UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: **000-12436**

COLONY BANKCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

GEORGIA	**58-1492391**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

115 South Grant Street, Fitzgerald, Georgia 31750
(Address of principal executive offices)

(229) 426-6000
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	CBAN	NASDAQ Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "larger accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerate Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐
Smaller Reporting Company ☒ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with the new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 7, 2019, there were 9,498,783 shares of common stock outstanding.

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Part I Financial Information
Item 1 Financial Statements

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(DOLLARS IN THOUSANDS)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and Due from Banks	$ 13,495	$ 10,377
Interest-Bearing Deposits in Banks	41,848	49,779
Federal Funds Sold	266	-
Cash and Cash Equivalents	55,609	60,156
Investment Securities Available for Sale, at Fair Value	368,869	353,066
Other Investments, at Cost	3,771	2,978
Loans Held for Sale	8,734	-
Loans	958,723	782,027
Unearned Interest and Fees	(564)	(501)
Allowance for Loan Losses	(6,600)	(7,277)
Loans, Net	951,559	774,249
Premises and Equipment	32,886	28,831
Other Real Estate (Net of Allowance of $546 and $877 as of September 30, 2019 and December 31, 2018, Respectively)	776	1,841
Goodwill	16,134	202
Other Intangible Assets	3,268	556
Bank-Owned Life Insurance	21,480	17,598
Other Assets	14,596	12,401
Total Assets	$ 1,477,682	$ 1,251,878
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$ 216,680	$ 192,847
Interest-Bearing	1,034,593	892,278
Total Deposits	1,251,273	1,085,125
Subordinated Debentures	24,229	24,229
Other Borrowed Money	66,813	44,000
Other Liabilities	5,716	2,832
Total Liabilities	1,348,031	1,156,186
Stockholders' Equity		
Common Stock, Par Value $1 per Share; Authorized 20,000,000 Shares, 9,498,783 and 8,444,908 Shares Issued as of September 30, 2019 and December 31, 2018, Respectively	9,499	8,445
Paid-In Capital	43,658	25,978
Retained Earnings	74,935	69,459
Accumulated Other Comprehensive Income (Loss), Net of Tax	1,559	(8,190)
Total Stockholders' Equity	129,651	95,692
Total Liabilities and Stockholders' Equity	$ 1,477,682	$ 1,251,878

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Interest Income				
Loans, Including Fees	**$ 13,580**	$ 10,255	**$ 36,344**	$ 30,048
Loans Held for Sale	**73**	-	**92**	-
Deposits with Other Banks	**186**	48	**749**	192
Investment Securities				
U.S. Treasury	**1**	-	**1**	-
U.S. Government Agencies	**2,230**	1,847	**6,738**	5,635
State, County and Municipal	**24**	25	**82**	77
Corporate Bonds	**27**	27	**84**	84
Federal Funds Sold	**20**	-	**60**	-
Dividends on Other Investments	**49**	49	**150**	134
Total Interest Income	**16,190**	12,251	**44,300**	36,170
Interest Expense				
Deposits	**2,815**	1,564	**7,569**	4,165
Federal Funds Purchased	**1**	3	**1**	4
Borrowed Money	**726**	579	**1,900**	1,602
Total Interest Expense	**3,542**	2,146	**9,470**	5,771
Net Interest Income	**12,648**	10,105	**34,830**	30,399
Provision for Loan Losses	**214**	61	**524**	131
Net Interest Income After Provision for Loan Losses	**12,434**	10,044	**34,306**	30,268
Noninterest Income				
Service Charges on Deposits	**1,325**	1,134	**3,359**	3,266
Other Service Charges, Commissions and Fees	**1,100**	803	**3,110**	2,414
Mortgage Fee Income	**1,255**	176	**1,941**	507
Securities Gains	**34**	-	**99**	116
Other	**325**	292	**1,864**	860
Total Noninterest Income	**4,039**	2,405	**10,373**	7,163
Noninterest Expenses				
Salaries and Employee Benefits	**7,186**	5,110	**18,848**	15,032
Occupancy and Equipment	**1,290**	1,052	**3,459**	3,077
Acquisition Related Expenses	**649**	53	**2,610**	53
Deposit Intangible Expenses	**212**	9	**388**	27
Other	**4,021**	2,854	**10,092**	8,026
Total Noninterest Expense	**13,358**	9,078	**35,397**	26,215
Income Before Income Taxes	**3,115**	3,371	**9,282**	11,216
Income Taxes	**597**	676	**1,827**	2,264
Net Income	**$ 2,518**	$ 2,695	**$ 7,455**	$ 8,952
Net Income Per Share of Common Stock				
Basic	**$ 0.27**	$ 0.32	**$ 0.83**	$ 1.06
Diluted	**$ 0.27**	$ 0.32	**$ 0.83**	$ 1.04
Cash Dividends Paid Per Share of Common Stock	**$ 0.075**	$ 0.05	**$ 0.225**	$ 0.15
Weighted Average Basic Shares Outstanding	**9,494,771**	8,439,415	**9,008,196**	8,439,310
Weighted Average Diluted Shares Outstanding	**9,494,771**	8,444,816	**9,008,196**	8,571,516

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		**Nine Months Ended**	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Net Income	**$ 2,518**	$ 2,695	**$ 7,455**	$ 8,952
Other Comprehensive Income:				
Gains (Losses) on Securities Arising During the Period	**1,715**	(1,945)	**12,439**	(7,291)
Tax Effect	**(360)**	408	**(2,612)**	1,531
Realized Gains on Sale of AFS Securities	**(34)**	-	**(99)**	(116)
Tax Effect	**7**	-	**21**	24
Change in Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects	**1,328**	(1,537)	**9,749**	(5,852)
Comprehensive Income	**$ 3,846**	$ 1,158	**$ 17,204**	$ 3,100

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

Three Months Ended	Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, June 30, 2019	**9,499**	**$ 9,499**	**$ 43,650**	**$ 73,129**	**$ 231**	**$ 126,509**
Change in Net Unrealized (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects					**1,328**	**1,328**
Dividends on Common Shares				**(712)**		**(712)**
Stock-based Compensation Expense			**8**			**8**
Net Income				**2,518**		**2,518**
Balance, September 30, 2019	**9,499**	**$ 9,499**	**$ 43,658**	**$ 74,935**	**$ 1,559**	**$ 129,651**
Balance, June 30, 2018	8,439	$ 8,439	$ 25,970	$ 64,643	$ (10,806)	$ 88,246
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects					(1,537)	(1,537)
Dividends on Common Shares				(422)		(422)
Issuance of Restricted Stock	6	6	(6)			-
Stock-based Compensation Expense			6			6
Net Income				2,695		2,695
Balance, September 30, 2018	8,445	$ 8,445	$ 25,970	$ 66,916	$ (12,343)	$ 88,988

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

Nine Months Ended	Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	**8,445**	**$ 8,445**	**$ 25,978**	**$ 69,459**	**$ (8,190)**	**$ 95,692**
Change in Net Unrealized (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects					**9,749**	**9,749**
Dividends on Common Shares				**(1,979)**		**(1,979)**
Issuance of Common Stock	**1,054**	**1,054**	**17,655**			**18,709**
Stock-based Compensation Expense			**25**			**25**
Net Income				**7,455**		**7,455**
Balance, September 30, 2019	**9,499**	**$ 9,499**	**$ 43,658**	**$ 74,935**	**$ 1,559**	**$ 129,651**
Balance, December 31, 2017	8,439	$ 8,439	$ 29,145	$ 59,230	$ (6,491)	$ 90,323
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effects					(5,852)	(5,852)
Dividends on Common Shares				(1,266)		(1,266)
Repurchase of Warrants			(3,175)			(3,175)
Issuance of Restricted Stock	6	6	(6)			-
Stock-based Compensation Expense			6			6
Net Income				8,952		8,952
Balance, September 30, 2018	8,445	$ 8,445	$ 25,970	$ 66,916	$ (12,343)	$ 88,988

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Nine Months Ended	
	September 30, 2019	September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 7,455**	$ 8,952
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	**1,451**	1,310
Share-based Compensation Expense	**25**	6
Provision for Loan Losses	**524**	131
Securities (Gains)	**(99)**	(116)
Amortization and Accretion	**678**	909
(Gain) on Sale of Other Real Estate and Repossessions	**(874)**	(168)
Provision for Losses on Other Real Estate	**104**	201
(Increase) in Bank-Owned Life Insurance	**(439)**	(368)
(Gain) Loss on Sale of Premises & Equipment	**14**	1
Provision for Losses on Premises & Equipment	**151**	170
Originations of Loans Held for Sale	**(42,634)**	-
Proceeds from Sales of Loans Held for Sale	**33,900**	-
Other Prepaids, Deferrals and Accruals, Net	**778**	807
Net Cash Provided by Operating Activities	**1,034**	11,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	**(105,476)**	(20,893)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	**50,804**	37,667
Proceeds from Sale of Investment Securities		
Available for Sale	**99,106**	11,268
Held to Maturity	**1,766**	-
Net Loans to Customers	**(47,221)**	(15,380)
Purchase of Premises and Equipment	**(3,254)**	(2,256)
Proceeds from Sale of Other Real Estate and Repossessions	**2,489**	2,769
Proceeds from Bank-Owned Life Insurance	**535**	-
Redemption (Purchase of) Federal Home Loan Bank Stock	**(315)**	(551)
Proceeds from Sale of Premises and Equipment	**175**	8
Net Cash and Cash Equivalents Paid in Acquisition	**(467)**	-
Net Cash (Used in) Provided by Investing Activities	**(1,858)**	12,632
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	**(7,614)**	(13,667)
Interest-Bearing Customer Deposits	**(15,943)**	(43,259)
Dividends Paid for Common Stock	**(1,979)**	(1,266)
Repurchase of Warrants	**-**	(3,175)
Payments on Federal Home Loan Bank Advances	**(8,000)**	(26,500)
Proceeds from Federal Home Loan Bank Advances	**15,000**	39,000
Payments on Other Borrowed Money	**(500)**	(1,507)
Proceeds from Other Borrowed Money	**15,313**	7
Net Cash (Used in) Provided by Financing Activities	**(3,723)**	(50,367)
Net Increase (Decrease) in Cash and Cash Equivalents	**(4,547)**	(25,900)
Cash and Cash Equivalents at Beginning of Period	**60,156**	57,813
Cash and Cash Equivalents at End of Period	**$ 55,609**	$ 31,913

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Nine Months Ended	
	September 30, 2019	September 30, 2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Period for Interest	**$ 9,294**	$ 5,772
Cash Paid During the Period for Income Taxes	**1,585**	2,220
NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in Unrealized (Gains) Losses on Securities Available for Sale	**$ (12,340)**	$ 7,406
Acquisition of Real Estate through Foreclosure	**369**	756
Change in Goodwill due to Acquisition	**15,931**	-
Initial Recognition of Operating Lease Right-of-Use Assets	**483**	-
Initial Recognition of Operating Lease Liabilities	**483**	-

The accompanying notes are an integral part of these statements.

COLONY BANKCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Presentation

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

In July 2019, a new subsidiary of the Company was incorporated under the name Colony Risk Management, Inc. 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.

All dollars in notes to consolidated financial statements are rounded to the nearest thousands, except for per share amounts.

The consolidated financial statements in this report are unaudited, except for the December 31, 2018 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements, have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the nine months ended September 30, 2019 are not necessarily indicative of the results which may be expected for the entire year.

Nature of Operations

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

Use of Estimates

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

Reclassifications

In certain instances, amounts reported in prior years’ consolidated financial statements have been reclassified to conform to statement presentations selected for 2019. Such reclassifications have not affected previously reported stockholders’ equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk. At September 30, 2019, approximately 85 percent of the Company’s loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers’ ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

The success of the Company is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of the Company depend primarily on its net interest income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

At times, the Company may have cash and cash equivalents at financial institutions in excess of federal deposit insurance limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk.

Investment Securities

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

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

Loans Held for Sale

Loans held for sale are classified at the lower of cost or market value, which is computed by the aggregate method. Gains and losses on loans held for sale are included in the determination of income for the period in which the sales occur.

Loans

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring ("TDR")

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off. 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.

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 inability to collect a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether or not to obtain an external third-party appraisal usually depends on the type of property being evaluated. External appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff. When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are "as is" or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals are not 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 most recent appraisal was performed.

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

Premises and Equipment

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

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

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

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

Goodwill

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

Intangible Assets

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized on an accelerated basis over the average remaining life of the acquired customer deposits.

(1) Summary of Significant Accounting Policies (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Statement of Cash Flows

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

Advertising Costs

The Company expenses the cost of advertising in the periods in which those costs are incurred.

Income Taxes

The provision for income taxes is based upon income for financial statement purposes, adjusted for nontaxable income and nondeductible expenses. Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes.

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. 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.

Positions taken in the Company’s tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income.

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 other noninterest expense.

