table presents the purchased loan portfolio by credit quality indicator (risk grade) as of December 31, 2020.

(Dollars in thousands)	Pass	Special Mention	Substandard	Total Loans
Construction, land & land development	$ 11,275	$ 241	$ –	$ 11,516
Other commercial real estate	40,825	53	2,068	42,946
Total commercial real estate	52,100	294	2,068	54,462
Residential real estate	14,909	312	86	15,307
Commercial, financial, & agricultural	10,198	1,803	579	12,580
Consumer & other	2,364	25	192	2,581
Total loans	$ 79,571	$ 2,434	$ 2,925	$ 84,930

Notes to Consolidated Financial Statements

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

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.

Notes to Consolidated Financial Statements

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, 2020:

	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	$ 1,314	$ –	$ 1,314	$ 80	$ 108,183	$ 109,577
Other commercial real estate	229	–	229	2,545	474,671	477,445
Total commercial real estate	1,543	–	1,543	2,625	582,854	587,022
Residential real estate	667	–	667	2,873	164,174	167,714
Commercial, financial, and agricultural	150	–	150	1,010	199,640	200,800
Consumer and other	48	–	48	102	18,887	19,037
Total loans	$ 2,408	$ –	$ 2,408	$ 6,610	$ 965,555	$ 974,573

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, 2020:

	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	$ –	$ –	$ –	$ 117	$ 11,399	$ 11,516
Other commercial real estate	544	–	544	2,068	40,334	42,946
Total commercial real estate	544	–	544	2,185	51,733	54,462
Residential real estate	15	–	15	85	15,207	15,307
Commercial, financial, and agricultural	125	–	125	55	12,400	12,580
Consumer and other	–	–	–	193	2,388	2,581
Total loans	$ 684	$ –	$ 684	$ 2,518	$ 81,728	$ 84,930

Notes to Consolidated Financial Statements

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:

(Dollars in thousands)	Accruing Loans: 30-89 Days Past Due	Accruing Loans: 90 Days or More Past Due	Accruing Loans: 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

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:

(Dollars in thousands)	Accruing Loans: 30-89 Days Past Due	Accruing Loans: 90 Days or More Past Due	Accruing Loans: 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

Notes to Consolidated Financial Statements

The following table details impaired loan data, including purchased credit impaired loans, as of December 31, 2020:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land and land development	$ 6,969	$ 6,982	$ –	$ 2,841
Other commercial real estate	11,978	11,105	–	12,190
Residential real estate	1,140	1,122	–	2,142
Commercial, financial and agricultural	42	40	–	203
Consumer and other	–	–	–	–
Total impaired loans with no allowance	20,129	19,249	–	17,376
With an allowance recorded				
Construction, land and land development	–	–	–	–
Other commercial real estate	6,292	6,325	1,436	5,945
Residential real estate	1,274	1,230	226	703
Commercial, financial and agricultural	310	310	263	1,118
Consumer and other	–	–	–	–
Total impaired loans with allowance	7,876	7,865	1,925	7,766
Purchased credit impaired loans				
Construction, land and land development	118	94	–	96
Other commercial real estate	–	–	–	63
Residential real estate	14	11	4	13
Commercial, financial and agricultural	55	46	–	49
Consumer and other	192	96	81	113
Total purchased credit impaired loans	379	247	85	334
Total				
Construction, land and land development	7,087	7,076	–	2,937
Other commercial real estate	18,270	17,430	1,436	18,198
Residential real estate	2,428	2,363	230	2,858
Commercial, financial and agricultural	407	396	263	1,370
Consumer and other	192	96	81	113
	$ 28,384	$ 27,361	$ 2,010	$ 25,476

Interest income recorded on impaired loans during the year ended December 31, 2020 was $761,000, 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 $518,000 for the year ended December 31, 2020.

Notes to Consolidated Financial Statements

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

(Dollars in thousands)	Unpid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land and land development	$ 67	$ 67	$ –	$ 168
Other 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
	15,485	14,674	–	18,818
With an allowance recorded				
Construction, land and land development	–	–	–	80
Other 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	–	–	–	–
	9,325	9,134	3,149	5,067
Purchased credit impaired loans				
Construction, land and land development	65	65	–	80
Other commercial real estate	34	34	–	35
Residential real estate	11	11	6	24
Commercial, financial and agricultural	37	37	–	47
Consumer and other	–	–	–	–
	147	147	6	186
Total				
Construction, land and land development	132	132	–	328
Other 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

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.

