SERVING OUR CUSTOMERS. OUR COMMUNITIES. OUR HOME.

2021 ANNUAL REPORT TO SHAREHOLDERS

OUR HOME.

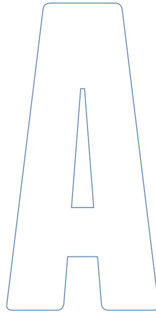
Colony Bankcorp, Inc., with assets of $2.7 billion, is the bank holding company for Colony Bank.

Founded in 1975 and headquartered in Fitzgerald, Georgia, Colony operates 39 locations throughout Georgia. At Colony Bank, we offer a wide range of banking services including personal banking, business banking, mortgage solutions, government guaranteed lending solutions, and more. We have expanded our services to also include consumer insurance products, such as automotive, homeowners, and other insurance needs for our community. Colony's common stock is traded on the NASDAQ Global Market under the symbol "CBAN." For more information, please visit www.colony.bank. You can also follow the Company on social media.

Financial Highlights

(dollars in thousands, except per share amounts)	2021	2020
Financial position at December 31,		
Total assets	$ 2,691,715	$ 1,763,974
Loans (net of unearned income)	1,337,977	1,059,503
Allowance for loan losses	12,910	12,127
Deposits	2,374,608	1,445,027
Stockholders' equity	217,707	144,488
Common book value per share	15.92	15.21
Tangible common book value per share	11.51	13.26
Operations for the year ended December 31,		
Net interest income	$ 66,189	$ 55,245
Provision for loan losses	700	6,558
Net interest income after provision for loan losses	65,489	48,687
Noninterest income	36,290	24,244
Noninterest expense	78,625	58,301
Income before income taxes	23,154	14,630
Income taxes	4,495	2,815
Net income	$ 18,659	$ 11,815
Net income available to common shareholders	$ 18,659	$ 11,815
Basic earnings per share	$ 1.66	$ 1.24
Diluted earnings per share	$ 1.66	$ 1.24
Cash dividends per share	$ 0.41	$ 0.40
Operating ratios		
Net interest margin	3.39%	3.50%
Return on average assets	0.89%	0.70%
Return on average total equity	10.60%	8.56%
Efficiency	72.21%	73.34%

To Our Shareholders



s a result of our team's dedicated efforts and the solid execution of our strategic initiatives, we reported record results in 2021. Net income was $18.7 million, or $1.66 per diluted share, an increase of 34% over the prior year. Total assets reached a record $2.7 billion. With significant new hires and a successful integration of SouthCrest Financial Group, we are on track for another strong year.

Transformative Acquisition

The most notable achievement of the year was the acquisition of SouthCrest Financial Group, which was completed on August 1, 2021. This transaction added $730 million in assets to our balance sheet and propelled us to be Georgia's largest community bank and the sixth largest bank in the state. It increased our footprint to include the attractive Northern Georgia markets and the highly populous suburban Atlanta markets, which will be key areas for growth going forward. By giving us a statewide footprint and a balance between urban and rural markets, the acquisition diversifies our credit portfolio while also extending us into new markets.

The incorporation of SouthCrest also solidified our leadership team with the addition of key SouthCrest executives including Brian Schmitt, Executive Vice President, Executive Vice Chairman, and Andy Borrmann, Executive Vice President, Chief Strategy Officer, who round out our team as we strive for continued growth and value creation. SouthCrest has enhanced our scale, growth prospects, profitability, and overall performance. We expect the transaction to provide heightened opportunities for continued growth by positioning Colony as the acquirer of choice for community banks looking to partner in Georgia as well as surrounding states.

Diversifying Revenue Streams

Also in August, we formed Colony Insurance, a new subsidiary that offers a suite of consumer insurance solutions and completed the acquisition of The Barnes Agency, an Allstate appointed consumer property and casualty insurance agency in Macon, GA. Since then, we have completed six additional agency acquisitions in middle and west Georgia and plan to seek additional opportunities to continue to grow this business.

Providing a convenient option for our banking, mortgage, and consumer lending customers to purchase insurance through their trusted advisors at Colony Insurance is a logical extension of our existing products and services. This expansion is in-line with our stated goal to have a wide range of revenue streams and increase non-interest income.

In December 2021, we launched our Merchant Services division with the addition of two industry veterans charged with leading this effort. Merchant Services will allow us to meet an even greater range of our corporate customers' needs and is yet another avenue to diversify our revenue sources. We look forward to building this division out in 2022 and beyond.

Financial Highlights

Operating net income, which excludes the impact of non-recurring items such as acquisition expenses, rose to $22.4 million, or $1.99 per diluted share, for the year ended December 31, 2021, compared to $12.1 million, or $1.28 per diluted share, in 2020. Key drivers of our improved results include 50% growth in non-interest income, mortgage fee income growth of 44%, and organic loan growth of 13%.

Our balance sheet remains strong with total loans, excluding loans held for sale and PPP, of $1.3 billion at the end of 2021, an increase from $958 million at the end of 2020. Total deposits reached a record $2.4 billion.

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

We continue to maintain a solid 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 equity tier one capital ratio were, 7.25%, 11.28%, 12.05%, and 9.87%, respectively.

With record 2021 results and a positive outlook for the future, our Board of Directors voted to increase the Company's quarterly cash dividend to $0.1075 per share. This marks the fifth consecutive year of higher dividend payouts since dividends were reinstated in 2017.

The Colony Manifesto

Despite the significant transformation of our business over the past year, we have stayed true to our community banking heritage. The Colony Manifesto, the internal framework that guides us towards our mission of delivering solutions that exceed customer expectations, has helped us continue to earn our clients' trust through our personal service and impactful advice.

Our mantra is simple: We are called to serve. Bank with passion. Go out and make it happen. This simple, face-to-face, action-oriented approach is one that is difficult for the larger regional and national franchises to replicate and one of the reasons our customers choose Colony Bank.

Another key aspect of fulfilling our mission is investing in the communities we serve. Each year, Colony Leadership Academy provides approximately 40 high school students the opportunity to build leadership skills through service learning projects, seminars, workshops

and interaction with local leaders and decision makers. We also work to improve financial education in our communities by providing a range of educational tools for youth and adults designed to help them make informed and effective decisions about their financial resources. We are honored to share our time, talents, and financial resources to improve our communities, and this will remain a key focus going forward.

Planning for the Future

Community banking is rapidly evolving, and we are committed to remaining at the forefront of these changes to always provide our customers with the most relevant and valuable banking experience. As we look to the future, we see a fundamental shift in how customers use banking centers, in large part due to the rising role of technology. Banking centers will remain relevant to our customers, but they will be utilized differently than they have been in the past. Whereas banking center visits were primarily used for transactions, in the future it's about delivering a dialog-based, holistic customer experience. Banking center team members will be cross trained to handle a wider array of products and services and will be more consultative, providing advice and solutions informed by technology. As the commercial lending process becomes faster and more automated, our commercial bankers will evolve to become trusted business advisors that help their business customers navigate the entire financial side of their business. Despite all the technological advancements, relationships and personal service will continue to be the key differentiating factor for Colony Bank.

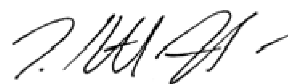
Looking ahead, we continue to have significant opportunities to grow earnings at Colony through strategic acquisitions and additional production hires. We expect to see merger cost savings in 2022 and are continuing to execute on multiple expense and efficiency initiatives. We are focused on improving processes, running a more efficient branch network, and utilizing technology to lower operating costs.

In conclusion

We take our commitments to customers, team members, communities and shareholders very seriously, and we intend to continue delivering on those in the year ahead. None of what we have accomplished this year would be possible without the hard work and tremendous efforts by team members across our organization. I would like to recognize the dedication of our team and thank them for their passion and commitment to our customers, particularly during a year where we underwent a great deal of change, all while navigating the uncertainty of the ongoing pandemic.

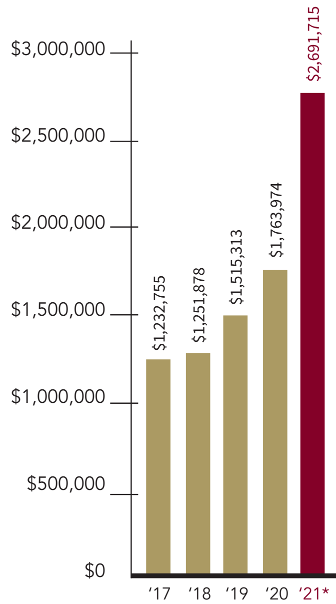
To our shareholders, thank you for your continued investment in our company and the trust you place in us each day.

Mark H. Massee
Chairman of the Board

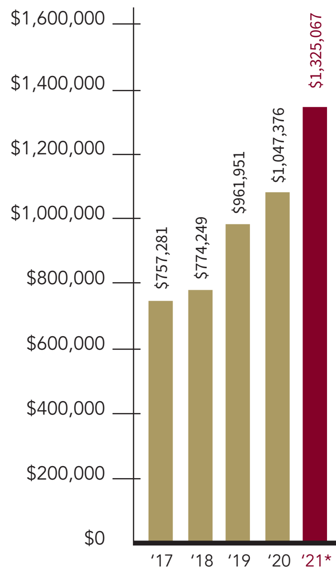


T. Heath Fountain
President and Chief Executive Officer

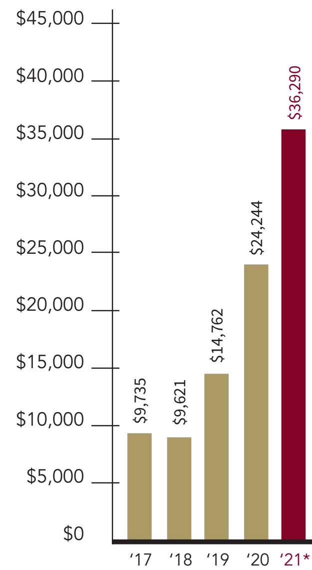
Total Assets
(in Thousands)



Total Net Loans
(in Thousands)



Non-Interest Income
(in Thousands)



39/32

Locations throughout Georgia

Georgia counties represented

"The most notable achievement of the year was the acquisition of SouthCrest Financial Group, which was completed on August 1, 2021. This transaction added $730 million in assets to our balance sheet and propelled us to be Georgia's largest community bank and the sixth largest bank in the state."

– **Heath Fountain**
President and
Chief Executive Officer

* Includes acquisition of SouthCrest Financial Group as of August 1, 2021.

Technique Concrete Construction
FOREST PARK, GEORGIA

It's important for me to deal with people who know you, so that you're not just a number.

BILLY FREEMAN JR.
OWNER / CHIEF EXECUTIVE OFFICER / PRESIDENT

Billy Freeman Jr. and Colony Bank's **Jan Morris** at Technique Concrete Construction in Forest Park

Billy Freeman has a passion for concrete. He found a bank to match.

When he was 10, Billy Freeman Jr. began accompanying his father to jobsites at night, studying his technique for laying concrete. "I just wanted to be with dad," he recalls. By age 14, the younger Freeman could run the finishing machine. At 16, he was a union-certified cement finisher, and a foreman at 21. In 2010, he launched his own company.

Today, you can see the results of Technique Concrete Construction's work, and what Freeman learned from his late father, everywhere from Atlanta's Mercedes-Benz Stadium and State Farm Arena to the runways and plane-train tunnels at Hartsfield-Jackson Atlanta International Airport.

Freeman vividly remembers his first meeting with Colony's Jan Morris. "She brought her president and vice president to my office," he says. "We met for an hour and a half and they never talked money. They wanted to hear about my business. That made an impression."

Slowly, the company transitioned its banking relationship to Colony. Then, in 2013, when Technique landed a project to build a seven-mile tunnel, Colony met the need for capital to buy new equipment and expand from 30 to 140 employees. Now the bank is financing Technique's huge new facility on the old Fort Gilliam military property. "As we've grown," says Freeman, "Colony has been right there with us."

Ivey Residential
AUGUSTA, GEORGIA

Matt and Mark Ivey learned homebuilding from their father, whose mantra was "You build homes for a living but relationships for life." That's also how they approach banking. The Iveys' relationship with Colony's Hugh Hollar goes back almost two decades. "Hugh really helped us get started in 2004, and has been instrumental in helping us grow from day one," Matt Ivey says. "It's nice to know you have a bank that understands your business and your philosophy."

"The Iveys aren't just a second-generation business; for me, they're also second-generation clients and friends. Before I worked with Matt and Mark, I also worked with their parents."

– **Hugh Hollar**
Director of Homebuilder Finance

"Nine years ago, Boaen Mechanical became one of the first in our market to begin using Treasury services. We drill down and look at their needs to continually help them use those services more effectively."

– **Kerry Huettner**
Treasury Solutions Advisor

Part of what it means to be called to serve is always to be just one call away.

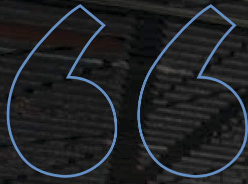
In a company that encompasses three generations of one family, the importance of long-term relationships almost goes without saying. Shawn Boaen, who began working for his parents' mechanical contracting company in Savannah right after high school, stays in regular touch with many of his customers even long after they've retired. Maintaining such relationships is both a point of pride and a secret of Boaen Mechanical's sustained success. "It's the people and how you deal with them," Shawn explains.

Unsurprisingly, the Boaens take the same approach to their banking relationships. And one of those relationships involves Kerry Huettner, Colony's Treasury Solutions Advisor, who has guided Boaen Mechanical to implement specialized services, from direct payroll deposit to ACH capabilities for collections, that help the company manage cash flows smoothly and make day-to-day operations more efficient.

"I don't care to deal with huge banks," Shawn says, who has worked with many of the same people at Colony ever since the bank opened an office in Savannah. "If I have an issue, there are five or six people here I can call direct. It's very easy to get through and get answers."