(1) Summary of Significant Accounting Policies (Continued)

Bank-Owned Life Insurance

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of $21,480 and $17,598 as of September 30, 2019 and December 31, 2018, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Off-Balance Sheet Credit Related Financial Instruments

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

Changes in Accounting Principles and Effects of New Accounting Pronouncements

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

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

(1) Summary of Significant Accounting Policies (Continued)

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

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

ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities.* This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2017-08 was effective for the Company on January 1, 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

ASU 2019-01, *Leases (Topic 842): Codification Improvements*. ASU 2019-01 amends certain aspects of ASU 2016-02, Leases. This ASU addresses the following issues: (1) determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; (2) statement of cash flow presentation for sales – type and direct financing leases by lessors within the scope of ASC 942, Financial Services – Depository and Lending; and (3) clarification of interim disclosure requirements during transition. ASU 2019-01 is effective for the first and second issues for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. If an entity early adopts, the ASU will be applied as of the date the entity first applies ASU 2016-02. For the third issue, there is no transition and effective date because the amendments are to the original transition requirements in ASU 2016-02. The Company is currently evaluating the impact this ASU will have on the Company's Consolidated Financial Statements, but it is not expected to have a material impact.

ASU 2019-04, *Codification Improvements to Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Financial Instruments (Topic 825)*. ASU 2019-4 clarifies certain aspects of ASU 2016-13, Financial Instruments – Credit Losses; ASU 2017-12, Hedging Activities; and ASU 2016-01, Financial Instruments. For amendments dealing with ASU 2016-13, which is currently the only standard of the three listed in this update that would apply for the Company, it addresses accrued interest with a financing receivable or investment; transfers between classifications or categories for loans and debt securities; the inclusion of recoveries on financial assets in the calculation of the current expected credit losses allowance for both pools of financial assets and individual financial assets. These amendments dealing with ASU 2016-13 are effective on the same date as the effective date in ASU 2016-13. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

ASU 2019-07, *Codification Updates to SEC Sections – Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates (SEC Update)*. ASU 2019-07 amends certain SEC sections or paragraphs within the FASB Accounting Standards Codification. These amendments are being made to reflect the following previously issued SEC final rules (1) SEC Final Rule Release No. 33-10532, Disclosure Update and Simplification and (2) SEC Final Rule Release No. 33-10442, Investment Company Reporting Modernization. In addition several miscellaneous updates are included to update language in the Codification. ASU 2019-07 was effective upon issuance and the Company does not expect to have a material effect on the financial statements.

(2) Business Acquisitions

Acquisition of Albany, Georgia Branch from Planters First Bank

On October 22, 2018, the Bank completed its acquisition of one branch office and a vacant lot from Planters First Bank (“PFB”) located in Albany, Georgia for a total cash consideration of $10.2 million. The assets and liabilities as of the effective date of the transaction were recorded at their respective estimated fair values. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill. In the periods following the acquisition, the financial statements will include the results attributable to the Albany branch purchase beginning on the date of purchase. For the three and nine months period ended September 30, 2019, the revenues attributable to the Albany branch were $19 thousand and $148 thousand, respectively. For the three and nine months period ended September 30, 2019, net loss attributable to the Albany branch were $92 thousand and $252 thousand. It is impracticable to determine the pro-forma impact to the 2018 revenues and net income if the acquisition had occurred on January 1, 2018 as the Bank does not have access to those records for a single branch.

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

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

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

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

(2) Business Acquisitions (Continued)

Acquisition of LBC Bancshares, Inc.

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc. ("LBC"), a bank holding company headquartered in LaGrange, Georgia. Upon consummation of the acquisition, LBC was merged with and into the Company, with Colony as the surviving entity in the merger. At that time, LBC's wholly owned bank subsidiary, Calumet Bank, was also merged with and into the Bank. The acquisition expanded the Company's market presence, as Calumet Bank had two full-service banking locations, one each in LaGrange, Georgia and Columbus, Georgia, as well as a loan production office in Atlanta, Georgia. Under the terms of the Merger Agreement, each LBC shareholder had the option to receive either $23.50 in cash or 1.3239 shares of the Company's Common Stock in exchange for each share of LBC common stock, subject to customary proration and location procedures, such that 55 percent of LBC shares received the stock consideration and 45 percent received the cash consideration, and at least 50 percent of the merger consideration paid in the Company stock. As a result, the Company issued 1,054,029 common shares at a fair value of $18.7 million and paid $15.3 million in cash to the former shareholders of LBC as merger consideration.

The merger is being accounted for using the acquisition method accounting, in accordance with the provisions of FASB ASC 805-10 Business Combinations. Under this guidance, for accounting purposes, the Company is considered the acquirer in the merger, and as a result the historical financial statements of the combined entity are the historical consolidated financial statements of the Company.

The merger was effected by the issuance of shares of the Company's common stock along with cash consideration to shareholders to LBC. The assets and liabilities of LBC as of the effective date of the merger were recorded at their respective estimated fair values and combined with those of the Company. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill. Goodwill from the transaction was $15,390, none of which is deductible for income tax purposes. The goodwill recognized from the acquisition with LBC was created based on the consideration paid by the Company for enhancing its presence in Georgia in addition to our expected synergies from the combined operations of the Company and LBC.

In periods following the merger, the financial statements of the combined entity will include the results attributable to LBC beginning on the date the merger was completed. In the three and nine month period ended September 30, 2019, the revenues attributable to LBC were approximately $2.43 million and $4.19 million. In the three and nine month period ended September 30, 2019, the net loss attributable to LBC was approximately $1.28 million and $779 thousand, respectively.

The pro-forma impact to 2018 revenues if the merger had occurred on January 1, 2018 would have been $2.45 million and $7.07 million for the three and nine month period ending September 30, 2018, respectively. The pro-forma impact to 2018 net income if the merger had occurred on January 1, 2018 would have been $606 thousand and $1.70 million for the three and nine month period ending September 30, 2018, respectively. 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 LBC's provision for credit losses not have been necessary or any adjustments to estimate any additional income that would have been recorded as a result of fair value adjustments for the first nine months of 2018 that may have occurred had the acquired loans been recorded at fair value as of the beginning of 2018. In addition, there are no adjustments to reflect any expenses that potentially could have been reduced for the first nine months of 2018 had the merger occurred on January 1, 2018.

Part I (Continued)
Item 1 (Continued)

(2) Business Acquisitions (Continued)

As of September 30, 2019, the Company recorded a preliminary allocation of the purchase price to LBC's tangible and identifiable intangible assets acquired and liabilities assumed based on estimated fair values as of May 1, 2019. The following table presents the assets acquired and liabilities assumed as of May 1, 2019, and their fair value estimates. The Company continues its evaluation of the facts and circumstances available as of May 1, 2019, to assign fair values to assets acquired and liabilities assumed which could result in further adjustments to the fair values presented below.

Purchase Price Consideration (in thousands):		
Shares of CBAN Common Stock Issued to LBC Shareholders as of May 1, 2019		**1,054,029**
Market Price of CBAN Common Stock on May 1, 2019	**$**	**17.75**
Estimated Fair Value of CBAN Common Stock Issued		**18,709**
Cash Consideration Paid		**15,312**
Total Consideration	**$**	**34,021**
Assets acquired at fair value:		
Cash and Cash Equivalents	**$**	**15,678**
Investments Securities Available for Sale		**49,172**
Investments Securities Held to Maturity		**1,766**
Restricted Investments		**479**
Loans		**130,568**
Premises and Equipment		**3,009**
Core Deposit Intangible		**3,100**
Other Real Owned		**243**
Prepaid and Other Assets		**6,487**
Total Fair Value of Assets Acquired	**$**	**210,502**
Liabilities Assumed at Fair Value:		
Deposits	**$**	**(189,896)**
FHLB Advances		**(1,000)**
Payables and Other Liabilities		**(975)**
Total Fair Value of Liabilities Assumed	**$**	**(191,871)**
Net Assets Acquired at Fair Value:	**$**	**18,631**
Amount of Goodwill Resulting From Acquisition	**$**	**15,390**

(2) Business Acquisitions (Continued)

In the acquisition, the Company purchased $130.57 million of loans at fair value, net of $2.17 million, or 1.63%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified $176 thousand 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.

Contractually Required Principal and Interest	**$**	**695**
Non-accretable Difference		**(519)**
Cash Flows Expected to be Collected		**176**
Accretable Yield		**-**
Total Purchased Credit-Impaired Loans Acquired	**$**	**176**

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

	Fair Value of Acquired Loans at Acquisition Date		Gross Contractual Amounts Receivable at Acquisition Date		Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected	
Acquired receivables subject to ASC 310-30	$	176	$	695	$	519
Acquired receivables not subject to ASC 310-30	$	130,392	$	132,381	$	-

Acquisition of PFB Mortgage from Planters First Bank

On May 1, 2019, the Bank completed its acquisition of PFB Mortgage, the secondary market mortgage business of Planters First Bank for a total cash consideration of $833 thousand. It included fixed assets and all pipeline loans, and customers will not be affected as loans will close and be processed as normal. Planters First Bank retained closed loans not yet sold (loans held for sale). The assets and liabilities as of the effective date of the transaction were recorded at their respective estimated fair values. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill. In the periods following the acquisition, the financial statements will include the results attributable to PFB Mortgage beginning on the date of purchase. For the three and nine months period ended September 30, 2019, the revenues attributable to PFB Mortgage were $921 thousand and $1.15 million, respectively. For the three and nine months period ended September 30, 2019, net income (loss) attributable to PFB Mortgage were $56 thousand and $(155) thousand. It is impracticable to determine the pro-forma impact to the 2018 revenues and net income if the acquisition had occurred on January 1, 2018 as the Bank does not have access to those records for PFB Mortgage.

(2) Business Acquisitions (Continued)

The following table provides the purchase price as of acquisition date, the identifiable assets acquired and liabilities assumed at their estimated fair values, and the resulting goodwill of $541 thousand recorded from the acquisition:

Purchase Price Consideration (in thousands):		
Cash Consideration Paid	**$**	**833**
Total Consideration	**$**	**833**
Assets acquired at fair value:		
Premises and Equipment	**$**	**78**
Premium on Loan Commitments		**209**
Other Assets		**5**
Total Fair Value of Assets Acquired	**$**	**292**
Liabilities Assumed at Fair Value:		
Total Fair Value of Liabilities Assumed	**$**	**-**
Net Assets Acquired at Fair Value:	**$**	**292**
Amount of Goodwill Resulting From Acquisition	**$**	**541**

The total amount of goodwill arising from this transaction of $541 thousand is deductible for tax purposes, pursuant to section 197 of the Internal Revenue Code.

(3) Investment Securities

Investment securities as of September 30, 2019 and December 31, 2018 are summarized as follows:

September 30, 2019	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available for Sale:				
U. S. Government Agencies Mortgage-Backed	**$ 360,406**	**$ 4,068**	**$ (2,163)**	**$ 362,311**
U. S. Treasury	**149**	**-**	**-**	**149**
State, County & Municipal	**3,501**	**78**	**-**	**3,579**
Corporate Bonds	**2,840**	**-**	**(10)**	**2,830**
	$ 366,896	**$ 4,146**	**$ (2,173)**	**$ 368,869**

December 31, 2018	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Available for Sale:				
U. S. Government Agencies Mortgage-Backed	$ 356,498	$ 303	$ (10,596)	$ 346,205
State, County & Municipal	4,008	18	(37)	3,989
Corporate Bonds	2,927	-	(55)	2,872
	$ 363,433	$ 321	$ (10,688)	$ 353,066

(3) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of September 30, 2019, by contractual maturity, are shown hereafter. Expected maturities may differ from contractual maturities for certain investments because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities Available for Sale	
	Amortized Cost	**Fair Value**
Due In One Year or Less	$ 149	$ 149
Due After One Year Through Five Years	4,338	4,351
Due After Five Years Through Ten Years	924	956
Due After Ten Years	1,079	1,102
	$ 6,490	$ 6,558
Mortgage-Backed Securities	360,406	362,311
	$ 366,896	$ 368,869

The following table is a summary of sales activities in the Company's investment securities available for sale for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Gross Gains on Sales of Securities	$ 196	$ -	$ 314	$ 116
Gross Losses on Sales of Securities	(162)	-	(215)	-
Net Realized Gains on Sales of Securities Available for Sale	$ 34	$ -	$ 99	$ 116
Sales Proceeds	$ 42,285	$ -	$ 99,106	$ 11,268

Proceeds from the sale of investments held to maturity totaled $0 and $1,766 for the three and nine months ended September 30, 2019, respectively. The sale of investments held to maturity for the three and nine months ended September 30, 2019 resulted in gross realized gains of $0 and $0, respectively, and losses of $0 and $0, respectively. The Bank did not sell any investments held to maturity during the first nine months of 2018. Therefore, the Bank did not have any proceeds, gains or losses during the first nine months of 2018.

Investment securities having a carrying value approximating $60,217 and $178,978 as of September 30, 2019 and December 31, 2018, respectively, were pledged to secure public deposits and for other purposes.