Notes to Consolidated Financial Statements

Troubled Debt Restructurings (TDRs) are troubled loans in 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, 2020. The Company had four loan contracts totaling $494,000 restructured during 2020.

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.

The Company had four loan contracts restructured during the year ended December 31, 2020, all four modifications were payment deferral modifications. The loans consisted of two commercial real estate loans totaling $132,000, one commercial loan totaling $89,000 and one residential real estate loan totaling $273,000. 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. The Company had no loan contracts restructured during 2019. 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.

Notes to Consolidated Financial Statements

Modifications in Response to COVID-19

Certain borrowers are currently unable to meet their contractual payment obligations because of the adverse effects of the COVID-19 pandemic. To help mitigate these effects, loan customers may apply for a deferral of payments, or portions thereof, for up to three months. In the absence of other intervening factors, such short-term modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to the COVID-19 pandemic reported as past due or placed on nonaccrual status (provided the loans were not past due or on nonaccrual status prior to the deferral).

As of December 31, 2020, the Company had approximately $1.9 million in loans still under their modified terms. The Company's modification program included payment deferrals, interest only, and other forms of modifications. See Note 1 - Summary of Significant Accounting Policies for more information.

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, 2020. 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
Year ended December 31, 2020						
Beginning balance	$ 215	$ 3,908	$ 980	$ 1,657	$ 103	$ 6,863
Charge-offs	(4)	(226)	(206)	(242)	(1,103)	(1,781)
Recoveries	45	153	142	43	104	487
Provision	757	3,045	1,362	255	1,139	6,558
Ending balance	$ 1,013	$ 6,880	$ 2,278	$ 1,713	$ 243	$ 12,127
Period-end amount allocated to:						
Individually evaluated for impairment	$ –	$ 1,436	$ 226	$ 263	$ –	$ 1,925
Collectively evaluated for impairment	1,013	5,444	2,048	1,450	162	10,117
Purchase credit impaired	–	–	4	–	81	85
Ending balance	$ 1,013	$ 6,880	$ 2,278	$ 1,713	$ 243	$ 12,127
Loans:						
Loans individually evaluated for impairment	$ 6,982	$ 17,430	$ 2,352	$ 350	$ –	$ 27,114
Loans collectively evaluated for impairment	114,017	502,961	180,658	212,984	21,522	1,032,142
Purchased credit impaired	94	–	11	46	96	247
Ending balance	$ 121,093	$ 520,391	$ 183,021	$ 213,380	$ 21,618	$1,059,503

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, 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
Year 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

6. PREMISES AND EQUIPMENT

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

(Dollars in thousands)	**2020**	2019
Land	**$ 10,576**	$ 10,914
Building	**28,671**	30,518
Furniture, fixtures and equipment	**14,091**	13,690
Leasehold improvements	**797**	809
Construction in progress	**1,860**	117
Total cost	**55,995**	56,048
Accumulated depreciation	**(23,938)**	(23,566)
Total premises and equipment	**$ 32,057**	$ 32,482

Depreciation charged to operations totaled $2.3 million in 2020 and $2.1 million in 2019.

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, 2020 and 2019:

(Dollars in thousands)	**2020**	2019
Balance, beginning of year	**$ 1,320**	$ 1,841
Loans transferred to other real estate	**2,057**	1,009
Acquired in acquisitions	**–**	243
Sales proceeds	**(2,363)**	(2,553)
Net gain/(loss) on sale and writedowns	**(8)**	780
Ending balance	**$ 1,006**	**$ 1,320**

8. GOODWILL AND INTANGIBLE ASSETS

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

	2020		2019	
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Core deposit intangible	**$ 4,716**	**$ 2,445**	$ 4,716	$ 1,660
Total	**4,716**	**2,445**	4,716	1,660
Unamortizable intangible assets:				
Goodwill	**$ 15,992**		$ 16,477	

Activity related to transactions since January 1, 2019 includes the following:

(1) 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. The company recorded a subsequent adjustment within the one year period allowed after the acquisition of $485,000 in 2020.

