

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2019

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

For the Transition Period from _____ to _____

Commission File Number 000-12436



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

Georgia
(State or Other Jurisdiction of
Incorporation or Organization)

58-1492391
(I.R.S. Employer
Identification Number)

115 South Grant Street
Fitzgerald, Georgia
(Address of Principal Executive Offices)

31750
(Zip Code)

(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	The NASDAQ Stock Market

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐
Non-accelerated Filer ☐

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 any 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 Act): Yes ☐ No ☒

The aggregate market value of Colony Bankcorp, Inc. common stock held by non-affiliates, computed by reference to the price at which the stock was last sold on June 28, 2019, as reported on the NASDAQ Global Market was \$122.4 million.

The number of shares outstanding of Colony Bankcorp, Inc. common stock, par value \$1.00 per share, as of March 13, 2020, was 9,498,783 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2019.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “strive,” “projection,” “goal,” “target,” “outlook,” “aim,” “would,” “annualized” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors discussed elsewhere in this Annual Report and the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our borrowers and the success of various projects that we finance;
- concentration of our loan portfolio in real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- credit and lending risks associated with our construction and development, commercial real estate, commercial and industrial and residential real estate loan portfolios;
- our ability to attract sufficient loans that meet prudent credit standards, including in our construction and development, commercial and industrial and owner-occupied commercial real estate loan categories;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;
- changes in interest rate environment, including changes to the federal funds rate, and competition in our markets may result in increased funding costs or reduced earning assets yields, thus reducing our margins and net interest income;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan losses;
- the adequacy of our reserves (including allowance for loan losses) and the appropriateness of our methodology for calculating such reserves;
- our ability to successfully execute our business strategy to achieve profitable growth;
- the concentration of our business within our geographic areas of operation in Georgia and neighboring markets;
- our focus on small and mid-sized businesses;
- our ability to manage our growth;
- our ability to increase our operating efficiency;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;
- failure to maintain adequate liquidity and regulatory capital and comply with evolving federal and state banking regulations;
- risks that our cost of funding could increase, in the event we are unable to continue to attract stable, low-cost deposits and reduce our cost of deposits;
- inability of our risk management framework to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk;
- the makeup of our asset mix and investments;
- external economic, political and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- restraints on the ability of the Bank to pay dividends to us, which could limit our liquidity;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;
- inaccuracies in our assumptions about future events, which could result in material differences between our financial projections and actual financial performance;
- changes in our management personnel or our inability to retain motivate and hire qualified management personnel;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets;
- our ability to identify and address cyber-security risks, fraud and systems errors;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies;
- fraudulent and negligent acts by our clients, employees or vendors and our ability to identify and address such acts;
- risks related to potential acquisitions;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection,

securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;

- impact of the current outbreak of the novel coronavirus (COVID-19);
- changes in the scope and cost of FDIC insurance and other coverage;
- changes in our accounting standards;
- changes in tariffs and trade barriers;
- changes in federal tax law or policy; and
- other risks and factors identified in this Form 10-K under the heading “Risk Factors”.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Annual Report on Form 10-K. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this Annual Report on Form 10-K. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Part I

Item 1

Business

COLONY BANKCORP, INC.

General

Colony Bankcorp, Inc. (the “Company” or “Colony”) is a Georgia business corporation which was incorporated on November 8, 1982. The Company was organized for the purpose of operating as a bank holding company under the Bank Holding Company Act of 1956, as amended, and the bank holding company laws of Georgia (Georgia Laws 1976, p. 168, et. seq.). On July 22, 1983, the Company, after obtaining the requisite regulatory approvals, acquired 100% of the issued and outstanding common stock of Colony Bank (formerly Colony Bank of Fitzgerald and The Bank of Fitzgerald), Fitzgerald, Georgia (the “Bank” or “Colony Bank”), through the merger of the Bank with a subsidiary of the Company which was created for the purpose of organizing the Bank into a one-bank holding company. Since that time, Colony Bank has operated as a wholly-owned subsidiary of the Company. Our business is conducted primarily through our wholly-owned bank subsidiary, which provides a broad range of banking services to its retail and commercial customers. We operate thirty-three domestic banking offices and two corporate operations offices and, at December 31, 2019, we had approximately \$1.5 billion in total assets, \$968.8 million in total loans, \$1.3 billion in total deposits and \$130.5 million in stockholder’s equity. Deposits are insured, up to applicable limits, by the Federal Deposit Insurance Corporation.

The Parent Company

Because the Company is a bank holding company, its principal operations are conducted through the Bank. It has 100 percent ownership of its subsidiary and maintains systems of financial, operational and administrative controls that permit centralized evaluation of the operations of the subsidiary bank in selected functional areas including operations, accounting, marketing, investment management, purchasing, human resources, computer services, auditing, compliance and credit review. As a bank holding company, we perform certain shareholder and investor relations functions.

Colony Bank - Banking Services

Our principal subsidiary is the Bank. The Bank, headquartered in Fitzgerald, Georgia, offers traditional banking products and services to commercial and consumer customers in our markets. Our product line includes, among other things, loans to small and medium-sized businesses, residential and commercial construction and land development loans, commercial real estate loans, commercial loans, agri-business and production loans, residential mortgage loans, home equity loans, consumer loans and a variety of demand, savings and time deposit products. We also offer internet banking services, electronic bill payment services, safe deposit box rentals, telephone banking, credit and debit card services, remote depository products and access to a network of ATMs to our customers. The Bank conducts a general full service commercial, consumer and mortgage banking business through thirty-three offices located in central, south and coastal Georgia cities of Fitzgerald, Warner Robins, Centerville, Ashburn, Leesburg, Cordele, Albany, Thomaston, Columbus, Sylvester, Tifton, Moultrie, Douglas, Broxton, Savannah, Eastman, Soperton, Rochelle, Quitman, Valdosta and Statesboro, Georgia.

For additional discussion of our loan portfolio and deposit accounts, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Loans” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Deposits.”

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Subordinated Debentures (Trust Preferred Securities)

During the second quarter of 2004, the Company formed Colony Bankcorp Statutory Trust III for the sole purpose of issuing \$4,500,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Market. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the second quarter of 2006, the Company formed Colony Bankcorp Capital Trust I for the sole purpose of issuing \$5,000,000 in Trust Preferred Securities through a pool sponsored by SunTrust Bank Capital Markets. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions.

During the first quarter of 2007, the Company formed Colony Bankcorp Capital Trust II for the sole purpose of issuing \$9,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on March 26, 2002 through Colony Bankcorp Statutory Trust I.

During the third quarter of 2007, the Company formed Colony Bankcorp Capital Trust III for the sole purpose of issuing \$5,000,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The securities have a maturity of thirty years and are redeemable after five years with certain exceptions. Proceeds from this issuance were used to pay off trust preferred securities issued on December 19, 2002 through Colony Bankcorp Statutory Trust II.

Recent Developments

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

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc., a bank holding company headquartered in LaGrange, Georgia. Upon

consummation of the acquisition, LBC Bancshares, Inc. 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 in LaGrange, Georgia and Columbus, Georgia, as well as adding a loan production office in Atlanta, Georgia. Under the terms of the Agreement and Plan of Merger, each LBC shareholder had the option to receive either \$23.50 in cash or 1.3239 shares of the Company's common stock in exchange for each share of LBC common stock, subject to proration such that 55% of LBC Bancshares, Inc. shares of common stock received the stock consideration and 45% received the cash consideration, with at least 50% of the merger consideration paid in the Company's common stock. As a result, the Company issued 1,053,875 common shares at a fair value of \$18.7 million and paid \$15.3 million in cash to the former shareholders of LBC Bancshares, Inc. as merger consideration.

Markets and Competition

The banking industry in general is highly competitive. Our market areas of central, south and coastal Georgia have experienced good economic and population growth over the past several years. In contrast to our rural markets, in which we typically rank in the top three in terms of market share, we face competitive pressures in attracting deposits and making loans from larger regional banks and smaller community banks. The Bank's competition includes not only other banks of comparable or larger size in the same markets, but also various other nonbank financial institutions, including savings and loan associations, credit unions, mortgage companies, personal and commercial financial companies, peer to peer lending businesses, investment brokerage and financial advisory firms and mutual fund companies. The Bank competes for deposits, commercial, fiduciary and investment services and various types of loans and other financial services. The Bank also competes for interest-bearing funds with a number of other financial intermediaries, including brokerage and insurance firms, as well as investment alternatives, including mutual funds, governmental and corporate bonds, and other securities. Continued consolidation and rapid technological changes within the financial services industry will likely change the nature and intensity of competition, but also will create opportunities for the Company to demonstrate and leverage its competitive advantages.

Competitors include not only financial institutions based in Georgia, but also a number of large out-of-state and foreign banks, bank holding companies and other financial institutions that have an established market presence in Georgia or that offer internet-based products. Many of the Company's competitors are engaged in local, regional, national and international operations and have greater assets, personnel and other resources. Some of these competitors are subject to less regulation and/or more favorable tax treatment. Many of these institutions have greater resources, broader geographic markets and higher lending limits, and may offer services that the Company does not offer. In addition, these institutions may be able to better afford and make broader use of media advertising, support services, and electronic and other technology. To offset these potential competitive disadvantages, the Company depends on its reputation for superior service, ability to make credit and other business decisions quickly, and the delivery of an integrated distribution of traditional branches and bankers, with digital technology.

Correspondents

Colony Bank has correspondent relationships with the following banks: Federal Reserve Bank of Atlanta; Truist Bank in Atlanta, Georgia; FTN Financial in Memphis, Tennessee; CenterState Bank in Lake Wales, Florida and the Federal Home Loan Bank of Atlanta. These correspondent relationships facilitate the transactions of business by means of loans, collections, investment services, lines of credit and exchange services, particularly in markets in which Colony Bank does not have a physical presence. As compensation for these services, the Bank maintains balances with its correspondents in primarily interest-bearing accounts and pays some service charges.

Employees

On December 31, 2019, the Company had a total of 370 employees, 360 of which are full-time equivalent employees. We consider our relationship with our employees to be satisfactory.

The Company has a profit-sharing plan covering all employees, subject to certain minimum age and service requirements. In addition, the Company maintains a comprehensive employee benefit program providing, among other benefits, hospitalization, major medical, life insurance and disability insurance. Management considers these benefits to be competitive with those offered by other financial institutions in our market area. Colony's employees are not represented by any collective bargaining group.

Corporate Information

The Company's headquarters is located at 115 South Grant Street, Fitzgerald, Georgia 31750, its telephone number is 229-426-6000 and its internet address is www.colonybank.com. The information contained on or accessible from our website does not constitute a part of this Annual Report on Form 10-K and is not incorporated by reference herein.

SUPERVISION AND REGULATION

General

We are extensively regulated under federal and state law. The following is a brief summary that does not purport to be a complete description of all regulations that affect us or all aspects of those regulations. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions described below and is not intended to be an exhaustive description of the statutes or regulations applicable to the Company's and the Bank's business. In addition, proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal levels. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on us and the Bank, are difficult to predict. In addition, bank regulatory agencies may issue enforcement actions, policy statements, interpretive letters and similar written guidance applicable to us or the Bank. Changes in applicable laws, regulations or regulatory guidance, or their interpretation by regulatory agencies or courts may have a material adverse effect on our and the Bank's business, operations, and earnings. Supervision and regulation of banks, their holding companies and affiliates is intended primarily for the protection of depositors and customers, the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"), and the U.S. banking and financial system rather than holders of our capital stock.

Regulation of the Company

We are registered as a bank holding company with the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHC Act") and have elected to be treated as a financial holding company. As such, we are subject to comprehensive supervision and regulation by the Federal Reserve and are subject to its regulatory reporting requirements. Federal law subjects bank holding companies, such as the Company, to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Violations of laws and regulations, or other unsafe and unsound practices, may result in regulatory agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company.

Activity Limitations. As a financial holding company, we are permitted to engage directly or indirectly in a broader range of activities than those permitted for a bank holding company that has not elected to be a financial holding company. Bank holding companies are generally restricted to engaging in the business of banking, managing or controlling banks and certain other activities determined by the Federal Reserve to be closely related to banking. Financial holding companies may also engage in activities that are considered to be financial in nature, as well as those incidental or, if determined by the Federal Reserve, complementary to financial activities. We and Colony Bank must each remain "well-capitalized" and "well-managed" and Colony Bank must receive a CRA rating of at least "Satisfactory" at its most recent examination in order for us to maintain our status as a financial holding company. If Colony Bank ceases to be "well-capitalized" or "well-managed" under applicable regulatory standards, or if Colony Bank receives a rating of less than satisfactory under the CRA, the Federal Reserve Board may, among other things, place limitations on our ability to conduct these broader financial activities or, if the deficiencies persist, require us to divest the banking subsidiary or the businesses engaged in activities permissible only for financial holding companies.

In addition, the Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any nonbanking activity or terminate its ownership or control of any nonbank subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Source of Strength Obligations. A financial holding company is required to act as a source of financial and managerial strength to its subsidiary bank and to maintain resources adequate to support its bank. The term "source of financial strength" means the ability of a company, such as us, that directly or indirectly owns or controls an insured depository institution, such as the Bank, to provide financial assistance to such insured depository institution in the event of financial distress. The appropriate federal banking agency for the depository institution (in the case of the Bank, this agency is the FDIC) may require reports from us to assess our ability to serve as a source of strength and to enforce compliance with the source of strength requirements by requiring us to provide financial assistance to the Bank in the event of financial distress.

Acquisitions. The BHC Act permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Georgia or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any additional bank or bank holding company, (ii) taking any action that causes an additional bank or bank holding company to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company. The Federal Reserve may not

approve any such transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider: (1) the financial and managerial resources of the companies involved, including pro forma capital ratios; (2) the risk to the stability of the United States banking or financial system; (3) the convenience and needs of the communities to be served, including performance under the Community Reinvestment Act, further described below; and (4) the effectiveness of the companies in combatting money laundering.

Change in Control. Federal law restricts the amount of voting stock of a bank holding company or a bank that a person may acquire without the prior approval of banking regulators. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, such as the Company, and the FDIC before acquiring control of the Bank. Upon receipt of such notice, the bank regulatory agencies may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company's or bank's voting stock, or if one or more other control factors are present. As a result, a person or entity generally must provide prior notice to the Federal Reserve before acquiring the power to vote 10% or more of our outstanding common stock. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Investors should be aware of these requirements when acquiring shares of our stock.

Governance and Financial Reporting Obligations. We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and the Nasdaq Stock Market. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual Report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities.

Corporate Governance. The Dodd-Frank Act addresses many investor protections, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers.

Incentive Compensation. The Dodd-Frank Act required the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than \$1 billion in assets, such as us and the Bank, which prohibit incentive compensation arrangements that the agencies determine to encourage inappropriate risks by the institution. The banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies. In 2016, the Federal Reserve and the FDIC also proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2019, these rules have not been implemented. We and the Bank have undertaken efforts to ensure that our incentive compensation plans do not encourage inappropriate risks, consistent with three key principles - that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance.

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The say-on-pay, the say-on-parachute and the say-on-frequency votes are explicitly nonbinding and cannot override a decision of our board of directors.

Other Regulatory Matters. We and our subsidiaries are subject to oversight by the SEC, the Financial Industry Regulatory Authority, ("FINRA"), the PCAOB, the Nasdaq Stock Market and various state securities regulators. We and our subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business.

Capital Requirements

The Bank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. The following is a brief description of the relevant provisions of these capital rules and their potential impact on our capital levels.

The Bank is subject to the following risk-based capital ratios: a common equity Tier 1 ("CET1") risk-based capital ratio, a Tier 1 risk-based capital ratio, which includes CET1 and additional Tier 1 capital, and a total capital ratio, which includes Tier 1 and Tier 2 capital. CET1 is primarily comprised of the sum of common stock instruments and related surplus net of treasury stock, retained earnings, and certain qualifying minority interests, less certain adjustments and deductions, including with respect to goodwill, intangible assets, mortgage servicing assets and deferred tax assets subject to temporary timing differences. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, tier 1 minority interests and grandfathered trust preferred securities. Tier 2 capital consists of instruments disqualified from Tier 1 capital, including qualifying subordinated debt, other preferred stock and certain hybrid capital instruments, and a limited amount of loan loss reserves up to a maximum of 1.25% of risk-weighted assets, subject to certain eligibility criteria. The capital rules also define the risk-weights assigned to assets and off-balance sheet items to determine the risk-weighted asset components of the risk-based capital rules, including, for example, certain "high volatility" commercial real estate, past due assets, structured securities and equity holdings.

The leverage capital ratio, which serves as a minimum capital standard, is the ratio of Tier 1 capital to quarterly average assets net of goodwill, certain other intangible assets, and certain required deduction items. The required minimum leverage ratio for all banks is 4%.

In addition, as of January 1, 2019, the capital rules require a capital conservation buffer of 2.5%, constituted of CET1, above each of the minimum capital ratio requirements (CET1, Tier 1, and total risk-based capital), which is designed to absorb losses during periods of economic stress. These buffer requirements must be met for a bank to be able to pay dividends, engage in share buybacks or make discretionary bonus payments to executive management without restriction.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. For example, only a well-capitalized depository institution may accept brokered deposits without prior regulatory approval. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications or other restrictions on its growth.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A depository institution’s holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5% of the depository institution’s assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions.

To be well-capitalized, the Bank must maintain at least the following capital ratios:

- 6.5% CET1 to risk-weighted assets;
- 8.0% Tier 1 capital to risk-weighted assets;
- 10.0% Total capital to risk-weighted assets; and
- 5.0% leverage ratio.

As of December 31, 2019, our Bank's regulatory capital ratios were above the applicable well-capitalized standards and met the then-applicable capital conservation buffer.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”) signed into law in May 2018 scaled back certain requirements of the Dodd-Frank Act and provided other regulatory relief. Among the provisions of the Economic Growth Act was a requirement that the Federal Reserve raise the asset threshold for those bank holding companies subject to the Federal Reserve’s Small Bank Holding Company Policy Statement (“Policy Statement”) to \$3 billion. As a result, as of the effective date of that change in 2018, the Company was no longer required to comply with the risk-based capital rules applicable to the Bank as described above. The Federal Reserve may however, require smaller bank holding companies subject to the Policy Statement to maintain certain minimum capital levels, depending upon general economic conditions and a bank holding company’s particular condition, risk profile and growth plans.