Part I (Continued)
Item 1 (Continued)

(3) Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at September 30, 2019 and December 31, 2018 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2019						
U. S. Government Agencies Mortgage-Backed	**$ 43,500**	**$ (169)**	**$ 127,407**	**$ (1,994)**	**$ 170,907**	**$ (2,163)**
State, County and Municipal	**-**	**-**	**-**	**-**	**-**	**-**
Corporate Bonds	**-**	**-**	**2,830**	**(10)**	**2,830**	**(10)**
	$ 43,500	**$ (169)**	**$ 130,237**	**$ (2,004)**	**$ 173,737**	**$ (2,173)**
December 31. 2018						
U.S. Government Agencies Mortgage-Backed	$ 39,083	$ (504)	$ 255,747	$ (10,092)	$ 294,830	$ (10,596)
State, County and Municipal	612	(3)	1,882	(34)	2,494	(37)
Corporate Bonds	2,009	(21)	863	(34)	2,872	(55)
	$ 41,704	$ (528)	$ 258,492	$ (10,160)	$ 300,196	$ (10,688)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2019, 87 securities have unrealized losses which have depreciated 0.59 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

(4) Loans

The following table presents the composition of loans segregated by legacy and purchased loans and by class of loans, as of September 30, 2019 and December 31, 2018. Purchased loans are defined as loans that were acquired in bank acquisitions.

	September 30, 2019		
	Legacy Loans	Purchased Loans	Total
Commercial and Agricultural			
Commercial	**$ 52,085**	**$ 24,147**	**$ 76,232**
Agricultural	**20,462**	**279**	**20,741**
Real Estate			
Commercial Construction	**64,280**	**9,720**	**74,000**
Residential Construction	**15,080**	**4,959**	**20,039**
Commercial	**392,681**	**58,019**	**450,700**
Residential	**172,853**	**25,801**	**198,654**
Farmland	**71,206**	**3,135**	**74,341**
Consumer and Other			
Consumer	**18,071**	**4,685**	**22,756**
Other	**19,591**	**1,669**	**21,260**
Total Loans	**$ 826,309**	**$ 132,414**	**$ 958,723**

	December 31, 2018		
	Legacy Loans	Purchased Loans	Total
Commercial and Agricultural			
Commercial	$ 50,181	$ 7,229	$ 57,410
Agricultural	15,993	806	16,799
Real Estate			
Commercial Construction	46,609	1,240	47,849
Residential Construction	12,242	258	12,500
Commercial	366,792	6,742	373,534
Residential	185,699	2,015	187,714
Farmland	62,674	35	62,709
Consumer and Other			
Consumer	18,423	62	18,485
Other	5,027	-	5,027
Total Loans	$ 763,640	$ 18,387	$ 782,027

(4) Loans (Continued)

Commercial and industrial 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 (i) the risk grade assigned to commercial and consumer loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the Company's geographic markets.

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

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

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

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

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

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

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table presents the loan portfolio, excluding purchased loans, by credit quality indicator (risk grade) as of September 30, 2019 and December 31, 2018. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes. For the period ending September 30, 2019, the Company did not have any loans classified as "doubtful" or a "loss".

	Pass	Special Mention	Substandard	Total Loans
September 30, 2019				
Commercial and Agricultural				
Commercial	**$ 50,098**	**$ 1,379**	**$ 608**	**$ 52,085**
Agricultural	**17,997**	**1,211**	**1,254**	**20,462**
Real Estate				
Commercial Construction	**63,776**	**224**	**280**	**64,280**
Residential Construction	**15,080**	**-**	**-**	**15,080**
Commercial	**376,850**	**9,502**	**6,329**	**392,681**
Residential	**160,763**	**4,388**	**7,702**	**172,853**
Farmland	**64,291**	**3,787**	**3,128**	**71,206**
Consumer and Other				
Consumer	**17,680**	**172**	**219**	**18,071**
Other	**19,591**	**-**	**-**	**19,591**
Total Loans	**$ 786,126**	**$ 20,663**	**$ 19,520**	**$ 826,309**
December 31, 2018				
Commercial and Agricultural				
Commercial	$ 48,579	$ 729	$ 873	$ 50,181
Agricultural	14,858	637	498	15,993
Real Estate				
Commercial Construction	45,847	45	717	46,609
Residential Construction	12,242	-	-	12,242
Commercial	351,397	7,662	7,733	366,792
Residential	168,035	7,107	10,557	185,699
Farmland	58,678	1,912	2,084	62,674
Consumer and Other				
Consumer	18,042	59	322	18,423
Other	5,018	5	4	5,027
Total Loans	$ 722,696	$ 18,156	$ 22,788	$ 763,640

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table presents the purchased loan portfolio by credit quality indicator (risk grade) as of September 30, 2019 and December 31, 2018. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes. For the period ending September 30, 2019, the Company did not have any loans classified as "doubtful" or a "loss".

	Pass	Special Mention	Substandard	Total Loans
September 30, 2019				
Commercial and Agricultural				
Commercial	**$ 22,473**	**$ 1,232**	**$ 442**	**$ 24,147**
Agricultural	**279**	**-**	**-**	**279**
Real Estate				
Commercial Construction	**9,654**	**-**	**66**	**9,720**
Residential Construction	**4,959**	**-**	**-**	**4,959**
Commercial	**57,634**	**385**	**-**	**58,019**
Residential	**25,384**	**382**	**35**	**25,801**
Farmland	**3,098**	**-**	**37**	**3,135**
Consumer and Other				
Consumer	**4,682**	**-**	**3**	**4,685**
Other	**1,669**	**-**	**-**	**1,669**
Total Loans	**$ 129,832**	**$ 1,999**	**$ 583**	**$ 132,414**
December 31, 2018				
Commercial and Agricultural				
Commercial	$ 7,229	$ -	$ -	$ 7,229
Agricultural	806	-	-	806
Real Estate				
Commercial Construction	1,240	-	-	1,240
Residential Construction	258	-	-	258
Commercial	6,742	-	-	6,742
Residential	2,015	-	-	2,015
Farmland	35	-	-	35
Consumer and Other				
Consumer	62	-	-	62
Other	-	-	-	-
Total Loans	$ 18,387	$ -	$ -	$ 18,387

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of $250,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

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 or not such loans are considered past due.

The following table represents an age analysis of past due loans and nonaccrual loans for legacy loans, segregated by class of loans, excluding purchased loans as of September 30, 2019 and December 31, 2018:

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2019						
Commercial and Agricultural						
Commercial	**$ 165**	**$ -**	**$ 165**	**$ 460**	**$ 51,460**	**$ 52,085**
Agricultural	**71**	**-**	**71**	**1,214**	**19,177**	**20,462**
Real Estate						
Commercial Construction	**89**	**-**	**89**	**10**	**64,181**	**64,280**
Residential Construction	**59**	**-**	**59**	**-**	**15,021**	**15,080**
Commercial	**497**	**-**	**497**	**1,567**	**390,617**	**392,681**
Residential	**1,083**	**-**	**1,083**	**3,605**	**168,165**	**172,853**
Farmland	**150**	**-**	**150**	**2,592**	**68,464**	**71,206**
Consumer and Other						
Consumer	**109**	**-**	**109**	**124**	**17,838**	**18,071**
Other	**-**	**-**	**-**	**-**	**19,591**	**19,591**
Total Loans	**$ 2,223**	**$ -**	**$ 2,223**	**$ 9,572**	**$ 814,514**	**$ 826,309**
December 31, 2018						
Commercial and Agricultural						
Commercial	$ 282	$ -	$ 282	$ 637	$ 49,262	$ 50,181
Agricultural	117	-	117	413	15,463	15,993
Real Estate						
Commercial Construction	88	-	88	463	46,058	46,609
Residential Construction	-	-	-	-	12,242	12,242
Commercial	679	-	679	2,966	363,147	366,792
Residential	6,882	-	6,882	2,734	176,083	185,699
Farmland	76	-	76	2,052	60,546	62,674
Consumer and Other						
Consumer	110	-	110	213	18,100	18,423
Other	-	-	-	4	5,023	5,027
Total Loans	$ 8,234	$ -	$ 8,234	$ 9,482	$ 745,924	$ 763,640

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, for purchased loans as of September 30, 2019 and December 31, 2018:

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
September 30, 2019						
Commercial and Agricultural						
Commercial	**$ 491**	**$ -**	**$ 491**	**$ 442**	**$ 23,214**	**$ 24,147**
Agricultural	**-**	**-**	**-**	**-**	**279**	**279**
Real Estate						
Commercial Construction	**-**	**-**	**-**	**66**	**9,654**	**9,720**
Residential Construction	**-**	**-**	**-**	**-**	**4,959**	**4,959**
Commercial	**-**	**-**	**-**	**-**	**58,019**	**58,019**
Residential	**35**	**-**	**35**	**23**	**25,743**	**25,801**
Farmland	**-**	**-**	**-**	**37**	**3,098**	**3,135**
Consumer and Other						
Consumer	**4**	**-**	**4**	**3**	**4,678**	**4,685**
Other	**-**	**-**	**-**	**-**	**1,669**	**1,669**
Total Loans	**$ 530**	**$ -**	**$ 530**	**$ 571**	**$ 131,313**	**$ 132,414**
December 31, 2018						
Commercial and Agricultural						
Commercial	$ -	$ -	$ -	$ -	$ 7,229	$ 7,229
Agricultural	-	-	-	-	806	806
Real Estate						
Commercial Construction	-	-	-	-	1,240	1,240
Residential Construction	-	-	-	-	258	258
Commercial	-	-	-	-	6,742	6,742
Residential	-	-	-	-	2,015	2,015
Farmland	-	-	-	-	35	35
Consumer and Other						
Consumer	-	-	-	-	62	62
Other	-	-	-	-	-	-
Total Loans	$ -	$ -	$ -	$ -	$ 18,387	$ 18,387

(4) Loans (Continued)

The following table details impaired loan data, including purchased credit impaired loans, as of September 30, 2019.

September 30, 2019

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 460	$ 459	$ -	$ 508	$ 29	$ 30
Agricultural	648	628	-	565	9	20
Commercial Construction	77	77	-	105	3	3
Residential Construction	-	-	-	89	-	-
Commercial Real Estate	9,300	9,300	-	11,581	346	352
Residential Real Estate	3,908	3,817	-	3,939	129	148
Farmland	2,593	2,591	-	2,332	(23)	14
Consumer	163	128	-	151	4	5
Other	-	-	-	2	-	-
	17,149	17,000	-	19,272	497	572
With An Allowance Recorded						
Commercial	398	403	152	111	8	8
Agricultural	587	587	586	294	9	33
Commercial Construction	-	-	-	100	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	2,956	2,956	823	2,916	95	95
Residential Real Estate	266	266	48	268	17	17
Farmland	357	357	30	360	20	19
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	4,564	4,569	1,639	4,049	149	172
Purchased Credit Impaired Loans						
Commercial	67	39	-	20	-	-
Commercial Construction	120	66	-	34	1	1
Residential Real Estate	21	13	8	7	-	-
Farmland	237	37	-	19	1	1
Consumer	195	-	-	-	-	-
	640	155	8	80	2	2
Total						
Commercial	925	901	152	639	37	38
Agricultural	1,235	1,215	586	859	18	53
Commercial Construction	197	143	-	239	4	4
Residential Construction	-	-	-	89	-	-
Commercial Real Estate	12,256	12,256	823	14,497	441	447
Residential Real Estate	4,195	4,096	56	4,214	146	165
Farmland	3,187	2,985	30	2,711	(2)	34
Consumer	358	128	-	151	4	5
Other	-	-	-	2	-	-
	$ 22,353	$ 21,724	$ 1,647	$ 23,401	$ 648	$ 746

(4) Loans (Continued)

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

December 31, 2018

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 595	$ 595	$ -	$ 526	$ 21	$ 24
Agricultural	434	413	-	383	18	25
Commercial Construction	132	132	-	69	8	8
Residential Contruction	-	-		-	-	-
Commercial Real Estate	12,164	12,164	-	11,040	582	583
Residential Real Estate	4,214	4,130	-	4,067	208	213
Farmland	2,054	2,052	-	1,361	53	82
Consumer	213	213	-	197	14	14
Other	4	4	-	1	-	-
	19,810	19,703	-	17,644	904	949
With An Allowance Recorded						
Commercial	42	42	6	8	2	2
Agricultural	-	-	-	-	-	-
Commercial Construction	399	399	39	466	-	-
Residential Contruction	-	-	-	-	-	-
Commercial Real Estate	3,691	3,691	1,276	5,121	135	142
Residential Real Estate	274	274	61	98	8	8
Farmland	364	364	36	368	24	25
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	4,770	4,770	1,418	6,061	169	177
Total						
Commercial	637	637	6	534	23	26
Agricultural	434	413	-	383	18	25
Commercial Construction	531	531	39	535	8	8
Residential Contruction	-	-	-	-	-	-
Commercial Real Estate	15,855	15,855	1,276	16,161	717	725
Residential Real Estate	4,488	4,404	61	4,165	216	221
Farmland	2,418	2,416	36	1,729	77	107
Consumer	213	213	-	197	14	14
Other	4	4	-	1	-	-
	$ 24,580	$ 24,473	$ 1,418	$ 23,705	$ 1,073	$ 1,126

Part I (Continued)
Item 1 (Continued)

(4) Loans (Continued)

The following table details impaired loan data as of September 30, 2018. There were no purchased credit impaired loans and related allowance for loan losses as of September 30, 2018.