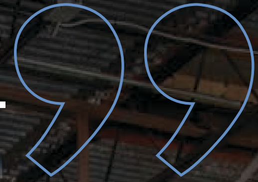
Holt's Bakery
DOUGLAS, GEORGIA

Howard Holt and his son Alex are carrying on the business that Howard's father began in 1965, still making things from scratch every day. Their shops in Douglas and Fitzgerald are beloved local institutions. One of the biggest fans is Scott Miller, Colony's Regional President, who stops by every week to pick up glazed donuts for the bank's staff. It's that personal touch that Howard Holt likes. "People are what make the bank," he says. "I've known Scott for years. He's a banker and a friend, too."



Boaen Mechanical
SAVANNAH, GEORGIA

We've been dealing with Colony since Colony started in Savannah. Their people make it easy.



SHAWN BOAEN
PRESIDENT

Drew Hulsey Colony's Regional President and **Shawn Boaen** at Boaen Mechanical in Savannah

Anthony Rodriguez and **Rob Goldstein** at Wild Leap Brewery in LaGrange

Two beer aficionados went out to make a business happen. Colony jumped in to go with them.

Wild Leap Brewery began as just that. Founders Anthony Rodriguez and Rob Goldstein had established successful careers in other fields but shared a love for craft beer. Combining Anthony's 16 years of experience with brewing and Rob's expertise in marketing and promotions, the two began staging craft beer festivals around Atlanta. After one of their events in LaGrange drew thousands of people, Anthony says, "We felt like this was our opportunity. We said to ourselves, 'We need to do this.'"

As they established Wild Leap in 2017, Colony provided capital for equipment purchases — and loans for a series of expansions as the initial leap sustained a long, still-rising trajectory. "Colony has been an integral part of our expansion," Anthony says.

After being named the nation's Best New Brewery in 2019, Wild Leap also began producing its own brand of vodka, served in hand-crafted cocktails along with its award-winning craft beers. When the Covid pandemic hit, the brewery nimbly launched a line of Ready-to-Drink premium crafted cocktails that proved popular all over Georgia.

Another leap is in the works: A new taproom, in the renovated old Norfolk Southern Railroad building, less than a five-minute walk from Atlanta's new State Farm Arena. As with so many others, Colony is financing that expansion, too.

"We were looking for small businesses to work with during the startup phase. It is gratifying to watch a business like Wild Leap grow, especially when they're your neighbors."

– **Joe Little**
Market President

Wild Leap Brewery
LAGRANGE, GEORGIA

Joe (Little) understood us and has always been there for us. I like being able to go out to lunch with the president of the bank, talking about my goals and what I need to do to reach them.

ANTHONY RODRIGUEZ
CO-FOUNDER

Environmental, Social and Governance Initiatives

Our Board of Directors is committed to overseeing our ESG initiatives. We consider ESG-related matters throughout the organization with a focus on transparency and continuous improvement. Our ESG initiatives currently focus on supporting the communities we serve in the areas of affordable housing, community development and financial education; promoting diversity, equity and inclusion within the Company; and corporate governance best practices.

Environmental

In a variety of ways, we work to be good stewards of our environment. To reduce energy consumption, we are transitioning to LED lighting, with a goal to convert all of our offices to these more efficient systems by December 2024. As part of any agreement with us, the shred companies we use to dispose of confidential documents are required to recycle. To reduce the consumption of fossil fuels, we are utilizing digital processes such as e-signature and digital board packages, and we are relying more on remote work and virtual meetings.

Extending these efforts to our customers, we are steadily increasing the adoption of electronic statements and online/mobile banking. Many of our clients, moreover, represent renewable industries such as farming and timber. Supporting them and facilitating their growth and success contribute to environmental sustainability.

Social

As part of our commitment to building up the communities we serve, we work to develop youth leaders through Colony Leadership Academy, whose first class graduated in 2021. Academy participants cultivate leadership skills and benefit from an exchange of ideas and experiences while also developing a network of relationships with leaders from various backgrounds throughout Georgia who serve as mentors. The professional leadership curriculum involves an eleven-month program of structured activity through which students gain understanding of crucial issues facing our communities. Colony

Leadership Academy utilizes professional leadership trainers through UGA's Fanning Institute, along with community resources for courses such as Health and Recreation, Economic Development, Arts and Culture, Public Safety, Social Services, Education and Government Affairs. Upon completion of the program, participants receive a $1,000 scholarship to the college or university of their choice.

In addition, Colony provides financial literacy education in 21 high schools across our footprint. Through this program, which involves the Dave Ramsey Foundation's coursework, more than 5,000 students now have access to financial literacy in their classrooms.

We also work to sustain our communities through financial and volunteer support for numerous charitable and community organizations. Each year, Colony team members contribute hundreds of hours to these efforts in the locales that we call home.

Besides building stronger communities, we also work to encourage a healthier Colony team. Through internal weight loss and health promotion initiatives, our team members collectively lost 120 pounds.

Governance

Throughout our organization, we promote sustainability, diversity and transparency in our corporate governance. With one-year terms, all members of our Board of Directors stand annually for election by shareholders. With insider ownership of 7.69%, we strongly align the interests of our leadership with those of our shareholders. Meanwhile, since 2018 we have added one female Board member and two females to our executive management team, and we are actively pursuing opportunities to enhance the diversity of our Board.

"At Colony Bank, sustainability is a matter that's equally important to our team members, shareholders, and communities. With a committee dedicated to overseeing our ESG initiatives, we're able to focus on our role as a company to make the world a better place. ESG is an ongoing process and our committee is continuously reviewing and identifying opportunities where we can make an impact."

– **Karen Martin, SPHR, SHRM-SCP**
Team Member Experience Manager
Colony Bank

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

Brian D. Schmitt
Executive Vice President/
Executive Vice Chairman
Colony Bankcorp, Inc.

Harold W. Wyatt, III
Founder of Wyatt Realty Co. LLC and Wyatt Capital LLC

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

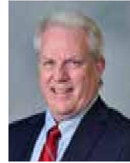
Andy Borrmann
Executive Vice President/ Chief Strategy Officer

Kimberly C. Dockery
Executive Vice President/ Chief Administrative Officer

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

Brian Schmitt
Executive Vice President/ Executive Vice Chairman

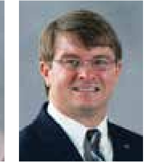
Tracie Youngblood
Executive Vice President/ Chief Financial Officer


Bagwell

Bateman

Borrmann

Dockery


Fountain

Hoyle

Schmitt

Youngblood

Market and Division Leaders

Jason Barnes
President/Colony Insurance

Stephen Browning
Market President/Eastman

Johnny Bryan
Market President/Sylvester

Chris Carter
Market President/Statesboro

Tommy Clark
Regional President/Southwest

Dallis "D" Copeland
Special Advisor

Darren Davis
President/Small Business Specialty Lending

Mike Davis
President/Community Banking

Bob Evans
Regional President/West Central

Cindy Griffin
Director of Commercial Banking

Hugh Hollar
President/Home Builder Finance

Drew Hulsey
Regional President/Coastal

Jesse Kight
President/Mortgage Division

Joe Little
Market President/LaGrange

Scott Miller
Regional President/SE Central

Jason Morris
Market President/Ashburn

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

Michael Washburn
President/Corporate Banking

Mike Welch
Market President/Columbus

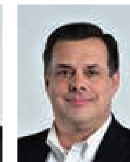
David Wilson
Market President/Macon

Nic Worthy
Market President/Rochelle

Barnes

Browning

Bryan


Carter

Clark

Copeland

D. Davis

M. Davis

Evans

Griffin

Hollar

Hulsey

Kight

Little

Miller

Morris

Olliff

Roberts

Scott

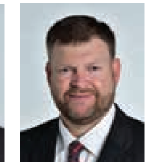
E. Smith

M. Smith

Washburn

Welch

Wilson


Worthy

Locations, as of March 31, 2022

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

Atlanta
Loan Production Office
1475 Peachtree St. NE
Atlanta, GA 30309
(678) 810-1103

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

Cedartown
967 North Main Street
Cedartown, GA 30125
(678) 747-5200

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

Chickamauga
12691 North Highway 27
Chickamauga, GA 30707
(706) 375-3112

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

Cumming
3275 Market Place Blvd.
Suite 100
Cumming, GA 30041
(770) 813-4800

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

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

Fayetteville
741 West Lanier Avenue
Fayetteville, GA 30214
(678) 783-4111

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

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

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

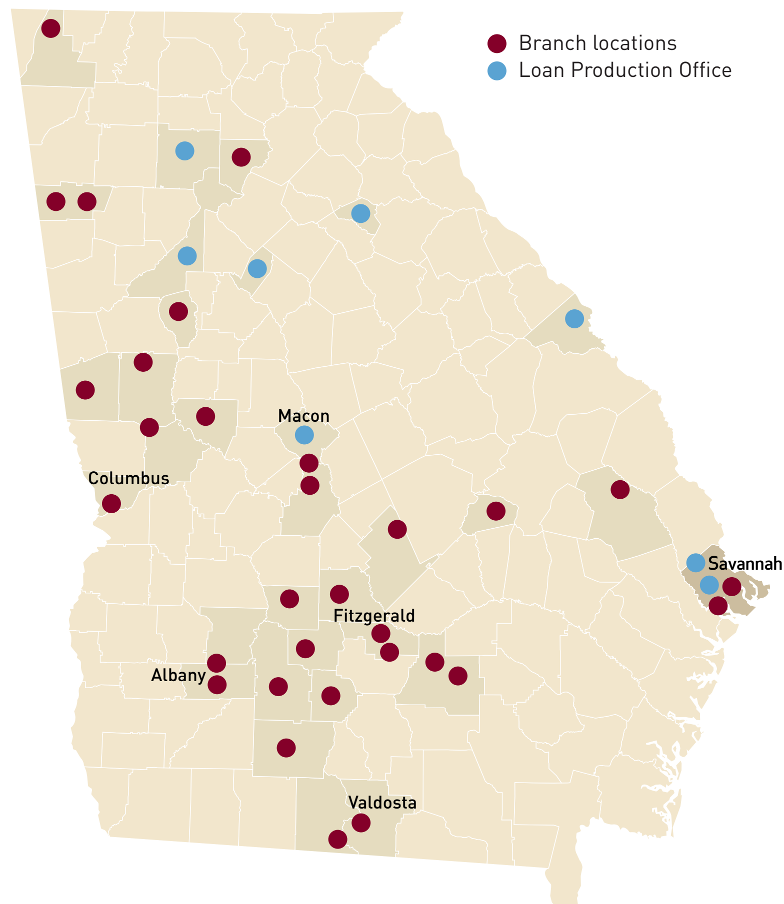
Leesburg
137 Robert B Lee Dr
Leesburg, GA 31763
(229) 759-2800

Luthersville
14 North Main Street
Luthersville, GA 30251
(770) 927-6418

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

Manchester
406 West Main Street
Manchester, GA 31816
(706) 846-8471

Moultrie
621 Veterans Pkwy N
Moultrie, GA 31788
(229) 985-1380



Pooler
Loan Production Office
138 Canal Street
Suite 204
Pooler, GA 31322
(912) 927-1277

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

Rockmart
131 West Elm Street
Rockmart, GA 30153
(770) 684-1919

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

Thomaston
108 South Church Street
Thomaston, GA 30286
(706) 938-3151

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

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

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

FINANCIAL SECTION

Colony Bankcorp, Inc.

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 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 August 1, 2021, the Company completed its previously announced acquisition (the "Merger") of SouthCrest Financial Group, Inc. ("SouthCrest"), a Georgia corporation and the parent holding company of SouthCrest Bank, N.A. The Merger was completed pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated April 22, 2021, by and between the Company and SouthCrest. In accordance with the terms of the Merger Agreement, at the effective time, SouthCrest was merged with and into the Company, with the Company surviving the Merger. Immediately following the holding company Merger, SouthCrest Bank,N.A. was merged with and into Colony Bank, with Colony Bank as the surviving bank.

Pursuant to the terms of the Merger Agreement, each issued and outstanding share of SouthCrest stock was converted into the right to receive either $10.45 in cash or 0.7318 of a share of the Company's common stock, subject to certain proration and allocation procedures. In aggregate, the Company issued approximately 4.0 million shares of its common stock at a fair value of $71.4 million and paid approximately $21.6 million cash in the Merger.

The Company paid dividends to its shareholders throughout 2021 and 2020 on a quarterly basis. In 2021, we had a quarterly dividend of $0.1025 per common stock and in 2020, we had a quarterly dividend of $0.10 per common stock.

On February 10, 2022, the Company completed a public offering of 3,848,485 shares of its common stock at a public offering price of $16.50 per share, with aggregate proceeds of approximately $63.5 million.

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 19% and 21% to increase tax-exempt interest income to a tax-equivalent basis for the year ended December 31, 2021 and 2020, respectively. Tax-equivalent adjustments are reported in Notes 1 and 2 to the Average Balances with Average Yields and Rates table under Rate/Volume Analysis. 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.

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

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

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

Non-GAAP Performance Measures Reconciliation

	Years Ended December 31,	
(Dollars in thousands, except per share data)	**2021**	2020
Operating noninterest expense reconciliation		
Operating net income reconciliation		
Net income (GAAP)	**$ 18,659**	$ 11,815
Acquisition-related expenses	**4,617**	862
Gain on sale of Thomaston branch	**–**	(1,026)
Writedown of Building	**–**	582
Income tax benefit of expenses	**(874)**	(88)
Operating net income	**$ 22,402**	$ 12,145
Weighted average diluted shares	**11,254,130**	9,498,783
Adjusted earnings per diluted share	**$ 1.99**	$ 1.28
Tangible book value per common share reconciliation		
Book value per common share (GAAP)	**$ 15.92**	$ 15.21
Effect of goodwill and other intangibles	**(4.41)**	(1.95)
Tangible book value per common share	**11.51**	13.26

COVID-19 and Recent Events

The U.S. economy contracted in the first half of 2020, ending the longest expansionary period in U.S. history, due to the COVID-19 pandemic. During March 2020, in an effort to lessen the impact of COVID-19 on consumers and businesses, the Federal Reserve reduced the federal funds rate 1.5 percentage points to 0.00 to 0.25 percent and the U.S. government enacted the CARES Act, the largest economic stimulus package in the nation's history. The Company responded to the pandemic, beginning in March 2020, by supporting our clients, employees, and communities with such measures as remote work capabilities and branch service enhancements, loan payment deferrals, and accelerated investments in several technology initiatives that provided more convenience and a better digital experience as clients adapted to this highly virtual environment. The Company participated in the PPP and funded approximately 2,600 loans totaling approximately $193.2 million under the programs available in both 2020 and 2021, and $144.0 million in PPP loans related to CARES Act were forgiven.