(2) 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 $785,000 and $600,000 at December 31, 2020 and 2019, respectively. The estimated future amortization expense for intangible assets remaining as of December 31, 2020 is as follows:

(Dollars in thousands)	**Amount**
2021	**665**
2022	**554**
2023	**444**
2024	**333**
2025	**275**
Total	**$ 2,271**

Notes to Consolidated Financial Statements

9. INCOME TAXES

The income tax expense in the consolidated statements of income for the years ended December 31, 2020 and 2019 are as follows:

(Dollars in thousands)	**2020**	2019
Current federal expense	**$ 3,965**	$ 1,881
Deferred federal expense	**(1,150)**	517
Federal income tax expense	**2,815**	2,398
Current state income tax expense	**–**	–
Provision for income taxes	**$ 2,815**	$ 2,398

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, 2020 and 2019 is as follows:

(Dollars in thousands)	**2020**	2019
Tax at federal income tax rate	**$ 3,072**	$ 2,648
Change resulting from:		
Tax-exempt interest	**(253)**	(130)
Income in cash value of bank owned life insurance	**(156)**	(113)
Nondeductible merger expenses	**–**	39
Other	**152**	(46)
Provision for income taxes	**$ 2,815**	$ 2,398

The components of deferred income taxes for the years ended December 31, 2020 and 2019 are as follows:

(Dollars in thousands)	**2020**	2019
Deferred tax assets		
Allowance for loan losses	**$ 1,958**	$ 1,624
Lease liability	**109**	–
Net operating loss carryforwards	**272**	–
Other real estate	**48**	115
Deferred compensation	**147**	163
Goodwill	**72**	33
Restricted stock	**10**	9
Purchase accounting adjustments	**202**	633
Investment in partnerships	**191**	–
Other	**13**	401
Nonaccrual interest	**2**	2
Gross deferred tax assets	**3,024**	2,980
Deferred tax liabilities		
Premises and equipment	**604**	839
Right of use lease asset	**107**	–
Unrealized gain on securities available for sale	**1,803**	96
Core deposit intangible	**376**	533
Other	**–**	7
Gross deferred tax liabilities	**2,890**	1,475
Net deferred tax assets	**$ 134**	$ 1,505

Notes to Consolidated Financial Statements

10. DEPOSITS

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $406,000 and $718,000 as of December 31, 2020 and 2019, respectively.

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

(Dollars in thousands)	**2020**	2019
Interest-bearing demand	**$ 433,554**	$ 355,628
Savings and money market deposits	**422,860**	358,000
Time, $250,000 and over	**34,905**	55,677
Other time	**226,709**	291,802
Total interest-bearing deposits	**$ 1,118,028**	$1,061,107

At December 31, 2020 and 2019, the Company had brokered deposits of $1.1 million and $2.0 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 $34.9 million and $55.7 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)	**Amount**
Year ending December 31	
2021	**$ 181,711**
2022	**54,249**
2023	**16,454**
2024	**4,873**
2025	**3,765**
Thereafter	**562**
Total time deposits	**$ 261,614**

11. BORROWINGS

The following table presents information regarding the Company's outstanding borrowings at December 31, 2020:

(Dollars in thousands)

Description	**Maturity Date**	**Amount**	**Interest Rate**
FHLB Advances	**March 23, 2023**	**$ 3,000**	**3.51%**
FHLB Advances	**March 21, 2028**	**5,000**	**2.67%**
FHLB Advances	**August 15, 2025**	**4,500**	**2.62%**
FHLB Advances	**July 30, 2029**	**10,000**	**1.01%**
Paycheck Protection Program Liquidity Facility (1)		**106,789**	**0.35%**
Term note	**May 24, 2025**	**8,250**	**4.70%**
Revolving credit	**May 21, 2021**	**5,313**	**3.65%**
Subordinated debentures (2)		**24,229**	**1.40%-2.68%**
Total borrowings		**$ 167,081**	

Notes to Consolidated Financial Statements

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%
Subordinated debentures (2)		24,229	3.34%-4.58%
Total borrowings		$ 85,792	

(1) Maturity date is equal to the maturity date of the related PPP loans.

(2) See maturity dates in table below.