September 30, 2018

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 472	$ 472	$ -	$ 508	$ 13	$ 15
Agricultural	444	423	-	375	14	21
Commercial Construction	102	102	-	54	3	3
Residential Contruction	-	-	-	-	-	-
Commercial Real Estate	9,758	9,758	-	10,759	345	352
Residential Real Estate	3,954	3,868	-	4,052	141	145
Farmland	2,067	2,065	-	1,189	46	75
Consumer	175	175	-	193	9	10
Other	-	-	-	-	-	-
	16,972	16,863	-	17,130	571	621
With An Allowance Recorded						
Commercial	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	471	471	44	483	3	3
Residential Contruction	-	-	-	-	-	-
Commercial Real Estate	5,800	5,800	1,394	5,478	185	187
Residential Real Estate	35	35	20	54	2	2
Farmland	366	366	29	368	18	18
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	6,672	6,672	1,487	6,383	208	210
Total						
Commercial	472	472	-	508	13	15
Agricultural	444	423	-	375	14	21
Commercial Construction	573	573	44	537	6	6
Residential Contruction	-	-	-	-	-	-
Commercial Real Estate	15,558	15,558	1,394	16,237	530	539
Residential Real Estate	3,989	3,903	20	4,106	143	147
Farmland	2,433	2,431	29	1,557	64	93
Consumer	175	175	-	193	9	10
Other	-	-	-	-	-	-
	$ 23,644	$ 23,535	$ 1,487	$ 23,513	$ 779	$ 831

(4) Loans (Continued)

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 our 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 September 30, 2019. The Company had no loan contracts restructured during the three month period ended and the nine month period ended September 30, 2019 and 2018. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due. A TDR may cease being classified as impaired if the loan is subsequently modified at market terms and, has performed according to the modified terms for at least six months, and there has not been any prior principal forgiveness on a cumulative basis.

The Company had one loan totaling \$859 thousand that subsequently defaulted during the three months ended September 30, 2019 and no loans that subsequently defaulted during the three months ended September 30, 2018. The Company had one loan totaling \$859 thousand that subsequently defaulted during the nine months ended September 30, 2019 and one loan totaling \$131 thousand that subsequently defaulted during the nine months ended September 30, 2018. The loan totaling \$859 thousand failed to continue to perform as agreed and was moved to non-accrual status. The loan totaling \$131 thousand failed to continue to perform as agreed and was moved to non-accrual status.

(5) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the nine month period ended September 30, 2019 and September 30, 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

September 30, 2019

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 370	$ (266)	$ 27	$ 312	$ 443
Agricultural	248	(84)	4	703	871
Real Estate					
Commercial Construction	115	(29)	61	(5)	142
Residential Construction	16	-	-	17	33
Commercial	4,549	(56)	173	(1,376)	3,290
Residential	1,181	(757)	166	367	957
Farmland	702	(63)	10	74	723
Consumer and Other					
Consumer	86	(432)	41	404	99
Other	10	-	4	28	42
	$ 7,277	$ (1,687)	$ 486	$ 524	$ 6,600

September 30, 2018

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 447	$ (118)	$ 114	$ (59)	$ 384
Agricultural	186	(123)	7	245	315
Real Estate					
Commercial Construction	1,216	-	39	(1,130)	125
Residential Construction	-	-	-	17	17
Commercial	3,874	(258)	39	626	4,281
Residential	968	(124)	83	255	1,182
Farmland	780	-	11	(61)	730
Consumer and Other					
Consumer	34	(214)	59	214	93
Other	3	-	1	24	28
	$ 7,508	$ (837)	$ 353	$ 131	$ 7,155

Management continually evaluates the allowance for loan losses methodology seeking to refine and enhance this process as appropriate, and it is likely that the methodology will continue to evolve over time.

(5) Allowance for Loan Losses (Continued)

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of $250,000 or more, regardless of the loans impairment classification. At September 30, 2019, there were 123 impaired loans totaling $3.5 million below the $250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables. Likewise, at September 30, 2018, there were 139 impaired loans totaling $4.0 million which were below the $250,000 review threshold and were subject to the bank's general loan loss reserve methodology and are included in the "Collectively Evaluated for Impairment" column of the following tables.

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on unimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is $5.93 million and $8.73 million as of September 30, 2019 and 2018, respectively. Specific allowance allocations were made for these loans totaling $1.23 million and $1.25 million as of September 30, 2019 and 2018, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the "Collectively Evaluated for Impairment" column of the following tables.

(5) Allowance for Loan Losses (Continued)

The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for September 30, 2019 and 2018. For September 30, 2018, there were no purchased credit impaired loans and related allowance for loan losses.

September 30, 2019

	Ending Allowance Balance				Ending Loan Balance			
	Individually Evaluated for Impairment	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Total**
Commercial and Agricultural								
Commercial	**$ 152**	**$ 291**	**$ -**	**$ 443**	**$ 428**	**$ 75,765**	**$ 39**	**$ 76,232**
Agricultural	**586**	**285**	**-**	**871**	**848**	**19,893**	**-**	**20,741**
Real Estate								
Commercial Construction	**-**	**142**	**-**	**142**	**67**	**73,867**	**66**	**74,000**
Residential Construction	**-**	**33**	**-**	**33**	**-**	**20,039**	**-**	**20,039**
Commercial	**823**	**2,467**	**-**	**3,290**	**11,967**	**438,733**	**-**	**450,700**
Residential	**48**	**901**	**8**	**957**	**2,063**	**196,578**	**13**	**198,654**
Farmland	**30**	**693**	**-**	**723**	**2,674**	**71,630**	**37**	**74,341**
Consumer and Other								
Consumer	**-**	**99**	**-**	**99**	**-**	**22,756**	**-**	**22,756**
Other	**-**	**42**	**-**	**42**	**-**	**21,260**	**-**	**21,260**
Total End of Period Balance	**$ 1,639**	**$ 4,953**	**$ 8**	**$ 6,600**	**$ 18,047**	**$ 940,521**	**$ 155**	**$ 958,723**

September 30, 2018

	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
Commercial and Agricultural						
Commercial	$ -	$ 384	$ 384	$ 39	$ 47,253	$ 47,292
Agricultural	-	315	315	27	21,388	21,415
Real Estate						
Commercial Construction	44	81	125	471	53,099	53,570
Residential Construction	-	17	17	-	12,897	12,897
Commercial	1,394	2,887	4,281	15,164	334,244	349,408
Residential	20	1,162	1,182	1,753	187,400	189,153
Farmland	29	701	730	2,103	67,966	70,069
Consumer and Other						
Consumer	-	93	93	-	18,623	18,623
Other	-	28	28	-	17,016	17,016
Total End of Period Balance	$ 1,487	$ 5,668	$ 7,155	$ 19,557	$ 759,886	$ 779,443

(6) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned ("OREO") at September 30, 2019 and December 31, 2018 was $776 and $1,841, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO for the nine months ended September 30, 2019 and the year ended December 31, 2018.

	Nine Months Ended September 30, 2019	Twelve Months Ended December 31, 2018
Balance, Beginning	**$ 1,841**	$ 4,256
Additions	**314**	793
Acquired in Acquisition	**243**	-
Sales of OREO	**(2,412)**	(2,949)
Transfer to Bank Premises	**-**	(300)
Gains (Losses) on Sale	**894**	303
Provision for Losses	**(104)**	(262)
Balance, Ending	**$ 776**	$ 1,841

At September 30, 2019, the Company held $201 thousand of residential real estate property as foreclosed property compared to $565 thousand as of December 31, 2018. Also at September 30, 2019, $739 thousand of consumer mortgage loans collateralized by residential real estate property were in the process of foreclosure according to local requirements of the applicable jurisdictions. At December 31, 2018, only $25 thousand of consumer mortgage loans collateralized by residential real estate property were in the process of foreclosure according to local requirements of the applicable jurisdictions.

(7) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $651 thousand and $476 thousand as of September 30, 2019 and December 31, 2018.

Components of interest-bearing deposits as of September 30, 2019 and December 31, 2018 are as follows:

	Nine Months Ended September 30, 2019	Twelve Months Ended December 31, 2018
Interest-Bearing Demand	**$ 583,848**	$ 471,794
Savings	**85,080**	79,453
Time, $250,000 and Over	**65,763**	53,881
Other Time	**299,902**	287,150
	$ 1,034,593	$ 892,278

At September 30, 2019 and December 31, 2018, the Company had reciprocal deposits of $94,865 and $80,535, respectively. All of these reciprocal deposits represent Insured Cash Sweep ("ICS") deposits and Certificate of Deposits Account Registry Service ("CDARS") deposits. The ICS deposits and CDARS deposits are ones in which customers placed core deposits into the program for FDIC insurance coverage and the Company receives reciprocal deposits in a like amount. Due to changes in regulatory rules with reciprocal deposits, all of the Company's reciprocal deposits were excluded from being treated as brokered deposits at September 30, 2019. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $250,000 was approximately $48,950 and $41,104 as of September 30, 2019 and December 31, 2018, respectively. The aggregate amount of certificates of deposit, each with a minimum deposit of $250,000 was $65,763 and $53,881 as of September 30, 2019 and December 31, 2018.

(7) Deposits (Continued)

As of September 30, 2019 and December 31, 2018, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2019	December 31, 2018
One Year and Under	$ 255,071	$ 241,366
One to Three Years	96,016	82,412
Three Years and Over	14,578	17,253
	$ 365,665	$ 341,031

(8) Other Borrowed Money

Other borrowed money at September 30, 2019 and December 31, 2018 is summarized as follows:

	September 30, 2019	December 31, 2018
Federal Home Loan Bank Advances	$ 52,000	$ 44,000
Other Borrowings	14,813	-
	$ 66,813	$ 44,000

Advances from the Federal Home Loan Bank ("FHLB") have maturities ranging from 2020 to 2029 and interest rates ranging from 0.52 percent to 3.51 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans, commercial loans, multifamily loans and HELOC loans. At September 30, 2019, the book value of those loans pledged is $154,524. At September 30, 2019, the Company had remaining credit availability from the FHLB of $306,234. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

On May 1, 2019, the Company completed a borrowing arrangement with a correspondent bank for $10.0 million. The term note is secured by the Bank's stock, expires on May 1, 2024, and bears a fixed interest rate of 4.70 percent. The proceeds were used for the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of September 30, 2019, the outstanding balance totaled $9.5 million.

On May 1, 2019, the Company completed a revolving credit arrangement with a correspondent bank with a maximum line amount of $10.0 million. This line of credit is secured by the Bank's stock, expires on May 1, 2021, and bears a variable interest rate of Wall Street Journal Prime minus 0.40 percent. The Company advanced $5.3 million that was used toward the acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank. As of September 30, 2019, the outstanding balance totaled $5.3 million.

The aggregate stated maturities of other borrowed money at September 30, 2019 are as follows:

Year	Amount
2019	$ 250
2020	4,500
2021	6,313
2022	19,000
2023	4,000
2024 and After	32,750
	$ 66,813

The Company also has available federal funds lines of credit with various financial institutions totaling $43.5 million, none of which were outstanding at September 30, 2019.

The Company has the ability to borrow funds from the Federal Reserve Bank ("FRB") of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At September 30, 2019, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

(9) Subordinated Debentures (Trust Preferred Securities)

Description	Date	Amount	3 Month Libor Rate	Added Points	Total Rate	Maturity	5 Year Call Option
Colony Bankcorp Statutory Trust III	6/17/2004	$ 4,640	2.13938	2.68	4.81938	6/14/2034	6/17/2009
Colony Bankcorp Capital Trust I	4/13/2006	5,155	2.10438	1.50	3.60438	4/13/2036	4/13/2011
Colony Bankcorp Capital Trust II	3/12/2007	9,279	2.10438	1.65	3.75438	3/12/2037	3/12/2012
Colony Bankcorp Capital Trust III	9/14/2007	5,155	2.26575	1.40	3.66575	9/14/2037	9/14/2012

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

The Trust Preferred Securities pay interest quarterly.

(10) 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. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant, and equipment.

At September 30, 2019 and December 31, 2018 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	September 30, 2019	December 31, 2018
Loan Commitments	**$ 150,152**	$ 98,736
Letters of Credit	**1,732**	1,525

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

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

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

Other Commitments. As of September 30, 2019, an $18,000 letter of credit issued by FHLB was used to guarantee the Bank's performance related to public fund deposit balances.