On October 29, 2019, the federal banking agencies issued a final rule to simplify the regulatory capital requirements for eligible banks and holding companies with less than \$10 billion in consolidated assets that opt into the Community Bank Leverage Ratio (“CBLR”) framework, as required by Section 201 of the Economic Growth, Relief and Consumer Protection Act (the “Regulatory Relief Act”). A qualifying community banking organization that exceeds the CBLR threshold would be exempt from the agencies’ current capital framework, including the risk-based capital requirements and capital conservation buffer described above, and would be deemed well-capitalized under the agencies’ prompt corrective action regulations. The Regulatory Relief Act defines a “qualifying community banking organization” as a depository institution or depository institution holding company with total consolidated assets of less than \$10 billion. Under the final rule, if a qualifying community banking organization elects to use the CBLR framework, it will be considered “well-capitalized” so long as its CBLR is greater than 9%. The CBLR framework will first be available for banking organizations, such as the Bank, to use in its March 31, 2020 regulatory reports.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the “current expected credit losses” (“CECL”) accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, which introduced CECL as the methodology to replace the current “incurred loss” methodology for financial assets measured at amortized cost, and changed the approaches for recognizing and recording credit losses on available-for-sale debt securities and purchased credit impaired financial assets. Under the incurred loss methodology, credit losses are recognized only when the losses are probable or have been incurred; under CECL, companies are required to recognize the full amount of expected credit losses for the lifetime of the financial assets, based on historical experience, current conditions and reasonable and supportable forecasts. This change will result in earlier recognition of credit losses that the Company deems expected but not yet probable. For SEC reporting companies with smaller reporting company designation and December 31 fiscal-year ends, such as the Company, CECL will become effective beginning with the first quarter of 2023.

Payment of Dividends

We are a legal entity separate and distinct from the Bank and our other subsidiaries. Our primary source of cash, other than securities offerings, is dividends from the Bank. Under the laws of the State of Georgia, we, as a business corporation, may declare and pay dividends in cash or property unless the payment or declaration would be contrary to restrictions contained in our Articles of Incorporation, as amended, or unless, after payment of the dividend, we would not be able to pay our debts when they become due in the usual course of our business or our total assets would be less than the sum of our total liabilities. In addition, we are also subject to federal regulatory capital requirements that effectively limit the amount of cash dividends that we may pay.

The primary sources of funds for our payment of dividends to our shareholders are cash on hand and dividends from the Bank and our non-bank subsidiaries. Various federal and state statutory provisions and regulations limit the amount of dividends that the Bank and our non-bank subsidiaries may pay. The Bank is a Georgia bank. Under the regulations of the Georgia Department of Banking and Finance, a Georgia bank must have approval of the Georgia Department of Banking and Finance to pay cash dividends if, at the time of such payment:

- the ratio of Tier 1 capital to adjusted total assets is less than 6%;
- the aggregate amount of dividends to be declared or anticipated to be declared during the current calendar year exceeds 50% of its net after-tax profits before dividends for the previous calendar year; or
- its total classified assets in its most recent regulatory examination exceeded 80% of its Tier 1 capital plus its allowance for loan and lease losses.

The Georgia Financial Institutions Code contains restrictions on the ability of a Georgia bank to pay dividends other than from retained earnings without the approval of the Georgia Department of Banking and Finance. As a result of the foregoing restrictions, the Bank may be required to seek approval from the Georgia Department of Banking and Finance to pay dividends.

In addition, we and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The FDIC and the Federal Reserve have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice. The FDIC and the Federal Reserve have each indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings. Prior approval by the FDIC is required if the total of all dividends declared by a bank in any calendar year exceeds the bank's profits for that year combined with its retained net profits for the preceding two calendar years.

Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Regulation of the Bank

The Bank is subject to comprehensive supervision and regulation by the FDIC and is subject to its regulatory reporting requirements. The Bank also is subject to certain Federal Reserve regulations. In addition, as discussed in more detail below, the Bank and any

other of our subsidiaries that offer consumer financial products and services are subject to regulation and potential supervision by the Consumer Financial Protection Bureau ("CFPB"). Authority to supervise and examine the Company and the Bank for compliance with federal consumer laws remains largely with the Federal Reserve and the FDIC, respectively. However, the CFPB may participate in examinations on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB also may participate in examinations of our other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce certain federal consumer financial protection rules adopted by the CFPB.

Broadly, regulations applicable to the Bank include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; the disclosure of the costs and terms of such credit; requirements to maintain reserves against deposits and loans; limitations on the types of investment that may be made by the Bank; and requirements governing risk management practices. The Bank is permitted under federal law to branch on a de novo basis across state lines where the laws of that state would permit a bank chartered by that state to open a de novo branch.

Transactions with Affiliates and Insiders. The Bank is subject to restrictions on extensions of credit and certain other transactions between the Bank and the Company or any nonbank affiliate. Generally, these covered transactions with either the Company or any affiliate are limited to 10% of the Bank's capital and surplus, and all such transactions between the Bank and the Company and all of its nonbank affiliates combined are limited to 20% of the Bank's capital and surplus. Loans and other extensions of credit from the Bank to the Company or any affiliate generally are required to be secured by eligible collateral in specified amounts. In addition, any transaction between the Bank and the Company or any affiliate are required to be on an arm's length basis. Federal banking laws also place similar restrictions on certain extensions of credit by insured banks, such as the Bank, to their directors, executive officers and principal shareholders.

Reserves. Federal Reserve rules require depository institutions, such as the Bank, to maintain reserves against their transaction accounts, primarily NOW and regular checking accounts. For 2019, the first \$16.3 million of covered balances are exempt from these reserve requirements, aggregate balances between \$16.3 million and \$124.2 million are subject to a 3% reserve requirement, and aggregate balances above \$124.2 million are subject to a reserve requirement of \$2.7 million plus 10% of the amount over \$124.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

FDIC Insurance Assessments and Depositor Preference. The Bank's deposits are insured by the FDIC's DIF up to the limits under applicable law, which currently are set at \$250,000 per depositor, per insured bank, for each account ownership category. The Bank is subject to FDIC assessments for its deposit insurance. The FDIC calculates quarterly deposit insurance assessments based on an institution's average total consolidated assets less its average tangible equity, and applies one of four risk categories determined by reference to its capital levels, supervisory ratings, and certain other factors. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. In addition, the Bank was subject to quarterly assessments by the FDIC to pay interest on Financing Corporation ("FICO") bonds, ending the first quarter of 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. In addition, the Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution, including those of the parent bank holding company.

Standards for Safety and Soundness. The Federal Deposit Insurance Act requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality.

The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Anti-Money Laundering. *Anti-Money Laundering.* Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. The USA PATRIOT Act, and its implementing regulations adopted by the FinCEN, a bureau of the U.S. Department of the Treasury, requires financial institutions to establish anti-money laundering programs with minimum standards that include:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, FinCEN issued rules that became effective on May 11, 2018, that require, subject to certain exclusions and exemptions, covered financial institutions to identify and verify the identity of beneficial owners of legal entity customers.

Banking regulators will consider compliance with the Act's money laundering provisions in acting upon acquisition and merger proposals. Bank regulators routinely examine institutions for compliance with these obligations and have been active in imposing cease and desist and other regulatory orders and money penalty sanctions against institutions found to be violating these obligations. Sanctions for violations of the Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to \$1 million.

Economic Sanctions. The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

Concentrations in Lending. During 2006, the federal bank regulatory agencies released guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance") and advised financial institutions of the risks posed by commercial real estate ("CRE") lending concentrations. The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100% or more of a bank's total risk based capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300% or more of a bank's total risk based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type. We have always had exposures to loans secured by commercial real estate due to the nature of our markets and the loan needs of both retail and commercial customers. We believe our long term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as our loan and credit monitoring and administration procedures, are generally appropriate to managing our concentrations as required under the Guidance.

Community Reinvestment Act. The Bank is subject to the provisions of the Community Reinvestment Act ("CRA"), which imposes a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of entire communities where the bank accepts deposits, including low- and moderate-income neighborhoods. The FDIC's assessment of the Bank's CRA record is made available to the public. Further, a less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company. Following the enactment of the Gramm-Leach-Bliley Act ("GLB"), CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become or remain a financial holding company and no new activities authorized under GLB may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a "satisfactory" CRA rating in its latest CRA examination. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation. The Bank has a rating of "Satisfactory" in its most recent CRA evaluation.

Privacy and Data Security. The GLB generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to customers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the GLB. The GLB also directed federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying customers in the event of a security breach. Under federal law, the Bank must disclose its privacy policy to consumers, permit customers to opt out of having nonpublic customer information disclosed to third parties in certain circumstances, and allow customers to opt out of receiving marketing solicitations based on information about the customer received from another subsidiary. States may adopt more extensive privacy protections. We are similarly required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Consumer Regulation. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include, among numerous other things, provisions that:

- limit the interest and other charges collected or contracted for by the Bank, including new rules respecting the terms of credit cards and of debit card overdrafts;
- govern the Bank's disclosures of credit terms to consumer borrowers;
- require the Bank to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;
- prohibit the Bank from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;
- govern the manner in which the Bank may collect consumer debts; and
- prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

Mortgage Regulation. The CFPB adopted a rule that implements the ability-to-repay and qualified mortgage provisions of the Dodd-Frank Act (the "ATR/QM rule"), which requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance "safe harbor" for lenders that issue certain "qualified mortgages." The ATR/QM rule defines a "qualified mortgage" to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt-to-income ratio that is less than or equal to 43%. While "qualified mortgages" will generally be afforded safe harbor status, a rebuttable presumption of compliance with the ability-to-repay requirements will attach to "qualified mortgages" that are "higher priced mortgages" (which are generally subprime loans). In addition, the securitizer of asset-backed securities must

retain not less than 5% of the credit risk of the assets collateralizing the asset-backed securities, unless subject to an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages.”

The CFPB has also issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) as well as integrated mortgage disclosure rules. In addition, the CFPB has issued rules that require servicers to comply with new standards and practices with regard to: error correction; information disclosure; force-placement of insurance; information management policies and procedures; requiring information about mortgage loss mitigation options be provided to delinquent borrowers; providing delinquent borrowers access to servicer personnel with continuity of contact about the borrower’s mortgage loan account; and evaluating borrowers’ applications for available loss mitigation options. These rules also address initial rate adjustment notices for adjustable-rate mortgages (ARMs), periodic statements for residential mortgage loans, and prompt crediting of mortgage payments and response to requests for payoff amounts.

Non-Discrimination Policies. The Bank is also subject to, among other things, the provisions of the Equal Credit Opportunity Act (the “ECOA”) and the Fair Housing Act (the “FHA”), both of which prohibit discrimination based on race or color, religion, national origin, sex, and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The Department of Justice (the “DOJ”), and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending that provides guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has increased its efforts to prosecute what it regards as violations of the ECOA and FHA.

Item 1A.

Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including, but not limited to, the material risks described below. Many of these risks are beyond our control although efforts are made to manage those risks while simultaneously optimizing operational and financial results. The occurrence of any of the following risks, as well as risks of which we are currently unaware or currently deem immaterial, could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of the risks, uncertainties and assumptions that could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock.

In addition, certain statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled “Cautionary Note Regarding Forward-Looking Statements” beginning on page 1 of this Annual Report.

Strong competition and changing banking environment may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms operating locally and elsewhere, and non-traditional financial institutions, including non-depository financial services providers. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Additionally, non-traditional financial institutions may not have the same regulatory requirements or burdens as we do, despite playing a rapidly increasing role in the financial services industry including providing services previously limited to commercial banks. Such competition could ultimately limit our growth, profitability and shareholder value. Our profitability depends upon our ability to successfully compete in our market areas and adapt to the ever changing banking environment.

Any future economic downturn could have a material adverse effect on our capital, financial condition, results of operations, and future growth.

Our management continually monitors market conditions and economic factors throughout our footprint, especially in light of the recent economic downturn, and we cannot make any assurance that these economic conditions - both nationally and in our principal markets - will not worsen in the future. If these conditions were to worsen, then we could see a sharp increase in our total net charge-offs and also be required to significantly increase our allowance for loan losses. Furthermore, the demand for loans and our other products and services could decline. Any future increase in our non-performing assets and related increases in our provision for loan losses, coupled with a potential decrease in the demand for loans and our other products and services, could negatively affect our business and could have a material adverse effect on our capital, financial condition, results of operations and future growth.

Governmental responses to market disruptions and other events may be inadequate and may have unintended consequences.

Congress and financial regulators may implement measures designed to stabilize financial markets in periods of disruption. The overall impact of these efforts on the financial markets may be unclear and could adversely affect our business. We compete with a number of financial services companies that are not subject to the same degree of regulatory oversight. The impact of the existing regulatory framework and any future changes to it could negatively affect our ability to compete with these institutions, which could have a material adverse effect on our results of operations and prospects.

We may need to rely on the financial markets to provide needed capital.

Our common stock is listed and traded on the NASDAQ Global Market. If our capital resources prove in the future to be inadequate to meet our capital requirements, we may need to raise additional debt or equity capital. If conditions in the capital markets are not favorable, we may be constrained in raising capital, and an inability to raise additional capital on acceptable terms when and if needed could have a material adverse effect on our business, financial condition or results of operations.

The interest rates that we pay on our securities are also influenced by, among other things, the credit ratings that we, our affiliates and/or our securities receive from recognized rating agencies. Our credit ratings are based on a number of factors, including our financial strength and some factors not entirely within our control such as conditions affecting the financial services industry generally, and remain subject to change at any time. A downgrade to the credit rating of us or our affiliates could affect our ability to access the capital markets, increase our borrowing costs and negatively impact our profitability. A downgrade to us, our affiliates or our securities could create obligations or liabilities to us under the terms of our outstanding securities that could increase our costs or otherwise have a negative effect on our results of operations or financial condition. Additionally, a downgrade to the credit rating of any particular security issued by us or our affiliates could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

Because our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. In addition, geopolitical and worldwide market conditions may cause disruption or volatility in the U.S. equity and debt markets, which could hinder our ability to issue debt and equity securities in the future on favorable terms.

A reduction in consumer confidence could negatively impact our results of operations and financial condition.

Individual, economic, political, industry-specific conditions and other factors outside of our control, such as real estate values or other factors that affect customer income levels, could alter anticipated customer behavior, including borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect our ability to anticipate business needs and meet regulatory requirements. Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on us, our customers and others in the financial institutions industry.

Our business may be adversely affected by downturns in our national and local economies and our concentration in Georgia make us vulnerable to local weather catastrophes, public health issues, and other external events, which could adversely affect our results of operations and financial condition.

Our operations are significantly affected by national and local economic conditions. Substantially all of our loans are to businesses and individuals in Georgia, and all of our branches and most of our deposit customers are also located in this area. As a result, local economic conditions significantly affect the demand for loans and other products we offer to our customers (including real estate, commercial and construction loans), the ability of borrowers to repay these loans and the value of the collateral securing these loans. A decline in the economies in which we operate could have a material adverse effect on our business, financial condition and results of operations.

A deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- Demand for our loans, deposits and services may decline;
- Loan delinquencies, problem assets and foreclosures may increase;
- Weak economic conditions may continue to limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;
- Collateral for our loans may decline further in value; and
- The amount of our low-cost or non-interest bearing deposits may decrease.

Changes in interest rates and in the policies of monetary authorities and other government action could adversely affect our results of operations and financial condition.

Interest rates and our financial performance are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market transactions in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, we cannot predict the potential impact of future changes in interest rates, deposit levels, and loan demand on our business and earnings. Furthermore, the actions of the U.S. government and other governments may result in currency fluctuations, exchange controls, market disruption, material decreases in the values of certain of our financial assets and other adverse effects.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, a sustained increase in interest rates generally would tend to reduce our interest income.

The Federal Reserve raised rates nine times during 2015-2018, and reduced rates three times in 2019. Further rate changes reportedly are dependent on the Federal Reserve's assessment of economic data as it becomes available. If interest rates continue to decline, our net interest income may decrease. In addition, a decrease in interest rates could negatively impact our margins and profitability. As the Federal Reserve Board increases the Fed Funds rate, overall interest rates have also risen, which may negatively impact the U.S. economy. Further, changes in monetary policy, including changes in interest rates, could influence (i) the amount of interest we receive on loans and securities, (ii) the amount of interest we pay on deposits and borrowings, (iii) our ability to originate loans and obtain deposits, (iv) the fair value of our assets and liabilities, and (v) the reinvestment risk associated with changes in the duration of our mortgage-backed securities portfolio. When interest-bearing liabilities reprice or mature more quickly than interest-earning assets, an increase in interest rates generally would tend to result in a decrease in net interest income.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2019, the fair value of our portfolio of investment securities totaled \$347.3 million. Net unrealized gains on these securities totaled \$458,000 at December 31, 2019.

Additionally, 39.4% of our one- to four-family loan portfolio is comprised of adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable-rate mortgage loans, which would increase the possibility of default.

Although management believes it has implemented an effective asset and liability management strategy to manage the potential effects of changes in interest rates, including the use of adjustable rate and/or short-term assets, and FHLB advances or longer term repurchase agreements, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of our operation and/or our strategies may not always be successful in managing the risk associated with changes in interest rates.

Interest rates on our outstanding financial instruments might be subject to change based on developments related to LIBOR, which could adversely affect our revenue, expenses, and the value of our financial instruments.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. U.S. regulatory authorities have voiced similar support for phasing out LIBOR. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established, and no consensus exists at this time as to what benchmark rate or rates may become accepted alternatives to LIBOR. In the U.S., efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve and the Federal Reserve Bank of New York and its Secured Overnight Finance Rate ("SOFR") as an alternative to LIBOR. SOFR is a broad measure of the cost of borrowing cash in the overnight U.S. treasury repurchase market. At this time, it is impossible to predict whether SOFR or another reference rate will become an accepted alternative to LIBOR.

The uncertainty regarding the future of LIBOR as well as the transition from LIBOR to another benchmark rate or rates is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, and the revenue and expenses associated with, and the value of Colony's floating rate obligations, loans, deposits, derivatives and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language, or the absence of such language, in LIBOR-based securities and loans;
- result in customer uncertainty and disputes around how variable rates should be calculated in light of the foregoing, thereby damaging our reputation and resulting in a loss of customers and additional costs to us; and
- require the transition to or development of appropriate systems and analytics to effectively transition Colony's risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark, such as SOFR.

The manner and impact of this transition, as well as the effect of these developments on Colony's funding costs, loan, and investment and trading securities portfolios, asset liability management and business is uncertain.