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Additional government spending measures and the availability of vaccines improved consumer confidence and demand, and the economy largely reopened in 2021, leading to a reduction in the unemployment rate and accelerated GDP growth. While 2021 has seen a recovery in the U.S. economy compared to 2020, uncertainty and market disruptions such as additional coronavirus variants, pandemic-related supply chain issues and labor shortages persist. The economic expansion has been met with inflationary pressures that are expected to result in the Federal Open Market Committee policy-tightening in 2022, likely including multiple interest rate hikes. With a strong asset-sensitive balance sheet and our strong position in our market markets, we expect increases in loan demand and interest rates will improve returns going forward.

Critical Accounting Estimates

The consolidated financial statements of Colony are prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industry in which it operates. This preparation requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the consolidated financial statements. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates that are particularly susceptible to significant change include the valuation of loan acquisition transactions, as well as the determination of the allowance for loan losses and income taxes and, therefore, are critical accounting policies. In addition to the discussion that follows, the accounting policies related to these estimates are further described in Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Business Combinations and Valuation of Loans Acquired in Business Combinations

We account for acquisitions under Financial Accounting Standards Board ("FASB") ASC Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. Assets acquired and liabilities assumed in a business combination are recorded at the estimated fair value on their purchase date. As provided for under GAAP, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities, where it was not possible to estimate the acquisition date fair value upon consummation. Management finalized the fair values of acquired assets and assumed liabilities within this 12-month period and management currently considers such values to be the Day 1 Fair Values for the acquisition transactions.

In particular, the valuation of acquired loans involves significant estimates, assumptions and judgment based on information available as of the acquisition date. Loans acquired in a business combination transaction are evaluated either individually or in pools of loans with similar characteristics; including consideration of a credit component. A number of factors are considered in determining the estimated fair value of purchased loans including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, contractual interest rates compared to market interest rates, and net present value of cash flows expected to be received.

Allowance for Loan Losses

The allowance for loan losses is a critical accounting estimate that requires significant judgments and assumptions, which are inherently subjective. The use of different estimates or assumptions could have a significant impact on the provision for credit losses, allowance for loan losses, financial condition, and results of operations. The economic and business climate in any given industry or market is difficult to gauge and can change rapidly, and the effects of those changes can vary by borrower.

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

Consolidated net income and stockholders' equity could be affected if management's estimate of the allowance necessary to cover loan losses is subsequently materially different, requiring a change in the level of provision for loan losses to be recorded. While management uses currently available information to recognize losses on loans, future adjustments may be necessary based on newly received appraisals, updated commercial customer financial statements, rapidly deteriorating customer cash flow, and changes in economic conditions or forecasts that affect the Company's customers.

Income Taxes

The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

Colony files a consolidated federal income tax return and a combined state income tax return (both of which include Colony and its wholly owned subsidiaries). Accordingly, amounts equal to tax benefits of those companies having taxable federal losses or credits are reimbursed by the companies that incur federal tax liabilities. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through provision for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Colony may also recognize a liability for unrecognized tax benefits from uncertainty in income taxes. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

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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 $18.7 million, or $1.66 per diluted shares in 2021, compared to $11.8 million, or $1.24 per diluted shares in 2020.

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 64.3% of total revenue during 2021 and 66.76% of total revenue during 2020.

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% as of December 31, 2021 and 2020. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. During 2021, the prime interest rate remained the same. During 2020, the prime interest rate decreased by 100 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.

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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 2020 to 2021 [(a)]		
(Dollars in thousands)	**Volume**	**Rate**	**Total**
Interest income			
Loans, net of unearned fees	**$ 4,850**	**$ (272)**	**$ 4,578**
Investment securities, taxable	**4,329**	**(1,861)**	**2,468**
Investment securities, exempt	**861**	**(31)**	**830**
Interest-bearing deposits	**85**	**(309)**	**(224)**
Total interest income	**10,125**	**(2,473)**	**7,652**
Interest expense			
Interest-Bearing Demand and Savings Deposits	**681**	**(1,622)**	**(941)**
Time Deposits	**(94)**	**(1,963)**	**(2,057)**
FHLB Advances	**36**	**(88)**	**(52)**
Paycheck Protection Program Liquidity Facility ("PPPLF")	**(147)**	**35**	**(112)**
Other Borrowings	**(202)**	**(119)**	**(321)**
Total interest expense	**274**	**(3,757)**	**(3,483)**
Net interest income	**$ 9,851**	**$ 1,284**	**$ 11,135**

(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 22.36% 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 2021, Federal Reserve rates remained stable. The Federal Reserve rates decreased 150 basis points in 2020. We have seen the net interest margin decrease to 3.39% for 2021, compared to 3.50% for 2020.

Taxable-equivalent net interest income for 2021 increased by $11.1 million or 20.0%, compared to 2020, due to an increase in loan fee income generated through PPP loan originations during 2021, which was approximately $5.4 million and increase in investment securities income, along with decreases in interest expense. The average volume of interest-earning assets during 2021 increased $378.5 million compared to 2020 while over the same period the net interest margin decreased 11 basis points to 3.39% from 3.50%. The change in the net interest margin in 2021 and 2020 was primarily driven by a continued 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 2021 was primarily in loans and interest-bearing deposits in other banks related to the acquisition of SouthCrest Financial Group, Inc ("SouthCrest").

The average volume of loans increased $94.9 million in 2021 compared to 2020, which reflects both organic loan growth, growth from acquisition of SouthCrest offset by $144.0 million in loans PPP loans forgiven. The average yield on loans remained stable from 2021 compared to 2020, and only decreased two basis points. The average volume of interest-bearing deposits increased $279.1 million in 2021 compared to 2020. Average demand deposits increased $286.8 million while average time deposits decreased $7.7 million in 2021 compared to 2020.

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Accordingly, the ratio of average interest-bearing deposits to total average deposits was 75.3% in 2021 and 78.8% in 2020. For 2021, this deposit mix, combined with a general decrease in interest rates, had the effect of (i) decreasing the average cost of total deposits by 32 basis points in 2021 compared to 2020 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, remained stable and only decreasing to 3.32% in 2021 from 3.37% in 2020. 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

	2021			2020		
(Dollars in thousands)	**Average Balances**	**Income/ Expense**	**Yields/ Rates**	Average Balances	Income/ Expense	Yields/ Rates
Assets						
Loans, net of unearned fees [(1)]	**$ 1,186,919**	**$ 60,380**	**5.09%**	$1,092,009	$ 55,802	5.11%
Investment securities, taxable	**547,793**	**9,343**	**1.71**	336,140	6,875	2.05
Investment securities, exempt [(2)]	**61,476**	**1,161**	**1.89**	17,070	331	1.94
Deposits in banks and short term investments	**169,188**	**214**	**0.13**	141,641	438	0.31
Total interest-earning assets	**1,965,376**	**71,098**	**3.62**	1,586,860	63,446	4.006
Total noninterest-earning assets	**135,916**			104,375		
Total assets	**$ 2,101,292**			$1,691,235		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing liabilities:						
Savings and interest-bearing demand deposits	**1,073,824**	**929**	**0.09%**	787,030	1,870	0.24%
Time deposits	**297,704**	**1,672**	**0.56**	305,374	3,729	1.22
Total interest-bearing deposits	**$ 1,371,528**	**$ 2,601**	**0.19**	$1,092,404	$ 5,599	0.51
FHLB advances	**34,849**	**691**	**1.98**	33,249	743	2.23
Paycheck Protection Program Liquidity Facility	**25,546**	**93**	**0.36**	90,768	205	0.23
Other borrowings	**32,686**	**1,012**	**3.10**	38,527	1,333	3.46
Total interest-bearing liabilities	**1,464,609**	**4,397**	**0.30**	1,254,948	7,880	0.63
Noninterest-bearing demand deposits	**449,445**			294,008		
Other liabilities	**11,195**			4,325		
Stockholders' equity	**176,043**			137,954		
Total liabilities and stockholders' equity	**$ 2,101,292**			$1,691,235		
Interest rate spread			**3.32%**			3.37%
Net interest income		**$ 66,701**			$ 55,566	
Net interest margin			**3.39 %**			3.50%

(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 $268,000 and $252,000 for the year ended December 31, 2021 and 2020, respectively, are included in income and fees on loans. Accretion income of $470,000 and $763,000 for the year ended December 31, 2021 and 2020 are also included in income and fees on loans.

(2) Taxable-equivalent adjustments totaling $244,000 and $69,000 for the year ended December 31, 2021 and 2020, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on federal tax rate of 19% and 21% with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations for the year ended December 31, 2021 and 2020, respectively.

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Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled $700,000 in 2021 compared to $6.6 million in 2020. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses. The decrease in provision for loan losses for the year ended December 31, 2021 compared to 2020 is largely due to the reserve levels that have already been established in response to the COVID-19 pandemic. See the section captioned "Loans and Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses. Net recoveries for the year ended December 31, 2021 were $83,000 compared to net charge-offs of $1.3 million for the same period in 2020. As of December 31, 2021, Colony's allowance for loan losses was $12.9 million, or 0.96% of total loans, compared to $12.1 million, or 1.14% of total loans, at December 31, 2020. At December 31, 2021 and 2020, nonperforming assets were $5.8 million and $10.2 million, or 0.21% and 0.58% 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 2021.

Noninterest Income

The components of noninterest income were as follows:

(Dollars in thousands)	2021	2020	$ Variance	% Variance
Service charges on deposit accounts	**$ 6,213**	$ 5,293	**$ 920**	**17.38%**
Mortgage fee income	**13,213**	9,149	**4,064**	**44.42**
Gain on sales of SBA loans	**7,547**	1,600	**5,947**	**100.00**
Gain (loss) on sales of securities	**(87)**	926	**(1,013)**	**(109.40)**
Gain on sales of assets	**–**	1,082	**(1,082)**	**100.00**
Interchange fees	**6,929**	4,988	**1,941**	**38.91**
BOLI income	**1,041**	743	**298**	**40.11**
Other	**1,434**	463	**971**	**209.81**
Total	**$ 36,290**	$ 24,244	**$ 12,046**	**49.69%**

Noninterest income increased $12.0 million, or 49.69% from 2020. The Company saw considerable increases in mortgage fee income, gain on sale of SBA loans, and interchange fees, off-set slightly by losses on sales of securities and the absence of a gain on sale of assets in 2021. The increase in mortgage fee income is primarily attributed to the increase in volume of mortgage activity as well as the acquisition of SouthCrest in August 2021. Furthermore, during the years ended December 31, 2020 and 2021, 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 and remained in effect for 2021 in response to the COVID-19 pandemic. Gain on sale of SBA loans increased $5.9 million in 2021 from 2020. The increase in 2021 is primarily attributable to the continued growth in the Small Business Specialty Lending division. The increase of $1.9 million in interchange fees was a result of the perks program the Company offered from Discover® and the program becoming the Bank's primary program late in 2020.

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Noninterest Expense

The components of noninterest expense were as follows:

(Dollars in thousands)	2021	2020	$ Variance	% Variance
Salaries and employee benefits	**$ 45,596**	$ 34,141	**$ 11,455**	**33.55%**
Occupancy and equipment	**6,149**	5,311	**838**	**15.78**
Acquisition related expenses	**4,617**	862	**3,755**	**435.61**
Information technology	**7,673**	5,746	**1,927**	**33.54**
Professional Fees	**2,951**	2,250	**701**	**31.16**
Advertising and public relations	**2,657**	2,111	**546**	**25.86**
Communications	**1,373**	835	**538**	**64.43**
Writedown of building	**90**	582	**(492)**	**100.00**
FHLB prepayment penalty	**–**	925	**(925)**	**100.00**
Other	**7,609**	5,538	**2,071**	**37.40**
Total	**$ 78,715**	$ 58,301	**$ 20,414**	**35.01%**

Increases in salaries and employee benefits, acquisition related expenses, information technology expenses accounted for the majority of the increase in noninterest expense, offset by the writedown of the Thomaston building and FHLB prepayment penalties in 2020. The increase in salaries and employee benefits of $11.5 million in 2021 was primarily attributable to merit pay increases and salaries from the SouthCrest and insurance acquisitions completed in the last half of 2021, as well as commissions paid to mortgage employees due to an increase in volume. Information technology expenses increased $1.9 million primarily due to the Company's additional processing needs due to growth, as well as implementation of new software. Other noninterest expense increased due to increases in FDIC insurance from acquisition of SouthCrest and deposit charge-offs.

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 $2.1 billion in 2021 compared to $1.7 billion in 2020.