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, 2020 and 2019, the lendable collateral value of those loans pledged was $88.2 million and $111.6 million, respectively. At December 31, 2020, the Company had remaining credit availability from the FHLB of $416.1 million. At December 31, 2019, the Company had remaining credit availability from the FHLB of $321.4 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, 2020 and 2019, the Company also has available federal funds lines of credit with various financial institutions totaling $41.5 million and $55.0 million, respectively, of which there were none outstanding at December 31, 2020 and 2019.

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, 2020, 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 April 20, 2020, the Company completed a Paycheck Protection Program Liquidity Facility (PPPLF) credit arrangement with the Federal Reserve Bank. This line of credit is secured by PPP loans and bears a fixed interest rate of 0.35% with a maturity date equal to the maturity date of the related PPP loans, with the PPP loans maturing either two or five years from the origination date of the PPP loan. An advance of $140.7 million through the PPPLF was used for the funding of PPP loans. As of December 31, 2020, the outstanding balance totaled $106.8 million, and the Company's PPP loans and related PPPLF funding had a weighted average life of approximately 2 years.

Notes to Consolidated Financial Statements

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%. The proceeds were used for the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of December 31, 2020 and 2019, the outstanding balance totaled $8.3 million and $9.3 million, respectively.

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 plus 0.40%. 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, 2020 and 2019, the outstanding balance totaled $5.3 million.

12. SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

The following table presents the information regarding the Company's subordinated debentures at December 31, 2020 and 2019. All subordinated debentures are at three month LIBOR rate plus added points noted below at December 31, 2020 and 2019.

(Dollars in thousands) Description	Date	Amount	Added Points	Maturity	5-Year Call Option
Colony Bankcorp Statutory Trust III	**June 16, 2004**	**$ 4,640**	**2.68%**	**June 14, 2034**	**June 17, 2009**
Colony Bankcorp Capital Trust I	**April 13, 2006**	**5,155**	**1.50%**	**April 13, 2036**	**April 13, 2011**
Colony Bankcorp Capital Trust II	**March 12, 2007**	**9,279**	**1.65%**	**March 12, 2037**	**March 12, 2012**
Colony Bankcorp Capital Trust III	**September 14, 2007**	**5,155**	**1.40%**	**September 14, 2037**	**September 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. 2016-2 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.

Notes to Consolidated Financial Statements

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, 2020**	December 31, 2019
Assets			
Operating lease right-of-use assets	**Other assets**	**$ 511**	$ 572
Liabilities			
Operating lease liabilities	**Other liabilities**	**$ 517**	$ 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.

For the year ended December 31, 2020 and 2019, operating lease cost was $243,000 and $152,000, respectively.

As of December 31, 2020, the weighted average remaining lease term was 4.55 years and the weighted average discount rate was 1.75%.

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

(Dollars in thousands)	**Lease Liability**
Year	
2021	**$ 173**
2022	**141**
2023	**61**
2024	**45**
2025	**45**
Thereafter	**82**
Total lease payments	**547**
Less: interest	**(30)**
Present value of lease liabilities	**$ 517**

(Dollars in thousands)	**December 31, 2020**	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)	**$ 238**	$ 151
Operating cash flows from operating leases (lease liability reduction)	**226**	138
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	**196**	676

Notes to Consolidated Financial Statements

14. COMPENSATION PLANS

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 2020 and 2019, the Company made total contributions of $1.1 million and $674,000 to the Plan, respectively.

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 $698,000 and $774,000 as of December 31, 2020 and 2019, respectively. Benefit payments under the contracts were $153,000 in 2020 and $82,000 in 2019. Provisions charged to operations totaled $75,000 in 2020 and $63,000 in 2019.

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 $212,000 in 2020 and $157,000 in 2019.

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, 2020 is $19,000 which is expected to be recognized over a weighted-average of 0.58 years. Total compensation expense recognized for the restricted shares granted for the year ended December 31, 2020 and 2019 was $33,000 and $34,000, respectively.

15. 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.

Notes to Consolidated Financial Statements

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
(Dollars in thousands)	**2020**	2019
Commitments to extend credit	**$ 198,029**	$ 102,890
Standby letters of credit	**3,634**	1,576

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.

16. 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)	**2020**	2019
Balance, beginning	**$ 6,407**	$ 692
New loans	**4,462**	4,777
Repayments	**(5,826)**	(3,855)
Transactions due to changes in directors	**–**	4,793
Balance, ending	**$ 5,043**	$ 6,407

Notes to Consolidated Financial Statements

17. 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.