Our allowance for loan losses may not cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We derive the most significant portion of our revenues from our lending activities. When we lend money, commit to lend money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, which is the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts. We estimate and maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses, which represents management's best estimate of probable credit losses that have been incurred within the existing portfolio of loans, as described under Note 5 of Notes to Consolidated Financial Statements in this Report and under "Allowance for Loan Losses" under "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

The allowance, in the judgment of management, is established to reserve for estimated loan losses and risks inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, risk ratings, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

Because the risk rating of the loans is dependent on some subjective information and subject to changes in the borrower's credit risk profile, evolving local market conditions and other factors, it can be difficult for us to predict the effects that those factors will have on the classifications assigned to the loan portfolio, and thus difficult to anticipate the velocity or volume of the migration of loans through the classification process and effect on the level of the allowance for loan losses. An increase in the allowance for loan losses would result in a decrease in net income and capital, and could have a material adverse effect on our capital, financial condition and results of operations. Accordingly, we monitor our credit quality and our reserve requirements and use that as a basis for capital planning and other purposes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Requirements" of this Report for further information.

Our commercial real estate, real estate construction, and commercial business loans increase our exposure to credit risks.

Over the last several years, we have increased our non-residential lending in order to improve the yield and reduce the average duration of our assets. At December 31, 2019, our portfolio of commercial real estate and commercial, financial and agricultural loans totaled \$750.7 million, or 77.5% of total loans compared \$570.4 million, or 73.0% of total loans of total loans at December 31, 2018. At December 31, 2019, the amount of nonperforming commercial real estate and commercial, financial and agricultural loans was \$5.4 million, or 58.8% of total nonperforming loans. These loans may expose us to a greater risk of non-payment and loss than residential real estate loans because, in the case of commercial loans, repayment often depends on the successful operation and earnings of the borrower's businesses and, in the case of consumer loans, the applicable collateral is subject to rapid depreciation. Additionally, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest due on the loan, which could cause us to increase our provision for loan losses and adversely affect our financial condition and operating results.

We hold certain intangible assets that in the future could be classified as either partially or fully impaired, which would reduce our earnings and the book values of these assets.

Pursuant to applicable accounting requirements, we are required to periodically test our goodwill and core deposit intangible assets for impairment. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. Future impairment testing may result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment.

Acquisitions could disrupt our business and adversely affect our operating results.

To the extent that we grow through acquisitions, we may not be able to adequately or profitably manage this growth. In addition, such acquisitions may involve the issuance of securities, which may have a dilutive effect on earnings per share. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including:

- Potential exposure to unknown or contingent liabilities we acquire;
- Exposure to potential asset quality problems of the acquired financial institutions, businesses or branches;
- Difficulty and expense of integrating the operations and personnel of financial institutions, businesses or branches we acquire;
- Higher than expected deposit attrition;
- Potential diversion of our management's time and attention;
- The possible loss of key employees and customers of financial institutions, businesses or branches we acquire;
- Difficulty in safely investing any cash generated by the acquisition;
- Inability to utilize potential tax benefits from such transactions;
- Difficulty in estimating the fair value of the financial institutions, businesses or branches to be acquired which affects the profits we generate from the acquisitions; and
- Potential changes in banking or tax laws or regulations that may affect the financial institutions or businesses to be acquired.

Reductions in service charge income or failure to comply with payment network rules could negatively impact our earnings.

We derive significant revenue from service charges on deposit accounts, the bulk of which comes from overdraft-related fees. Changes in banking regulations could have an adverse impact on our ability to derive income from service charges. Increased competition from other financial institutions or changes in consumer behavior could lead to declines in our deposit balances, which would result in a decline in service charge fees. Such a reduction could have a material impact on our earnings.

Reductions in interchange income could negatively impact our earnings.

Interchange income is derived from fees paid by merchants to the interchange network in exchange for the use of the network's infrastructure and payment facilitation. These fees are paid to card issuers to compensate them for the costs associated with issuance and operation. We earn interchange fees on card transactions from debit cards, including \$3.8 million during the year ended December 31, 2019. Merchants have attempted to negotiate lower interchange rates, and the Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that may be charged for certain debit card transactions. Merchants may also continue to pursue alternative payment platforms, such as Apple Pay, to lower their processing costs. Any such new payment system may reduce our interchange income. Our failure to comply with the operating regulations set forth by payment card networks, which may change, could subject us to penalties, fees or the termination of our license to use the networks. Any of these scenarios could have a material impact on our business, financial condition and results of operations.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

We are exposed to many types of operation risks, including reputational risk, legal and regulatory and compliance risk, the risk of fraud, theft, illegal, wrongful or suspicious activities, and/or activities resulting in consumer harm that adversely affects our customers and/or our business by employees or persons outside our Company, including the execution of unauthorized transactions by employees or operational errors, clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. The precautions we take to detect and prevent such misconduct may not always be effective and regulatory sanctions and/or penalties, serious harm to our reputation, financial condition, customer relationships and ability to attract new customers. In addition, improper use or disclosure of confidential information by our employees, even if inadvertent, could result in serious harm to our reputation, financial condition and current and future business relationships. The precautions we take to detect and prevent such misconduct may not always be effective. Actual or alleged conduct by Colony Bank can result in negative public opinion about our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Negative public opinion could also affect our credit ratings, which are important to our access to unsecured wholesale borrowings.

Our business involves storing and processing sensitive consumer and business customer data. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who were not permitted to have that information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties. Furthermore, a cybersecurity breach could result in theft of such data.

Because we operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions, and our large transaction volume, may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers, computer break-ins, phishing and other disruptions or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may result in violations of consumer privacy laws including the Gramm-Leach-Bliley Act, cause significant liability to us and give reason for existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage and potential liability, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition or operations results, perhaps materially.

As an issuer of debit cards, we are exposed to losses in the event that holders of our cards experience fraud on their card accounts.

Our customers regularly use Colony Bank-issued debit cards to pay for transactions with retailers and other businesses. There is the risk of data security breaches at these retailers and other businesses that could result in the misappropriation of our customers' debit card information. When our customers use Colony Bank-issued cards to make purchases from those businesses, card account information is provided to the business. If the business's systems that process or store card account information are subject to a data security breach, holders of our cards who have made purchases from that business may experience fraud on their card accounts. Colony Bank may suffer losses associated with reimbursing our customers for such fraudulent transactions on customers' card accounts, as well as for other costs related to data security compromise events, such as replacing cards associated with compromised card accounts.

The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage.

We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

The implementation of other new lines of business or new products and services may subject us to additional risk.

We continuously evaluate our service offerings and may implement new lines of business or offer new products and services within existing lines of business in the future. There are substantial risks and uncertainties associated with these efforts. In developing and marketing new lines of business and/or new products and services, we undergo a new product process to assess the risks of the initiative, and invest significant time and resources to build internal controls, policies and procedures to mitigate those risks, including hiring experienced management to oversee the implementation of the initiative. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could require the establishment of new key and other controls and have a significant impact on our existing system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and/or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Any deficiencies in our financial reporting or internal controls could materially and adversely affect us, including resulting in material misstatements in our financial statements, and could materially and adversely affect the market price of our common stock.

If we fail to maintain effective internal controls over financial reporting, our operating results could be harmed and it could result in a material misstatement in our financial statements in the future. Inferior controls and procedures or the identification of accounting errors could cause our investors to lose confidence in our internal controls and question our reported financial information, which, among other things, could have a negative impact on the trading price of our common stock. Additionally, we could become subject to increased regulatory scrutiny and a higher risk of shareholder litigation, which could result in significant additional expenses and require additional financial and management resources.

We face significant cyber and data security risk that could result in the dissemination of confidential and sensitive information, adversely affecting our business or reputation and exposing us to material liabilities.

Our business model enables our customers to utilize the internet and other remote channels to transact business. As a financial institution, we are under continuous threat of loss due to the swiftness and sophistication of hacking and cyber-attacks. This risk, although considerable at the present, will only increase in the future. Two of the most significant cyber-attack risks that we face are electronic fraud and loss of sensitive customer data. Loss from electronic fraud occurs when cybercriminals breach and extract funds directly from customer accounts or our own accounts. The attempts to breach sensitive customer data, such as account numbers, social security numbers, or other personal information are less frequent but would present significant legal and/or regulatory costs to us if successful, as well as potentially damage our reputation among the markets we serve. Our risk and exposure to these matters will remain relevant because of the evolving nature and complexity of the threats posed by cybercriminals and hackers along with our plans to continue to provide internet banking and mobile banking avenues for transacting business. While we have not experienced material losses relating to cyber-attacks or other information security breaches to date, we have been the subject of attempted hacking and cyber-attacks and there can be no assurance that we will not suffer such losses in the future.

The occurrence of any cyber-attack or information security breach could result in material adverse consequences including damage to our reputation and the loss of current or potential customers. We also could face litigation or additional regulatory scrutiny due to such an occurrence. Litigation or regulatory actions in turn could lead to material liability, including, but not limited to, fines and penalties or reimbursement to customers adversely affected by a data breach. Even if we do not suffer any material adverse consequences as a result of events affecting us directly, successful attacks or systems failures at other financial institutions could lead to a general loss of customer confidence in our Company.

We continually review our network and systems security and make the necessary investments to improve the resiliency of our systems and their security from attack. Nonetheless, there remains the risk that we may be materially harmed by a cyber-attack or information security breach. Methods used to attack information systems continue to evolve in sophistication, swiftness, and frequency and can occur from a variety of sources, such as foreign governments, hacktivists, or other well-financed entities, and may originate from remote and less regulated areas of the world. If such an attack or breach were to occur, we might not be able to address and find a solution in a timely and adequate manner. We will, however, promptly take reasonable and customary measures to address the situation.

We may be alleged to have infringed upon intellectual property rights owned by others, or may be unable to protect our intellectual property.

Competitors or other third parties may allege that we, or consultants or other third parties retained or indemnified by us, infringe on their intellectual property rights. We also may face allegations that our employees have misappropriated intellectual property of their former employers or other third parties. Given the complex, rapidly changing and competitive technological and business environment in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, an assertion of an infringement claim against us may cause us to spend significant amounts to defend the claim (even if we ultimately prevail); to pay significant money damages; to lose significant revenues; to be prohibited from using the relevant systems, processes, technologies or other intellectual property; to cease offering certain products or services or to incur significant license, royalty or technology development expenses. Moreover, it has become common in recent years for individuals and groups to purchase intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies like ours. Even in instances where we believe that claims and allegations of intellectual property infringement against us are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of our management and employees. In addition, although in some cases a third party may have agreed to indemnify us for such costs, such indemnifying party may refuse, or be unable, to uphold its contractual obligations.

Moreover, we rely on a variety of measures to protect our intellectual property and proprietary information, including copyrights, trademarks and controls on access and distribution. These measures may not prevent misappropriation or infringement of our intellectual property or proprietary information and a resulting loss of competitive advantage, and in any event, we may be required to litigate to protect our intellectual property and proprietary information from misappropriation or infringement by others, which is expensive, could cause a diversion of resources and may not be successful. Third parties may challenge, invalidate or circumvent our intellectual property, or our intellectual property may not be sufficient to provide us with competitive advantages. In addition, the usage of branding that could be confused with ours could create negative perceptions and risks to our brand and reputation. Our competitors or other third parties may independently design around or develop technology similar to ours or otherwise duplicate our services or products such that we could not assert our intellectual property rights against them. In addition, our contractual arrangements may not effectively prevent disclosure of our intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure.

As a community bank, our recruitment and retention efforts may not be sufficient enough to implement our business strategy and execute successful operations.

Our financial success depends upon our ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees from financial institutions and others. As we continue to grow, we may find our recruitment and retention efforts more challenging. If we do not succeed in attracting, hiring, and integrating experienced or qualified personnel, we may not be able to successfully implement our business strategy, and we may be required to substantially increase our overall compensation or benefits to attract and retain such employees. Furthermore, in June 2010, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly restricts the amount, form, and context in which we pay incentive-based compensation and may put us at a competitive disadvantage compared to non-financial institutions in terms of attracting and retaining senior level employees.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We rely on third-party vendors for key components of our business.

Many key components of our operations, including data processing, recording and monitoring transactions, online interfaces and services, internet connections and network access are provided by other companies. Our vendor management process selects third-party vendors carefully, but we do not control their actions. Problems, including disruptions in communication, security breaches, or failure of a vendor to provide services, could hurt our operations or our relationships with customers. If our vendors suffer financial or operational issues, our operations and reputation could suffer if it harms the vendors' ability to serve us and our customers. Third-party vendors are also a source of operational and information security risk to us. Replacing or renegotiating contracts with vendors could entail significant operational expense and delays. The use of third-party vendors represents an unavoidable inherent risk to our Company.

Hurricanes or other adverse weather events would negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Our market area is located in the southeastern region of the United States and is susceptible to natural disasters, such as hurricanes, tornadoes, tropical storms, other severe weather events and related flooding and wind damage, and man-made disasters. These natural disasters could negatively impact regional economic conditions, cause a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us, damage our banking facilities and offices and negatively impact our growth strategy. Climate change may be increasing the nature, severity and frequency of adverse weather conditions, making the impact from these types of natural disasters on us or our customers worse. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where they operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or tornadoes will affect our operations or the economies in our current or future market areas, but such weather events could negatively impact economic conditions in these regions and result in a decline in local loan demand and loan originations, a decline in the value or destruction of properties securing our loans and an increase in delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of natural or man-made disasters.

The effects of widespread public health emergencies may negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Widespread health emergencies, such as the recent global COVID-19 pandemic, can disrupt our operations through their impact on our employees, clients and their businesses, and the communities in which we operate. Disruptions to our clients could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans, negatively impact regional economic conditions, result in a decline in local loan demand, loan originations and deposit availability and negatively impact the implementation of our growth strategy. Any one or more of these developments could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. Any such losses could have a material adverse effect on our financial condition and results of operations.

Changes in U.S. trade policies and other factors beyond the Company's control, including the imposition of tariffs and retaliatory tariffs, may adversely impact its business, financial condition and results of operations.

In recent years, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliation tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that the Company's customers import or export, including among others, agricultural products, could cause the prices of its customers' products to increase, which could reduce demand for such products, or reduce its customer margins, and adversely impact their revenues, financial results and ability to service debt. This, in turn, could adversely affect the Company's financial condition and results of operations.

In addition, to the extent changes in the political environment have a negative impact on the Company or on the markets in which the Company operates its business, results of operations and financial condition could be materially and adversely impacted in the future. It remains unclear what the U.S. Administration or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to negatively impact the Company's and/or its customers' costs, demand for its customers' products, and/or the U.S. economy or certain sectors thereof and, thus, adversely impact the Company's business, financial condition and results of operations.

United Kingdom's exit from the European Union ("Brexit") could adversely affect financial markets generally.

The uncertainty regarding Brexit could adversely affect financial markets generally. While the Company has no direct loans to or deposits from foreign entities, the uncertain impact of Brexit on British and European businesses, financial markets, and related businesses in the United States could also adversely affect financial markets generally. The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. The Company's business could be adversely affected directly by the default of another institution or if the financial services industry experiences significant market-wide liquidity and credit problems.

Tax law and regulatory changes could adversely affect our financial condition and results of operations.

The Tax Cuts and Jobs Act enacted in 2017 provided significant changes to U.S. corporate and individual tax laws. Future changes to tax laws, including a repeal of all or part of this Act, could significantly impact our business in the form of greater than expected income tax expense. Such changes may also negatively impact the financial condition of our customers and/or overall economic conditions.

Regulation of the financial services industry continues to undergo major changes, and future legislation could increase our cost of doing business or harm our competitive position.

The Dodd-Frank Act brought about a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives, lending limits, mortgage lending practices, registration of investment advisors and changes among the bank regulatory agencies.

Major changes in the law could materially impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. We cannot fully predict the effect that compliance with changing laws or any implementing regulations will have on the Company's or the Bank's businesses or our ability to pursue future business opportunities, our financial condition or results of operations. See "Item 1. Business - Supervision and Regulation" of this Report for further information. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

New regulations could restrict our ability to originate and sell mortgage loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this "qualified mortgage" definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a "qualified mortgage" loan must not contain certain specified features, including:

- Excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans);
- Interest-only payments;
- Negative-amortization; and
- Terms longer than 30 years.

Also, to qualify as a "qualified mortgage," a borrower's total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

Bank regulatory agencies, such as the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations are likely to increase our costs of regulatory compliance and costs of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge, and our ongoing operations, costs and profitability. For example, regulatory changes to our overdraft protection programs could decrease the amount of fees we receive for these services. We cannot fully predict the effect that changes in law or regulation will have on the Company's or the Bank's businesses or our ability to pursue future business opportunities, our financial condition or results of operations.

Changes in accounting policies or in accounting standards, including the implementation of Current Expected Credit Loss methodology, could materially affect how we report our financial condition and results of operations.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), including the accounting rules and regulations of the Securities and Exchange Commission and the FASB, requires management to make significant estimates and assumptions that impact our financial statements by affecting the value of our assets or liabilities and results of operations. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because materially different amounts may be reported if different estimates or assumptions are used. If such estimates or assumptions underlying our financial statements are incorrect, our financial condition and results of operations could be adversely affected.

From time to time, the FASB and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of such standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict, may require extraordinary efforts or additional costs to implement and could materially impact how we report our financial condition and results of operations. Additionally, we may be required to apply a new or revised standard retrospectively, resulting in the restatement of prior period financial statements in material amounts.

The Financial Accounting Standards Board adopted a new accounting standard for determining the amount of our allowance for credit losses (ASU 2016-13 Financial Instruments - Credit Losses (Topic 326)) that will be effective for us January 1, 2023, referred to as Current Expected Credit Loss, or CECL. Implementation of CECL will require that we determine periodic estimates of lifetime expected future credit losses on loans in the allowance for loan and lease losses in the period when the loans are booked. We believe the adoption of ASU 2016-13 will not have a material impact to our current valuation of the allowance for loan and lease losses. The ongoing impact of CECL will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Should these factors materially change, we may be required to increase or decrease our allowance for loan and lease losses, decreasing or increasing our net income, and introducing additional volatility into our net income.

Our management team's strategies for the enhancement of shareholder value may not succeed.

Our management team is taking and considering actions to enhance shareholder value, including reviewing personnel, developing new products, issuing dividends and exploring acquisition opportunities. These actions may not enhance shareholder value. For example, holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. We are not legally required to do so. Further, the Federal Reserve could decide at any time that paying any dividends on our common stock could be an unsafe or unsound banking practice. The reduction or elimination of dividends paid on our common stock could adversely affect the market price of our common stock.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Our stock price may be volatile due to limited trading volume.