(Dollars in thousands)	2021		2020	
Sources of Funds:				
Noninterest-bearing deposits	**$ 449,445**	**21.39%**	$ 294,008	17.38%
Interest-bearing deposits	**1,371,528**	**65.27%**	1,092,404	64.59
FHLB advances	**34,849**	**1.66%**	33,249	1.97
PPPLF	**25,546**	**1.22%**	90,768	5.37
Other borrowings	**32,685**	**1.56%**	38,527	2.28
Other noninterest-bearing liabilities	**11,196**	**0.53%**	4,325	0.26
Equity capital	**176,043**	**8.37%**	137,954	8.15
Total	**$ 2,101,292**	**100.00%**	$ 1,691,235	100.00%
Uses of Funds:				
Loans held for sale and loans	**$ 1,186,919**	**56.49%**	$1,092,009	64.57%
Investment securities	**609,269**	**28.99%**	353,210	20.88
Deposits in banks and short term investments	**169,188**	**8.05%**	141,641	8.38
Other noninterest-bearing assets	**135,916**	**6.47%**	104,375	6.17
Total	**$ 2,101,292**	**100.00%**	$ 1,691,235	100.00%

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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 75.3% in 2021 compared to 78.8%% of total average deposits in 2020.

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)	**2021**	2020	2019	2018	2017
Construction, land and land development	**$ 165,446**	$ 121,093	$ 96,097	$ 60,310	$ 53,762
Other commercial real estate	**787,392**	520,391	540,239	435,961	418,669
Total commercial real estate	**952,838**	641,484	636,336	496,271	472,431
Residential real estate	**212,527**	183,021	194,796	187,592	193,924
Commercial , financial, and agricultural	**154,048**	213,380	114,360	74,166	64,523
Consumer and other	**18,564**	21,618	23,322	23,497	33,911
Total loans, net of unearned fees	**1,337,977**	1,059,503	968,814	781,526	764,789
Allowance for loan losses	**(12,910)**	(12,127)	(6,863)	(7,277)	(7,508)
Loans, net	**$ 1,325,067**	$ 1,047,376	$ 961,951	$ 774,249	$ 757,281

Maturity and Repricing Opportunity

The following table presents total loans as of December 31, 2021 according to maturity distribution and/ or repricing opportunity on adjustable rate loans.

(Dollars in thousands)	**One Year or Less**	**After One Year Through Five Years**	**After Five Years Through Fifteen Years**	**After Fifteen Years**	**Total**
Construction, land and land development	**$ 99,837**	**$ 35,389**	**$ 12,953**	**$ 17,267**	**$ 165,446**
Other commercial real estate	**85,737**	**258,403**	**403,288**	**39,964**	**787,392**
Total commercial real estate	**185,574**	**293,792**	**416,241**	**57,231**	**952,838**
Residential real estate	**10,093**	**58,650**	**87,000**	**56,784**	**212,527**
Commercial, financial, and agricultural	**29,889**	**70,186**	**51,757**	**2,216**	**154,048**
Consumer and other	**4,236**	**12,813**	**1,515**	**–**	**18,564**
Total loans, net of unearned fees	**$ 229,792**	**$ 435,441**	**$ 556,513**	**$ 116,231**	**$ 1,337,977**

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Overview. Loans totaled $1.3 billion at December 31, 2021, up 26.3% from $1.1 billion at December 31, 2020. 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 87.1% and 77.8% of total loans at December 31, 2021 and December 31, 2020, respectively. Commercial, financial, & agriculture represents another 11.5% of the population of the loans at December 31, 2021 down from 20.1% of the population at December 31, 2020. The reason for the decrease is primarily due to the PPP loan production during 2020. These loans were at gross $9.0 million at December 31, 2021 compared to a gross of $101.1 million 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.

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Commercial, financial and agricultural. Commercial and agricultural loans at December 31, 2021 decreased by $59.3 million, or 27.8% to $154.0 million from December 31, 2020 at $213.4 million. This decrease was primarily attributable to the PPP loans which was $101.1 million at December 31, 2020 versus $9.0 million at December 31, 2021, offset by growth from the SouthCrest acquisition. 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. These agricultural lines typically reduce in size at year end as crops are sold. 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 $44.4 million, or 36.6%, at December 31, 2021 to $165.4 million from $121.1 million at December 31, 2020. This increase was primarily attributable to the acquisition of SouthCrest and the continued growth of the business during 2021.

Other commercial real estate. Other commercial real estate loans increased by $267.0 million, or 51.3%, at December 31, 2021 to $787.4 million from $520.4 million at December 31, 2020. This increase was primarily attributable due to the acquisition of SouthCrest and the continued growth of the business during 2021. Residential Real Estate Loans. Residential real estate loans increased by $29.5 million or 16.1%, at December 31, 2021 to $212.5 million from $183.0 million at December 31, 2020. This increase was primarily attributable due to the acquisition of SouthCrest and the continued growth of the business during 2021. 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, 2021 decreased $3.1 million or 14.1% to $18.6 million from $21.6 million at December 31, 2020. This decrease was primarily attributable to payoffs and amortization of the portfolio.

Industry concentrations. As of December 31, 2021 and December 31, 2020, 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. At December 31, 2021, approximately 87.1% 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.

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Large credit relationships. The Company currently operates 31 branches in north, central, south and coastal Georgia and includes metropolitan markets in Forsyth, Fulton, Fayette, 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, 2021, our largest 20 relationships consisted of loans and loan commitments, where the total committed balance was $203.6 million with $160.6 million outstanding. At December 31, 2020, our largest 20 relationships had total 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, 2021. 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 Five Years	After Five years but Within Fifteen Years	After Fifteen Years	Total
Loans with fixed interest rates	$ 134,376	$ 393,599	$ 460,333	$ 50,558	$1,038,866
Loans with floating interest rates	95,416	41,842	97,222	64,631	299,111
Total	$ 229,792	$ 435,441	$ 557,555	$ 115,189	$ 1,337,977

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

Although asset quality experienced some recovery during the year December 31, 2021, 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"). Nonaccrual loans totaled $5.4 million at December 31, 2021, a decrease of $3.68 million, or 40.3%, from $9.1 million at December 31, 2020. There were no loans contractually past due 90 days or more and still accruing for either period presented. At December 31, 2021, OREO totaled $281,000, a decrease of $725,000, or 72.1%, compared with $1.0 million at December 31, 2020. The change in OREO is a combination of sales of assets during 2020 offset by asset additions and additions from the acquisition of SouthCrest. At the end of the year ended December 31, 2021, total nonperforming assets as a percent of total assets decreased to 0.21% compared with 0.58% at December 31, 2020.

At December 31, 2021, 4.7% of the Company's loan portfolio, or $62.9 million, is in the hotel sector which we expected to be the most sensitive to the COVID-19 pandemic, of which $5.5 million in loans are guaranteed. 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.

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

(Dollars in thousands)	**2021**	2020	2019
Loans accounted for on nonaccrual	**$ 5,449**	$ 9,128	$ 9,827
Loans accruing past due 90 days or more	**–**	–	–
Other real estate foreclosed	**281**	1,006	1,320
Repossessed assets	**49**	30	13
Total nonperforming assets	**$ 5,779**	$ 10,164	$ 11,160
Nonperforming loans by segment			
Construction, land and land development	**$ 31**	$ 197	$ 128
Commercial real estate	**837**	4,613	3,772
Residential real estate	**3,839**	2,958	3,728
Commercial, financial and agricultural	**708**	1,065	2,061
Consumer and other	**34**	295	138
Total nonperforming loans	**$ 5,449**	$ 9,128	$ 9,827
Nonperforming assets as a percentage of:			
Total loans, other real estate and foreclosed assets	**0.43%**	0.96%	1.15%
Total assets	**0.21%**	0.58%	0.74%
Nonperforming loans as a percentage of:			
Total loans	**0.41%**	0.86%	1.01%
Supplemental data:			
Trouble debt restructured loans in compliance with modified terms [1]	**$ 7,326**	$ 12,320	$ 12,337
Trouble debt restructured loans			
Past due 30-89 days [1]	**–**	273	–
Accruing past due loans:			
30-89 days past due [1]	**$ 4,567**	$ 3,092	$ 2,615
90 or more days past due	**–**	–	–
Total accruing past due loans	**$ 4,567**	$ 3,092	$ 2,615
Allowance for loan losses	**$ 12,910**	$ 12,127	$ 6,863
Allowance for loan losses as a percentage of:			
Total loans	**0.96%**	1.14%	0.71%
Nonperforming loans	**236.92%**	132.85%	69.84%

(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, 2021 and December 31, 2020.

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate, repossessed assets and nonaccrual securities. Nonperforming assets at December 31, 2021 decreased 43.1% from December 31, 2020, as a result of the decrease in nonaccrual loans and the sale of other real estate owned property.

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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, 2021, TDRs totaled $7.3 million, a decrease from $12.3 million reported December 31, 2020. At December 31, 2021 and 2020, all TDRs were performing according to their modified terms and were therefore not considered to be nonperforming assets.

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

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

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with current U.S. accounting standards. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics. The allowances established for probable losses on specific loans are the result of management's quarterly review of substandard loans with an outstanding balance of $250,000 or more and impaired troubled debt restructured loans. This review process usually involves the Chief Credit Officer and Director of Credit

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Administration 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,									
	2021		2020		2019		2018		2017	
(Dollars in thousands)	**Reserve**	**%[(1)]**	Reserve	%[(1)]	Reserve	%[(1)]	Reserve	%[(1)]	Reserve	%[(1)]
Construction, land and land development	**$ 1,127**	**12.4%**	$ 1,013	11.4%	$ 215	9.9%	$ 131	7.7%	$ 1,216	7.0%
Commercial real estate	**7,691**	**58.8%**	6,880	49.1%	3,908	55.8%	5,251	55.8%	4,654	54.7%
Residential real estate	**1,805**	**15.9%**	2,278	17.3%	980	20.1%	1,181	24.0%	968	25.4%
Commercial , financial, and agricultural	**1,083**	**11.5%**	1,713	20.1%	1,657	11.8%	618	9.5%	633	8.4%
Consumer and other	**1,204**	**1.4%**	243	2.1%	103	2.4%	96	3.0%	37	4.4%
	$12,910	**100.0%**	$12,127	100.0%	$ 6,863	100.0%	$ 7,277	100.0%	$ 7,508	100.0%

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

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

(Dollars in thousands)	**2021**	2020	2019	2018	2017
Allowance for loan losses at beginning of year	**$ 12,127**	$ 6,863	$ 7,277	$ 7,508	$ 8,923
Charge-offs					
Construction, land and land development	**–**	4	29	–	52
Commercial real estate	**568**	226	119	257	1,027
Residential real estate	**3**	206	758	162	1,048
Commercial , financial, and agricultural	**274**	242	403	247	458
Consumer and other	**68**	1,103	784	299	330
Total charge-offs	**$ 913**	$ 1,781	$ 2,093	$ 965	$ 2,915
Recoveries					
Construction, land and land development	**466**	45	82	155	266
Commercial real estate	**118**	153	218	52	544
Residential real estate	**274**	142	174	91	82
Commercial , financial, and agricultural	**91**	43	36	161	141
Consumer and other	**47**	104	65	74	77
Total recoveries	**996**	487	575	533	1,110
Net (recoveries)/charge-offs	**(83)**	1,294	1,518	432	1,805
Provision for loans losses	**700**	6,558	1,104	201	390
Allowance for loan losses at end of year	**$ 12,910**	$ 12,127	$ 6,863	$ 7,277	$ 7,508
Ratio of net (recoveries)/ charge-offs to average loans	**(0.01)%**	0.12%	0.11%	0.04%	0.15%

The allowance for loan losses increased from $12.1 million or 1.14% of total loans at December 31, 2020 to $12.9 million, or 0.96% of total loans at December 31, 2021. Excluding outstanding PPP loans of $9.0 million and $101.1 million as of December 31, 2021 and December 31, 2020, the allowance for loan losses as a percentage of total loans was 0.96% and 1.27%, respectively. 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 2021. Net (recoveries)/charge-off's continued to improve by $1.4 million from 2020 resulting in net recovery of $83,000. As such, additional qualitative measures were incorporated as part of the December 31, 2021 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, 2021 compared to the same period 2020. Additional reserves were also allocated to the non-owner occupied commercial real estate pools due to economic impacts in the retail and hospitality sectors.

Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio as of December 31, 2021. The continuing impact of the COVID-19 pandemic during 2021 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.

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Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2021, 2020 and 2019.

(Dollars in thousands)	**2021**	2020	2019
U.S. treasury securities	**$ 87,551**	$ 245	$ –
U.S. agency	**17,781**	1,004	–
State, county and municipal securities	**250,153**	62,388	5,115
Corporate debt securities	**48,408**	4,250	2,806
Mortgage-backed securities	**534,271**	312,927	339,411
Total debt securities	**$ 938,164**	$ 380,814	$ 347,332

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2021 (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	**$ –**	**–%**	**$ 33,405**	**1.06%**	**$ 54,146**	**1.02%**	**$ –**	**–%**
U.S. agency	**–**	**–**	**6,812**	**1.13**	**10,969**	**1.40**	**–**	**–**
State, county and municipal securities	**453**	**3.47**	**1,036**	**1.84**	**41,753**	**1.73**	**206,911**	**1.92**
Corporate debt securities	**–**	**–**	**8,369**	**3.45**	**36,143**	**3.97**	**3,896**	**5.13**
Mortgage-backed securities	**1,789**	**–**	**47,094**	**4.45**	**94,723**	**4.94**	**390,665**	**1.65**
Total debt securities	**$ 2,242**	**3.51%**	**$ 96,716**	**2.93**	**$ 237,734**	**3.17%**	**$ 601,472**	**1.76%**

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, 2021, 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 1.72% in 2021 and 2.04% in 2020. The decrease in the average yield from 2021 to 2020 was primarily attributed to the purchase of new securities which have a lower yield.

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Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years 2021, 2020, and 2019.

	2021		2020		2019	
(Dollars in thousands)	**Average Amount**	**Average Rate**	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-bearing demand deposits	**$ 449,445**	**–**	$ 294,008	–	$ 208,320	–
Interest-bearing demand and savings deposits	**1,073,824**	0.09%	787,030	0.24%	640,180	0.67%
Time deposits	**297,704**	0.56%	305,374	1.22%	361,319	1.60%
Total deposits	**$ 1,820,973**	0.14%	$ 1,386,412	0.40%	$1,209,819	0.83%

The following table presents the maturities of the Company's time deposits as of December 31, 2021.