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

(11) 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 the Company and the Bank's financial instruments are detailed hereafter. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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

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

The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

Cash and Short-Term Investments – For cash, due from banks, bank-owned deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value and is classified as Level 1.

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

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

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

Loans – The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Most loans are classified as Level 2, but impaired loans with a related allowance are classified as Level 3.

Deposit Liabilities – The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date and is classified as Level 1. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities and is classified as Level 2.

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

Other Borrowed Money – The fair value of other borrowed money is calculated by discounting contractual cash flows using an estimated interest rate based on current rates available to the Company for debt of similar remaining maturities and collateral terms. Other borrowed money is classified as Level 2 due to their expected maturities.

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

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

The carrying amount, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2019 and December 31, 2018 are as follows:

	Fair Value Measurements at September 30, 2019				
	Carrying Value	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Cash and Short-Term Investments	**$ 55,609**	**$ 55,609**	**$ 55,609**	**$ -**	**$ -**
Investment Securities Available for Sale	**368,869**	**368,869**	**-**	**368,654**	**215**
Other Investments, at Cost	**3,771**	**3,771**	**3,771**	**-**	**-**
Loans Held for Sale	**8,734**	**8,734**	**-**	**8,734**	**-**
Loans, Net	**951,559**	**952,663**	**-**	**949,733**	**2,930**
Liabilities					
Deposits	**1,251,273**	**1,254,541**	**885,608**	**368,933**	**-**
Subordinated Debentures	**24,229**	**24,229**	**-**	**24,229**	**-**
Other Borrowed Money	**66,813**	**66,854**	**-**	**66,854**	**-**

	Fair Value Measurements at December 31, 2018				
	Carrying Value	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Cash and Short-Term Investments	$ 60,156	$ 60,156	$ 60,156	$ -	$ -
Investment Securities Available for Sale	353,066	353,066	-	348,788	4,278
Federal Home Loan Bank Stock	2,978	2,978	2,978	-	-
Loans, Net	774,249	769,809	-	766,457	3,352
Liabilities					
Deposits	1,085,125	1,086,503	744,094	342,409	-
Subordinated Debentures	24,229	24,229	-	24,229	-
Other Borrowed Money	44,000	44,032	-	44,032	-

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.

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

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

Assets

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring and Nonrecurring Basis – The following table presents the recorded amount of the Company's assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2019 and December 31, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall. The table below includes only impaired loans with a specific reserve and only other real estate properties with a valuation allowance at September 30, 2019 and at December 31, 2018. Those impaired loans and other real estate properties are shown net of the related specific reserves and valuation allowances.

Part I (Continued)
Item 1 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

September 30, 2019	**Total Fair Value**	**Fair Value Measurements at Reporting Date Using** Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Securities Available for Sale				
U.S. Government Agencies Mortgage-Backed	**$ 362,311**	**$ -**	**$ 362,311**	**$ -**
U.S. Treasury	**149**	**-**	**149**	**-**
State, County and Municipal	**3,579**	**-**	**3,364**	**215**
Corporate Bonds	**2,830**	**-**	**2,830**	**-**
	$ 368,869	**$ -**	**$ 368,654**	**$ 215**
Nonrecurring				
Impaired Loans	**$ 2,930**	**$ -**	**$ -**	**$ 2,930**
Other Real Estate	**$ 421**	**$ -**	**$ -**	**$ 421**

December 31, 2018	**Total Fair Value**	**Fair Value Measurements at Reporting Date Using** Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Securities Available for Sale				
U.S. Government Agencies Mortgage-Backed	$ 346,205	$ -	$ 342,142	$ 4,063
State, County and Municipal	3,989	-	3,775	214
Corporate Bonds	2,872	-	2,872	-
	$ 353,066	$ -	$ 348,789	$ 4,277
Nonrecurring				
Impaired Loans	$ 3,352	$ -	$ -	$ 3,352
Other Real Estate	$ 1,183	$ -	$ -	$ 1,183

Liabilities

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

Part I (Continued)
Item 1 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents 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 September 30, 2019 and December 31, 2018. This table is comprised primarily of collateral dependent impaired loans and other real estate owned:

	September 30, 2019	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Real Estate				
Residential Real Estate	218	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(10.86)% - 6.70% (2.08)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% 12.50%
Commercial Real Estate	2,134	Income Approach	Capitalization Rate	7.75% - 10.50% 9.13%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Farmland	327	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(71.00)% - (3.50)% (37.25)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 80.00% 45.00%
Commercial	251	Sales Comparison	Adjustment for Differences Between the Comparable Sales	0.00% - 14.20% 7.10%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 50.00% 30.00%
Other Real Estate Owned	421	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(30.00)% - 00.00% (15.00)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	18.41% - 38.39% 28.40%
		Income Approach	Discount Rate	10.00%

Part I (Continued)
Item 1 (Continued)

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

	December 31, 2018	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Real Estate				
Commercial Construction	$ 360	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(6.00)% - 1,975.00% 984.20%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 10.00% 5.00%
Residential Real Estate	213	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(10.86)% - 6.70% (2.08)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 25.00% 12.50%
Commercial Real Estate	2,415	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(60.00)% - 80.00% 10.00%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	0.00% - 35.00% 17.50%
		Income Approach	Capitalization Rate	10.13%
Farmland	328	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(71.00)% - (3.50)% (37.25)%
			Management Adjustments for Age of Appraisals and/or Current Market Conditions	10.00% - 80.00% 45.00%
Commercial	36	Sales Contract	Adjustment for Estimated Costs to Sell	0.00% - 0.00% (0.00)%
			Management Adjustment for Age of Appraisals and/or Current Market Conditions	0.00% - 15.00% 15.00%
Other Real Estate Owned	1,183	Sales Comparison	Adjustment for Differences Between the Comparable Sales	(30.00)% - 25.02% (2.49)%
			Management Adjustment for Age of Appraisals and/or Current Market Conditions	9.82% - 99.39% 35.26%
		Income Approach	Capitalization Rate	10.00%

(11) Fair Value of Financial Instruments and Fair Value Measurements (Continued)

The table below presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the nine months ended September 30, 2019 and the twelve months ended December 31, 2018.

	Available for Sale Securities	
	September 30, 2019	December 31, 2018
Balance, Beginning	**$ 4,277**	$ 7,298
Transfers out of Level 3	**-**	(2,009)
Sales	**(2,977)**	-
Paydowns	**(1,158)**	(886)
Realized Loss on Sale of Security	**(18)**	-
Unrealized Gains included in Other Comprehensive Income (Loss)	**91**	(126)
Balance, Ending	**$ 215**	$ 4,277

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There were no transfers of securities between levels for the nine months ended September 30, 2019 and one security totaling $2,009 transferred from level 3 to level 2 for the twelve months ended December 31, 2018.

The following table presents quantitative information about recurring level 3 fair value measurements as of September 30, 2019.

September 30, 2019	**Fair Value**	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Avg)**
State, County and Municipal	**$ 215**	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.

(12) Leases

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

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

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

	Classification	**September 30, 2019**
Assets		
Operating lease right-of-use assets	Other Assets	**$ 676**
Liabilities		
Operating lease liabilities	Other Liabilites	**$ 585**

(12) Leases (Continued)

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

Operating lease cost was $43 thousand and $104 thousand for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2019, the weighted average remaining lease term was 5.44 years and the weighted average discount rate was 2.07%.

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

Twelve Months Ended September 30,		**Lease Liabilitiy**
2020	$	**185**
2021		**134**
2022		**80**
2023		**45**
2024		**45**
After September 30, 2024		**139**
Total Lease Payments	$	**628**
Less: Interest		**(43)**
Present Value of Lease Liabilities	$	**585**

Supplemental Lease Information:		**September 30, 2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases (cash payments)	$	**104**
Operating cash flows from operating leases (lease liability reduction)	$	**101**
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	$	**193**

(13) 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 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 classifications 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 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of September 30, 2019, the interim final Basel III rules ("Basel III") require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2019, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no events or conditions since prior notification of capital adequacy from the regulators that have changed the institution's category.

Part I (Continued)
Item 1 (Continued)

(13) Regulatory Capital Matters (Continued)

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

The following table summarizes regulatory capital information as of September 30, 2019 and December 31, 2018 on a consolidated basis and for the subsidiary, as defined. Regulatory capital ratios for September 30, 2019 and December 31, 2018 were calculated in accordance with the Basel III rules.

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2019						
Total Capital to Risk-Weighted Assets						
Consolidated	**$ 138,789**	**13.16%**	**$ 84,359**	**8.00%**	**N/A**	**N/A**
Colony Bank	**150,026**	**14.24**	**84,300**	**8.00**	**$ 105,375**	**10.00%**
Tier I Capital to Risk-Weighted Assets						
Consolidated	**132,189**	**12.54**	**63,270**	**6.00**	**N/A**	**N/A**
Colony Bank	**143,426**	**13.61**	**63,225**	**6.00**	**84,300**	**8.00**
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated	**108,689**	**10.31**	**47,452**	**4.50**	**N/A**	**N/A**
Colony Bank	**143,426**	**13.61**	**47,419**	**4.50**	**68,494**	**6.50**
Tier I Capital to Average Assets						
Consolidated	**132,189**	**8.98**	**58,895**	**4.00**	**N/A**	**N/A**
Colony Bank	**143,426**	**9.76**	**58,810**	**4.00**	**73,513**	**5.00**

(13) Regulatory Capital Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total Capital to Risk-Weighted Assets						
Consolidated	$ 133,900	15.86%	$ 67,527	8.00%	N/A	N/A
Colony Bank	131,723	15.63	67,418	8.00	$ 84,272	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	126,623	15.00	50,645	6.00	N/A	N/A
Colony Bank	124,446	14.77	50,563	6.00	67,418	8.00
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated	103,123	12.22	37,984	4.50	N/A	N/A
Colony Bank	124,446	14.77	37,923	4.50	54,777	6.50
Tier I Capital to Average Assets						
Consolidated	126,623	10.24	49,478	4.00	N/A	N/A
Colony Bank	124,446	10.08	49,396	4.00	61,745	5.00

(14) Stock-Based Compensation

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

Compensation expense for restricted stock is based on the market price of the Company stock at the time of the grant and amortized on a straight-line basis over the vesting period. The balance of unearned compensation related to these restricted shares as of September 30, 2019 is $61,114 which is expected to be recognized over a weighted-average of 1.83 years. Total compensation expense recognized for the restricted shares granted for the nine months ended September 30, 2019 was $25,001.

(15) Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflects the potential dilution of restricted stock and common stock warrants. Net income available to common stockholders represents net income after preferred stock dividends. The following table presents earnings per share for the three month and nine month period ended September 30, 2019 and 2018.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Numerator				
Net Income Available to Common Stockholders	**$ 2,518**	$ 2,695	**$ 7,455**	$ 8,952
Denominator				
Weighted Average Number of Common Shares Outstanding for Basic Earnings Per Common Share	**9,495**	8,439	**9,008**	8,439
Dilutive Effect of Potential Common Stock				
Restricted Stock	**-**	6	**-**	6
Stock Warrants	**-**	-	**-**	127
Weighted-Average Number of Shares Outstanding for Diluted Earnings Per Common Share	**9,495**	8,445	**9,008**	8,572
Earnings Per Share - Basic	**$ 0.27**	$ 0.32	**$ 0.83**	$ 1.06
Earnings Per Share - Diluted	**$ 0.27**	$ 0.32	**$ 0.83**	$ 1.04

(16) Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for unrealized gains and losses securities available for sale for the period ended September 30, 2019 and the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Beginning Balance	**$ (8,190)**	$ (6,492)
Other Comprehensive Income Before Reclassification	**9,827**	(1,606)
Amounts Reclassified from Accumulated Other Comprehensive Income	**(78)**	(92)
Net Current Period Other Comprehensive Income	**9,749**	(1,698)
Ending Balance	**$ 1,559**	$ (8,190)

(17) 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. Information reported internally for performance assessment follows.