Our common stock is traded on the NASDAQ Global Market. However, the average daily trading volume in the Company's common stock has been relatively small, averaging approximately 34 total trades per day during 2019. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.

The costs and effects of litigation, investigations or similar matters involving us or other financial institutions or counterparties, or adverse facts and developments related thereto, could materially affect our business, operating results and financial condition.

We may be involved from time to time in a variety of litigation, investigations, inquiries or similar matters arising out of our business, including those described in "Item 3. Legal Proceedings" and "Item 8. Financial Statements and Supplementary Data" of this Report. We cannot predict the outcome of these or any other legal matters. We establish reserves for legal claims when payments associated with the claims become probable and the losses can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. In addition, in the future, we may need to record additional litigation reserves with respect to these matters. Further, regardless of how these matters proceed, it could divert our management's attention and other resources away from our business. Our insurance may not cover all claims that may be asserted against it and indemnification rights to which we are entitled may not be honored, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our business, financial condition and results of operations. In addition, premiums for insurance covering the financial and banking sectors are rising. We may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms or at historic rates, if at all. Finally, in recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. We could become subject to claims based on this or other evolving legal theories in the future.

Our stock price is subject to fluctuations, and the value of your investment may decline.

The trading price of our common stock is subject to wide fluctuations. The stock market in general, and the market for the stocks of commercial banks and other financial services companies in particular, has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance, and the value of your investment may decline.

Our ability to deliver and pay dividends depends primarily upon the results of operations of our subsidiary Bank, and we may not pay, or be permitted to pay, dividends in the future.

We are a bank holding company that conducts substantially all of our operations through our subsidiary Bank. As a result, our ability to make dividend payments on our common stock will depend primarily upon the receipt of dividends and other distributions from the Bank. The ability of the Bank to pay dividends or make other payments to us, as well as our ability to pay dividends on our common stock, is limited by the Bank's obligation to maintain sufficient capital and by other general regulatory restrictions on its dividends, which have tightened since the financial crisis. The Federal Reserve has stated that bank holding companies should not pay dividends from sources other than current earnings. If these requirements are not satisfied, we will be unable to pay dividends on our common stock. We may also decide to limit the payment of dividends even when we have the legal ability to pay them in order to retain earnings for use in our business, which could adversely affect the market value of our common stock. There can be no assurance of whether or when we may pay dividends in the future.

Securities analysts might not continue coverage on our common stock, which could adversely affect the market for our common stock.

The trading price of our common stock depends in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these analysts, and they may not continue to cover our common stock. If securities analysts do not continue to cover our common stock, the lack of research coverage may adversely affect the market price of our common stock. If securities analysts continue to cover our common stock, and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

Item 1B**Unresolved Staff Comments**

None.

Item 2**Properties**

The principal properties of the Company consist of the properties of the Bank. The Company's headquarters is located at 115 South Grant Street, Fitzgerald, Georgia 31750. The Bank currently operates thirty-three domestic banking offices and two corporate operations offices in Georgia. The Bank owns all of the banking offices occupied except one office in Valdosta, one office in Albany and one office in Douglas which are leased. In addition, the Company owns the corporate operation offices located in Fitzgerald, Georgia and Warner Robins Georgia. We believe that our banking offices are in good condition and are suitable and adequate to our needs.

Item 3**Legal Proceedings**

The Company and its subsidiary may become parties to various legal proceedings arising from the normal course of business. As of December 31, 2019, there are no material pending legal proceedings to which Colony or its subsidiary are a party or of which any of its or its subsidiaries' assets or properties are subject.

Item 4**Mine Safety Disclosures**

Not applicable.

Part II

Item 5

Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Effective April 2, 1998, Colony Bankcorp, Inc. common stock is quoted on the NASDAQ Global Market under the symbol "CBAN." Prior to this date, there was no public market for the common stock of the Company.

As of March 13, 2020, there were 9,498,783 shares of our common stock outstanding held by 984 holders of record.

During 2019, the Company paid \$2.7 million in cash dividends on its common stock. During 2018, the Company paid \$1.7 million in cash dividends on its common stock. We have no obligation to pay dividends and we may change our dividend policy at any time without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant.

As a Georgia corporation, the Company is subject to certain restrictions on dividends under the Georgia Business Corporation Code. We are also subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. See "Item 1 – Business – Supervision and Regulation – Regulation of the Company – Payment of Dividends."

Issuer Purchase of Equity Securities

The Company did not purchase any shares of the Company's common stock during the quarter ended December 31, 2019.

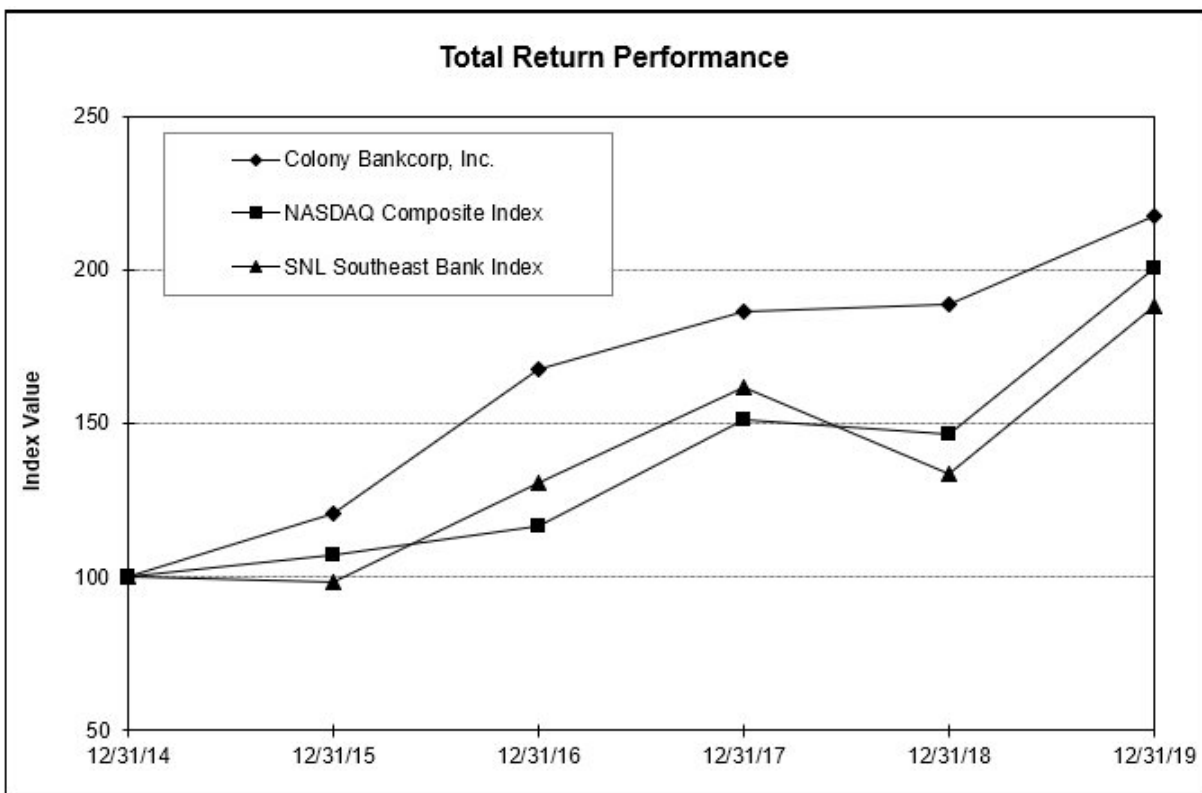
Securities Authorized for Issuance Under Equity Compensation Plans

See the information included under Part III, Item 12, which is incorporated in response to this item by reference.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Composite Index and the SNL Southeast Bank Index, measured at the last trading day of each year shown. The graph assumes an investment of \$100 on December 31, 2014 through December 31, 2019, and assumes the reinvestment of dividends, if any. The performance graph represents past performance and should not be considered to be an indication of future performance.

Colony Bankcorp, Inc.



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Colony Bankcorp, Inc.	100.00	120.94	167.51	186.65	188.94	217.51
NASDAQ Composite Index	100.00	106.96	116.45	150.96	146.67	200.49
SNL Southeast Bank Index	100.00	98.44	130.68	161.65	133.56	188.08

Source: S&P Global Market Intelligence

Pursuant to the regulations of the SEC, this performance graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act.

Item 6

Selected Financial Data

The following table sets forth selected historical consolidated financial data of the Company as of and for each of the years ended December 31, 2019, 2018, 2017, 2016 and 2015, and is derived from our audited consolidated financial statements. This information should be read in conjunction with “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 – Financial Statements and Supplementary Data” of this report. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

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

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

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

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

Item 7

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

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

The Company

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

Recent Developments

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

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

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

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

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

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

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

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

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

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

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

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

Non-GAAP Performance Measures Reconciliation

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

Overview

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

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

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

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average interest-earning assets. Net income available to common shareholders totaled \$10.2 million, or \$1.12 per diluted shares in 2019, compared to \$11.9 million, or \$1.40 per diluted shares in 2018 and compared to \$7.54 million, or \$0.87 per diluted common share in 2017.

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

(dollars in thousands, except per share data)	2019	2018	\$ Variance	% Variance	2018	2017	\$ Variance	% Variance
Taxable-equivalent net interest income(1)	\$ 47,856	\$ 40,809	\$ 7,048	17.27%	\$ 40,809	\$ 39,070	\$ 1,739	4.09%
Taxable-equivalent adjustment	(11)	(12)	-	0.00%	(12)	(27)	15	-55.56%
Net interest income	47,845	40,797	7,048	17.28%	40,797	39,043	1,754	4.49%
Provision for loan losses	1,104	201	903	449.25%	201	390	(189)	-48.46%
Noninterest income	14,762	9,621	5,141	53.44%	9,621	9,735	(114)	-1.17%
Noninterest expense	48,894	35,300	13,594	38.51%	35,300	33,860	1,440	4.25%
Income before income taxes	\$ 12,609	\$ 14,917	\$ (2,308)	-15.47%	\$ 14,917	\$ 14,528	\$ 389	2.68%
Income taxes	2,398	3,000	(602)	-20.07%	3,000	6,777	(3,777)	-55.73%
Net income	10,211	11,917	(1,706)	-14.32%	11,917	7,751	4,166	53.75%
Preferred stock dividends	-	-	-	0.00%	-	211	(211)	-100.00%
Net income available to common shareholders:	\$ 10,211	\$ 11,917	\$ (1,706)	-14.32%	\$ 11,917	\$ 7,540	\$ 4,377	58.05%
Basic	1.12	1.41	(0.29)	-20.57%	1.41	0.89	0.52	58.43%
Diluted	1.12	1.40	(0.28)	-20.00%	1.40	0.87	0.53	60.92%
Return on average assets	0.72%	0.99%	-0.27%	-27.04%	0.99%	0.63%	0.36%	0.57
Return on average total equity	8.73%	13.32%	-4.59%	-34.46%	13.32%	8.28%	5.04%	60.87%

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

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 76.4% of total revenue during 2019, 80.9% of total revenue during 2018 and 80.0% of total revenue during 2017.

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

The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, was 4.75% and 5.25% as of December 31, 2019 and 2018, respectively. The Federal Reserve Board sets general market rates of interest, including the deposit and loan rates offered by many financial institutions. During 2017, the prime interest rate increased overall by 75 basis points. During 2018, the prime interest rate increased overall by 100 basis points. During 2019, the prime interest rate decreased overall by 50 basis points.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of interest-earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. The Company's consolidated average balance sheets along with an analysis of taxable-equivalent net interest earnings are presented in the Rate/Volume Analysis.

Rate/Volume Analysis

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

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

- (a) Changes in net interest income for the periods, based on either changes in average balances or changes in average rates for interest-earning assets and interest-bearing liabilities, are shown on this table. During each year there are numerous and simultaneous balance and rate changes; therefore, it is not possible to precisely allocate the changes between balances and rates. For the purpose of this table, changes that are not exclusively due to balance changes or rate changes have been attributed to rates.

The Company maintains about 20.1% of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in non-maturing core deposits and short term certificates of deposit that mature within one year. The Federal Reserve rates increased 75 basis points in 2017 followed by a 100 basis point increase during 2018. During 2019 Federal Reserve rates decreased 50 basis points. We have seen the net interest margin change to 3.59% for 2019, compared to 3.55% for 2018 and 3.45% for 2017.

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

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

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

The Company's net interest spread, which represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities, was 3.37% in 2019 compared to 3.39% in 2018 and 3.32% in 2017. The net interest spread, as well as the net interest margin, will be impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in "Market Risk and Interest Rate Sensitivity" included elsewhere in this report.

AVERAGE BALANCE SHEETS

(dollars in thousands)	2019			2018			2017		
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates
Assets									
Loans, net of unearned fees (1) (2)	\$ 896,098	\$ 50,278	5.61%	\$ 772,327	\$ 40,682	5.27%	\$ 762,554	\$ 38,613	5.06%
Investment securities, taxable	374,718	8,872	2.37%	344,369	7,699	2.24%	344,790	6,867	1.99%
Investment securities, exempt (3)	1,737	56	3.22	2,046	56	3.18%	2,310	81	3.51%
Interest-bearing deposits	54,166	992	1.83%	27,072	410	1.51%	20,920	232	1.11%
Federal funds sold	2,725	64	2.35%	-	-	0.00%	-	-	0.00%
Other investments	4,064	232	5.71%	3,951	187	4.73%	3,126	150	4.80%
Total interest-earning assets	\$ 1,333,508	\$ 60,494	4.54%	\$ 1,149,765	\$ 49,034	4.27%	\$ 1,133,700	\$ 45,943	4.05%
Total noninterest-earning assets	80,251			51,784			66,931		
Total assets	<u>\$ 1,413,759</u>			<u>\$ 1,201,549</u>			<u>\$ 1,200,631</u>		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Savings and interest-bearing demand deposits									
	\$ 640,180	\$ 4,274	0.67%	\$ 534,887	\$ 2,769	0.52%	\$ 517,974	\$ 1,896	0.37%
Time deposits	361,319	5,776	1.60%	326,243	3,288	1.01%	353,587	2,862	0.81%
Total interest-bearing deposits	1,001,499	10,050	1.00%	861,130	6,057	0.70%	871,561	4,758	0.55%
FHLB advances	45,233	1,046	2.31%	49,845	1,195	2.40%	51,388	1,385	2.70%
Other borrowings	9,930	508	5.12%	275	5	1.82%	178	3	1.69%
Subordinated deferrable interest debentures	24,229	1,034	4.27%	24,229	968	4.00%	24,229	727	2.79%
Total interest-bearing liabilities	1,080,891	12,638	1.17%	935,479	8,225	0.88%	75,795	6,873	0.73%
Noninterest-bearing demand deposits	211,462			173,442			158,924		
Other liabilities	4,437			3,222			3,306		
Stockholders' equity	116,969			89,406			91,045		
Total liabilities and stockholders' equity	<u>\$ 1,413,759</u>			<u>\$ 1,201,549</u>			<u>\$ 1,200,631</u>		
Interest rate spread									
			3.37%			3.39%			3.32%
Net interest income		<u>\$ 47,856</u>			<u>\$ 40,809</u>			<u>\$ 39,070</u>	
Net interest margin			3.59%			3.55%			3.45%

(1) Includes loans held for sale.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Taxable-equivalent adjustments totaling \$11,000 for 2019, \$12,000 for 2018 and \$27,000 for 2017, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 21% for 2019 and 2018 and 34% for 2017 with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Provision for Loan Losses

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

Noninterest Income

The components of noninterest income were as follows:

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

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

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

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

Noninterest Expense

The components of noninterest expense were as follows:

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

Salaries and Employee Benefits. The increase in 2019 was 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 hired several key employees during the second quarter of 2019 as part of the strategic changes that are being made to enhance its profitability in line with the Company's growth initiatives. The increase in salary and employee benefits for 2018 was due to merit pay increases and an increase in number of employees.

Occupancy and Equipment. The increase in 2019 was primarily attributable to the new locations stemming from the acquisitions of LBC Bancshares, Inc. and PFB Mortgage. The increase in 2018 was primarily attributable to an increase in depreciation expense in 2018 and an increase in maintenance on equipment and building in 2018 when compared to 2017.

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

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

Other. The increase in 2019 was primarily attributable to legal, business development and data processing expenses. The increase in 2018 was primarily attributable to software and data processing as the Bank changed its information technology processes from an in-house approach to outsourcing with our core processing provider during the first quarter of 2018. With this change, the Company showed a decrease of \$400,000 in software expense in 2018 that was offset by an increase of \$629,000 in data processing expense in 2018 compared to 2017.

Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1.4 billion in 2019 compared to \$1.2 billion in 2018 and \$1.2 billion in 2017.

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

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

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. The Company acquired \$130.6 million of loans as part of the acquisition of LBC Bancshares, Inc. in May 2019. This acquisition combined with increases in organic loan growth resulted in loans of \$968.8 million at December 31, 2019, up 24.0%, compared to loans of \$781.5 million at December 31, 2018, which increased 2.2%, compared to loans of \$764.8 million at December 31, 2017. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" on the following page. The majority of funds provided by deposits have been invested in loans and securities.

Loans

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

(dollars in thousands)	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Construction, land & land development	\$ 96,097	\$ 60,310	\$ 53,762	\$ 42,168	\$ 49,497
Other commercial real estate	540,239	435,961	418,669	415,768	407,850
Total commercial real estate	636,336	496,271	472,431	457,936	457,347
Residential real estate	194,796	187,592	193,924	195,486	196,909
Commercial , financial, & agricultural	114,360	74,166	64,523	64,074	66,943
Consumer & other	23,322	23,497	33,911	36,426	37,080
Total loans, net of unearned fees	968,814	781,526	764,789	753,922	758,279
Allowance for loan losses	(6,863)	(7,277)	(7,508)	(8,923)	(8,604)
Loans, net	\$ 961,951	\$ 774,249	\$ 757,281	\$ 744,999	\$ 749,675

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

Maturity and Repricing Opportunity

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

Overview. Loans totaled \$968.8 million at December 31, 2019 up 24.0% from \$781.5 million at December 31, 2018. The majority of the Company's loan portfolio is comprised of the real estate loans. Commercial and residential real estate which is primarily 1-4 family residential properties, nonfarm nonresidential properties and real estate construction loans made up 85.8% and 87.5% of total loans at December 31, 2019 and December 31, 2018, respectively.