(Dollars in thousands)	**Time Deposits $250,000 or Greater**	**Time Deposits Less Than $250,000**	**Total**
Months to Maturity			
3 or less	**$ 18,171**	**$ 56,628**	**$ 74,799**
Over 3 through 6	**19,808**	**47,154**	**66,962**
Over 6 through 12	**17,415**	**91,676**	**109,091**
Over 12 Months	**18,013**	**80,363**	**98,376**
	$ 73,407	**$ 275,821**	**$ 349,228**

Average deposits increased $434.6 million in 2021 compared to 2020. The increase in 2021 included $286.8 million or 36.4% in interest-bearing demand and savings deposits while, at the same time, noninterest bearing deposits increased $155.4 million, or 52.9% and time deposits decreased $7.7 million, or 2.5%. The growth in our deposits is due primarily to acquisition of SouthCrest, combination of government stimulus programs, 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, 2021, the Company had $883,000, or 0.04% 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.

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

The following table summarizes commitments and contractual obligations outstanding at December 31, 2021.

	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	$ 88,448	$ 5,313	$ 3,000	$ 11,750	$ 68,385
Operating lease liabilities	665	493	172	–	–
Time Deposits	349,228	250,852	83,224	14,264	888
	$ 438,341	$ 256,658	$ 86,396	$ 26,014	$ 69,273
Other commitments:					
Loan commitments	$ 318,853	$ 191,067	$ 48,363	$ 7,105	$ 72,318
Standby letters of credit	4,869	2,923	1,946	–	–
	$ 323,722	$ 193,990	$ 50,309	$ 7,105	$ 72,318
Total contractual obligations and other commitments	$ 762,063	$ 450,648	$ 136,705	$ 33,119	$ 141,591

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, 2021 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, 2021 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."

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

At December 31, 2021, shareholders' equity totaled $217.7 million compared to $144.5 million at December 31, 2020. In addition to net income of $18.7 million, other significant changes in shareholders' equity during 2020 included $71.4 million issuance of common stock from SouthCrest acquisition, and $4.5 million of dividends declared on common stock. The accumulated other comprehensive loss component of stockholders' equity totaled $6.2 million at December 31, 2021 compared to accumulated other comprehensive income $6.8 million at December 31, 2020. 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 securities less goodwill, intangibles and disallowed deferred tax assets. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25% of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses.

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2021 was 11.28% and total Tier 1 and 2 risk-based capital was 12.05%. Both of these measures compare favorably with the regulatory minimum of 6.0% for Tier 1 and 8% for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2021 was 9.87%, which exceeds the regulatory minimum of 4.50%. The Company's Tier 1 leverage ratio as of December 31, 2021 was 7.25%, which exceeds the required ratio standard of 4.0%.

The Bank participate 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, 2021, average capital was $176.0 million representing 8.4% of average assets for the year. This compares to average capital of $138.0 million, representing 8.2% of average assets for 2020.

For the years ended December 31, 2021 and 2020, the Company did not have any material commitments for capital expenditures.

In 2021, the Company granted 187,600 restricted shares of common stock and these restricted shares vest over a three year period.

A cash dividend of $4.5 million and $3.8 million was paid for the year ended December 31, 2021 and 2020, respectively.

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, 2021 and 2020 were $197.2 million and $183.5 million, respectively. 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,

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

and to balance ready access with risk and cost. Through various asset/liability management strategies, a balance is maintained among goals of liquidity, safety and earnings potential. Internal policies that are consistent with regulatory liquidity guidelines are monitored and enforced by the Bank.

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2021, the available for sale bond portfolio totaled
$938.2 million At December 31, 2020, the available for sale bond portfolio totaled $380.8 million. Only marketable investment grade bonds are purchased. Although approximately 26% 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 56.3% as of December 31, 2021 and 73.3% as of December 31, 2020. 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, 2021 and December 31, 2020 were 54.9% 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, 2021 and December 31, 2020, the Bank had $73.4 million and $34.9 million, respectively, in certificates of deposit of $250,000 or more. These larger deposits represented 3.1% and 2.4% of total deposits as of December 31, 2021 and 2020, 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, 2021, the Company had $883,000 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, 2021, the Company had $99,000 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, 2021 and 2020, we had $51.7 million and $22.5 million, respectively, of outstanding advances from the FHLB. Based on the values of loans pledged as collateral, we had $574.7 million and $416.1 million of additional borrowing availability with the FHLB at December 31, 2021 and 2020, respectively.

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.

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

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 directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve Board have a material effect on the earnings of the Company.

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

Recently Issued Accounting Pronouncements

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

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

Market Risk and Interest Rate Sensitivity

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

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

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

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

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

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

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

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

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

Colony has modeled its baseline net interest income forecast assuming a flat interest rate environment with the federal funds rate at the Federal Reserve's targeted range of 0.25% and the prime rate of 3.25% at December 31, 2021. 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 6.83% and 13.80% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 3.18% 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)	**2021**	2020
+200	**13.80%**	12.55%
+100	**6.83%**	6.71%
Flat	**–%**	–%
-100	**-3.18%**	-2.19%

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.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Colony Bankcorp, Inc. and Subsidiaries Fitzgerald, Georgia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Colony Bankcorp, Inc. and Subsidiaries (the "Company") as of December 31, 2021 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. 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 audit 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 audit 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 Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides 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 was communicated or required to be communicated to the Audit Committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgement. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses
Description of the Matter

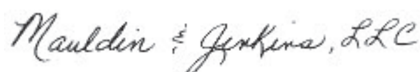
The Company's loan portfolio totaled $1.338 billion as of December 31, 2021, and the associated allowance for loan losses ("ALL") was $12.9 million. As discussed in Notes 1, 4, and 5 to the consolidated financial statements, the ALL is established to absorb probable credit losses inherent in the Company's loan portfolio. Management's estimate for the probable credit losses is established through quantitative, as well as qualitative, factors. The Company attributes portions of the allowance to loans that it evaluates individually and determines to be impaired. For non-impaired loans, the ALL is estimated based on historical default and/or loss information for pools of loans with similar risk characteristics and product types. The Company's methodology for determining the appropriate ALL also considers the imprecision inherent in the estimation process. As a result, management adjusts the ALL for consideration of the potential impact of qualitative factors, which include levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

Auditing management's estimate of the ALL involved a high degree of subjectivity in evaluating the qualitative factors that management assessed and the measurement of each qualitative factor. Management's assessment and measurement of the qualitative factors is highly judgmental and has a significant effect on the ALL.

How We Addressed the Matter in Our Audit

Our audit procedures related to the qualitative factors of the ALL included the following procedures, among others. We gained an understanding of the Company's process for establishing the ALL, including the identification and measurement of qualitative factors. We evaluated the design and documented the operating effectiveness of controls relevant to that process, including controls over the reliability of data from the loan systems, the completeness and accuracy of quantitative data, and the ALL methodology and assumptions. In doing so, we tested review and approval controls in the Company's governance process designed to identify and assess the need for and measurement of qualitative factors to estimate inherent credit losses associated with factors not captured fully in the quantitative components of the ALL.

With respect to the identification of qualitative factors, we evaluated 1) the potential impact of imprecision in the quantitative models (and hence the need to consider a qualitative adjustment to the ALL); 2) changes, assumptions and adjustments to the models; 3) sufficiency, availability, and relevance of historical loss data used in the models; and 4) the risk factors used in the models. Regarding measurement of the qualitative factors, we evaluated internal data utilized by management to estimate the appropriate level of the qualitative factors, as well as internal/external data produced by the Company's Credit Review functions, with consideration given to the reliability of the factors and existence of new and potentially contradictory information. We also evaluated the overall ALL balance taken as a whole inclusive of such qualitative factors.



We have served as the Company's auditor since 2021.

Albany, Georgia March 17, 2022

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Colony Bankcorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Colony Bankcorp, Inc. and its subsidiaries (the Company) as of December 31, 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, 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 the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 audit. 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 audit 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 audit 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 audit 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 audit 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 audit 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 was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved 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 matter 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 served as the Company's auditor from 1995 through 2021.

Macon, Georgia
March 23, 2022

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	**$ 18,975**	$ 17,218
Fed Funds sold and interest-bearing deposits in banks	**178,257**	166,288
Cash and cash equivalents	**197,232**	183,506
Investment securities available for sale, at fair value	**938,164**	380,814
Other investments	**14,012**	3,296
Loans held for sale	**38,150**	52,386
Loans	**1,337,977**	1,059,503
Allowance for loan losses	**(12,910)**	(12,127)
Net loans	**1,325,067**	1,047,376
Premises and equipment	**43,033**	32,057
Other real estate owned	**281**	1,006
Goodwill	**52,906**	15,992
Other intangible assets	**7,389**	2,271
Bank-owned life insurance	**55,159**	31,547
Deferred income taxes, net	**3,644**	134
Other assets	**16,678**	13,589
Total assets	**$ 2,691,715**	$ 1,763,974
Liabilities and stockholders' equity		
Deposits		
Noninterest-bearing	**$ 552,576**	$ 326,999
Interest-bearing	**1,822,032**	1,118,028
Total deposits	**2,374,608**	1,445,027
Federal Home Loan Bank advances	**51,656**	22,500
Paycheck Protection Program Liquidity Facility	–	106,789
Other borrowed money	**36,792**	37,792
Other liabilities	**10,952**	7,378
Total liabilities	**$ 2,474,008**	$ 1,619,486
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, 2021 and 2020	–	–
Common stock, par value $1; 20,000,000 shares authorized, 13,673,898 and 9,498,783 shares issued and outstanding as of December 31, 2021 and 2020	**13,674**	9,499
Paid-in capital	**111,021**	43,215
Retained earnings	**99,189**	84,993
Accumulated other comprehensive (loss) income, net of tax	**(6,177)**	6,781
Total stockholders' equity	**217,707**	144,488
Total liabilities and stockholders' equity	**$ 2,691,715**	$ 1,763,974

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, 2021	2020
Interest income		
Loans, including fees	**$ 60,112**	$ 55,550
Deposits with other banks and short term investments	**214**	438
Investment securities	**10,260**	7,137
Total interest income	**70,586**	63,125
Interest expense		
Deposits	**2,601**	5,599
Federal Home Loan Bank advances	**691**	743
Paycheck Protection Program Liquidity Facility	**93**	205
Other borrowings	**1,012**	1,333
Total interest expense	**4,397**	7,880
Net interest income	**66,189**	55,245
Provision for loan losses	**700**	6,558
Net interest income after provision for loan losses	**65,489**	48,687
Noninterest income		
Service charges on deposits	**6,213**	5,293
Mortgage fee income	**13,213**	9,149
Gain on sales of SBA loans	**7,547**	1,600
Gain (loss) on sales of securities	**(87)**	926
Gain on sales of assets	**–**	1,082
Interchange fees	**6,929**	4,988
BOLI income	**1,041**	743
Other	**1,434**	463
Total noninterest income	**36,290**	24,244
Noninterest expenses		
Salaries and employee benefits	**45,596**	34,141
Occupancy and equipment	**6,149**	5,311
Acquisition related expenses	**4,617**	862
Information technology expense	**7,673**	5,746
Professional fees	**2,951**	2,250
Advertising and public relations	**2,657**	2,111
Communications	**1,373**	835
Writedown of building	**90**	582
FHLB prepayment penalty	**–**	925
Other	**7,519**	5,538
Total noninterest expense	**78,625**	58,301
Income before income taxes	**23,154**	14,630
Income taxes	**4,495**	2,815
Net income	**18,659**	11,815
Net income per share of common stock		
Basic	**$ 1.66**	$ 1.24
Diluted	**$ 1.66**	$ 1.24
Cash dividends declared per share of common stock	**$ 0.41**	$ 0.40
Weighted average shares outstanding, basic	**11,254,130**	9,498,783
Weighted average shares outstanding, diluted	**11,254,130**	9,498,783

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, 2021	2020
Net income	**$ 18,659**	$ 11,815
Other comprehensive income:		
Net unrealized gains (losses) on investment securities arising during the period	**(16,491)**	9,052
Tax effect	**3,463**	(1,901)
Reclassification adjustment for (gains) losses on sales of securities available for sale included in net income	**87**	(926)
Tax effect	**(17)**	194
Change in unrealized gains (losses) on securities available for sale, net of reclassification adjustment and tax effects	**(12,958)**	6,419
Comprehensive income	**$ 5,701**	$ 18,234

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, 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
Other comprehensive income	–	–	–	–	–	–	(12,958)	(12,958)
Dividends on common shares	–	–	–	–	–	(4,463)	–	(4,463)
Issuance of common stock	–	–	3,987,815	3,988	67,394	–	–	71,382
Issuance of restricted stock, net	–	–	187,300	187	(187)	–	–	–
Stock-based compensation expense	–	–	–	–	599	–	–	599
Net income	–	–	–	–	–	18,659	–	18,659
Balance, December 31, 2021	**–**	**$ –**	**13,673,898**	**$ 13,674**	**$ 111,021**	**$ 99,189**	**$ (6,177)**	**$ 217,707**