Other investments at cost - The fair value of other bank stock approximates carrying value and is classified as Level 1.

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.

Notes to Consolidated Financial Statements

Federal Home Loan Bank advances - The fair value of Federal Home Loan Bank advances is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. Federal Home Loan Bank advances are classified as Level 2.

Paycheck Protection Liquidity Facility - The fair value of Paycheck Protection Liquidity Facility is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. Paycheck Protection Liquidity Facility are classified as Level 2.

Other borrowings - The fair value of other borrowings 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 borrowings 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, 2020					
Assets					
Cash and short-term investments	**$ 183,506**	**$ 183,506**	**$183,506**	**$ –**	**$ –**
Investment securities available for sale	**380,814**	**380,814**	**245**	**380,569**	**–**
Other investments at cost	**3,296**	**3,296**	**–**	**3,296**	**–**
Loans held for sale	**52,386**	**52,386**	**–**	**52,386**	**–**
Loans, net	**1,047,376**	**1,063,785**	**–**	**–**	**1,063,785**
Liabilities					
Deposits	**1,445,027**	**1,445,984**	**–**	**1,445,984**	**–**
Federal Home Loan Bank advances	**22,500**	**20,817**	**–**	**20,817**	**–**
PPPLF	**106,789**	**106,789**	**–**	**106,789**	**–**
Other borrowed money	**37,792**	**37,792**	**–**	**37,792**	**–**
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
Other investments at cost	4,288	4,288	–	4,288	–
Loans held for sale	10,076	10,076	–	10,076	–
Loans, net	961,951	938,475	–	–	938,475
Liabilities					
Deposits	1,293,742	1,294,506	–	1,294,506	–
Federal Home Loan Bank advances	47,000	46,022	–	46,022	–
Other borrowed money	38,792	38,792	–	38,792	–

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:

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

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

Assets 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, 2020 and 2019, 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, 2020 and 2019. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

Notes to Consolidated Financial Statements

(Dollars in thousands)	Total Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Nonrecurring				
Impaired loans	**$ 5,939**	**$ –**	**$ –**	**$ 5,939**
Other real estate	**$ 1,006**	**$ –**	**$ –**	**$ 1,006**
December 31, 2019				
Nonrecurring				
Impaired loans	$ 5,985	$ –	$ –	$ 5,985
Other real estate	$ 1,320	$ –	$ –	$ 1,320

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, 2020 and 2019. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

(Dollars in thousands)	December 31, 2020	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired loans	**$ 5,939**	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	**25%-100%**
Other real estate	**$ 1,006**	Appraised value/ Comparable sales	Discounts to reflect current market conditions and estimated costs to sell	**0%-20%**

(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%

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, 2020 and 2019:

(Dollars in thousands)	Available for Sale Securities: **2020**	2019
Beginning balance	**$ 2,022**	$ 2,009
Accretion (amortization) of discounts and premiums	**–**	(18)
Unrealized gains (loss) included in other comprehensive income (loss)	**(21)**	31
Transfer to Level 2	**(2,001)**	–
Ending balance	**$ –**	$ 2,022

Notes to Consolidated Financial Statements

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There was a transfer of one security from level 3 to level 2 for the year ended December 31, 2020. There were no transfers of securities between level 1 and level 2 or level 3 for the year ended December 31, 2019.

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

	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*

* 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

18. 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, 2020, 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, 2020, 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 Bank is participating in the PPP and the PPPLF to fund PPP Loans. In accordance with regulatory guidance, PPP loans pledged as collateral for PPPLF, and PPPLF advances, are excluded from leverage capital ratios. PPP loans will also carry a 0% risk-weight for risk-based capital rules.