Three Months Ended September 30, 2019	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Holding Company**	**Totals**
Net Interest Income	**$ 13,018**	**$ 81**	**$ -**	**$ (451)**	**$ 12,648**
Provision for Loan Losses	**214**	**-**	**-**	**-**	**214**
Noninterest Income	**2,737**	**1,245**	**-**	**57**	**4,039**
Noninterest Expenses	**11,252**	**1,191**	**529**	**386**	**13,358**
Income Taxes	**893**	**(15)**	**(111)**	**(170)**	**597**
Segment Profit (Loss)	**$ 3,396**	**$ 150**	**$ (418)**	**$ (610)**	**$ 2,518**
Segment Assets at September 30, 2019	**$ 1,461,210**	**$ 10,209**	**$ 149**	**$ 6,114**	**$ 1,477,682**

Three Months Ended September 30, 2018	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Holding Company**	**Totals**
Net Interest Income	$ 10,359	$ -	$ -	$ (254)	$ 10,105
Provision for Loan Losses	61	-	-	-	61
Noninterest Income	2,397	-	-	8	2,405
Noninterest Expenses	8,766	-	-	312	9,078
Income Taxes	792	-	-	(116)	676
Segment Profit (Loss)	$ 3,137	$ -	$ -	$ (442)	$ 2,695
Segment Assets at September 30, 2018	$ 1,184,284	$ -	$ -	$ 1,912	$ 1,186,196

Part I (Continued)
Item 1 (Continued)

(17) Segment Information (Continued)

Nine Months Ended September 30, 2019	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Holding Company**	**Totals**
Net Interest Income	**$ 35,850**	**$ 100**	**$ -**	**$ (1,120)**	**$ 34,830**
Provision for Loan Losses	**524**	**-**	**-**	**-**	**524**
Noninterest Income	**8,412**	**1,888**	**-**	**73**	**10,373**
Noninterest Expenses	**31,461**	**2,037**	**561**	**1,338**	**35,397**
Income Taxes	**2,448**	**(10)**	**(118)**	**(493)**	**1,827**
Segment Profit (Loss)	**$ 9,829**	**$ (39)**	**$ (443)**	**$ (1,892)**	**$ 7,455**
Segment Assets at September 30, 2019	**$ 1,461,210**	**$ 10,209**	**$ 149**	**$ 6,114**	**$ 1,477,682**

Nine Months Ended September 30, 2018	**Bank**	**Mortgage Banking**	**Small Business Specialty Lending Division**	**Holding Company**	**Totals**
Net Interest Income	$ 31,112	$ -	$ -	$ (713)	$ 30,399
Provision for Loan Losses	131	-	-	-	131
Noninterest Income	7,142	-	-	21	7,163
Noninterest Expenses	25,416	-	-	799	26,215
Income Taxes	2,574	-	-	(310)	2,264
Segment Profit (Loss)	$ 10,133	$ -	$ -	$ (1,181)	$ 8,952
Segment Assets at September 30, 2018	$ 1,184,284	$ -	$ -	$ 1,912	$ 1,186,196

(18) Subsequent Events

On October 17, 2019, the Board of Directors declared a cash dividend of $0.075 per share to shareholders of record on October 31, 2019, payable on November 15, 2019.

Part I Financial Information
Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statement Disclosure

Certain statements contained in this Quarterly Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Colony Bankcorp, Inc. or its management or Board of Directors, including those relating to products or services; (ii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local and regional economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, market and monetary fluctuations.
- Political instability.
- Acts of war, terrorism or cyberterrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiary must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company's organization, compensation and benefit plans.
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.
- Greater than expected costs or difficulties related to the integration of new lines of business.
- The Company's success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission ("SEC").

Future Outlook

Our Company has started the current year focusing on increasing our deposits along with solid loan growth. We are exploring opportunities in new product lines and services, which could help to improve core non-interest income and in market expansion. In addition, we continue to make strategic changes within our organization by realigning our senior management and hiring key personnel which will contribute to our future efforts to expand our footprint.

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

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

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc. and its subsidiary, Calumet Bank, which has merged within the Company. The acquisition expanded the Company's market presence, as Calumet Bank had two full-service banking locations, one each in LaGrange, Georgia and Columbus, Georgia, as well as a loan production office in Atlanta, Georgia. The Company issued 1,054,029 common shares at a fair value of $18.7 million and paid $15.3 million in cash to the former shareholders of LBC as merger consideration.

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

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

In July 2019, a new subsidiary of the Company was incorporated under the name Colony Risk Management, Inc. 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.

We have reinstated dividend payments beginning first quarter 2017 and have continued on a quarterly basis. In 2018, we paid a quarterly dividend of $0.05 per common stock. For the first three quarters of 2019, we paid a dividend payment of $0.075 per common stock.

Major Trends/Significant Considerations

The following discussion sets forth management's discussion and analysis of our consolidated financial condition as of September 30, 2019, and the consolidated results of operations for the nine months ended September 30, 2019. This discussion should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2019. Readers should also carefully review all other disclosures we file from time to time with the SEC.

Non-GAAP Financial Measures

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

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

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

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

Non-GAAP Performance Measures Reconciliation

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Interest Income Reconciliation				
Interest Income – Taxable Equivalent	**$ 16,248**	$ 12,274	**$ 44,467**	$ 36,227
Tax Equivalent Adjustment	**58**	23	**167**	57
Interest Income (GAAP)	**$ 16,190**	$ 12,251	**$ 44,300**	$ 36,170
Net Interest Income Reconciliation				
Net Interest Income – Taxable Equivalent	**$ 12,706**	$ 10,128	**$ 34,997**	$ 30,456
Tax Equivalent Adjustment	**58**	23	**167**	57
Net Interest Income (GAAP)	**$ 12,648**	$ 10,105	**$ 34,830**	$ 30,399

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net Interest Margin Reconciliation				
Net Interest Margin – Taxable Equivalent	**3.64%**	3.57%	**3.56%**	3.56%
Tax Equivalent Adjustment	**0.02%**	0.00%	**0.02%**	0.00%
Net Interest Margin (GAAP)	**3.62%**	3.57%	**3.54%**	3.56%
Interest Rate Spread Reconciliation				
Interest Rate Spread – Taxable Equivalent	**3.41%**	3.40%	**3.33%**	3.41%
Tax Equivalent Adjustment	**0.01%**	0.01%	**0.01%**	0.01%
Interest Rate Spread (GAAP)	**3.40%**	3.39%	**3.32%**	3.40%

The Company

Colony Bankcorp, Inc. is a bank holding company headquartered in Fitzgerald, Georgia that provides, through Colony Bank, its wholly owned subsidiary (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.

Application of Critical Accounting Policies and Accounting Estimates

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's financial position and/or results of operations. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results of operations, and they require management to make estimates that are difficult and subjective.

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of September 30, 2019 and December 31, 2018, and results of operations for each of the three months and nine months periods ended September 30, 2019 and 2018. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 21 percent federal tax rate, 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 \$2.52 million, or \$0.27 diluted per common share, in the three months ended September 30, 2019 compared to net income available to common shareholders of \$2.70 million, or \$0.32 diluted per common share, in the three months ended September 30, 2018. Net income available to common shareholders totaled \$7.46 million, or \$0.83 diluted per common share, in the nine months ended September 30, 2019 compared to net income available to common shareholders of \$8.95 million, or \$1.04 diluted per common share, in the nine months ended September 30, 2018. The Company incurred \$861 thousand and \$3.00 million in acquisition related and deposit intangible expenses for the three and nine months ended September 30, 2019, respectively, stemming from the two acquisitions of LBC Bancshares, Inc. and PFB Mortgage.

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2019	2018	**$ Variance**	**% Variance**	**2019**	2018	**$ Variance**	**% Variance**
Taxable-equivalent net interest income	**$ 12,706**	$ 10,128	**$ 2,578**	**25.45%**	**$ 34,997**	$ 30,456	**$ 4,541**	**14.91%**
Taxable-equivalent adjustment	**58**	23	**35**	**152.17%**	**167**	57	**110**	**192.98%**
Net interest income	**12,648**	10,105	**2,543**	**25.17%**	**34,830**	30,399	**4,431**	**14.58%**
Provision for loan losses	**214**	61	**153**	**250.82%**	**524**	131	**393**	**300.00%**
Noninterest income	**4,039**	2,405	**1,634**	**67.94%**	**10,373**	7,163	**3,210**	**44.81%**
Noninterest expense	**13,358**	9,078	**4,280**	**47.15%**	**35,397**	26,215	**9,182**	**35.03%**
Income before income taxes	**3,115**	3,371	**(256)**	**-7.59%**	**9,282**	11,216	**(1,934)**	**-17.24%**
Income taxes	**597**	676	**(79)**	**-11.69%**	**1,827**	2,264	**(437)**	**-19.30%**
Net income	**$ 2,518**	$ 2,695	**$ (177)**	**-6.57%**	**$ 7,455**	$ 8,952	**$ (1,497)**	**-16.72%**
Net income available to common shareholders:								
Basic	**$ 0.27**	$ 0.32	**$ (0.05)**	**-15.63%**	**$ 0.83**	$ 1.06	**$ (0.23)**	**-21.70%**
Diluted	**$ 0.27**	$ 0.32	**$ (0.05)**	**-15.63%**	**$ 0.83**	$ 1.04	**$ (0.21)**	**-20.19%**
Return on average assets	**0.67%**	0.91%	**-0.24%**	**-26.37%**	**0.72%**	1.00%	**-0.28%**	**-28.00%**
Return on average total equity	**7.86%**	12.10%	**-4.24%**	**-35.04%**	**8.82%**	13.37%	**-4.55%**	**-34.03%**

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 77.05 percent of total revenue for nine months ended September 30, 2019 and 80.93 percent for the same period a year ago.

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 Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, is currently 5.00 percent. The rate has decreased two times during the three quarters of 2019 and increased four times in 2018. The federal funds rate moved similarly to the prime rate with interest rates currently at 2.00 percent. We expect at least one additional rate decrease in 2019.

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 Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Part I (Continued)
Item 2 (Continued)

Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from September 30, 2018 to September 30, 2019 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 September 30, 2018 to September 30, 2019		
($ in thousands)	**Volume**	**Rate**	**Total**
Interest Income			
Loans, Net-taxable	**$ 3,973**	**$ 2,432**	**$ 6,405**
Loans Held for Sale	**92**	**-**	**92**
Investment Securities			
Taxable	**558**	**546**	**1,104**
Tax-exempt	**(3)**	**9**	**6**
Total Investment Securities	**555**	**555**	**1,110**
Interest-Bearing Deposits in other Banks	**292**	**265**	**557**
Federal Funds Sold	**60**	**-**	**60**
Other Interest - Earning Assets	**-**	**16**	**16**
Total Interest Income	**4,972**	**3,268**	**8,240**
Interest Expense			
Interest-Bearing Demand and Savings Deposits	**330**	**933**	**1,263**
Time Deposits	**270**	**1,871**	**2,141**
Subordinated Debentures	**-**	**86**	**86**
Other Borrowed Money	**40**	**172**	**212**
Federal Funds Purchased	**(3)**	**-**	**(3)**
Total Interest Expense	**637**	**3,062**	**3,699**
Net Interest Income	**$ 4,335**	**$ 206**	**$ 4,541**

(1) 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 24.24 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. The net interest margin remained unchanged at 3.56 percent for the nine months ended September 30, 2019 compared to 3.56 percent for the same period a year ago. We anticipate the net interest margin to be impacted from the competitive environment.

Taxable-equivalent net interest income for the nine months ended September 30, 2019 increased by $4.54 million, or 14.91 percent compared to the same period a year ago. The average volume of earning assets during nine months ended September 30, 2019 increased $171.52 million compared to the same period a year ago. Growth in average earning assets during 2019 was primarily in loans, investments and interest-bearing deposits in other Banks. These increases mostly stem from the acquisition of LBC Bancshares, Inc. that occurred in the second quarter of 2019.

The average volume of loans increased $101.27 million for the nine months ended September 30, 2019 compared to the same period a year ago. The average yield on loans increased 37 basis points for the nine months ended September 30, 2019 compared to the same period a year ago. The average volume of investment securities increased $33.53 million for the nine months ended September 30, 2019 compared to the same year ago period, while the average yield on investment securities increased 20 basis points for the same period comparison. The average volume of deposits increased $168.09 million for the nine months ended September 30, 2019 compared to the same period a year ago, with interest-bearing deposits increasing $129.16 million for the nine months ended September 30, 2019.

Accordingly, the ratio of average interest-bearing deposits to total average deposits was 82.48 percent for the nine months ended September 30, 2019 compared to 83.41 percent in the same period a year ago. This deposit mix, combined with a general increase in market rates, had the effect of increasing the average cost of total deposits by 30 basis points in nine months ended September 30, 2019 compared to the same period a year ago.

The Company's net interest spread, which represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities, was 3.33 percent in nine months ended September 30, 2019 compared to 3.41 percent in the same period a year ago. 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.