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, 2021	2020
Cash flows from operating activities		
Net income	**$ 18,659**	$ 11,815
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	**700**	6,558
Depreciation, amortization and accretion	**8,628**	5,859
Stock-based compensation expense	**599**	33
(Gains) losses on sales of securities available for sale	**87**	(926)
Net increase in servicing asset	**(1,040)**	(295)
Loss on sales and writedowns of other real estate and repossessions	**48**	8
(Gain) losses on sales of premises & equipment	**49**	(56)
Gain on sale of bank owned buildings	**(96)**	(1,028)
Writedowns on sale of bank owned buildings	**90**	582
Increase in bank owned life insurance	**(1,042)**	(743)
Gain on sales of SBA loans	**(7,547)**	(1,600)
Origination of loans held for sale	**(439,160)**	(315,929)
Proceeds from sales of loans held for sale	**460,943**	275,219
Change in other assets	**(654)**	(696)
Change in other liabilities	**(4,160)**	2,105
Net cash provided by (used in) operating activities	**36,104**	(19,094)
Cash flows from investing activities		
Purchases of investment securities available for sale	**(460,500)**	(181,685)
Proceeds from maturities, calls, and paydowns of investment securities available for sale	**103,002**	96,999
Proceeds from sales of investment securities available for sale	**96,781**	58,069
Net change in loans	**28,450**	(94,623)
Purchase of premises and equipment	**(5,838)**	(4,241)
Proceeds from sales of other real estate and repossessions	**1,360**	2,363
Purchase of equity securities	**(9,500)**	–
Purchase of bank-owned life insurance	**–**	(10,000)
Proceeds from bank owned life insurance	**752**	825
Redemption (purchase of) Federal Home Loan Bank stock	**2,308**	992
Proceeds from sale of bank owned buildings	**1,535**	–
Proceeds from sales of premises and equipment	**17**	1,035
Net cash and cash equivalents received from bank acquisition	**37,511**	–
Net cash and cash equivalents paid in insurance acquisitions	**(4,210)**	–
Net cash used in investing activities	**(208,332)**	(130,266)
Cash flows from financing activities		
Change in noninterest-bearing customer deposits	**86,307**	94,364
Change in interest-bearing customer deposits	**211,899**	56,921
Dividends paid on common stock	**(4,463)**	(3,800)
Proceeds from Paycheck Protection Program Liquidity Fund	**–**	134,500
Repayment of Paycheck Protection Program Liquidity Fund	**(106,789)**	(27,711)
Proceeds from Federal Home Loan Bank advances	**–**	14,000
Repayments of Federal Home Loan Bank advances	**–**	(38,500)
Repayments of other borrowings	**(1,000)**	(1,000)
Net cash provided by financing activities	**185,954**	228,774
Net increase in cash and cash equivalents	**13,726**	79,414
Cash and cash equivalents at beginning of period	**183,506**	104,092
Cash and cash equivalents at end of period	**$ 197,232**	$ 183,506
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	**$ 4,387**	$ 7,821
Cash paid during the period for income taxes	**3,859**	2,450
Noncash investing and financing activities		
Acquisition of real estate through foreclosure	**145**	2,057
Change in goodwill	**–**	485

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. The Company also provides an option for its customers to purchase insurance services including vehicle, home, renters and life insurance. Additionally, Colony Risk Management, Inc. is a subsidiary of the Company and is located in Las Vegas, Nevada. It is a captive insurance subsidiary which insures various liability and property damage policies for the Company and its related subsidiaries. Colony Risk Management is regulated by the State of Nevada Division of Insurance.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of 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.

During 2020, the Federal Reserve stopped requiring the Bank to maintain a reserve requirement. The Federal Reserve Bank does not have plans to reimplement a reserve requirement in the near future, but did reserve the right to require a reserve requirement at a future date.

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, 2021 and 2020, 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 managed investment funds which are carried at their fair value and unrealized gains or losses are recorded through earnings as a component of noninterest income.

Federal Home Loan Bank ("FHLB") and First National Bankers Bank ("FNBB") stock are also included in other investments. These investments do not have a readily determinable market value due to restrictions placed on transferability and therefore are carried at cost.

These other 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 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

Notes to Consolidated Financial Statements

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 the staff appraiser and appraisal department. 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 25 percent to account for selling and marketing costs if the repayment of the loan is to come from the sale of the collateral. Although appraisals may not be obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management's knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the initial appraisal was performed.

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

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. Concessions may include interest rate reductions to below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company's policy requires a restructure request to be supported by a current, well-documented credit evaluation of the

Notes to Consolidated Financial Statements

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, Senior Credit Officer, Director of Administration or Regional 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 and customer relationship 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. The customer relationship intangible is associated with the acquisition of several insurance companies during 2021. The customer intangible assets were also initially recognized based on independent valuations performed as of the acquisition date and are being amortized by the straight-line method over 10 years.

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 2021, 2020, 2019 and 2018 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, 2021 and 2020, 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. Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income as total comprehensive income.

Fair Value Measures

Fair values of assets and liabilities are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17. 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.

Accounting Standards Updates Pending Adoption

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* This ASU sets forth a "current expected credit loss" (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supported forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. On October 16, 2019, the Financial Accounting Standards Board ("FASB") voted to extend the delay of the effective date of this ASU for smaller reporting companies, such as the Company, until fiscal years beginning after December 15, 2022. The Company is currently assessing the impact of the adoption of this ASU on its 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

Notes to Consolidated Financial Statements

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 adopted this standard as of January 1, 2021. The adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force)*. This update clarifies whether an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative and how to account for certain forward contracts and purchased options to purchase securities. For public entities, this guidance is effective for fiscal years beginning after December 15, 2020. The Company adopted this standard as of January 1, 2021. The adoption of this standard did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 provides 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. The amendments are effective for the Company as of March 12, 2020 through December 31, 2022. The provisions of ASU 2020-04 did not have a material impact on the consolidated financial statements.

2. BUSINESS COMBINATIONS

Acquisition of SouthCrest Financial Group

On August 1, 2021, the Company completed its acquisition of SouthCrest Financial Group, Inc. ("SouthCrest"), a bank holding company headquartered in Atlanta, Georgia. Upon consummation of the acquisition, SouthCrest was merged with and into the Company, with Colony Bankcorp, Inc. as the surviving entity in the merger. Immediately following the holding company merger, SouthCrest's wholly owned bank subsidiary, SouthCrest Bank, N.A. was also merged with and into the Bank. The acquisition expanded the Company's market presence, as SouthCrest Bank, N.A. had eight full-service banking locations, one in Cedartown, Chickamauga, Cumming, Fayetteville, Luthersville, Manchester, Rockmart and Thomaston, Georgia. Under the terms of the Agreement and Plan of Merger, each SouthCrest shareholder had the option to receive either $10.45 in cash or 0.7318 shares of the Company's common stock in exchange for each share of SouthCrest stock. As a result, the Company issued 3,987,815 common shares at a fair value of $71.4 million and paid $21.6 million in cash to the former shareholders of SouthCrest as merger consideration.

The merger was effected by the issuance of shares of the Company's common stock along with cash consideration to shareholders of SouthCrest. The assets and liabilities of SouthCrest 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 $35.0 million was recorded as part of the SouthCrest acquisition and is not expected to be deductible for income tax purposes.

In periods following the merger, the financial statements of the combined entity will include the results attributable to SouthCrest beginning on the date the merger was completed. For the twelve month period ended December 31, 2021, the revenues attributable to SouthCrest were approximately $7.9 million. In the twelve month period ended December 31, 2021, the net income attributable to SouthCrest was approximately $6.0 million.

Notes to Consolidated Financial Statements

The supplemental consolidated pro-forma impact to 2020 revenues if the merger had occurred on January 1, 2020 would have been $114.7 million for year ended December 31, 2020. The supplemental consolidated pro-forma impact to 2020 net income if the merger had occurred on January 1, 2020 would have been $11.6 million for the year ended December 31, 2020. The supplemental consolidated pro-forma impact to 2021 revenues if the merger had occurred on January 1, 2020 would have been $121.9 million for the year ended December 31, 2021. The supplemental consolidated pro-forma impact to 2021 net income if the merger had occurred on January 1, 2020 would have been $20.8 million for the year ended December 31, 2021. While certain adjustments were made for the estimated impact of certain fair value adjustments, they are not indicative of what would have occurred had the merger taken place on the indicated date nor are they intended to represent or be indicative of future results of operations. In particular, no adjustments have been made to eliminate the amount of SouthCrest's provision for credit losses or any adjustments to estimate any additional income that would have been recorded as a result of fair value adjustments for 2020 that may have occurred had the acquired loans been recorded at fair value as of the beginning of 2020. In addition, there are no adjustments to reflect any expenses that potentially could have been reduced for 2020 had the merger occurred on January 1, 2020.

The following table presents the assets acquired and liabilities assumed of SouthCrest as of August 1, 2021, and their fair value estimates. The fair value estimates are subject to refinement for up to one year after the closing date of the acquisition for new information obtained about facts and circumstances that existed at the acquisition date. The Company continues its evaluation of the facts and circumstances available as of August 1, 2021, to assign fair values to assets acquired and liabilities assumed, which could result in further adjustments to the fair values presented below.

(Dollars in thousands, except market price)	Initial Fair Value Adjustments
Purchase price consideration:	
Shares of CBAN common stock issued to SouthCrest shareholders as of August 1, 2021	3,987,815
Market price of CBAN common stock on July 30, 2021	$ 17.90
Estimated fair value of CBAN common stock issued	71,382
Cash consideration paid	21,620
Total consideration	$ 93,002
Assets acquired at fair value:	
Cash and cash equivalents	$ 59,131
Investments securities available for sale	317,857
Restricted investments	3,196
Loans	307,456
Premises and equipment	8,543
Core deposit intangible	4,025
Other real estate	538
Prepaid and other assets	25,393
Total fair value of assets acquired	$ 726,139
Liabilities assumed at fair value:	
Deposits	$ (631,375)
FHLB advances	(29,064)
Payables and other liabilities	(7,735)
Total fair value of liabilities assumed	$ (668,174)
Net assets acquired at fair value:	$ 57,965
Amount of goodwill resulting from acquisition	$ 35,037

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

Notes to Consolidated Financial Statements

In the acquisition, the Company purchased $307.5 million of loans at fair value, net of $635,000, or 0.21%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified $1.2 million 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	$ 1,154
Non-accretable difference	–
Cash flows expected to be collected	1,154
Accretable yield	–
Total purchased credit-impaired loans acquired	$ 1,154

The following table presents the acquired loan data for the SouthCrest 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	$ 1,154	$ 1,154	$ –
Acquired receivables not subject to ASC 310-30	$ 306,302	$ 306,302	$ –

Formation of Colony Insurance

On August 1, 2021, September 1, 2021 and October 1, 2021, the Company acquired several insurance agencies and formed Colony Insurance, a division of the Bank and recorded goodwill of $1.9 million and customer deposit intangibles of $2.3 million.

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, 2021				
U.S. treasury securities	**$ 88,638**	**$ –**	**$ (1,087)**	**$ 87,551**
U.S. agency	**17,916**	**5**	**(140)**	**17,781**
State, county and municipal securities	**252,632**	**877**	**(3,356)**	**250,153**
Corporate debt securities	**48,153**	**520**	**(265)**	**48,408**
Mortgage-backed securities	**539,172**	**2,160**	**(7,061)**	**534,271**
Total debt securities	**$ 946,511**	**$ 3,562**	**$ (11,909)**	**$ 938,164**

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(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

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 More**		**Total**	
(Dollars in thousands)	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
December 31, 2021						
U.S. treasury securities	**$ 87,302**	**$ (1,087)**	**$ –**	**$ –**	**$ 87,302**	**$ (1,087)**
U.S. agency	**10,969**	**(140)**	**–**	**–**	**10,969**	**(140)**
State, county and municipal securities	**180,551**	**(3,131)**	**5,970**	**(225)**	**186,521**	**(3,356)**
Corporate debt securities	**31,977**	**(265)**	**–**	**–**	**31,977**	**(265)**
Mortgage-backed securities	**377,413**	**(6,421)**	**21,129**	**(640)**	**398,542**	**(7,061)**
Total debt securities	**$ 688,212**	**$(11,044)**	**$ 27,099**	**$ (865)**	**$ 715,311**	**$ (11,909)**
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)

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, 2021, 272 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.

Notes to Consolidated Financial Statements

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.

The amortized cost and fair value of investment securities as of December 31, 2021, 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	$ 453	$ 453
Due after one year through five years	49,599	49,622
Due after five years through ten years	144,692	143,011
Due after ten years	212,595	210,807
	$ 407,339	$ 403,893
Mortgage-backed securities	539,172	534,271
	$ 946,511	$ 938,164

Proceeds from sales of investments available for sale were $96.8 million in 2021 and $58.1 million in 2020. Gross realized gains totaled $391,000 in 2021 and $1,228,000 in 2020. Gross realized losses totaled $478,000 in 2021 and $302,000 in 2020.

Investment securities having a carrying value totaling $247.4 million and $126.5 million as of December 31, 2021 and 2020, 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, 2021 and 2020. Purchased loans are defined as loans that were acquired in bank acquisitions.

	December 31, 2021		
(Dollars in thousands)	Legacy Loans	Purchased Loans	Total
Construction, land and land development	$ 119,953	$ 45,493	$ 165,446
Other commercial real estate	595,739	191,653	787,392
Total commercial real estate	715,692	237,146	952,838
Residential real estate	159,469	53,058	212,527
Commercial, financial, and agricultural(*)	113,040	41,008	154,048
Consumer and other	16,003	2,561	18,564
Total loans	$1,004,204	$ 333,773	$1,337,977

Notes to Consolidated Financial Statements

(Dollars in thousands)	December 31, 2020 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

(*) Includes $9.0 million and $101.1 million in PPP loans as of December 31, 2021 and 2020, respectively.

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 10. A description of the general characteristics of the grades is as follows:

- Grades 1, 2 and 3 - Borrowers with these assigned risk grades range 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 4 and 5 - 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. These loans are also included in into the "pass" classification.

- Grade 6 - 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

- Grades 7 and 8 - These grades 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 grade 8, 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 9 and 10 - 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 7 or 8.