Loan origination/risk management. In accordance with the Company's decentralized banking model, loan decisions are made at the local bank level. The Company utilizes both an Executive Loan Committee and a Director Loan Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by market. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

Commercial purpose, commercial real estate, and agricultural loans are underwritten similarly to how other loans are underwritten throughout the Company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. In addition, the Company restricts total loans to \$10 million per borrower, subject to exception and approval by the Director Loan Committee. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans monthly based on collateral, geography, and risk grade criteria. The Company also utilizes information provided by third-party agencies to provide additional insight and guidance about economic conditions and trends affecting the markets it serves.

The Company extends loans to builders and developers that are secured by non-owner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by market. The Company is committed to serving the borrowing needs of all markets served and, in some cases, adjusts certain evaluation methods to meet the overall credit demographics of each market. Consumer loans represent relatively small loan amounts that are spread across many individual borrowers to help minimize risk. Additionally, consumer trends and outlook reports are reviewed by management on a regular basis.

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

Commercial, financial and agricultural. Commercial and agricultural loans at December 31, 2019 increased 54.2% to \$114.4 million from December 31, 2018 at \$74.2 million. This increase was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. The Company's commercial and agricultural loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

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

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

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

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

Industry concentrations. As of December 31, 2019 and December 31, 2018, there were no concentrations of loans within any single industry in excess of 10% of total loans, as segregated by Standard Industrial Classification code ("SIC code"). The SIC code is a federally designed standard industrial numbering system used by the Company to categorize loans by the borrower's type of business. The Company has established industry-specific guidelines with respect to maximum loans permitted for each industry with which the Company does business.

Collateral concentrations. Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At December 31, 2019, approximately 85.8% of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis. In recent years, we have seen real estate values stabilizing in our markets. The stabilization of rates has resulted in a decrease in the number of loans being classified as impaired over the past several years.

Large credit relationships. The Company is currently in eighteen counties in central, south and coastal Georgia and includes metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Executive Loan Committee and Director Loan Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at December 31, 2019 and December 31, 2018.

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

Maturities and sensitivities of loans to changes in interest rates. The following table presents the maturity distribution of the Company's loans at December 31, 2019. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

(dollars in thousands)	<u>Due in One Year or Less</u>	<u>After One, but Within Three Years</u>	<u>After Three, but Within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Loans with fixed interest rates	\$ 186,391	\$ 282,123	\$ 144,577	\$ 161,230	\$ 774,321
Loans with floating interest rates	39,709	25,948	6,426	122,410	194,493
Total	<u>\$ 226,100</u>	<u>\$ 308,071</u>	<u>\$ 151,003</u>	<u>\$ 283,640</u>	<u>\$ 968,814</u>

The Company may renew loans at maturity when requested by a customer whose financial strength appears to support such renewal or when such renewal appears to be in the Company's best interest. In such instances, the Company generally requires payment of accrued interest and may adjust the rate of interest, require a principal reduction or modify other terms of the loan at the time of renewal.

Nonperforming Assets and Potential Problem Loans

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

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

Nonperforming assets include nonaccrual loans, loans past due 90 days or more, foreclosed real estate and nonaccrual securities. Nonperforming assets at December 31, 2019 decreased 1.56% from December 31, 2018, primarily due to the sale of other real estate owned property. Nonperforming assets at December 31, 2018 decreased 3.71% from December 31, 2017.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for nonaccrual status whether or not the loan is 90 days or more past due. For consumer loans, collectability and loss are generally determined before the loan reaches 90 days past due. Accordingly, losses on consumer loans are recorded at the time they are determined. Consumer loans that are 90 days or more past due are generally either in liquidation/payment status or bankruptcy awaiting confirmation of a plan. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as nonaccrual does not preclude the ultimate collection of loan principal or interest.

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

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

Allowance for Loan Losses

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

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

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.

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

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

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

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

The allowance for loan losses decreased from \$7.3 million, or 0.93% of total loans at December 31, 2018 to \$6.9 million, or 0.71% of total loans at December 31, 2019. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The decline in 2019 was primarily due to the acquisitions of LBC Bancshares, Inc, which had over \$130 million in total loans. Applicable accounting guidance did not allow us to record an allowance for loan losses upon the acquisition of loans – instead the acquired loans were recorded at their discounted fair value, which included the consideration of any expected losses. No allowance for loan losses will be recorded for the acquired loans until the expected credit losses exceed the remaining unamortized discounts – based on an individual basis for purchased credit impaired loans and on a pooled basis for performing acquired loans. Significant changes in the allowance during 2018 was the reduction in the net charge-offs in 2018 to \$432,000 from \$1.8 million in 2017, or a decrease of \$1.4 million. Significant changes in the allowance during 2017 was the increase in the net charge-offs in 2017 to \$1.8 million from \$743,000 in 2016. The Company believes that collection efforts have reduced impaired loans and the reduction in net charge-offs runs parallel with the improvement in the substandard assets. During 2019, we have continued to see stabilization in the economy, housing and the real estate market, as such we expect continued improvement in our substandard assets, including net charge-offs. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of December 31, 2019, 2018 and 2017.

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

The following table represents expected maturities and weighted-average yields of investment securities held by the Company as of December 31, 2019 (mortgage-backed securities are based on the average life at the projected speed, while State and Political Subdivisions reflect anticipated calls being exercised).

(dollars in thousands)	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
State, county and municipal securities	\$ 150	2.03%	\$ 1,193	2.38%	\$ 744	3.15%	\$ 3,028	2.57%
Corporate debt securities	-	-	2,022	4.03	-	-	784	3.12
Mortgage-backed securities	-	-	1,935	3.35	61,933	2.70	275,543	2.17
Total debt securities	<u>\$ 150</u>	<u>2.03%</u>	<u>\$ 5,150</u>	<u>3.39%</u>	<u>\$ 62,677</u>	<u>2.71%</u>	<u>\$ 279,355</u>	<u>2.18%</u>

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

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

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

Deposits

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

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

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

(dollars in thousands)	Time Deposits \$250,000 or Greater	Time Deposits Less than \$250,000	Total
Months to Maturity			
3 or less	\$ 8,179	\$ 61,724	\$ 69,903
Over 3 through 6	12,212	88,926	101,138
Over 6 through 12	17,675	58,542	76,217
Over 12 Months	17,611	82,610	100,221
	<u>\$ 55,677</u>	<u>\$ 291,802</u>	<u>\$ 347,479</u>

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

Total average interest-bearing deposits increased \$140.4 million, or 16.3% in 2019 compared to 2018 and decreased \$10.4 million, or 1.20% in 2018 compared to 2017. The increase in 2019 was primarily attributable to the acquisition of LBC Bancshares, Inc. in May 2019. The decrease in 2018 was primarily attributable to the decrease in time deposits, and for 2017, the increase was primarily attributable to the increase in interest-bearing demand and savings accounts.

The Company supplements deposit sources with brokered deposits. As of December 31, 2019, the Company had \$2.0 million, or 0.2% of total deposits, in brokered certificates of deposit attracted by external third parties. Additional information is provided in the Notes to Consolidated Financial Statements for Deposits.

Off-Balance-Sheet Arrangements and Contractual Obligations

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

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

(dollars in thousands)

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

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

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

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for loan losses. Loan commitments outstanding at December 31, 2019 are included in the preceding table.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Standby letters of credit outstanding at December 31, 2019 are included in the preceding table.

Capital Requirements

The Bank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. For more information, see "Item 1. Business – Supervision and Regulation – Regulation of the Company – Capital Requirements."

At December 31, 2019, shareholders' equity totaled \$130.5 million compared to \$95.7 million at December 31, 2018. In addition to net income of \$10.2 million, other significant changes in shareholders' equity during 2019 included \$2.7 million of dividends declared on common stock and \$18.7 million of common stock issued as part of the LBC Bancshares, Inc. acquisition. The accumulated other comprehensive loss component of stockholders' equity totaled \$362,000 at December 31, 2019 compared to \$(8.2) million at December 31, 2018. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items.

Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill and disallowed deferred tax assets. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25% of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses.

Using the capital requirements presently in effect, the Tier 1 ratio as of December 31, 2019 was 12.52% and total Tier 1 and 2 risk-based capital was 13.17%. Both of these measures compare favorably with the regulatory minimum of 6% for Tier 1 and 8% for total risk-based capital. The Company's common equity Tier 1 ratio as of December 31, 2019 was 10.33%, which exceeds the regulatory minimum of 4.50%. The Company's Tier 1 leverage ratio as of December 31, 2019 was 8.92%, which exceeds the required ratio standard of 4%.

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

For 2019, the Company did not have any material commitments for capital expenditures.

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

The Company reinstated payment of common stock dividends in 2017. A cash dividend of \$2.7 million was paid in 2019 and a cash dividend of \$1.69 million was paid in 2018.

The Company redeemed the remaining \$9.36 million in preferred stock in 2017. In 2018, the Company repurchased \$3.17 million of warrants. Additional information is provided in the Notes to the Consolidated Financial Statements for Preferred Stock and Warrants.

Liquidity

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

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

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of December 31, 2019, the available for sale bond portfolio totaled \$347.3 million. At December 31, 2018, the available for sale bond portfolio totaled \$353.1 million. Only marketable investment grade bonds are purchased. Although approximately half of the Bank's bond portfolio is encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 74.9% as of December 31, 2019 and 72.0% as of December 31, 2018. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at December 31, 2019 and December 31, 2018 were 71.5% and 69.2%, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the Banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small businesses with comprehensive banking relationships and limited volatility. At December 31, 2019 and December 31, 2018, the Bank had \$55.7 million and \$53.9 million, respectively, in certificates of deposit of \$250,000 or more. These larger deposits represented 4.3% and 5.0% of total deposits as of December 31, 2019 and 2018, respectively. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

The Company supplemented deposit sources with brokered deposits. As of December 31, 2019, the Company had \$2.0 million or 0.2% of total deposits in CDARS. Additional information is provided in the Notes to the Consolidated Financial Statements regarding these brokered deposits. Additionally, the Company uses external deposit listing services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed. The deposits obtained from listing services are often referred to as wholesale or internet CDs. As of December 31, 2019, the Company had \$6.0 million, or 0.5% of total deposits, in internet certificates of deposit obtained through deposit listing services.

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

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

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

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

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

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

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs, though given recent economic conditions, the Company has not experienced any material effects of inflation during the last three fiscal years. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed in the next section.

Regulatory and Economic Policies

The Company's business and earnings are affected by general and local economic conditions and by the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things. The Federal Reserve Board regulates the supply of money in order to influence general economic conditions. Among the instruments of monetary policy available to the Federal Reserve Board are (i) conducting open market operations in United States government obligations, (ii) changing the discount rate on financial institution borrowings, (iii) imposing or changing reserve requirements against financial institution deposits, and (iv) restricting certain borrowings and imposing or changing reserve requirements against certain borrowings by financial institutions and their affiliates. These methods are used in varying degrees and combinations to affect directly the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve Board have a material effect on the earnings of the Company.

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

Recently Issued Accounting Pronouncements

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

Market Risk and Interest Rate Sensitivity

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

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

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

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

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

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

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

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

Colony has modeled its baseline net interest income forecast assuming a flat interest rate environment with the federal funds rate at the Federal Reserve's targeted range of 1.50% to 1.75% and the prime rate of 4.75% at December 31, 2019. Colony has modeled the impact of a gradual increase in short-term rates of 100 and 200 basis points and a decline of 100 basis points to determine the sensitivity of net interest income for the next twelve months. As illustrated in the table below, the net interest income sensitivity model indicates that, compared with a net interest income forecast assuming stable rates, net interest income is projected to increase by 2.54% and 3.87% if interest rates increased by 100 and 200 basis points, respectively. Net interest income is projected to decline by 4.12% if interest rates decreased by 100 basis points. These changes were within Colony's policy limit of a maximum 15% negative change.

Twelve Month Net Interest Income Sensitivity

Change in Short-term Interest Rates (in basis points)	Estimated Change in Net Interest Income As of December 31,	
	2019	2018
+200	3.87%	2.36%
+100	2.54%	1.46%
Flat	-%	-%
-100	-4.12%	-2.86%

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

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

Return on Assets and Stockholders' Equity

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

	Years Ended December 31		
	2019	2018	2017
Return on Average Assets(1)	0.72%	0.99%	0.63%
Return on Average Equity(1)	8.73%	13.32%	8.28%
Equity to Assets	8.61%	7.64%	7.33%
Common Stock Dividends Declared	\$ 0.30	\$ 0.20	\$ 0.10

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

Item 7A**Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is located in Item 7 under the heading Market Risk and Interest Rate Sensitivity.

Item 8**Financial Statements and Supplemental Data**

The following consolidated financial statements of the Company and its subsidiaries are included on Exhibit 13 of this Annual Report on Form 10-K:

Consolidated Balance Sheets - December 31, 2019 and 2018

Consolidated Statements of Income - Years Ended December 31, 2019 and 2018

Consolidated Statements of Comprehensive Income - Years Ended December 31, 2019 and 2018

Consolidated Statements of Changes in Stockholders' Equity - Years Ended December 31, 2019 and 2018

Consolidated Statements of Cash Flows - Years Ended December 31, 2019 and 2018

Notes to Consolidated Financial Statements

Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2019 and 2018:

	Three Months Ended			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)				
2019				
Interest income	\$ 16,182	\$ 16,190	\$ 15,098	\$ 13,013
Interest expense	3,167	3,542	3,273	2,656
Net interest income	13,015	12,648	11,825	10,357
Provision for loan losses	580	214	179	131
Securities gains	(2)	34	65	-
Noninterest income	4,391	4,005	3,935	2,334
Noninterest expense	13,496	13,358	13,014	9,026
Income before income taxes	3,328	3,115	2,632	3,534
Provision for income taxes	571	597	531	699
Net income	2,757	2,518	2,101	2,835
Net income per common share				
Basic	\$ 0.29	\$ 0.27	\$ 0.23	\$ 0.34
Diluted	\$ 0.29	\$ 0.27	\$ 0.23	\$ 0.34
2018				
Interest income	\$ 12,852	\$ 12,251	\$ 12,109	\$ 11,810
Interest expense	2,454	2,146	1,944	1,681
Net interest income	10,398	10,105	10,165	10,129
Provision for loan losses	70	61	44	26
Securities gains	-	-	116	-
Noninterest income	2,458	2,405	2,208	2,434
Noninterest expense	9,085	9,078	8,601	8,536
Income before income taxes	3,701	3,371	3,844	4,001
Provision for income taxes	736	676	775	813
Net income	2,965	2,695	3,069	3,188
Net income per common share				
Basic	\$ 0.35	\$ 0.32	\$ 0.36	\$ 0.38
Diluted	\$ 0.35	\$ 0.32	\$ 0.36	\$ 0.37

Item 9

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company did not change auditors in 2019. In addition, there was no accounting or disclosure disagreement or reportable event with the current auditors that would have required the filing of a report on Form 8-K.

Item 9A

Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for ensuring that information the Company is required to disclose in reports that it files or submits under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's senior management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the year ended December 31, 2019, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Colony's management is responsible for establishing and maintaining adequate internal control over financial reporting. Colony's internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Colony's financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Colony's management assessed the effectiveness of Colony's internal control over financial reporting as of December 31, 2019 based on the criteria for effective internal control over financial reporting established in *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that Colony maintained effective internal control over financial reporting as of December 31, 2019.

McNair, McLemore, Middlebrooks & Co., LLC, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on the effectiveness of Colony's internal control over financial reporting as of December 31, 2019. The report, which expresses an unqualified opinion on Colony's internal control over financial reporting as of December 31, 2019 is included in this Annual Report on Form 10-K.

Colony Bankcorp, Inc.
March 30, 2020

Changes in Internal Controls

There were no changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect these controls.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Item 9B

Other Information

None.

Part III

Item 10

Directors and Executive Officers and Corporate Governance

Code of Ethics

Colony Bankcorp, Inc. has adopted a Code of Ethics that applies to the Company's principal executive officer and principal accounting and financial officer. A copy of the Code of Ethics will be provided to any person without charge, upon written request mailed to Tracie Youngblood, Colony Bankcorp, Inc., 115 S. Grant Street, Fitzgerald, Georgia 31750.

The remaining information required by this item is incorporated by reference to the Directors and Nominees section of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 11

Executive Compensation

The information required by this item is incorporated by reference to the Executive Compensation section of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 12**Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters****EQUITY COMPENSATION PLAN INFORMATION**

The Company does not currently have any securities authorized for issuance pursuant to the grant or exercise of awards under an equity compensation plan.

The remaining information required by this item is incorporated by reference to Security Ownership of Certain Beneficial Owners section of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 13**Certain Relationships and Related Transactions and Director Independence**

The information required by this item is incorporated by reference to the Governance of the Company and Related Party Transactions with the Company sections of the Company's definitive Proxy Statement to be filed with Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the fiscal year covered by this Annual Report.

Item 14**Principal Accounting Fees and Services**

The information required by this item is incorporated by reference to the Independent Public Accountants section of the Company's definitive Proxy Statement to be filed with Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the fiscal year covered by this Annual Report.

Part IV

Item 15

Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

- (1) The consolidated financial statements of Colony Bankcorp, Inc. and subsidiaries are included on Exhibit 13 of this Annual Report on Form 10-K
Consolidated balance sheets – December 31, 2019 and 2018
Consolidated statements of income – Years ended December 31, 2019 and 2018
Consolidated statements of other comprehensive income – Years ended December 31, 2019 and 2018
Consolidated statements of changes in stockholders' equity – Years ended December 31, 2019 and 2018
Consolidated statements of cash flows – Years ended December 31, 2019 and 2018
Notes to consolidated financial statements

- (2) Financial Statements Schedules:

All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or the related notes.

- (3) A list of the exhibits required by Item 601 of Regulation S-K to be filed as a part of this report is shown on the "Exhibit Index" filed herewith.

Exhibit Index

2.1 [Agreement and Plan of Merger, dated December 17, 2018, by and between Colony Bankcorp, Inc. and LBC Bancshares, Inc.](#)

-filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on December 18, 2018 and incorporated herein by reference.

3.1 [Articles of Incorporation, as amended](#)

-filed as Exhibit 99.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 0-12436), filed with the Commission on August 4, 2014 and incorporated herein by reference.

3.2 [Amended and Restated Bylaws](#)

4.1 [Description of Securities](#)

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 [1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement†](#)

-filed as Exhibit 10.C to the Registrant's Annual Report on Form 10-K405 (File 000-12436), filed with the Commission on March 30, 2001 and incorporated herein by reference.

10.4 [2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement†](#)

-filed as Exhibit C to the Registrant's Definitive Proxy Statement for Annual Meeting of Stockholders held on April 27, 2004, filed with the Commission on March 3, 2004 (File No. 000-12436) and incorporated herein by reference.