AVERAGE BALANCE SHEETS

($ in thousands)	Nine Months Ended September 30, 2019 Average Balances	Income/ Expense	Yields/ Rates	Nine Months Ended September 30, 2018 Average Balances	Income/ Expense	Yields/ Rates
Assets						
Interest-Earning Assets						
Loans, Net of Unearned Interest and fees						
Taxable (1)	$ 868,285	$ 36,499	5.60%	$ 767,017	$ 30,094	5.23%
Loans Held for Sale	3,072	92	3.99%	-	-	0.00%
Investment Securities						
Taxable	381,201	6,867	2.40%	347,548	5,763	2.21%
Tax-Exempt (2)	1,939	50	3.44%	2,066	44	2.84%
Total Investment Securities	383,140	6,917	2.41%	349,614	5,807	2.21%
Interest-Bearing Deposits	50,236	749	1.99%	19,942	192	1.28%
Federal Funds Sold	3,352	60	2.39%	-	-	-%
Interest-Bearing Other Assets	3,226	150	6.20%	3,220	134	5.55%
Total Interest-Earning Assets	$ 1,311,311	$ 44,467	4.52%	$ 1,139,793	$ 36,227	4.24%
Non-interest-Earning Assets						
Cash and Cash Equivalents	13,108			13,415		
Allowance for Loan Losses	(6,915)			(7,357)		
Other Assets	70,568			48,125		
Total Noninterest-Earning Assets	76,761			54,183		
Total Assets	$ 1,388,072			$ 1,193,976		
Liabilities and Stockholders' Equity						
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Interest-Bearing Demand and Savings	$ 622,033	$ 3,234	0.69%	$ 532,748	$ 1,971	0.49%
Other Time	363,874	4,335	1.59%	323,995	2,194	0.90%
Total Interest-Bearing Deposits	985,907	7,569	1.02%	856,743	4,165	0.65%
Other Interest-Bearing Liabilities						
Other Borrowed Money	52,083	1,105	2.83%	49,865	893	2.39%
Subordinated Debentures	24,229	795	4.37%	24,229	709	3.90%
Federal Funds Purchased	71	1	1.88%	240	4	2.22%
Total Other Interest-Bearing Liabilities	76,383	1,901	3.32%	74,334	1,606	2.88%
Total Interest-Bearing Liabilities	$ 1,062,290	$ 9,470	1.19%	$ 931,077	$ 5,771	0.83%
Noninterest-Bearing Liabilities and Stockholders' Equity						
Demand Deposits	209,366			170,437		
Other Liabilities	3,712			3,164		
Stockholders' Equity	112,704			89,298		
Total Noninterest-Bearing Liabilities and Stockholders' Equity	325,782			262,899		
Total Liabilities and Stockholders' Equity	$ 1,388,072			$ 1,193,976		
Interest Rate Spread			3.33%			3.41%
Net Interest Income		$ 34,997			$ 30,456	
Net Interest Margin			3.56%			3.56%

(1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling $155 and $46 for nine month periods ended September 30, 2019 and 2018, respectively, are included in tax-exempt interest on loans.

(2) Taxable-equivalent adjustments totaling $12 and $11 for nine month periods ended September 30, 2019 and 2018, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 21 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Part I (Continued)
Item 2 (Continued)

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 $524 thousand in the nine months ended September 30, 2019 compared to $131 thousand in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	2019	2018	**$ Variance**	**% Variance**	**2019**	2018	**$ Variance**	**% Variance**
Service Charges on Deposit Accounts	**$ 1,325**	$ 1,134	**$ 191**	**16.84%**	**$ 3,359**	$ 3,266	**$ 93**	**2.85%**
Other Charges, Commissions and Fees	**1,100**	803	**297**	**36.99%**	**3,110**	2,414	**696**	**28.83%**
Mortgage Fee Income	**1,255**	176	**1,079**	**613.07%**	**1,941**	507	**1,434**	**282.84%**
Securities Gains	**34**	-	**34**	**100.00%**	**99**	116	**(17)**	**-14.66%**
Other	**325**	292	**33**	**11.30%**	**1,864**	860	**1,004**	**116.74%**
Total	**$ 4,039**	$ 2,405	**$ 1,634**	**67.94%**	**$ 10,373**	$ 7,163	**$ 3,210**	**44.81%**

Service Charges on Deposit Accounts. The increase is primarily attributed to overdraft fees which increased $148 thousand for the nine months ended September 30, 2019 compared to the same period in 2018.

Other Charges, Commissions and Fees. Debit card interchange fees and foreign fees increased $731 thousand for the nine months ended September 30, 2019 compared to the same period in 2018.

Mortgage Fee Income. The increase is primarily attributed to the acquisition of the PFB Mortgage division in May 2019. In addition, the Bank opened a new mortgage location in LaGrange in March 2019.

Other. The increase is primarily attributed to the gain on sale of other real estate owned. During the second quarter of 2019, the Bank realized a gain of approximately $1.00 million from the sale of several other real estate owned properties within one relationship.

Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	2019	2018	**$ Variance**	**% Variance**	**2019**	2018	**$ Variance**	**% Variance**
Salaries and Employee Benefits	**$ 7,186**	$ 5,110	**$ 2,076**	**40.63%**	**$ 18,848**	$ 15,032	**$ 3,816**	**25.39%**
Occupancy and Equipment	**1,290**	1,052	**238**	**22.62%**	**3,459**	3,077	**382**	**12.41%**
Acquisition Related Expenses	**649**	53	**596**	**1124.53%**	**2,610**	53	**2,557**	**4824.53%**
Deposit Intangible Expenses	**212**	9	**203**	**2255.56%**	**388**	27	**361**	**1337.04%**
Other	**4,021**	2,854	**1,167**	**40.89%**	**10,092**	8,026	**2,066**	**25.74%**
Total	**$ 13,358**	$ 9,078	**$ 4,280**	**47.15%**	**$ 35,397**	$ 26,215	**$ 9,182**	**35.03%**

Salaries and Employee Benefits. The increase in 2019 is primarily attributable to merit pay increases and increase in headcount mostly from the two acquisitions completed in May 2019 of LBC Bancshares, Inc and PFB Mortgage. In addition, the Company has hired several key employees during the second quarter of 2019 as part of the strategic changes that are being made to enhance its profitability in the future.

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

Acquisition Related Expenses. The increase in 2019, especially in the second quarter of 2019, is attributed to mostly to the acquisition of LBC Bancshares, Inc. The largest expense the Company has incurred from the acquisition relates to the contract buyout of Calumet's data processing system which was approximately $1.08 million. Other expenses incurred relating to the acquisition are legal expenses and broker expenses.

Deposit Intangible Expenses. The Bank has had an increase in core deposit intangible from the PFB Albany branch acquisition in October 2018 and from the Calumet Bank acquisition in May 2019. The deposit intangible expense has increase to account for the amortization of the core deposit intangibles that is being amortized over the average remaining life of each acquired customers' deposits.

Other. The increase for the nine months ended September 30, 2019 as compared to comparable periods is primarily attributable to software and data processing costs which increased by $478 thousand from $1.03 million in 2018 compared to $1.51 million in 2019. ATM expense increased by $292 thousand for the first nine months of 2019 compared to comparable periods in 2018. Legal and professional fees increased for the first nine months of 2019 by $270 thousand compared to comparable periods in 2018. Marketing expenses increased for the first nine months of 2019 by $336 thousand compared to comparable periods in 2018 due to the Bank increasing its efforts in obtaining new deposits.

Part I (Continued)
Item 2 (Continued)

Investment Portfolio

The following table presents carrying values of investment securities held by the Company for the periods indicated.

	September 30, 2019	December 31, 2018
Mortgage-Backed Securities	**$ 362,311**	$ 346,205
U.S Treasury	**149**	-
State, County & Municipal	**3,579**	3,989
Corporate Bonds	**2,830**	2,872
Total Investment Securities	**$ 368,869**	$ 353,066

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of September 30, 2019. (Mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-Backed Securities	**$ 29,974**	**2.67%**	**$ 218,288**	**2.09%**	**$ 91,599**	**2.71%**	**$ 22,450**	**2.72%**
U.S Treasury	**149**	**2.03**	**-**	**-**	**-**	**-**	**-**	**-**
State, County & Municipal	**1,166**	**2.80**	**2,128**	**2.53**	**-**	**-**	**285**	**4.03**
Corporate Bonds	**2,013**	**4.03**	**817**	**3.12**	**-**	**-**	**-**	**-**
Total Investment Portfolio	**$ 33,302**	**2.75%**	**$ 221,233**	**2.09%**	**$ 91,599**	**2.71%**	**$ 22,735**	**2.73%**

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. The Company has 100 percent of its portfolio classified as available for sale.

At September 30, 2019, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's stockholders' equity.

The average yield of the securities portfolio was 2.41 percent for the nine months ended September 30, 2019 compared to 2.21 percent for the same period in 2018. The increase in the average yield from 2018 to 2019 was primarily attributed to the purchase of new securities which have a higher yield.

Loans

The following table presents the composition of the Company's legacy loan portfolio, excluding purchased loans, as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018	$ Variance	% Variance
Commercial and Agricultural				
Commercial	$ 52,085	$ 50,181	$ 1,904	3.79%
Agricultural	20,462	15,993	4,469	27.94%
Real Estate				
Commercial Construction	64,280	46,609	17,671	37.91%
Residential Construction	15,080	12,242	2,838	23.18%
Commercial	392,681	366,792	25,889	7.06%
Residential	172,853	185,699	(12,846)	-6.92%
Farmland	71,206	62,674	8,532	13.61%
Consumer and Other				
Consumer	18,071	18,423	(352)	-1.91%
Other	19,591	5,027	14,564	289.72%
Gross Loans	826,309	763,640	62,669	8.21%
Unearned Interest and Fees	(564)	(501)	(63)	12.57%
Allowance for Loan Losses	(6,591)	(7,277)	686	-9.43%
Net Loans	$ 819,154	$ 755,862	$ 63,292	8.37%

The following table presents the composition of the Company's purchased loan portfolio as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018	$ Variance	% Variance
Commercial and Agricultural				
Commercial	$ 24,147	$ 7,229	$ 16,918	234.03%
Agricultural	279	806	(527)	-65.38%
Real Estate				
Commercial Construction	9,720	1,240	8,480	683.87%
Residential Construction	4,959	258	4,701	1822.09%
Commercial	58,019	6,742	51,277	760.56%
Residential	25,801	2,015	23,786	1180.45%
Farmland	3,135	35	3,100	8857.14%
Consumer and Other				
Consumer	4,685	62	4,623	7456.45%
Other	1,669	-	1,669	100.00%
Gross Loans	132,414	18,387	114,027	620.15%
Unearned Interest and Fees	-	-	-	0.00%
Allowance for Loan Losses	(9)	-	(9)	-100.00%
Net Loans	$ 132,405	$ 18,387	$ 114,018	620.10%

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the 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 criteria 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 criteria may vary slightly by market. The Company is committed to serving the borrowing needs of all markets served and, in some cases, adjusts certain evaluation methods to meet the overall credit demographics of each market. Consumer loans represent relatively small loan amounts that are spread across many individual borrowers to help minimize risk. Additionally, consumer trends and outlook reports are reviewed by management on a regular basis.

The Company utilizes an independent third party company for loan review and validation of the credit risk program on an ongoing quarterly basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial and Agricultural. Commercial and agricultural legacy loans at September 30, 2019 increased 9.63 percent to $72.55 million from December 31, 2018 at $66.17 million. The Company's commercial and agricultural loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Real Estate. Commercial and residential construction legacy loans increased by $20.51 million, or 34.85 percent, at September 30, 2019 to $79.36 million from $58.85 million at December 31, 2018. This increase is partially due to new commercial construction loans being financed during the year that have not been completed by the end of the quarter. Commercial real estate legacy loans increased $25.89 million, or 7.06 percent, at September 30, 2019 to $392.68 million from $366.79 million at December 31, 2018.

Other. Other legacy loans at September 30, 2019 increased 289.72 percent to $19.59 million from $5.03 million at December 31, 2018. Other loans consist primarily of loans to local governmental authorities. The increase is attributed to the Company financing approximately $11.50 million to one local governmental authority.

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 September 30, 2019, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at September 30, 2019. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Loans with fixed interest rates	$ 726,236	$ 215,549	$ 291,766	$ 127,701	$ 91,220
Loans with floating interest rates	232,487	125,569	59,489	36,406	11,023
Total	$ 958,723	$ 341,118	$ 351,255	$ 164,107	$ 102,243

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

Nonperforming assets and accruing past due loans, including purchased credit impaired loans, as of September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Loans Accounted for on Nonaccrual	**$ 10,143**	$ 9,482	$ 8,136
Loans Accruing Past Due 90 Days or More	**0**	-	1
Other Real Estate Foreclosed	**776**	1,841	2,173
Total Nonperforming Assets	**$ 10,919**	$ 11,323	$ 10,310
Nonperforming Assets by Segment			
Construction and Land Development	**$ 96**	$ 883	$ 925
1-4 Family Residential	**3,829**	3,299	2,704
Nonfarm Residential	**2,123**	3,821	3,544
Farmland	**2,629**	2,053	2,066
Commercial and Consumer	**2,242**	1,267	1,071
Total Nonperforming Assets	**$ 10,919**	$ 11,323	$ 10,310
Nonperforming Assets as a Percentage of:			
Total Loans and Foreclosed Assets	**1.14%**	1.44%	1.32%
Total Assets	**0.74%**	0.90%	0.87%
Nonperforming Loans as a Percentage of:			
Total Loans	**1.06%**	1.21%	1.04%
Supplemental Data:			
Trouble Debt Restructured Loans			
In Compliance with Modified Terms	**$ 11,580**	$ 14,128	$ 15,400
Trouble Debt Restructured Loans			
Past Due 30-89 Days	**-**	864	-
Accruing Past Due Loans:			
30-89 Days Past Due	**$ 2,753**	$ 8,234	$ 4,170
90 or More Days Past Due	**-**	-	1
Total Accruing Past Due Loans	**$ 2,753**	$ 8,234	$ 4,171
Allowance for Loan Losses	**$ 6,600**	$ 7,277	$ 7,155
ALLL as a Percentage of:			
Total Loans	**0.69%**	0.93%	0.92%
Nonperforming Loans	**65.07%**	76.74%	87.93%

Nonperforming assets include nonaccrual loans, loans past due 90 days or more and foreclosed real estate. Nonperforming assets at September 30, 2019 decreased 3.57 percent from December 31, 2018.