The following tables present the loan portfolio, excluding purchased loans, by credit quality indicator (risk grade) as of December 31, 2021. Those loans with a risk grade of 1, 2, 3, 4, and 5 have been combined in the pass column for presentation purposes. For the periods ending December 31, 2021, 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	$ 116,524	$ 3,154	$ 275	$ 119,953
Other commercial real estate	527,227	60,719	7,793	595,739
Total commercial real estate	643,751	63,873	8,068	715,692
Residential real estate	148,507	5,733	5,229	159,469
Commercial, financial, and agricultural	100,282	11,460	1,298	113,040
Consumer and other	15,787	78	138	16,003
Total loans	$ 908,327	$ 81,144	$ 14,733	$ 1,004,204

The following table presents the purchased loan portfolio by credit quality indicator (risk grade) as of December 31, 2021.

(Dollars in thousands)	Pass	Special Mention	Substandard	Total Loans
Construction, land and land development	$ 45,432	$ –	$ 61	$ 45,493
Other commercial real estate	186,905	3,518	1,230	191,653
Total commercial real estate	232,337	3,518	1,291	237,146
Residential real estate	49,875	563	2,620	53,058
Commercial, financial, and agricultural	40,711	–	297	41,008
Consumer and other	2,558	3	–	2,561
Total loans	$ 325,481	$ 4,084	$ 4,208	$ 333,773

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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 and 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, and agricultural	196,749	2,870	1,181	200,800
Consumer and 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 and 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, and agricultural	10,198	1,803	579	12,580
Consumer and other	2,364	25	192	2,581
Total loans	$ 79,571	$ 2,434	$ 2,925	$ 84,930

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.

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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, 2021:

(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	$ 6	$ –	$ 6	$ –	$ 119,947	$ 119,953
Other commercial real estate	349	–	349	577	594,813	595,739
Total commercial real estate	355	–	355	577	714,760	715,692
Residential real estate	421	–	421	2,641	156,407	159,469
Commercial, financial, and agricultural	69	–	69	708	112,263	113,040
Consumer & other	93	–	93	26	15,884	16,003
Total loans	$ 938	$ –	$ 938	$3,952	$ 999,314	$1,004,204

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, 2021:

(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	$ 2,680	$ –	$ 2,680	$ 31	$ 42,782	$ 45,493
Other commercial real estate	–	–	–	260	191,393	191,653
Total commercial real estate	2,680	–	2,680	291	234,175	237,146
Residential real estate	560	–	560	1,198	51,300	53,058
Commercial, financial, and agricultural	389	–	389	–	40,619	41,008
Consumer & other	–	–	–	8	2,553	2,561
Total loans	$ 3,629	$ –	$ 3,629	$1,497	$ 328,647	$ 333,773

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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

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The following table details impaired loan data, including purchased credit impaired loans, as of December 31, 2021:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land and land development	$ 62	$ 62	$ –	$ 4,311
Other commercial real estate	7,203	6,369	–	8,113
Residential real estate	958	997	–	1,083
Commercial, financial and agricultural	75	75	–	56
Consumer and other	–	–	–	–
Total impaired loans with no allowancee	8,298	7,503	–	13,563
With an allowance recorded				
Construction, land and land development	–	–	–	–
Other commercial real estate	430	483	148	4,429
Residential real estate	685	773	108	1,029
Commercial, financial and agricultural	–	–	–	79
Consumer and other	–	–	–	1
Total impaired loans with allowance	1,115	1,256	256	5,538
Purchased credit impaired loans				
Construction, land & land development	–	–	–	51
Other commercial real estate	2,003	1,916	18	802
Residential real estate	4	–	6	7
Commercial, financial and agricultural	–	–	–	35
Consumer and other	192	73	96	72
Total purchased credit impaired loans	2,199	1,989	120	967
Total				
Construction, land and land development	62	62	–	4,362
Other commercial real estate	9,636	8,768	166	13,344
Residential real estate	1,647	1,770	114	2,119
Commercial, financial and agricultural	75	75	–	170
Consumer and other	192	73	96	73
	$ 11,612	$ 10,748	$ 376	$ 20,068

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Interest income recorded on impaired loans during the year ended December 31, 2021 was $570,000, 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 $1.2 million for the year ended December 31, 2021.

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

(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	–	–	–	–
	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	–	–	–	–
	7,876	7,865	1,925	7,766
Purchase credit impaired				
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
	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

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

- *Interest rate reductions* - Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.

- *Amortization or maturity date changes* - Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.

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

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2021. The Company had four loan contracts totaling 647,000 restructured and one of these loans which was a construction, land and development loan for $511,000 was subsequently paid off during 2021.

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.

There were two loan contracts restructured at December 31, 2021. Both modifications were payment deferral modifications. The loans consisted of two residential real estate loans totaling $136,000. Both residential real estate loans were also placed on non-accrual status as of December 31, 2021. 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 totaling $494,000 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. The two commercial real estate loans were also placed on non-accrual status as of December 31, 2020; the remaining TDR loans were accruing. During 2021 and 2020, the Company had no loans that subsequently defaulted.

Notes to Consolidated Financial Statements

Modifications in Response to COVID-19

Certain borrowers were unable to meet their contractual payment obligations because of the adverse effects of the COVID-19 pandemic. To help mitigate these effects, loan customers applied 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, 2021, the Company had no loans under modified terms. 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, 2021. 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, 2021						
Beginning balance	$ 1,013	$ 6,880	$ 2,278	$ 1,713	$ 243	$ 12,127
Charge-offs	–	(568)	(3)	(274)	(68)	(913)
Recoveries	466	118	274	91	47	996
Provision	(352)	1,261	(744)	(447)	982	700
Ending balance	$ 1,127	$ 7,691	$ 1,805	$ 1,083	$ 1,204	$ 12,910
Period-end amount allocated to:						
Individually evaluated for impairment	$ –	$ 148	$ 108	$ –	$ –	$ 256
Collectively evaluated for impairment	1,127	7,525	1,691	1,083	1,108	12,534
Purchase credit impaired	–	18	6	–	96	120
Ending balance	$ 1,127	$ 7,691	$ 1,805	$ 1,083	$ 1,204	$ 12,910
Loans:						
Loans individually evaluated for impairment	$ 62	$ 6,852	$ 1,770	$ 75	$ –	$ 8,759
Loans collectively evaluated for impairment	165,384	778,624	210,757	153,973	18,491	1,327,229
Purchased credit impaired	–	1,916	–	–	73	1,989
Ending balance	$ 165,446	$ 787,392	$ 212,527	$ 154,048	$ 18,564	$1,337,977

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, 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
Purchase credit impaired	94	–	11	46	96	247
Ending balance	$ 121,093	$ 520,391	$ 183,021	$ 213,380	$ 21,618	$ 1,059,503

6. PREMISES AND EQUIPMENT

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

(Dollars in thousands)	**2021**	2020
Land	**$ 11,848**	$ 10,576
Building	**38,777**	28,671
Furniture, fixtures and equipment	**17,792**	14,091
Leasehold improvements	**1,073**	797
Construction in progress	**1,946**	1,860
Total cost	**71,436**	55,995
Accumulated depreciation	**(28,403)**	(23,938)
Total premises and equipment	**$ 43,033**	$ 32,057

Depreciation charged to operations totaled $2.7 million in 2021 and $2.3 million in 2020. Construction in progress consists of building and land improvements to three of the Company's bank branches. Cost to complete these projects is expected not to exceed $20,000.

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, 2021 and 2020:

(Dollars in thousands)	**2021**	2020
Balance, Beginning of year	**$ 1,006**	$ 1,320
Loans transferred to other real estate	**145**	2,057
Acquired in acquisitions	**538**	–
Sales proceeds	**(1,360)**	(2,363)
Net gain/(loss) on sale and writedowns	**(48)**	(8)
Ending balance	**$ 281**	$ 1,006

8. GOODWILL AND INTANGIBLE ASSETS

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

	2021		2020	
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Core deposit intangible	**$ 7,685**	**$ 2,464**	$ 3,660	$ 1,389
Customer relationship intangible	**2,250**	**82**	–	–
Total	**9,935**	**2,546**	3,660	1,389
Unamortizable intangible assets:				
Goodwill	**$ 52,906**		$ 15,992	

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

(1) In connection with the SouthCrest, Inc. acquisition on August 1, 2021, the Company recorded $4.0 million in core deposit intangible and $35.0 million in goodwill.

(2) In connection with insurance acquisitions that occurred on August 1, 2021, September 1, 2021, and October 1, 2021, the Company recorded $2.3 million in customer deposit intangibles and $1.9 million in goodwill.

(3) 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.

(4) 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 $1.2 million and $785,000 at December 31, 2021 and 2020, respectively. The estimated future amortization expense for intangible assets remaining as of December 31, 2021 is as follows:

(Dollars in thousands)	**Amount**
2022	**$ 1,726**
2023	**1,471**
2024	**1,217**
2025	**962**
2026	**658**
Thereafter	**1,355**
Total	**$ 7,389**

Notes to Consolidated Financial Statements

9. INCOME TAXES

The income tax expense in the consolidated statements of income for the years ended December 31, 2021 and 2020 are as follows:

(Dollars in thousands)	**2021**	2020
Current federal expense	**$ 5,316**	$ 3,965
Deferred federal expense	**(661)**	(1,150)
Federal income tax expense	**4,655**	2,815
Current state expense	**663**	–
Deferred state expense	**(823)**	–
State income tax expense	**$ (160)**	$ –
Provision for income taxes	**$ 4,495**	$ 2,815

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, 2021 and 2020 is as follows:

(Dollars in thousands)	**2021**	2020
Tax at federal income tax rate	**$ 4,862**	$ 3,072
Change resulting from:		
State taxes	**(126)**	–
Tax-exempt interest	**(404)**	(253)
Income in cash value of bank owned life insurance	**(219)**	(156)
Nondeductible merger expenses	**222**	–
Other	**160**	152
Provision for income taxes	**$ 4,495**	$ 2,815

The components of deferred income taxes for the years ended December 31, 2021 and 2020 are as follows:

(Dollars in thousands)	**2021**	2020
Deferred tax assets		
Allowance for loan losses	**$ 3,290**	$ 1,958
Lease liability	**169**	109
Net operating loss carryforwards	**272**	272
Other real estate	**–**	48
Deferred compensation	**297**	147
Unrealized loss on securities available for sale	**2,170**	–
Restricted stock	**166**	10
Purchase accounting adjustments	**–**	202
Investment in partnerships	**232**	191
Other	**19**	87
Gross deferred tax assets	**6,615**	3,024
Deferred tax liabilities		
Premises and equipment	**267**	604
Right of use lease asset	**164**	107
Unrealized gain on securities available for sale	**–**	1,803
Purchase accounting adjustments	**1,322**	–
Core deposit intangible	**1,218**	376
Gross deferred tax liabilities	**2,971**	2,890
Net deferred tax assets	**$ 3,644**	$ 134

Notes to Consolidated Financial Statements

10. DEPOSITS

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $626,000 and $406,000 as of December 31, 2021 and 2020, respectively.

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

(Dollars in thousands)	**2021**	2020
Interest-bearing demand	**$ 930,811**	$ 433,554
Savings and money market deposits	**541,993**	422,860
Time, $250,000 and over	**73,407**	34,905
Other time	**275,821**	226,709
Total interest-bearing deposits	**$ 1,822,032**	$1,118,028

At December 31, 2021 and 2020, the Company had brokered deposits of $883,000 and $1.1 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 $73.4 million and $34.9 million as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)	**Amount**
Year ending December 31	
2022	**$ 250,852**
2023	**53,544**
2024	**29,680**
2025	**8,048**
2026	**6,216**
Thereafter	**888**
Total time deposits	**$ 349,228**

11. BORROWINGS

The following table presents information regarding the Company's outstanding borrowings at December 31, 2021:

(Dollars in thousands)

Description	**Maturity Date**	**Amount**	**Interest Rate**
FHLB Advances	**February 3, 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%**
FHLB Advances	**July 11, 2029**	**10,000**	**1.03%**
FHLB Advances	**November 9, 2029**	**20,000**	**1.07%**
Term Note	**May 24, 2025**	**7,250**	**4.70%**
Revolving Credit	**July 30, 2022**	**5,313**	**2.85%**
Subordinated debentures	**(2)**	**24,229**	**(3)**
Fair Value Adjustment for FHLB Borrowings acquired from SouthCrest		**(844)**	
Total borrowings		**$ 88,448**	

Notes to Consolidated Financial Statements

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	February 3, 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	2.85%
Subordinated debentures	(2)	24,229	(3)
Total borrowings		$ 167,081	

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

(2) See maturity dates in table below.

(3) Interest rates for all subordinated debentures are at the three-month LIBOR plus added points as noted 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, 2021 and 2020, the lendable collateral value of those loans pledged was $130.3 million and $88.2 million, respectively. At December 31, 2021, the Company had remaining credit availability from the FHLB of $574.7 million. At December 31, 2020, the Company had remaining credit availability from the FHLB of $416.1 million. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

At December 31, 2021 and 2020, the Company also has available federal funds lines of credit with various financial institutions totaling $64.5 million and $41.5 million, respectively, of which there were none outstanding at December 31, 2021 and 2020.

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, 2021, 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. This line of credit was secured by PPP loans and bore 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. The Company's PPPLF was paid off in second quarter of 2021.

On May 1, 2019, the Company entered into two borrowing arrangements with a correspondent bank for $10.0 million each. The term note is secured by the Bank's stock, expires on May 24, 2025, and bears a variable interest rate of Wall Street Journal Prime minus 0.40%. The proceeds were used for the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of December 31, 2021, the outstanding balance on the term note and the line of credit were $7.3 million and $5.3 million, respectively. As of December 31, 2020, the outstanding balance totaled of the term note and the line of credit were $8.3 million and $5.3 million, respectively.

Notes to Consolidated Financial Statements

12. SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

The following table presents the information regarding the Company's subordinated debentures at December 31, 2021 and 2020. All subordinated debentures are at three month LIBOR rat plus added points noted below at December 31, 2021 and 2020.

(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 2024. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheet. With the adoption of Topic 842, operating lease arrangements are required to be recognized on the consolidated balance sheet as a right-of-use ("ROU") asset and a corresponding lease liability.