Notes to Consolidated Financial Statements

The following table summarizes regulatory capital information as of December 31, 2020 and December 31, 2019 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2020 and 2019 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, 2020						
Total capital to risk-weighted assets						
Consolidated	**$ 155,447**	**13.78%**	**$ 90,245**	**8.00 %**	**N/A**	**N/A**
Colony Bank	**164,050**	**14.55**	**90,199**	**8.00**	**112,749**	**10.00%**
Tier I capital to risk-weighted assets						
Consolidated	**143,320**	**12.71**	**67,657**	**6.00**	**N/A**	**N/A**
Colony Bank	**151,923**	**13.48**	**67,622**	**6.00**	**90,162**	**8.00**
Common equity Tier 1 capital to risk-weighted assets						
Consolidated	**119,820**	**10.62**	**50,771**	**4.50**	**N/A**	**N/A**
Colony Bank	**151,923**	**13.48**	**50,716**	**4.50**	**73,257**	**6.50**
Tier I capital to average assets						
Consolidated	**143,320**	**8.49**	**67,524**	**4.00**	**N/A**	**N/A**
Colony Bank	**151,923**	**9.12**	**66,633**	**4.00**	**83,291**	**5.00**
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

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

The parent company's balance sheets as of December 31, 2020 and 2019 and the related statements of operations and comprehensive income (loss) and cash flows for each of the years in the two-year period then ended are as follows:

Balance Sheets

(Dollars in thousands)	December 31, 2020	December 31, 2019
Assets		
Cash	**$ 2,672**	$ 2,049
Premises and equipment, net	**–**	1,171
Investment in subsidiaries	**179,172**	165,836
Other	**570**	483
Total assets	**$ 182,414**	$ 169,539
Liabilities and stockholders' equity		
Liabilities		
Other borrowed money	**$ 13,563**	$ 14,563
Other	**134**	241
Subordinated debt	**24,229**	24,229
Total liabilities	**$ 37,926**	$ 39,033
Stockholders' equity		
Common stock, par value $1.00; 20,000,000 shares authorized,9,498,783 shares issued and outstanding as of December 31, 2020 and 2019, respectively	**9,499**	9,499
Paid-in capital	**43,215**	43,667
Retained earnings	**84,993**	76,978
Accumulated other comprehensive income, net of tax	**6,781**	362
Total stockholder's equity	**144,488**	130,506
Total liabilities and stockholders' equity	**$ 182,414**	$ 169,539

Statements of Income

(Dollars in thousands)	For The Years Ended December 31, 2020	For The Years Ended December 31, 2019
Income		
Dividends from subsidiaries	**$ 6,100**	$ 6,731
Management fees	**–**	750
Other	**28**	18
Total income	**6,128**	7,499
Expenses		
Interest	**1,223**	1,541
Salaries and employee benefits	**284**	1,097
Other	**428**	1,262
Total expenses	**1,935**	3,899
Income before income taxes and equity in undistributed earnings of subsidiaries	**4,193**	3,600
Income tax benefit	**(218)**	(639)
Income before equity in undistributed earnings of subsidiaries	**4,411**	4,239
Equity in undistributed earnings of subsidiaries	**7,404**	5,972
Net income	**$ 11,815**	$ 10,211

Notes to Consolidated Financial Statements

Statements of Cash Flows

(Dollars in thousands)	For The Years Ended December 31, 2020	2019
Cash flows from operating activities		
Net income	**$ 11,815**	$ 10,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**70**	81
Share-based compensation expense	**33**	34
Equity in undistributed earnings of subsidiaries	**(7,404)**	(5,972)
Change in interest payable	**(51)**	21
Other	**(354)**	1,065
Net cash provided by operating activities	**4,109**	5,440
Cash flows from investing activities		
Purchase of premises and equipment	**–**	(54)
Proceeds from sale of premises and equipment	**1,314**	–
Net cash and cash equivalents paid in acquisition	**–**	(16,145)
Net cash (used in) provided by investing activities	**1,314**	(16,199)
Cash flows from financing activities		
Net increase (decrease) in other borrowed money	**(1,000)**	14,563
Dividends paid for common stock	**(3,800)**	(2,692)
Net cash (used in) provided by financing activities	**(4,800)**	11,871
Net increase in cash and cash equivalents	**623**	1,112
Cash and cash equivalents at beginning of period	**2,049**	937
Cash and cash equivalents at end of period	**$ 2,672**	$ 2,049

20. EARNINGS PER SHARE

The following table presents earnings per share for the years ended December 31, 2020 and 2019:

(Dollars in thousands, except per share amounts)	2020	2019
Numerator		
Net income available to common stockholders	**$ 11,815**	$ 10,211
Denominator		
Weighted average number of common shares outstanding for basic earnings per common share	**9,498,783**	9,129,705
Dilutive effect of potential common stock		
Restricted stock	**–**	–
Weighted average number of common shares outstanding for diluted earnings per common share	**9,498,783**	9,129,705
Earnings per share - basic	**$ 1.24**	$ 1.12
Earnings per share - diluted	**$ 1.24**	$ 1.12