10.5 [Lease Agreement - Mobile Home Tracks, LLC c/o Stafford Properties, Inc. and Colony Bank Worth Dated January 15, 2004](#)

-filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-12436), filed with the Commission on November 5, 2004 and incorporated herein by reference.

10.6 [Employment Agreement, Dated May 14, 2012, Between Edward P. Loomis, Jr. and Colony Bankcorp, Inc.†](#)

-filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-12436), filed with the Commission on May 3, 2012 and incorporated herein by reference.

- 10.7 [Retention Agreements, Dated March 27, 2015, Between Colony Bank and Edward P. Loomis, Jr., Terry L. Hester, Henry F. Brown, Jr., M. Eddie Hoyle, Jr., and Lee A. Northcutt†](#)**
- filed as Exhibit 99.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-12436), filed with the Commission on May 4, 2015 and incorporated herein by reference.
- 10.8 [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. 333-226984), filed with the Commission on August 23, 2018 and incorporated herein by reference.
- 10.9 [Retention Agreement, Dated October 24, 2016, Between Colony Bank and Edward Lee Bagwell, III†](#)**
- filed as Exhibit 99.2 to the Registrant's Annual Report on Form 10-K (File No. 000-12436), filed with the Commission on March 10, 2017 and incorporated herein by reference.
- 10.10 [Renewal Agreement, Dated February 20, 2018, Between Colony Bank and Edward P. Loomis†](#)**
- filed as Exhibit 99.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-12436), filed with the Commission on May 4, 2018 and incorporated herein by reference.
- 10.11 [Employment Agreement, Dated July 27, 2018, Between T. Heath Fountain and Colony Bankcorp, Inc.†](#)**
- filed as Exhibit 99.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-12436), filed with the Commission on November 2, 2018 and incorporated herein by reference.
- 10.12 [Retention Agreement, Dated January 15, 2019, Between Colony Bank and Kimberly C. Dockery†](#)**
- 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.
- 10.13 [Separation Agreement, Dated May 31, 2019, Between Colony Bank and Lee A. Northcutt†](#)**
- 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 6, 2019 and incorporated herein by reference.
- 10.14 [Employment Agreement, Dated June 24, 2019, Between Colony Bank and Tracie Youngblood†](#)**
- 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.
- 13 [Consolidated Financial Statements of Colony Bankcorp, Inc. as of December 31, 2019 and 2018](#)**
- 21 [Subsidiaries of the Company](#)**
- 23 [Consent of McNair, McLemore, Middlebrooks & Co., LLC](#)**
- 31.1 [Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)**
- 31.2 [Certificate of Chief Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)**
- 32 [Certificate of the 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

† Represents a management contract or a compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Colony Bankcorp, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

COLONY BANKCORP, INC.

/s/ T. Heath Fountain

T. Heath Fountain
President/Director/Chief Executive Officer
(Principal Executive Officer)

March 30, 2020

Date

/s/ Tracie Youngblood

Tracie Youngblood
Executive Vice-President/Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

March 30, 2020

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Mark H. Massee

Mark H. Massee, Director

March 30, 2020

Date

/s/ Terry L. Hester

Terry L. Hester, Director

March 30, 2020

Date

/s/ Jonathan W. R. Ross

Jonathan W. R. Ross, Director

March 30, 2020

Date

/s/ M. Frederick Dwozan

M. Frederick Dwozan, Director

March 30, 2020

Date

/s/ Meagan M. Mowry

Meagan M. Mowry, Director

March 30, 2020

Date

/s/ Scott Lowell Downing

Scott Lowell Downing, Director

March 30, 2020

Date

/s/ Matthew D. Reed

Matthew D. Reed, Director

March 30, 2020

Date

/s/ Edward P. Loomis

Edward P. Loomis, Director

March 30, 2020

Date

AMENDED AND RESTATED

BYLAWS

of

COLONY BANKCORP, INC.

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**ARTICLE ONE
OFFICES**

- 1.1 Registered Office. The corporation shall maintain its registered office in Ben Hill County, Georgia.
- 1.2 Other Offices. In addition to its registered office, the corporation also may have offices at such other place or places as the Board of Directors may from time to time select, or as the business of the corporation may require or make desirable, subject to the bank holding company laws of this State.

**ARTICLE TWO
SHAREHOLDERS' MEETINGS**

- 2.1 Place of Meetings. Meetings of the shareholders of the corporation may be held at any place within (or without) the State of Georgia, as set forth in the notice thereof.
- 2.2 Annual Meetings. The annual meeting of the shareholders of the corporation shall be held on the fourth Tuesday in May of each year unless that day is a legal holiday and in that event on the next succeeding business day, for the purpose of electing directors and transacting any and all business that may properly come before the meeting.
- 2.3 Substitute Annual Meetings. If the annual meeting is not held on the day designated in Section 2.2, any business, including the election of directors, which might properly have been acted upon at that meeting, may be transacted at any subsequent shareholders' meeting held pursuant to these bylaws or held pursuant to a court order requiring a substitute annual meeting.
- 2.4 Special Meetings. Special meetings of shareholders or a special meeting in lieu of the annual meeting of shareholders shall be called by the corporation upon the written request of the holders of twenty-five percent (25%) or more of all the shares of capital stock of the corporation entitled to vote in an election of directors. Special meetings of the shareholders may be called at any time by the President, Chairman of the Board, or the Board of Directors.
- 2.5 Notice of Meetings. Unless waived as contemplated in Section 5.2, or by attendance at the meeting, either in person or by proxy, for any purpose other than to object to the transaction of business, a written or printed notice of each shareholders' meeting stating the place, day and hour of the meeting shall be delivered not less than twenty (20) days, nor more than fifty (50) days before the date thereof, either personally, by mail, or by telegram, charges prepaid by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. In the case of an annual or substitute annual meeting, the notice of the meeting need not state the purpose or purposes of the meeting unless the purpose or purposes constitute a matter which the Georgia Business Corporation Code requires to be stated in the notice of the meeting. In the case of a special meeting, the notice of the meeting shall state the general nature of the business to be transacted.

2.6 Quorum. At all meetings of the shareholders, the presence in person or by proxy of the holders of more than one-half of the shares outstanding and entitled to vote shall constitute a quorum. If a quorum is present, a majority of the shares represented at the meeting and entitled to vote on the subject matter shall determine any matter coming before the meeting unless a different vote is required by the Georgia Business Corporation Code, by the Articles of Incorporation of the corporation or by these bylaws. The shareholders at a meeting at which a quorum is once present may continue to transact business at the meeting or by any adjournment thereof, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. If a meeting cannot be organized for lack of a quorum, those shareholders present may adjourn the meeting to such time and place as they may determine. In the case of a meeting for the election of directors which is twice adjourned for lack of a quorum, those present at the second of such adjourned meetings, of which notice has been given in writing to shareholders, shall constitute a quorum for the election of directors.

2.7 Voting of Shares. Each outstanding share having voting rights shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Voting on all matters shall be by voice vote or by show of hands unless any qualified voter, prior to the voting on any matter, demands vote by ballot, in which case each ballot shall state the name of the shareholder voting and the number of shares voted by him, and if such ballot be cast by proxy, it shall also state the name of such proxy.

2.8 Proxies. A shareholder entitled to vote pursuant to Section 2.7 may vote in person or by proxy executed in writing by the shareholder or by his attorney in fact. A proxy shall not be valid after eleven (11) months from the date of its execution, unless a longer period is expressly stated therein. If the validity of any proxy is questioned, it must be submitted to the secretary of the shareholders' meeting for examination or to a proxy officer or committee appointed by the person presiding at the meeting. The secretary of the meeting or, if appointed, the proxy officer or committee, shall determine the validity or invalidity of any proxy submitted and referenced by the secretary in the minutes of the meeting to the regularity of a proxy shall be received as prima facie evidence of the facts stated for the purpose of establishing the presence of a quorum at such meeting and for all other purposes.

2.9 Presiding Officer. The Chairman of the Board of Directors or, in the absence of a Chairman of the Board of Directors, the President, shall serve as chairman of every shareholders' meeting unless some other person is elected to serve as chairman by a majority vote of the shares represented at the meeting. The Chairman may appoint such persons as he deems required to assist with the meeting.

2.10 Adjournments. Any meeting of the shareholders, whether or not a quorum is present, may be adjourned by the holders of a majority of the voting shares represented at the meeting to reconvene at a specific time and place. Except as otherwise provided by Section 2.6, it shall not be necessary to give any notice of the reconvened meeting or of the business to be transacted, if the time and place of the reconvened meeting are announced at the meeting which was adjourned. At any such reconvened meeting, any business may be transacted which could have been transacted at the meeting which was adjourned.

ARTICLE THREE
THE BOARD OF DIRECTORS

3.1 General Powers. The business and affairs of the corporation shall be managed by the Board of Directors. In addition to the powers and authority expressly conferred upon it by these bylaws, the Board of Directors may exercise all such powers of the corporation and do all such lawful acts and things as are not by these bylaws directed or required to be exercised or done by the shareholders.

3.2 Requirements. Each director of the corporation shall be a natural person of the age of 18 years or more.

3.3 Number, Election and Term of Office. The Board of Directors of the corporation shall consist of not less than three (3), nor more than twenty-five (25) persons, with the exact number within such minimum and maximum lists to be fixed and determined from time to time by resolution of the Board of Directors, or by resolution of the shareholders at any annual or special meeting of shareholders. The directors shall be elected by the affirmative vote of a majority of the shares represented at the annual meeting of shareholders. Each director, except in the case of his earlier death, resignation, retirement, disqualification, or removal, shall serve until the next succeeding annual meeting and thereafter until his successor shall have been elected and qualified.

3.4 Removal. The entire Board of Directors or any individual director may be removed from office with or without cause by the affirmative vote of the holders of a majority of the shares entitled to vote at an election of directors. In addition, the Board of Directors may remove a director from office if such director is adjudicated an incompetent by a court, if he is convicted of a felony, or if he fails to attend regular meetings of the Board of Directors for three (3) consecutive meetings without having been excused by the Board of Directors.

3.5 Compensation. Directors may receive such compensation for their services as directors as may from time to time be fixed by vote of the Board of Directors. A director may also serve the corporation in a capacity other than that of director and receive compensation, as determined by the Board of Directors, for services rendered in such other capacity.

3.6 Committees of the Board of Directors. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an executive committee and one or more other committees, each consisting of three or more directors. Each committee shall have the authority of the Board of Directors in regard to the business of the corporation to the extent set forth in the resolution establishing such committee.

3.7 Honorary and Advisory Directors. The Board of Directors of the corporation also may appoint any individual an Honorary Director, Director Emeritus, or member of any advisory board established by the Board of Directors. Any individual appointed an Honorary Director, Director Emeritus, or member of an advisory board may be compensated as provided in Section 3.5, but such individual may not vote at any meeting of the Board of Directors or be counted in determining a quorum as provided in Section 4.5 and shall not have any responsibility or be subject to any liability imposed upon a director, or otherwise be deemed a director.

3.8 Mandatory Retirement of Directors. Any director who reaches the age of 75 years at any time during the annual term of his or her term of office shall not be permitted to be appointed or reappointed as a director of the Company for any term during which said director has reached the age of 75 years.

ARTICLE FOUR MEETINGS OF THE BOARD OF DIRECTORS

4.1 Regular Meetings. An annual organizational meeting of the Board of Directors shall be held on the day of and after the annual meeting of the shareholders of the corporation. In the event the annual shareholders' meeting is not held as provided by Sections 2.3 or 2.4, such organizational meeting shall be held as herein provided for regular meetings. In addition, regular meetings of the Board of Directors shall be held on any fixed by the Board of every month during the calendar year, except during the month in which the organizational meeting of the Board of Directors is held; provided, however, that the Board of Directors and the President are authorized to cancel any such regular meetings, excluding the organizational meeting.

4.2 Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the President, Chairman of the Board, or by any two directors in office at that time.

4.3 Place of Meetings. Directors may hold their meetings at any place within (or without) the State of Georgia as the Board of Directors may from time to time establish for regular meetings, or as set forth in the notice of special meetings, or in the event of a meeting held pursuant to waiver of notice, as set forth in the waiver.

4.4 Notice of Meetings. No notice shall be required for any regularly scheduled meeting of the directors of the corporation. Unless waived as contemplated in Section 5.2, the President or Secretary of the corporation, or any director thereof shall give notice to each director of each special meeting stating the time, place and purposes of the meeting. Such notice shall be given by mailing notice of the meeting at least five (5) days before the date of the meeting, or by telephone, telegram, or personal delivery at least three (3) days before the date of the meeting. Notice shall be deemed to have been given by telegram or cablegram at the time notice is filed with the transmitting agency. Attendance by a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of business because the meeting is not lawfully called.

4.5 Quorum. At meetings of the Board of Directors, more than one-half of the directors then in office shall be necessary to constitute a quorum for the transaction of business.

4.6 Vote Required for Action. Except as otherwise provided in these bylaws, by the corporation's Articles of Incorporation, or by law, the act of a majority of the directors present at a meeting at which a quorum is present at the time shall be the act of the Board of Directors.

4.7 Action by Directors Without a Meeting. Any action which may be taken at any meeting of the Board of Directors, or at any meeting of a committee of directors may be taken without a meeting if a written consent thereto shall be signed by all directors, or all the members of the committee, as the case may be, and if such written consent is filed with the minutes of the proceedings of the Board or the committee. Such consent shall have the same force and effect as a unanimous vote of the Board of Directors or the committee.

4.8 Secretary to Board. The Board of Directors shall appoint a secretary, who need not be a member of the Board, whose duty it shall be to keep an accurate record of all meetings of said Board.

ARTICLE FIVE NOTICE AND WAIVER

5.1 Procedure. Whenever these bylaws require notice to be given to any shareholder or director, the notice shall be given as prescribed in Sections 2.5 or 4.4, whichever is applicable. Whenever notice is given to a shareholder or director by mail, the notice shall be sent first class mail by depositing the same in a post office or letter box in a postage prepaid, sealed envelope, addressed to the shareholder or director at his last known address, and such notice shall be deemed to have been given at the time the same is deposited in the United States mail.

5.2 Waiver. Whenever any notice is required to be given to any shareholder or director by law, by the Articles of Incorporation, or these bylaws, a waiver thereof in writing, signed by the director or shareholder entitled to such notice, or by the proxy of such shareholder, whether before or after the meeting to which the waiver pertains, shall be deemed equivalent thereto; provided, however, that no such waiver shall apply by its terms to more than one required notice.

ARTICLE SIX OFFICERS

6.1 Number. The officers of the corporation shall consist of a President, Secretary and a Treasurer. In addition, the Board of Directors may from time to time elect or provide for the appointment of such other officers or assistant officers as it deems necessary for the efficient management of the corporation, or as shall otherwise be required by law or regulation. Any two or more offices may be held by the same person, except the offices of President and Secretary. The Board of Directors shall have the power to establish and specify the duties for all officers of the corporation.

6.2 Election and Term. All officers shall be elected by the Board of Directors and shall serve at the will of the Board of Directors and until their successors have been elected and have qualified, or until their earlier death, resignation, removal, retirement or disqualification.

6.3 Compensation. The compensation of all officers of the corporation shall be fixed by the Board of Directors, or by the Executive Committee of the Board of Directors, if such committee is designated as provided in Section 3.6. Compensation of all employees who are not officers shall be set by the President subject to review by the Board, at its election.

6.4 Removal. Any officer or agent elected by the Board of Directors may be removed by the Board of Directors with or without any cause whenever in its judgment the best interests of the corporation will be served thereby without prejudice to any contract right to such officer.

6.5 Chairman of the Board. The Board of Directors, in its discretion, may elect a Chairman of the Board of Directors who shall preside and act as chairman at all meetings of the shareholders and the Board of Directors and who shall perform such other duties as the Board of Directors may from time to time direct.

6.6 President. The President shall be the chief executive officer of the corporation and shall have general control and supervision over the business and affairs of the corporation. He shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence of a Chairman of the Board of Directors, the President shall preside and act as chairman of all meetings of the shareholders and the Board of Directors. He also shall perform such other duties as may be delegated to him from time to time by the Board of Directors.

6.7 Officer in Place of President. The Board of Directors may designate an officer who shall, in the absence or disability of the President, or at the direction of the President, perform the duties and exercise the powers of the President.

6.8 Secretary. The Secretary shall keep accurate records of the acts and proceedings of all meetings of shareholders, directors and committees of directors. He shall have authority to give all notices required by law or these bylaws. He shall be custodian of the corporate books, records, contracts and other documents. The Secretary may affix the corporation's seal to any lawfully executed documents requiring it and shall sign such instruments as may require his signature.

ARTICLE SEVEN DIVIDENDS

7.1 Time and Conditions of Declaration. Dividends upon the outstanding shares of the corporation may be declared by the Board of Directors at any regular or special meeting and paid in cash or property only out of the unreserved and unrestricted earned surplus of the corporation or out of the unreserved and unrestricted net earnings of the current fiscal year, computed to the date of declaration of the dividend, or the next preceding fiscal year.

7.2 Share Dividends - Treasury Shares. Dividends may be declared by the Board of Directors and paid in the shares of the corporation out of any treasury shares that have been reacquired out of the capital funds of the corporation.

7.3 Share Dividends - Unissued Shares. Dividends may be declared by the Board of Directors and paid in the authorized but unissued shares of the corporation out of any retained earnings of the corporation; provided that such shares shall be issued at not less than the par value thereof, there shall be transferred to capital stock at the time such dividend is paid an amount of retained earnings at least equal to the aggregate par value of the shares to be issued as a dividend.

7.4 Share Splits. A split or division of the issued shares of any class into a greater number of shares of the same class without increasing the capital stock of the corporation shall not be construed to be a share dividend within the meaning of this Article.

ARTICLE EIGHT SHARES

8.1 Authorization and Issuance of Shares. The par value and the maximum number of shares of any class of the corporation which may be issued and outstanding shall be set forth from time to time in the Articles of Incorporation of the corporation. The Board of Directors may increase or decrease the number of issued and outstanding shares of the corporation within the maximum number of shares authorized by the Articles of Incorporation and the minimum capitalization requirements of the Articles of Incorporation or Georgia law.