Generally, loans are placed on non-accrual 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 non-accrual status whether or not the loan is 90 days or more past due. For consumer loans, collectability and loss are generally determined before the loan reaches 90 days past due. Accordingly, losses on consumer loans are recorded at the time they are determined. Consumer loans that are 90 days or more past due are generally either in liquidation/payment status or bankruptcy awaiting confirmation of a plan. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as nonaccrual does not preclude the ultimate collection of loan principal or interest.

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

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

Allowance for Loan Losses

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

The Company’s allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics. The allowances established for probable losses on specific loans are the result of management’s quarterly review of substandard loans with an outstanding balance of $250,000 or more. This review process usually involves regional credit officers along with local lending officers reviewing the loans for impairment. Specific valuation allowances are determined after considering the borrower’s financial condition, collateral deficiencies, and economic conditions affecting the borrower’s industry, among other things. In the case of collateral dependent loans, collateral shortfall is most often based upon local market real estate value estimates. This review process is performed at the subsidiary bank level and is reviewed at the parent Company level.

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.

	September 30, 2019		December 31, 2018	
	Reserve	**%***	Reserve	%*
Commercial and Agricultural				
Commercial	**$ 443**	**8%**	$ 370	7%
Agricultural	**871**	**2%**	248	2%
Real Estate				
Commercial Construction	**142**	**8%**	115	6%
Residential Construction	**33**	**2%**	16	2%
Commercial	**3,290**	**47%**	4,549	48%
Residential	**957**	**21%**	1,181	24%
Farmland	**723**	**8%**	702	8%
Consumer and Other				
Consumer	**99**	**2%**	86	2%
Other	**42**	**2%**	10	1%
	$ 6,600	**100%**	$ 7,277	100%

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

Part I (Continued)
Item 2 (Continued)

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

	Nine Months Ended September 30, 2019	2018
Allowance for Loan Losses at Beginning of Year	**$ 7,277**	$ 7,508
Charge-Offs		
Commercial	**266**	118
Agricultural	**84**	123
Commercial Construction	**29**	-
Residential Construction	**-**	-
Commercial	**56**	258
Residential	**757**	124
Farmland	**63**	-
Consumer	**432**	214
Other	**-**	-
	$ 1,687	$ 837
Recoveries		
Commercial	**27**	114
Agricultural	**4**	7
Commercial Construction	**61**	39
Residential Construction	**-**	-
Commercial	**173**	39
Residential	**166**	83
Farmland	**10**	11
Consumer	**41**	59
Other	**4**	1
	486	353
Net Charge-Offs	**1,201**	484
Provision for Loans Losses	**524**	131
Allowance for Loan Losses at End of Period	**$ 6,600**	$ 7,155
Ratio of Annualized Net Charge-Offs to Average Loans	**0.18%**	0.08%

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the nine month periods ended September 30, 2019 and September 30, 2018.

	September 30, 2019		September 30, 2018	
	Average Amount	**Average Rate (1)**	Average Amount	Average Rate (1)
Noninterest-Bearing Demand Deposits	**$ 209,366**		$ 170,437	
Interest-Bearing Demand and Savings Deposits	**622,033**	**0.69%**	532,748	0.49%
Time Deposits	**363,874**	**1.59%**	323,995	0.90%
Total Deposits	**$ 1,195,273**	**0.84%**	$ 1,027,180	0.54%

(1) Average rate is an annualized rate.

Average deposits increased $168.09 million to $1.20 billion at September 30, 2019 from $1.03 billion at September 30, 2018. The increase included an increase of $38.93 million, or 22.84 percent in noninterest-bearing demand deposits while, at the same time, interest-bearing demand and savings deposits increased $89.29 million, or 16.76 percent and time deposits increased $39.88 million, or 12.31 percent primarily as a result of recent acquisitions. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 17.52 percent for nine months ended September 30, 2019 compared to 16.59 percent for nine months ended September 30, 2018. The average cost of total deposits increased 30 basis points when comparing the nine months ended September 30, 2019 compared to the same period a year ago.

Off-Balance-Sheet Arrangements, Commitments, Guarantees

In the ordinary course of business, the Company enters 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 and the contract or notional amounts of these instruments reflect the extent of involvement and exposure to credit loss that we have in these particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require the payment of fees. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers and similarly do not necessarily represent future cash obligations.

As of September 30, 2019 and December 31, 2018, financial instruments with off-balance sheet risk were as follows:

	Contract Amount	
	September 30, 2019	**December 31, 2018**
Loan Commitments	**$ 150,152**	**$ 98,736**
Letters of Credit	**1,732**	**1,525**

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. We evaluate each customer's creditworthiness at a local bank level on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant, and equipment.

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.

Other Commitments. As of September 30, 2019, an $18.00 million letter of credit issued by FHLB was used to guarantee the Bank's performance related to public fund deposit balances.

Capital and Liquidity

At September 30, 2019, stockholders' equity totaled $129.65 million compared to $95.69 million at December 31, 2018. As part of the acquisition with LBC Bancshares, Inc., the Company issued 1,054,029 common shares at a fair value of $18.71 million. In addition to net income of $7.46 million, other significant changes in stockholders' equity during nine months ended September 30, 2019 included $1.98 million of dividends declared on common stock. The accumulated other comprehensive income (loss) component of stockholders' equity totaled $1.56 million at September 30, 2019 compared to $(8.19) million at December 31, 2018. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale.

Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items.

Tier 1 capital consists of common stock and qualifying preferred stockholders' equity and trust preferred securities less goodwill. Tier 2 capital consists of tier 1 capital and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses.

Using the capital requirements presently in effect, the Tier 1 ratio as of September 30, 2019 was 12.54 percent and total Tier 1 and 2 risk-based capital was 13.16 percent. Both of these measures compare favorably with the regulatory minimum to be adequately capitalized of 6 percent for Tier 1 and 8 percent for total risk-based capital. The Company's common equity Tier 1 ratio as of September 30, 2019 was 10.31, which exceeds the regulatory minimum of 4.50 percent. The Company's Tier 1 leverage ratio as of September 30, 2019 was 8.98 percent, which exceeds the required ratio standard of 4 percent.

As of September 30, 2019, average capital was $112.70 million, representing 8.12 percent of average assets for the year. This compares to 7.48 percent for September 2018.

The Company reinstated common stock dividends in the first quarter of 2017. The Company paid $0.05 per share of common stock in each of the quarters of 2018. The Company paid $0.075 per share of common stock in the first three quarters of 2019.

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of September 30, 2019, the available for sale bond portfolio totaled $368.87 million. At December 31, 2018, the available for sale bond portfolio totaled $353.07 million. Only marketable investment grade bonds are purchased. Although a good portion of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. The Company had ratios of loans to deposits of 76.62 percent as of September 30, 2019 and 72.07 percent at December 31, 2018. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at September 30, 2019 and December 31, 2018 were 72.74 percent and 69.26 percent, respectively.

Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At September 30, 2019 and December 31, 2018, the Company had $65.76 million and $53.88 million in certificates of deposit of $250,000 or more. These larger deposits represented 5.26 percent and 4.97 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

The Company supplemented deposit sources with reciprocal deposits. As of September 30, 2019, the Company had $94.87 million, or 7.58 percent of total deposits, in ICS deposits and CDARS deposits. Due to changes in regulatory rules with reciprocal deposits, all of the Company's reciprocal deposits were excluded from being treated as brokered deposits at September 30, 2019. Additional information is provided in the Notes to the Consolidated Financial Statements regarding these reciprocal 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. These deposits obtained from listing services are often referred to as wholesale or internet CDs. As of September 30, 2019, the Company had $6.00 million, or 0.48 percent of total deposits, in internet certificates of deposit obtained through deposit listing services.

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

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

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

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

The liquidity position of the Company is continuously monitored and adjustments are made to the balance sheet 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.

Return on Assets and Stockholders' Equity

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Return on Average Assets (1)	**0.67%**	0.91%	**0.72%**	1.00%
Return on Average Total Equity (1)	**7.86%**	12.10%	**8.82%**	13.37%
Average Total Equity to Average Assets	**8.59%**	7.48%	**8.12%**	7.48%

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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. In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. There have been no material changes in market risk from the information provided in the Company's annual report on Form 10-K for the year ended December 31, 2018.

ITEM 4 – CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of Part I in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2 – UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no shares of the Company's common stock sold during the three-month period ended September 30, 2019.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

3.1 Articles of Incorporation, As Amended

-filed as Exhibit 99.1 to the Registrant's 10-Q for the period ended June 30, 2014 (File No. 0-12436), filed with the Commission on August 4, 2014 and incorporated herein by reference.

3.2 Bylaws, as Amended

-filed as Exhibit 3(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference.

3.3 Article of Amendment to the Company's Articles of Incorporation Authorizing Additional Capital Stock in the Form of Ten Million Shares of Preferred Stock

-filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436) filed with the Commission on January 13, 2009 and incorporated herein by reference.

3.4 Articles of Amendment to the Company's Articles of Incorporation Establishing the Terms of the Series A Preferred Stock

-filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436) filed with the Commission on January 13, 2009 and incorporated herein by reference.

3.5 Amendment to the Company's Bylaws

-filed as Exhibit 99.1 to the Registrant's 8-K (File No.000-12436) , filed with the Commission on May 29, 2015 and incorporated herein by reference.

4.1 Warrant to Purchase up to 500,000 shares of Common Stock

-filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

4.2 Form of Series A Preferred Stock Certificate

-filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 13, 2009 and incorporated herein by reference.

10.1 Deferred Compensation Plan and Sample Director Agreement

-filed as Exhibit 10(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference.

10.2 Profit-Sharing Plan Dated January 1, 1979

-filed as Exhibit 10(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference.

10.3 Retention Agreement

-filed as Exhibit 99.1 to the Registrant's 10-Q for the period ended March 31, 2015 (File No. 000-12436), filed with the Commission on May 4, 2015 and incorporated herein by reference.

10.4 Retention Agreement

-filed as Exhibit 99.2 to the Registrant's 10-Q for the period ended June 30, 2016 (File No. 000-12436), filed with the Commission on May 31, 2016 and incorporated herein by reference.

10.5 Retention Agreement

-filed as Exhibit 99.3 to the Registrant's 10-Q for the period ended March 31, 2018 (File No. 000-12436), filed with the Commission on May 4, 2018 and incorporated herein by reference.

10.6 Employment Agreement, Dated July 27, 2018 Between T. Heath Fountain and Colony Bankcorp, Inc.

-filed as Exhibit 99.4 to the Registrant's 10-Q for the period ended September 30, 2018 (File No. 000-12436), filed with the Commission on November 2, 2018 and incorporated herein by reference.

10.7 Restricted Stock Award Between T. Heath Fountain and Colony Bankcorp, Inc.

-filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 (File No. 000-12436), filed with the Commission on August 23, 2018 and incorporated herein by reference.

10.8 Retention Agreement

-filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on January 17, 2019 and incorporated herein by reference.

10.9 Employment Agreement, Date June 24, 2019 Between Tracie Youngblood and Colony Bankcorp, Inc.

-filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A (File No. 000-12436), filed with the Commission on June 24, 2019 and incorporated herein by reference.

99.1 Amendment to the Company's Bylaws

-filed as Exhibit 99.1 to the Registrant's 10-Q for the period ended June 30, 2019 (File No. 000-12436), filed with the Commission on July 30, 2019 and incorporated herein by reference.

Part II (Continued)
Item 6 (Continued)

31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of Sarbanes – Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Colony Bankcorp, Inc.

	/s/ T. Heath Fountain
Date: November 7, 2019	T. Heath Fountain President/Director/Chief Executive Officer
	/s/ Tracie Youngblood
Date: November 7, 2019	Tracie Youngblood Executive Vice-President/Director/Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION

I, T. Heath Fountain certify that:

1. I have reviewed this Form 10-Q of Colony Bankcorp, Inc:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2019

/s/ T. Heath Fountain
T. Heath Fountain
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Tracie Youngblood certify that:

1. I have reviewed this Form 10-Q of Colony Bankcorp, Inc:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2019

/s/ Tracie Youngblood
Tracie Youngblood
Executive Vice-President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-Q of Colony Bankcorp, Inc. (the Company) for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the Report), T. Heath Fountain, President and Chief Executive Officer of the Company, and Tracie Youngblood, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2019

/s/ T. Heath Fountain
T. Heath Fountain
President and Chief Executive Officer

November 7, 2019

/s/ Tracie Youngblood
Tracie Youngblood
Executive Vice-President and Chief Financial Officer

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.