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

(Dollars in thousands)	Classification	December 31, 2021	December 31, 2020
Assets			
Operating lease right-of-use assets	Other assets	$ 645	$ 511
Liabilities			
Operating lease liabilities	Other liabilities	$ 663	$ 517

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

Notes to Consolidated Financial Statements

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, 2021 and 2020, operating lease cost was $351,000 and $243,000, respectively.

As of December 31, 2021, the weighted average remaining lease term was 1.44 years and the weighted average discount rate was 0.51%. The following table represents the future maturities of the Company's operating lease liabilities and other lease information.

(Dollars in thousands)	**Lease Liability**
Year	
2022	**493**
2023	**148**
2024	**24**
Total lease payments	**665**
Less: interest	**(2)**
Present value of lease liabilities	**$ 663**

(Dollars in thousands)	**December 31, 2021**	December 31, 2020
Supplemental lease information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases (cash payments)	**$ 335**	$ 238
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	**742**	196

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 2021 and 2020, the Company made total contributions of $1.4 million and $1.1 million 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 $1.2 million and $698,000 as of December 31, 2021 and 2020, respectively. Benefits accrued monthly under the contracts totaled $43,000 in 2021 and $75,000 in 2020. Payments were $136,000 in 2021 and were $153,000 in 2020.

The Company has purchased life insurance policies on the plans' participants and uses the cash flow from these policies to partially fund the plan. There was no fee income recognized in 2021 and $212,000 in 2020.

Notes to Consolidated Financial Statements

On July 1, 2021, the Company granted total awards of 187,600 restricted shares of the Company's common stock to various bank employees, with a market price of $18.41 per share. The restricted shares vest in equal installments on each of July 1, 2022, 2023, and 2024, subject to continued service 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 employees 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.

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. At December 31, 2021 the shares were fully vested. 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. Total compensation expense unrecognized for the restricted shares granted for the year ended December 31, 2021 was $2.8 million, which is expected to be recognized over a weighted average period of 2.5 years. Compensation expense recognized for the years ended December 31, 2021 and 2020 was $599,000 and
$33,000, 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.

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
(Dollars in thousands)	**2021**	2020
Commitments to extend credit	**$ 318,853**	$ 198,029
Standby letters of credit	**4,869**	3,634

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.

Notes to Consolidated Financial Statements

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)	**2021**	2020
Balance, beginning	**$ 5,043**	$ 6,407
New loans	**6,576**	4,462
Repayments	**(5,721)**	(5,826)
Transactions due to changes in directors	**1,834**	–
Balance, ending	**$ 7,732**	$ 5,043

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.

Notes to Consolidated Financial Statements

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 - The fair value of other bank stock approximates carrying value and is classified as Level 2. Fair values for investment funds 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.

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.

2 - 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. Loans 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.

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 Program Liquidity Facility - The fair value of PPPLF is estimated by discounting the future cash flows using the current rates at which similar advances would be obtained. PPPLF 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.

Notes to Consolidated Financial Statements

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

(Dollars in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
December 31, 2021					
Assets					
Cash and short-term investments	**$ 197,232**	**$ 197,232**	**$ 197,232**	**$ –**	**$ –**
Investment securities available for sale	**938,164**	**938,164**	**87,551**	**850,613**	**–**
Other investments	**14,012**	**14,012**	**5,574**	**4,183**	**4,255**
Loans held for sale	**38,150**	**38,150**	**–**	**38,150**	**–**
Loans, net	**1,325,067**	**1,328,853**	**–**	**–**	**1,328,853**
Liabilities					
Deposits	**2,374,608**	**2,375,385**	**–**	**2,375,385**	**–**
Federal Home Loan Bank advances	**51,656**	**51,162**	**–**	**51,162**	**–**
Other borrowed money	**36,792**	**36,796**	**–**	**36,796**	**–**
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	–

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Notes to Consolidated Financial Statements

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

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, 2021 and 2020, 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, 2021 and 2020. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

		Fair Value Measurements at Reporting Date Using		
(Dollars in thousands)	**Total Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2021				
Nonrecurring				
Impaired loans	**$ 1,837**	**$ –**	**$ –**	**$ 1,837**
Other real estate	**$ 281**	**$ –**	**$ –**	**$ 281**
December 31, 2020				
Nonrecurring				
Impaired loans	$ 5,939	$ –	$ –	$ 5,939
Other real estate	$ 1,006	$ –	$ –	$ 1,006

Notes to Consolidated Financial Statements

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2021 and 2020. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

(Dollars in thousands)	**December 31, 2021**	**Valuation Techniques**	**Unobservable Inputs**	**Range Weighted Avg**
Impaired loans	**$ 1,837**	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	**25%-100%**
Other real estate	**$ 281**	Appraised value/ Comparable sales	Discounts to reflect current market conditions and estimated costs to sell	**0%-20%**

(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%

The following table presents quantitative information about recurring level 3 fair value measurements as of December 31, 2021.

	December 31, 2021			
(Dollars in thousands)	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range Weighted Avg**
Other investments	**$ 4,255**	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.

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 year ended December 31, 2021 and 2020:

	Available for Sale Securities	
(Dollars in thousands)	**2021**	2020
Beginning balance	**$ –**	$ 2,022
Additions	**4,107**	–
Total unrealized/realized gains included in earnings	**148**	–
Unrealized loss included in other comprehensive income (loss)	**–**	(21)
Transfer to Level 2	**–**	(2,001)
Ending balance	**$ 4,255**	$ –

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.

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, 2021, 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, 2021, 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 is
2.5 percent of risk-weighted assets.

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.

The following table summarizes regulatory capital information as of December 31, 2021 and December 31, 2020 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for December 31, 2021 and 2020 were calculated in accordance with the Basel III rules.

Notes to Consolidated Financial Statements

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total capital to risk-weighted assets						
Consolidated	**$ 207,366**	**12.05%**	**$137,670**	**8.00%**	**N/A**	**N/A**
Colony Bank	**203,265**	**12.18**	**133,507**	**8.00**	**166,884**	**10.00%**
Tier I capital to risk-weighted assets						
Consolidated	**194,456**	**11.28**	**103,434**	**6.00**	**N/A**	**N/A**
Colony Bank	**190,355**	**11.41**	**100,099**	**6.00**	**133,465**	**8.00**
Common equity Tier 1 capital to risk-weighted assets						
Consolidated	**170,956**	**9.87**	**77,943**	**4.50**	**N/A**	**N/A**
Colony Bank	**190,355**	**11.41**	**75,074**	**4.50**	**108,441**	**6.50**
Tier I capital to average assets						
Consolidated	**194,456**	**7.25**	**107,286**	**4.00**	**N/A**	**N/A**
Colony Bank	**190,355**	**7.53**	**101,118**	**4.00**	**126,398**	**5.00**
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

Notes to Consolidated Financial Statements

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

The parent company's balance sheets as of December 31, 2021 and 2020 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

	December 31,	
(Dollars in thousands)	**2021**	2020
Assets		
Cash	**$ 7,304**	$ 2,672
Investment in subsidiaries	**245,614**	179,172
Other	**1,689**	570
Total Assets	**$ 254,607**	$ 182,414
Liabilities and stockholders' equity		
Liabilities		
Other borrowed money	**$ 12,563**	$ 13,563
Other	**108**	134
Subordinated debt	**24,229**	24,229
Total Liabilities	**36,900**	37,926
Stockholders' equity		
Stockholders' Equity		
Common stock, par value $1.00; 20,000,000 shares authorized, 13,673,898 and 9,498,783 shares issued and outstanding as of December 31, 2021 and 2020, respectively	**13,674**	9,499
Paid-in capital	**111,021**	43,215
Retained earnings	**99,189**	84,993
Accumulated other comprehensive income (loss), net of tax	**(6,177)**	6,781
Total stockholder's equity	**217,707**	144,488
Total liabilities and stockholders' equity	**$ 254,607**	$ 182,414

Notes to Consolidated Financial Statements

Statements of Income

(Dollars in thousands)	For The Years Ended December 31, 2021	2020
Income		
Dividends from subsidiaries	**$ 31,060**	$ 6,100
Other	**15**	28
Total income	**31,075**	6,128
Expenses		
Interest	**1,012**	1,223
Salaries and employee benefits	**371**	284
Other	**604**	428
Total expenses	**1,987**	1,935
Income before income taxes and equity in undistributed earnings (distributions in excess of earnings) of subsidiaries	**29,088**	4,193
Income tax benefit	**(731)**	(218)
Income before equity in undistributed earnings (distributions in excess of earnings) of subsidiaries	**29,819**	4,411
Equity in undistributed earnings (distributions in excess of earnings) of subsidiaries	**(11,160)**	7,404
Net income	**$ 18,659**	$ 11,815

Notes to Consolidated Financial Statements

Statements of Cash Flows

(Dollars in thousands)	For The Years Ended December 31, 2021	2020
Cash flows from operating activities		
Net income	**$ 18,659**	$ 11,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**–**	70
Stock-based compensation expense	**599**	33
Distribution in excess of earnings (equity in undistributed earnings) of subsidiaries	**11,160**	(7,404)
Change in interest payable	**1**	(51)
Other	**(1,146)**	(354)
Net cash provided by operating activities	**29,273**	4,109
Cash flows from investing activities		
Proceeds from sale of premises and equipment	**–**	1,314
Net cash and cash equivalents paid in bank acquisition	**(19,178)**	–
Net cash provided by investing activities	**(19,178)**	1,314
Cash flows from financing activities		
Net decrease in other borrowed money	**(1,000)**	(1,000)
Dividends paid on common stock	**(4,463)**	(3,800)
Net cash used in financing activities	**(5,463)**	(4,800)
Net increase in cash and cash equivalents	**4,632**	623
Cash and cash equivalents at beginning of period	**2,672**	2,049
Cash and cash equivalents at end of period	**$ 7,304**	$ 2,672

20. EARNINGS PER SHARE

The following table presents earnings per share for the years ended December 31, 2021 and 2020:

(Dollars in thousands, except per share amounts)	2021	2020
Numerator		
Net income available to common stockholders	**$ 18,659**	$ 11,815
Denominator		
Weighted average number of common shares outstanding for basic earnings per common share	**11,254,130**	9,498,783
Weighted average number of common shares outstanding for diluted earnings per common share	**11,254,130**	9,498,783
Earnings per share - basic	**$ 1.66**	$ 1.24
Earnings per share - diluted	**$ 1.66**	$ 1.24

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, 2021 and 2020:

	December 31, 2021			
(Dollars in thousands)	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Totals**
Net interest income	**$ 64,293**	**$ 543**	**$ 1,353**	**$ 66,189**
Provision for loan losses	**700**	**–**	**–**	**700**
Noninterest income	**14,889**	**13,189**	**8,212**	**36,290**
Noninterest expenses	**61,202**	**11,314**	**6,109**	**78,625**
Income taxes	**3,311**	**458**	**726**	**4,495**
Net income/(loss)	**$ 13,969**	**$ 1,960**	**$ 2,730**	**$ 18,659**
Total assets	**$ 2,620,501**	**$ 25,149**	**$ 46,065**	**$ 2,691,715**
Full time employees	**400**	**55**	**26**	**481**

	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
Full time employees	305	43	21	369

Market and Dividend Information

The common shares of Colony Bankcorp are listed on the NASDAQ Global Market under the symbol CBAN. As of March 16, 2022, there were 17,586,333 shares of our common stock outstanding held by 1,019 holders of record.

The following table sets forth the high and low common stock prices and cash dividends paid to public stockholders in 2020 and 2021:

2021	High	Low	Dividends Declared
First quarter	**$ 16.49**	**$ 13.70**	**$ 0.1025**
Second quarter	**$ 19.59**	**$ 14.50**	**$ 0.1025**
Third quarter	**$ 18.74**	**$ 16.80**	**$ 0.1025**
Fourth quarter	**$ 19.59**	**$ 16.30**	**$ 0.1025**

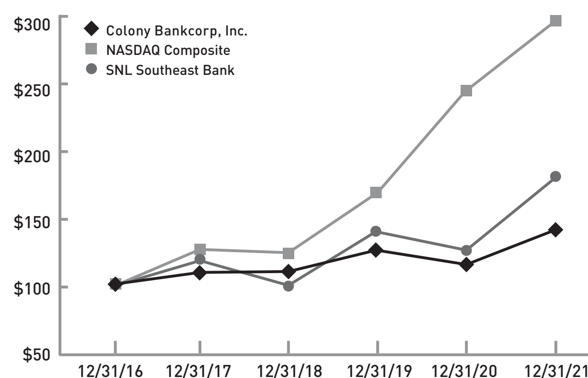
2020			
First quarter	$ 16.49	$ 9.55	$ 0.10
Second quarter	$ 14.39	$ 8.70	$ 0.10
Third quarter	$ 13.21	$ 9.52	$ 0.10
Fourth quarter	$ 15.00	$ 12.41	$ 0.10

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 has increased its dividend rate each year since dividends were reinstated in 2017 and continued to pay the dividend throughout the COVID-19 pandemic. In January 2021, Colony raised the quarterly rate to $0.1025 per share, which represents an indicated annual rate of $0.41 per share and over 300% growth in the annual dividend rate since 2017.

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, 2016, 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, 2016, 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	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Colony Bankcorp, Inc.	100.00	111.41	112.78	129.83	119.07	142.2
NASDAQ Composite	100.00	129.64	125.96	172.18	249.51	304.8
SNL Southeast Bank	100.00	123.70	102.20	144.05	129.15	184.4

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, 2021, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders as of the record date for the 2022 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 2022 Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on Thursday, May 19, 2022. The meeting will be held at our corporate office, 115 S Grant Street, Fitzgerald, GA. Shareholders as of March 25, 2022, the record date for the meeting, are cordially invited to attend.

Colony Bankcorp, Inc.
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