8.2 Certificates; Direct Registration System. Shares of the corporation's stock may be certificated or uncertificated, as provided under Georgia law. Any certificates that are issued shall be signed in the name of the corporation by the Chairman of the Board, the Vice Chairman of the Board, the President, or a Vice President and by the Chief Financial Officer, an Assistant Treasurer, the Corporate Secretary, or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be a facsimile. In case any officer, Transfer Agent, or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be with the same effect as if such person were an officer, Transfer Agent, or Registrar at the date of issue. Shares of the corporation's capital stock may also be evidenced by registration in the holder's name in uncertificated, book-entry form on the books of the corporation in accordance with a direct registration system approved by the Securities and Exchange Commission and by NASDAQ or any securities exchange on which the stock of the corporation may from time to time be traded.

8.3 Rights of Corporation with Respect to Registered Owners. Prior to due presentation for transfer of registration of its shares, the corporation may treat the registered owner of the shares as the person exclusively entitled to vote such shares, to receive any dividend or other distribution with respect to such shares, and for all other purposes; and the corporation shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

8.4 Transfer of Shares. Transfers of shares of stock of the corporation shall be made by the Transfer Agent and Registrar on the books of the corporation after receipt of a request with proper evidence of succession, assignment, or authority to transfer by the record holder of such stock, or by an attorney lawfully constituted in writing, and in the case of stock represented by a certificate, upon surrender of the certificate. Subject to the foregoing, the Board of Directors shall have power and authority to make such rules and regulations as it shall deem necessary or appropriate concerning the issue, transfer, and registration of shares of stock of the corporation, and to appoint and remove Transfer Agents and Registrars of transfers.

8.5 Duty of Corporation to Register Transfer. Notwithstanding any of the provisions of Section 8.4 of these Bylaws, the corporation is under a duty to register the transfers of its shares only if:

- (a) the share certificate is endorsed by the appropriate person or persons or upon the presentation proper evidence of authority to transfer by the record holder; and
- (b) reasonable assurance is given that these endorsements or evidence of the authority to transfer are genuine and effective; and
- (c) the corporation has no duty to inquire into adverse claims or has discharged any such duty; and
- (d) any applicable law relating to the collection of taxes has been complied with; and
- (e) the transfer is in fact rightful or is a bona fide purchaser.

8.6 Lost, Stolen or Destroyed Certificates. Any person claiming a certificate of stock to be lost, stolen, mislaid, or destroyed shall make an affidavit or affirmation of that fact and verify the same in such manner as the Board of Directors may require, and shall, if the Board of Directors so requires, give the corporation, its Transfer Agents, Registrars, and/or other agents a bond of indemnity in form approved by counsel, and in amount and with such sureties as may be satisfactory to the Corporate Secretary of the corporation, before a new certificate (or uncertificated shares in lieu of a new certificate) may be issued of the same tenor and for the same number of shares as the one alleged to have been lost, stolen, mislaid, or destroyed.

8.7 Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date, such date to be not more than 50 days (and, in the case of a shareholders' meeting, not less than 20 days) prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

8.8 Record Date if None Fixed. If no record date is fixed as provided in Section 8.7 of these bylaws, then the record date for any determination of shareholders which may be proper or required by law shall be the date on which notice is mailed in the case of a shareholders' meeting, or the date on which the Board of Directors adopts a resolution declaring a dividend in the case of payment of a dividend.

ARTICLE NINE INDEMNIFICATION

9.1 Indemnification. Any person, his heirs, executors, or administrators, may be indemnified or reimbursed by the corporation for reasonable expense actually incurred in connection with any action, suit or proceeding, civil or criminal, to which he shall be made a party by reason of the fact that he is or was a director, trustee, officer, employee, or agent of the corporation, or that he is or was serving, at the request of the corporation, trust or other organization or enterprise; provided; however, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit or proceeding as to which he shall finally be adjudged to have been guilty of or liable for gross negligence, willful misconduct or criminal acts in the performance of his duties to the corporation, or to such other firm, corporation, trust, organization, or enterprise; and provided further, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit, or proceeding which has been in the subject of a compromise settlement, except with the approval of (i) a court of competent jurisdiction, (ii) the holders of record of a majority of the outstanding shares of capital stock of the corporation, or (iii) a majority of the members of the Board of Directors then holding office, excluding the votes of any directors who are parties to the same or substantially the same action, suit or proceeding.

9.2 Payment of Expenses in Advance. Expenses incurred in defending any action, suit or proceeding referred to above may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director, trustee, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as provided above.

9.3 Insurance. The corporation, upon the affirmative vote of a majority of its Board of Directors, may purchase and maintain insurance on behalf of any person who is or was a director, trustee, officer, employee or agent of the corporation or is or was serving, at the request of the corporation, as a director, trustee, officer, employee, or agent of another firm, corporation, trust, or other organization or enterprise against liability asserted against him and incurred by him in such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the foregoing provisions of these bylaws.

9.4 Rights Not Exclusive. The foregoing rights of indemnification or reimbursement shall not be exclusive of other rights to which the persons referred to above, or their heirs, executors, or administrators, may be entitled as a matter of law, and the corporation may indemnify such persons to the extent permitted by the Georgia Business Corporation Code, as such laws may be amended from time to time.

ARTICLE TEN MISCELLANEOUS

10.1 Inspection of Books and Records. The Board of Directors shall have power to determine which accounts, books and records of the corporation shall be open to the inspection of shareholders, except such accounts, books and records that are specifically open to inspection by law, and the Board of Directors shall have power to fix reasonable rules and regulations not in conflict with the applicable law for the inspection of accounts, books and records which by law or by determination of the Board of Directors shall be open to inspection.

10.2 Fiscal Year. The fiscal year of the corporation shall be set by resolution of the Board of Directors.

10.3 Seal. The following is the impression of the seal adopted by the Board of Directors.

**ARTICLE ELEVEN
AMENDMENTS**

The bylaws of the corporation may be altered or amended and new bylaws may be adopted by the shareholders at any annual or special meeting of the shareholders or by the Board of Directors at any regular or special meeting of the Board of Directors; provided, however, that if such action is to be taken at a meeting of the shareholders, notice of the general nature of the proposed change in the bylaws shall be given in the notice of meeting. The shareholders may provide by resolution that any bylaw provision repealed, amended, adopted or altered by them may not be repealed, amended, adopted or altered by the Board of Directors. Except as otherwise provided in the Articles of Incorporation, action by the shareholders with respect to bylaws shall be taken by an affirmative vote of a majority of all shares entitled to elect directors, and action by the Board of Directors with respect to bylaws shall be taken by an affirmative vote of a majority of all directors then holding office.

DESCRIPTION OF CAPITAL STOCK

The following description summarizes the terms of our common stock and preferred stock but does not purport to be complete, and it is qualified in its entirety by reference to the applicable provisions of federal law governing bank holding companies, Georgia law and our Articles of Incorporation, as amended (“Articles”) and Amended and Restated Bylaws (“Bylaws”). Our Articles and Bylaws are incorporated by reference as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2019 of which this Exhibit 4.1 is a part. As used in this Exhibit 4.1, the terms “Colony,” “we,” “us” and “our” refer only to Colony Bankcorp, Inc. and not to any existing or future subsidiaries of Colony Bankcorp, Inc.

Common Stock

Authorized. Colony has 20,000,000 shares of authorized common stock, \$1.00 par value, of which 9,498,783 were outstanding as of December 31, 2019.

Voting Rights; Cumulative Voting. Pursuant to the Colony Bylaws, each outstanding share of Colony common stock is entitled to one vote on each matter submitted to a vote. Holders of Colony common stock do not have cumulative voting rights.

Board of Directors. Under Article 3.3 of the Colony Bylaws, the board of directors shall consists of not less than three (3), nor more than twenty-five (25) persons, with the exact number of directors to be determined from time to time by resolution of the board, or by resolution of the shareholders at any annual or special meeting of shareholders. The directors shall be elected by the affirmative vote of a majority of the shares represented at the annual meeting of shareholders.

Dividends. Holders of Colony common stock are entitled to receive dividends if, as and when declared by the board of directors out of any funds legally available for dividends. Holders of Colony common stock are also entitled, upon our liquidation, and after claims of creditors and the preferences of any class or series of preferred stock outstanding at the time of liquidation, to receive pro rata net assets, if any. Colony pays dividends on its common stock only if it has paid or provided for all dividends on its outstanding series of preferred stock, for the then current period and, in the case of any cumulative preferred stock, all prior periods.

Colony is a legal entity separate and distinct from Colony Bank. There are various restrictions that limit the ability of Colony Bank to finance, pay dividends or otherwise supply funds to Colony or other affiliates. In addition, subsidiary banks of holding companies are subject to certain restrictions under Sections 23A and 23B of the Federal Reserve Act on any extension of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing of services.

The principal source of funds from which Colony pays cash dividends are the dividends received from its bank subsidiary, Colony Bank. Consequently, dividends are dependent upon Colony Bank’s earnings, capital needs, and regulatory policies, as well as statutory and regulatory limitations. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Georgia law requires prior approval for a bank to pay dividends where the aggregate amount of dividends to be declared or anticipated to be declared during the current calendar year exceeds 50 percent of its net after-tax profits before dividends for the previous calendar year. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized.

Preemptive Rights; Liquidation. Colony common stock does not carry any preemptive rights enabling a holder to subscribe for or receive shares of Colony common stock. In the event of liquidation, holders of Colony common stock are entitled to share in the distribution of assets remaining after payment of debts and expenses and after required payments to holders of Colony preferred stock, if any such shares are outstanding. There are no redemption or sinking fund provisions applicable to Colony common stock.

Preferred Stock

Under the terms of the Colony Articles, Colony has authorized the issuance of up to 10,000,000 shares of preferred stock, no par value, any part or all of which shares may be established and designated from time to time by the board of directors by filing an amendment to the Articles, which is effective without shareholder action, in accordance with the appropriate provisions of the Georgia Business Corporation Code (“GBCC”). If Colony offers preferred stock, it will file the terms of the preferred stock with the SEC, and the prospectus supplement relating to that offering will include a description of the specific terms of the offerings. The Colony Articles authorize the board of directors to establish one or more series of preferred stock, and to establish such preferences, limitations and relative rights as may be applicable to each series of preferred stock. The issuance of preferred stock and the determination of the terms of preferred stock by the board, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of our common stock.

Anti-Takeover Provisions

Voting Requirements; Business Combinations or Control Share Acquisition. The GBCC states that in the absence of a greater requirement in the articles of incorporation, a sale, lease, exchange, or other disposition of all, or substantially all, of a corporation’s property requires approval by a majority of the shares entitled to vote on the transaction. The Colony Articles do not provide for a greater than majority vote on such a transaction.

Removal of Directors. Under Article 3.4 of the Colony Bylaws, the entire board of directors or any individual director may be removed from office with or without cause by the affirmative vote of the holders of a majority of the shares entitled to vote at an election of directors. In addition, the board of directors may remove a director from office if such director is adjudicated an incompetent by a court, if such director is convicted of a felony, or if such director fails to attend regular meetings of the board of directors for three (3) consecutive meetings without having been excused by the board.

Vacancies in the Board of Directors. The Colony Bylaws do not address vacancies on the board of directors; *however*, Section 14-2-810 of the GBCC provides that unless the articles of incorporation or a bylaws approved by the shareholders provides otherwise, if a vacancy occurs on a board of directors, including a vacancy resulting from an increase in the number of directors: (i) the shareholders may fill the vacancy; (ii) the board of directors may fill the vacancy; or (iii) if the directors remaining in office constitute fewer than a quorum of the board, they may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office. The GBCC also provides that if the vacant office was held by a director elected by a voting group of shareholders, only the holders of shares of that voting group or the remaining directors elected by that voting group are entitled to vote to fill the vacancy.

Amendment of the Articles of Incorporation or Bylaws. The Colony Articles may be amended in accordance with the GBCC, which generally requires the approval of the Colony board of directors and the holders of a majority of the votes entitled to be cast on the amendment. Colony’s Bylaws may be amended, altered, or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote at any annual or special meeting of the shareholders or by the board of directors at any regular or special meeting of the board of directors; *provided, however*, that if such action is to be taken at a meeting of the shareholders, notice of the general nature of the proposed change in the bylaws must be given in the notice of the meeting.

Special Meetings of Shareholders. Under the Colony Bylaws, special meetings of shareholders or a special meeting in lieu of the annual meeting of shareholders shall be called by Colony upon the written request of the holders of twenty-five percent (25%) or more of all the shares of capital stock entitled to vote in an election of directors. Special meetings of the shareholders may be called at any time by the President, Chairman of the Board, or the Board of Directors. Colony must give written or printed notice of the place, day and hour of each special shareholders’ meeting no fewer than 20 days nor more than 50 days before the meeting date to each shareholder of record entitled to vote at the meeting. The notice of a special meeting must state the general nature of the business to be transacted.

Shareholder Proposals and Nominations. The Colony Articles and Bylaws do not provide for shareholder proposals or required procedure. However, under Rule 14a-8 applies, a shareholder proposal must be received by the subject company at least 120 days before the anniversary of the date on which the company first mailed the previous year’s proxy statement to shareholders. If, however, the annual meeting date has been changed by more than 30 days from the date of the prior year’s meeting, or for special meetings, the proposal must be submitted within a reasonable time before the subject company begins to print and mail its proxy materials.

Limitations on Directors' and Officers' Liability. The Colony Bylaws provide that any person, his heirs, executors, or administrators, may be indemnified or reimbursed by Colony for reasonable expense actually incurred in connection with any action, suit or proceeding, civil or criminal, to which such person shall be made a party by reason of the fact that such person is or was a director, trustee, officer, employee, or agent of Colony, or that such person is or was serving, at the request of Colony, trust or other organization or enterprise; *provided, however*, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit or proceeding as to which such person shall finally be adjudged to have been guilty of or liable for gross negligence, willful misconduct or criminal acts in the performance of his duties to Colony, or to such other firm, corporation, trust, organization, or enterprise; *and provided further*, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit, or proceeding which has been in the subject of a compromise settlement, except with the approval of (i) a court of competent jurisdiction, (ii) the holders of record of a majority of the outstanding shares of capital stock of Colony, or (iii) a majority of the members of the board of directors then holding office, excluding the votes of any directors who are parties to the same or substantially the same action, suit or proceeding.

The Colony Bylaws also provide that expenses incurred in defending any action, suit or proceeding referred to above may be paid by Colony in advance of the final disposition of such action, suit or proceeding as authorized by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the director, trustee, officer, employee or agent to repay such amount unless it shall ultimately be determined that such director, trustee, officer, employee or agent is entitled to be indemnified by Colony as provided above.

The Colony Bylaws further provide that Colony may purchase and maintain on behalf of a director, officer, employee or agent of Colony insurance against liability asserted against or incurred by that person serving in such capacity for Colony or arising from his status with Colony whether or not Colony would have the power to indemnify that person under the Bylaws.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Colony Bankcorp, Inc.

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Colony Bankcorp, Inc. and its subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years ended December 31, 2019, and the related notes (collectively, the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

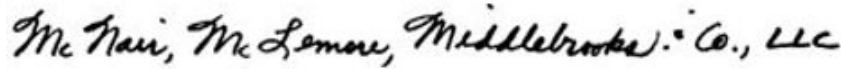
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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



McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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

Macon, Georgia
March 30, 2020

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(DOLLARS IN THOUSANDS)

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

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

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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

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

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(DOLLARS IN THOUSANDS)

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

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

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018
(DOLLARS IN THOUSANDS)

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

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

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(DOLLARS IN THOUSANDS)

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Basis of Presentation and Accounting Estimates

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

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

Acquisition Accounting

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

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

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

Transfer of Financial Assets

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

Cash and Cash Equivalents

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

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

Investment Securities

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

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

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

In determining whether other-than-temporary impairment losses exist, management considers (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer or underlying collateral of the security and (iii) the Company's intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other Investments

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

Loans

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

Loans Modified in a Troubled Debt Restructuring (TDR)

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

Allowance for Loan Losses

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

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

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

Allowance for Loan Losses (Continued)

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

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

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

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. Concessions may include interest rate reductions to below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company's policy requires a restructure request to be supported by a current, well-documented credit evaluation of the borrower's financial condition and a collateral evaluation that is no older than six months from the date of the restructure. The Company's policy states in the event a loan has been identified as a troubled debt restructuring, it should be assigned a grade of substandard and placed on nonaccrual status until such time that the borrower has demonstrated the ability to service the loan payments based on the restructured terms – generally defined as six months of satisfactory payment history. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment, approved by the Company's Chief Credit Officer. In the normal course of business, the Company renews loans with a modification of the interest rate or terms that are not deemed as troubled debt restructurings because the borrower is not experiencing financial difficulty.

Loan Commitments and Financial Instruments

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

Premises and Equipment

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

Goodwill and Intangible Assets

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

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on an independent valuation performed as of the acquisition date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits.

Cash Value of Bank Owned Life Insurance

The Company has purchased life insurance policies on certain officers. The life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Other Real Estate

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

Income Taxes

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

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

The Company's federal and state income tax returns for tax years 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service (IRS) and the Georgia Department of Revenue, generally for three years after filing.

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

Earnings per Share

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Fair Value Measures

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

Operating Segments

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

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

Reclassifications

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

Accounting Standards Adopted in 2019

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

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

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

Accounting Standards Updates Pending Adoption

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). This ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supported forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements. In November 2019, the ASU 2019-10 was issued which delayed the effective date of CECL for smaller reporting companies. The new effective date is for fiscal years beginning after December 15, 2022.

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

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

NOTE 2. BUSINESS COMBINATIONS

Acquisition of Albany, Georgia Branch from Planters First Bank

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

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

(dollars in thousands)

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

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

Acquired Loans

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

	Contractually required principal and interest	Cash flows expected to be collected	Nonaccretable difference	Fair value of acquired loans at acquisition date
(dollars in thousands)				
Performing loans acquired	\$ 20,749	20,749	319	\$ 20,430

Acquisition of LBC Bancshares, Inc.

On May 1, 2019, the Company completed its acquisition of LBC Bancshares, Inc. ("LBC"), a bank holding company headquartered in LaGrange, Georgia. Upon consummation of the acquisition, LBC was merged with and into the Company, with Colony as the surviving entity in the merger. At that time, LBC's wholly owned bank subsidiary, Calumet Bank, was also merged with and into the Bank. The acquisition expanded the Company's market presence, as Calumet Bank had two full-service banking locations, one each in LaGrange, Georgia and Columbus, Georgia, as well as a loan production office in Atlanta, Georgia. Under the terms of the Agreement and Plan of Merger, each LBC shareholder had the option to receive either \$23.50 in cash or 1.3239 shares of the Company's common stock in exchange for each share of LBC common stock, such that 55 percent of LBC shares of common stock received the stock consideration and 45 percent received the cash consideration, with at least 50 percent of the merger consideration paid in the Company's common stock. As a result, the Company issued 1,053,875 common shares at a fair value of \$18.7 million and paid \$15.3 million in cash to the former shareholders of LBC as merger consideration.