Notes to Consolidated Financial Statements

21. 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, 2020 and 2019:

	December 31, 2020			
(Dollars in thousands)	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Totals**
Net interest income	**$ 54,089**	**$ 603**	**$ 553**	**$ 55,245**
Provision for loan losses	**6,558**	**–**	**–**	**6,558**
Noninterest income	**13,288**	**9,106**	**1,850**	**24,244**
Noninterest expenses	**46,990**	**8,137**	**3,174**	**58,301**
Income taxes	**2,653**	**324**	**(162)**	**2,815**
Net income/(loss)	**$ 11,176**	**$ 1,248**	**$ (609)**	**$ 11,815**
Total assets	**$ 1,709,696**	**$ 50,266**	**$ 4,012**	**$ 1,763,974**

	December 31, 2019			
(Dollars in thousands)	Bank	Mortgage Banking	Small Business Specialty Lending Division	Totals
Net interest income	$ 47,681	$ 164	$ –	$ 47,845
Provision for loan losses	1,104	–	–	1,104
Noninterest income	10,865	3,139	–	14,004
Noninterest expenses	43,666	3,257	1,213	48,136
Income taxes	2,642	10	(254)	2,398
Net income/(loss)	$ 13,217	$ 36	$ (959)	$ 10,211
Total assets	$ 1,503,284	$ 11,624	$ 405	$ 1,515,313

Market and Dividend Information

The common shares of Colony Bankcorp are listed on the NASDAQ Global Market under the symbol CBAN. As of March 22, 2021, the Company estimates that it had approximately 2,145 shareholders, including approximately 1,187 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 2019 and 2020:

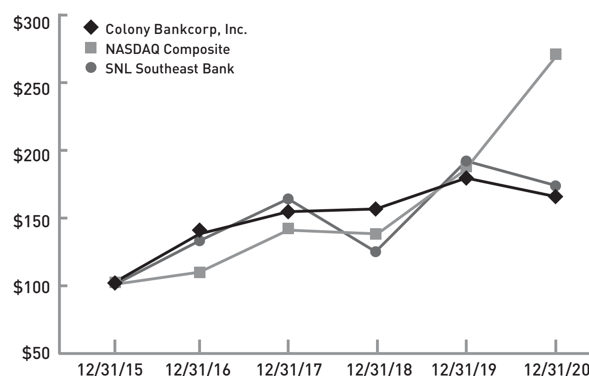
2020	High	Low	Dividends Declared
First quarter	**$ 16.49**	**$ 9.55**	**$ 0.10**
Second quarter	**$ 14.39**	**$ 8.70**	**$ 0.10**
Third quarter	**$ 13.21**	**$ 9.52**	**$ 0.10**
Fourth quarter	**$ 15.00**	**$ 12.41**	**$ 0.10**
2019			
First quarter	$ 17.93	$ 14.53	$ 0.075
Second quarter	$ 18.95	$ 16.06	$ 0.075
Third quarter	$ 17.40	$ 15.70	$ 0.075
Fourth quarter	$ 16.50	$ 14.95	$ 0.075

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. Colony has continued to pay the dividend throughout the COVID pandemic crisis.

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 18 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, 2015, 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, 2015, 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	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
Colony Bankcorp, Inc.	100.00	138.51	154.33	156.23	179.85	164.94
NASDAQ Composite	100.00	108.87	141.13	137.12	187.44	271.64
SNL Southeast Bank	100.00	132.75	164.21	135.67	191.06	172.07

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
Mauldin & Jenkins, LLC
2303 Dawson Road
Albany, Georgia 31707

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, 2020, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders as of the record date for the 2021 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 Tracie Youngblood, Executive Vice President/Chief Financial Officer at the Company's corporate headquarters.

Annual Meeting of Shareholders
The 2021 Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on Thursday, May 20, 2021. The meeting will be held at our corporate office, 115 S Grant Street, Fitzgerald, GA. Shareholders as of March 26, 2021, the record date for the meeting, are cordially invited to attend.

COLONY
BANKCORP, INC.

Right here with *you*.

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