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

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

Purchase Price Consideration (in thousands):	
Shares of CBAN Common Stock Issued to LBC Shareholders as of May 1, 2019	1,053,875
Market Price of CBAN Common Stock on May 1, 2019	\$ 17.75
Estimated Fair Value of CBAN Common Stock Issued	18,706
Cash Consideration Paid	15,315
Total Consideration	\$ 34,021
Assets acquired at fair value:	
Cash and Cash Equivalents	\$ 15,678
Investments Securities Available for Sale	49,172
Investments Securities Held to Maturity	1,766
Restricted Investments	479
Loans	130,568
Premises and Equipment	3,009
Core Deposit Intangible	3,100
Other Real Owned	243
Prepaid and Other Assets	6,143
Total Fair Value of Assets Acquired	\$ 210,158
Liabilities Assumed at Fair Value:	
Deposits	\$ (189,896)
FHLB Advances	(1,000)
Payables and Other Liabilities	(975)
Total Fair Value of Liabilities Assumed	\$ (191,871)
Net Assets Acquired at Fair Value:	\$ 18,287
Amount of Goodwill Resulting from Acquisition	\$ 15,734

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

(dollars in thousands)

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

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

	<u>Fair value of acquired loans at acquisition date</u>	<u>Contractually required principal and interest payments</u>	<u>Nonaccretable difference</u>
(dollars in thousands)			
Acquired receivables subject to ASC 310-30	\$ 176	\$ 695	\$ (519)
Acquired receivables not subject to ASC 310-30	\$ 130,392	\$ 132,381	\$ -

Acquisition of PFB Mortgage from Planters First Bank

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

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

(dollars in thousands)

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

NOTE 3. INVESTMENT SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
State, county and municipal securities	\$ 5,133	\$ 36	\$ (54)	\$ 5,115
Corporate debt securities	2,811	11	(16)	2,806
Mortgage-backed securities	338,930	2,669	(2,188)	339,411
Total debt securities	\$ 346,874	\$ 2,716	\$ (2,258)	\$ 347,332

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
State, county and municipal securities	\$ 4,008	\$ 18	\$ (37)	\$ 3,989
Corporate debt securities	2,927	-	(55)	2,872
Mortgage-backed securities	356,498	303	(10,596)	346,205
Total debt securities	\$ 363,433	\$ 321	\$ (10,688)	\$ 353,066

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

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

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

At December 31, 2019, ninety-eight securities have unrealized losses which have depreciated 1.2 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary. However, the Company owns one asset-backed security at December 31, 2019 which was completely written off during prior years. This investment is comprised of one issuance of a trust preferred security and has no book value.

The amortized cost and fair value of investment securities as of December 31, 2019, by contractual maturity, are shown hereafter. Expected maturities may differ from contractual maturities for certain investments because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities Available for Sale	
	Amortized Cost	Fair Value
(dollars in thousands)		
Due in one year or less	\$ 150	\$ 150
Due after one year through five years	3,195	3,215
Due after five years through ten years	723	744
Due after ten years	3,876	3,812
	\$ 7,944	\$ 7,921
Mortgage-backed securities	338,930	339,411
	\$ 346,874	\$ 347,332

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

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

NOTE 4. LOANS

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

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

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

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

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

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

- Grades 1 and 2 - Borrowers with these assigned grades range in risk from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the "pass" classification.
- Grades 3 and 4 - Loans assigned these "pass" risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.
- Grade 5 - This grade includes "special mention" loans on management's watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.
- Grade 6 - This grade includes "substandard" loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.
- Grades 7 and 8 - These grades correspond to regulatory classification definitions of "doubtful" and "loss," respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company's problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 6.

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

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

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

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

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

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

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

	<u>Pass</u>	<u>Special</u>	<u>Substandard</u>	<u>Total Loans</u>
(dollars in thousands)				
Construction, land & land development	\$ 1,498	\$ -	\$ -	\$ 1,498
Other commercial real estate	6,777	-	-	6,777
Total commercial real estate	8,275	-	-	8,275
Residential real estate	2,015	-	-	2,015
Commercial , financial, & agricultural	8,035	-	-	8,035
Consumer & other	62	-	-	62
Total loans	18,387	-	-	18,387

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Interest rate reductions - Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.
- Amortization or maturity date changes - Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.
- Principal reductions - These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon the Company's normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged off during modification, there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of December 31, 2019. The Company had no loan contracts restructured during 2019. The Company had one loan contract in the amount of \$402,000 restructured during 2018.

Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due. A TDR may cease being classified as impaired if the loan is subsequently modified at market terms and, has performed according to the modified terms for at least six months, and there has not been any prior principal forgiveness on a cumulative basis.

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

NOTE 5. ALLOWANCE FOR LOAN LOSSES

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2019. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

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

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the year ended December 31, 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

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

NOTE 6. PREMISES AND EQUIPMENT

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

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

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

NOTE 7. OTHER REAL ESTATE OWNED

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

(dollars in thousands)	2019	2018
Balance, Beginning of Year	<u>\$ 1,841</u>	<u>\$ 4,256</u>
Loans transferred to other real estate	1,009	792
Acquired in acquisitions	243	-
Sales proceeds	(2,553)	(2,949)
Transfer to premises and equipment	-	(300)
Net gain/(loss) on sale and writedowns	780	42
Ending balance	<u><u>\$ 1,320</u></u>	<u><u>\$ 1,841</u></u>

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

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

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(dollars in thousands)				
Amortizable intangible assets:				
Core deposit intangible	\$ 4,716	\$ 1,660	\$ 1,616	\$ 1,060
Total	<u>4,716</u>	<u>1,660</u>	<u>1,616</u>	<u>1,060</u>
Unamortizable intangible assets:				
Goodwill	<u>\$ 16,477</u>		<u>\$ 202</u>	

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

- (1) In connection with the October 22, 2018 acquisition of Albany, Georgia branch from Planters First Bank, the Company recorded \$560,000 in a core deposit intangible and \$202,000 in goodwill.
- (2) In connection with the LBC Bancshares, Inc. acquisition on May 1, 2019, the Company recorded \$3.1 million in a core deposit intangible and \$15.7 million in goodwill.
- (3) In connection with the May 1, 2019 acquisition of PFB Mortgage from Planters First Bank, the Company recorded \$541,000 in goodwill.

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

	Amount
(dollars in thousands)	
2020	\$ 776
2021	665
2022	554
2023	444
2024	333
Thereafter	284
Total	<u>\$ 3,056</u>

NOTE 9. INCOME TAXES

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

(dollars in thousands)	2019	2018
Current federal expense	\$ 1,881	\$ 2,727
Deferred federal expense	517	273
Federal income tax expense	2,398	3,000
Current state income tax expense	-	-
Federal and state income tax expense	<u>\$ 2,398</u>	<u>\$ 3,000</u>

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

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

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

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

NOTE 10. DEPOSITS

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

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

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

At December 31, 2019 and 2018, the Company had brokered deposits of \$2.0 million and \$5.0 million, respectively. All of these brokered deposits represent Certificate of Deposit Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of \$250,000 was \$55.7 million and \$53.9 million as of December 31, 2019 and 2018, respectively.

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

(dollars in thousands)

Year Ending December 31	Amount
2020	\$ 246,342
2021	52,165
2022	34,903
2023	9,555
2024	4,147
Thereafter	367
Total time deposits	\$ 347,479

NOTE 11. OTHER BORROWED MONEY

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

(dollars in thousands)

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

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

(dollars in thousands)

Description	Maturity Date	Amount	Interest Rate
FHLB Advances	November 19, 2019	\$ 5,000	1.77%
FHLB Advances	March 23, 2020	2,500	2.17%
FHLB Advances	August 15, 2022	18,000	2.69%
FHLB Advances	February 3, 2023	3,000	3.51%
FHLB Advances	August 23, 2023	3,000	0.98%
FHLB Advances	August 15, 2025	4,500	2.62%
FHLB Advances	August 24, 2026	3,000	1.27%
FHLB Advances	March 21, 2028	5,000	2.67%
Total other borrowings		\$ 44,000	
Weighted average rate			2.39%

As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At December 31, 2019 and 2018, the lendable collateral value of those loans pledged was \$111.6 million and \$108.6 million, respectively. At December 31, 2019, the Company had remaining credit availability from the FHLB of \$321.4 million. At December 31, 2018, the Company had remaining credit availability from the FHLB of \$252.1 million. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

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

The Company has the ability to borrow funds from the Federal Reserve Bank (FRB) of Atlanta utilizing the discount window. The discount window is an instrument of monetary policy that allows eligible institutions to borrow money from the FRB on a short-term basis to meet temporary liquidity shortages caused by internal or external disruptions. At December 31, 2019, the Company had borrowing capacity available under this arrangement, with no outstanding balances. The Company would be required to pledge certain available-for-sale investment securities as collateral under this agreement.

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

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

NOTE 12. SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

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

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

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

NOTE 13. LEASES

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

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

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

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

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

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

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

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

(dollars in thousands)	Year	Lease Liability
	2020	\$ 186
	2021	110
	2022	73
	2023	45
	2024	45
Thereafter		128
Total Lease Payments		587
Less: Interest		(40)
Present Value of Lease Liabilities		\$ 547

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

NOTE 14. PREFERRED STOCK AND WARRANTS

The Company redeemed 9,360 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Stock) outstanding with private investors as of March 31, 2017. The Company redeemed 8,661 shares of Preferred Stock at \$1,000 per share in 2016. The Company redeemed 9,979 shares of Preferred Stock at \$1,000 per share during 2015. The Company currently has no outstanding shares of Preferred Stock. The Company also had a warrant (the Warrant) to purchase up to 500,000 shares of the Company's common stock outstanding with private investors. The Warrant was repurchased by the Company on June 5, 2018, for \$3,175,000. Both the Preferred Stock and the Warrant originated in 2009 through transactions with the United States Department of the Treasury and were subsequently sold to the public through an auction process during 2013. The Company had no outstanding warrants as of December 31, 2019 and 2018.

NOTE 15. EMPLOYEE BENEFIT PLAN

The Company offers a defined contribution 401(k) Profit Sharing Plan (the Plan) which covers substantially all employees who meet certain age and service requirements. The Plan allows employees to make voluntary pre-tax salary deferrals to the Plan. The Company, at its discretion, may elect to make an annual contribution to the Plan equal to a percentage of each participating employee's salary. Such discretionary contributions must be approved by the Company's board of directors. Employees are fully vested in the Company contributions after six years of service. In 2019 and 2018, the Company made total contributions of \$674,000 and \$710,000 to the Plan, respectively.

NOTE 16. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

NOTE 17. DEFERRED COMPENSATION PLAN

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

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

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

The Company has purchased life insurance policies on the plans' participants and uses the cash flow from these policies to partially fund the plan. Fee income recognized with these plans totaled \$190,525 in 2019 and \$135,000 in 2018.

NOTE 18. RELATED PARTY TRANSACTIONS

The following table reflects the activity and aggregate balance of direct and indirect loans to directors, executive officers or principal holders of equity securities of the Company. All such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability. A summary of activity of related party loans is shown below:

(dollars in thousands)

	<u>2019</u>	<u>2018</u>
Balance, Beginning	\$ 692	\$ 745
New loans	4,777	114
Repayments	(3,855)	(167)
Transactions due to changes in directors	4,793	-
Balance, Ending	<u>\$ 6,407</u>	<u>\$ 692</u>

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting standards in the U.S. require disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of Colony Bancorp, Inc. and subsidiaries financial instruments are detailed hereafter. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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

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

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

Cash and short-term investments - For cash, due from banks, bank-owned deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value and is classified Level 1.

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

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

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

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

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

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

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

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

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

(dollars in thousands)

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

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

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

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

Assets

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

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

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

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

(dollars in thousands)

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

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following tables present quantitative information about the significant unobservable inputs used in the fair value measurements for assets in level 3 of the fair value hierarchy measured on a nonrecurring basis at December 31, 2019 and 2018. These tables are comprised primarily of collateral dependent impaired loans and other real estate owned:

(dollars in thousands)	December 31, 2019	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired Loans	\$ 5,985	Appraised Value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0%-20%
Other Real Estate	\$ 1,320	Appraised Value/ Comparable Sales	Discounts to reflect current market conditions and estimated costs to sell	0%-20%

(dollars in thousands)	December 31, 2018	Valuation Techniques	Unobservable Inputs	Range Weighted Avg
Impaired Loans	\$ 3,352	Appraised Value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0%-20%
Other Real Estate	\$ 1,841	Appraised Value/ Comparable Sales	Discounts to reflect current market conditions and estimated costs to sell	0%-20%

The following table presents a reconciliation and statement of income classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended December 31, 2019 and 2018:

(dollars in thousands)	Available for Sale Securities	
	2019	2018
Beginning balance	\$ 2,009	\$ 2,068
Sales	-	-
Paydowns	-	-
Accretion (amortization) of discounts and premiums	(18)	(18)
Unrealized gains (loss) included in other comprehensive income (loss)	31	(41)
Ending balance	<u>\$ 2,022</u>	<u>\$ 2,009</u>

The Company's policy is to recognize transfers in and transfers out of levels 1, 2 and 3 as of the end of a reporting period. There were no transfers of securities between level 1 and level 2 or level 3 for the years ended December 31, 2019 and 2018.

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

December 31, 2019				
(dollars in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Corporate debt securities	\$ 2,022	Discounted Cash Flow	Discount Rate or Yield	N/A*
December 31, 2018				
(dollars in thousands)	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Corporate debt securities	\$ 2,009	Discounted Cash Flow	Discount Rate or Yield	N/A*

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

NOTE 20. REGULATORY CAPITAL MATTERS

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

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. As of December 31, 2019, the interim final Basel III rules (Basel III) require the Company to also maintain minimum amounts and ratios of common equity Tier 1 capital to risk weighted assets. These amounts and ratios as defined in regulations are presented hereafter. Management believes, as of December 31, 2019, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

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

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

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 140,973	13.17%	\$ 85,661	8.00%	N/A	N/A
Colony Bank	151,444	14.19	85,407	8.00	106,758	10.00%
Tier I Capital to Risk-Weighted Assets						
Consolidated	134,110	12.52	64,246	6.00	N/A	N/A
Colony Bank	144,581	13.54	64,055	6.00	85,407	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	110,610	10.33	48,185	4.50	N/A	N/A
Colony Bank	144,581	13.54	48,041	4.50	69,393	6.50
Tier I Capital to Average Assets						
Consolidated	134,110	8.92	60,141	4.00	N/A	N/A
Colony Bank	144,581	9.77	59,977	4.00	74,972	5.00
As of December 31, 2018						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 133,900	15.86%	\$ 67,527	8.00%	N/A	N/A
Colony Bank	131,723	15.63	67,418	8.00	84,272	10.00 %
Tier I Capital to Risk-Weighted Assets						
Consolidated	126,623	15.00	50,645	6.00	N/A	N/A
Colony Bank	124,446	14.77	50,563	6.00	67,418	8.00
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Consolidated	103,123	12.22	37,984	4.50	N/A	N/A
Colony Bank	124,446	14.77	37,923	4.50	54,777	6.50
Tier I Capital to Average Assets						
Consolidated	126,623	10.24	49,478	4.00	N/A	N/A
Colony Bank	124,446	10.08	49,396	4.00	61,745	5.00

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

NOTE 21. STOCK-BASED COMPENSATION

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

Compensation expense for restricted stock is based on the market price of the Company stock at the time of the grant and amortized on a straight-line basis over the vesting period. The balance of unearned compensation related to these restricted shares as of December 31, 2019 is \$52,000 which is expected to be recognized over a weighted-average of 1.58 years. The balance of unearned compensation related to these restricted shares as of December 31, 2018 is \$86,000 which is expected to be recognized over a weighted-average of 2.58 years. Total compensation expense recognized for the restricted shares granted for the year ended December 31, 2018 and 2019 was \$34,000 and \$14,000, respectively.

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

The parent company's balance sheets as of December 31, 2019 and 2018 and the related statements of operations and comprehensive income (loss) and cash flows for each of the years in the three-year period then ended are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
DECEMBER 31
(DOLLARS IN THOUSANDS)

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(DOLLARS IN THOUSANDS)

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

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(DOLLARS IN THOUSANDS)

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

NOTE 23. EARNINGS PER SHARE

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

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

NOTE 24. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	<u>2019</u>	<u>2018</u>
(dollars in thousands)		
Beginning Balance	\$ (8,190)	\$ (6,492)
Other comprehensive loss before reclassification	8,629	(1,606)
Amounts reclassified from accumulated other comprehensive income	(77)	(92)
Net current period other comprehensive income (loss)	8,552	(1,698)
Ending Balance	\$ 362	\$ (8,190)

NOTE 25. SEGMENT INFORMATION

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

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

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

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	State of Incorporation
Colony Bank	Georgia
Colony Bankcorp Statutory Trust III	Delaware
Colony Bankcorp Capital Trust I	Delaware
Colony Bankcorp Capital Trust II	Delaware
Colony Bankcorp Capital Trust III	Delaware

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-228440) and S-8 (No. 333-226984 and 333-236721) of Colony Bankcorp, Inc. of our report dated March 30, 2020 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Colony Bankcorp, Inc. for the years ended December 31, 2019 and 2018.

/s/ McNair, McLemore, Middlebrooks & Co., LLC
Macon, Georgia
March 30, 2020

EXHIBIT NO. 31.1

**CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, T. Heath Fountain, certify that:

1. I have reviewed this Form 10-K 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 officers 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 officers 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.

March 30, 2020

/s/ T. Heath Fountain

T. Heath Fountain

President and Chief Executive Officer

EXHIBIT NO. 31.2

**CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Tracie Youngblood, certify that:

1. I have reviewed this Form 10-K 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 officers 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 officers 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.

March 30, 2020

/s/ Tracie Youngblood

Tracie Youngblood
Executive Vice President and
Chief Financial Officer

EXHIBIT NO. 32

**CERTIFICATION 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-K of Colony Bankcorp, Inc. (the Company) for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, T. Heath Fountain, President and Chief Executive Officer of the Company, and I, 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 our knowledge and belief 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.

/s/ T. Heath Fountain

T. Heath Fountain

President and Chief Executive Officer

(principal executive officer)

March 30, 2020

/s/ Tracie Youngblood

Tracie Youngblood

Executive Vice President and Chief Financial Officer

(principal accounting and financial officer)

March 30, 2020

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.