Operator: Greetings and welcome to Southwest Georgia Financials Corporation third quarter 2018 financial results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Craig Mychajluk, investor relations. Thank you. You may begin.

Craig Mychajluk: Thank you and good afternoon, everyone. We certainly appreciate your time today as well as your interest in Southwest Georgia Financial Corporation. Joining me on the call is DeWitt Drew, our President and CEO; and Karen Boyd, our Senior Vice President and Treasurer. We'll start with DeWitt's formal remarks on the third quarter and then open up the call for Q&A.

You should have a copy of our financial results that we released this morning and if not, you can find them on our website at www.sgb.bank.

As you are aware, we may make some forward-looking statements during the formal discussion as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks and uncertainties and other factors are provided in the earnings release as well as with documents filed by the company with the Securities and Exchange Commission. You can find these documents on our website or at www.sec.gov.

So with that, I'd like to turn the call over to DeWitt to begin the discussion.

DeWitt Drew: Thank you, Craig. Good afternoon, everyone, and thank you for being with us today.

Before getting to this quarter's results, as we mentioned in our news release, we experienced a significant weather event as Hurricane Michael affected a portion of our operating area in mid-October, resulting in some agricultural product loss. While still dealing with the aftermath, thankfully, our employees are safe and our branch network was down for only a few days due to no power. We live in a resilient area and overall we were quite fortunate.

Turning to the third quarter. Our results were strong with continued loan and deposit growth, sound asset quality and improving earnings.

Net income increased 20% to $1.14 million. On a per diluted share basis, earnings were $0.45, up $0.08 over the third quarter of 2017. We are particularly pleased with our year-to-date performance of $1.38 per share in earnings, which while benefiting from lower corporate tax rates also reflects the investments we made in people, to enhancing our products and processes and to our infrastructure.

Net interest margin did contract 6 basis points to 4.08% in the quarter and 8 basis points to 4.01% for the year-to-date period. Those declines can be attributed to a decrease in the tax equivalency adjustment to our tax-free bond portfolio necessitated by lower tax rates, as well as an increase in volume and rate of the interest bearing liabilities. Our balance sheet is well structured and well positioned for increased rates, though there is a lag effect of rising interest rates on our variable rate and balloon loans.

Strong loan growth drove higher net interest income, which increased over 9%, or $386,000, to $4.8 million and was up 8% for the nine-month period. Higher provisions were necessary due to continued levels of loan growth we've experienced.

Our overall noninterest income was up slightly quarter-over-quarter, led by higher insurance services revenue of 12% or $42,000. For the year-to-date period, absent gains and losses on the sale of securities and the change from closing our mortgage banking subsidiary, core noninterest income was consistent at $3.0 million.

Total noninterest expense was up a modest 2% in the quarter as many of our larger investment expenses have been made. For the nine-month period, noninterest expense was up 3% mostly due to higher data and item processing costs.

The balance sheet grew 8% to $515 million, driven by broad-based loan growth, which reflects the continued success of the strategic initiatives to increase and diversify our geographic footprint to both Valdosta and Tifton. At quarter-end, loans of $367 million were up 11% from this time last year. And the loan mix was stable and relatively unchanged, with it centered in real estate at about 75% of loans. Average total loans in the third quarter increased $33 million, or 10%, with contributions coming from our entire footprint. Our loan pipeline and originations remained strong and as diverse as is the portfolio. As a result of continued loan growth, we do anticipate higher provisions in the fourth quarter.

Credit quality continues to be in line with our expectations and reflects strong underwriting. Nonperforming loans to total loans were 0.58% in the quarter and net charge offs to average loans were 22 basis points year-to-date.

Our loan growth was funded by nearly an 11%, or $41.5 million, increase in deposits. As we discussed last quarter, the mix of deposits has changed as expected given the increasing rate environment and the introduction of a new interest-bearing business checking product. The product has been well received by our customers and has proven to be a successful retention tool with more than $26 million in balances at quarter-end. Noninterest-bearing deposits declined $28 million, while interest-bearing deposits increased $70 million. As expected, the average cost of interest-bearing deposits was up 36 basis points to 0.80%.

It's important to note that we are continuing to hold higher levels of liquidity due to our strong loan pipeline, as well as concerns about higher interest rates causing disintermediation.

As we mentioned earlier, we did contend with Hurricane Michael, which resulted in some agricultural losses. About half the total cotton that had not been picked and remained in the field was lost. Pecan orchards sustained a lot of tree damage, but most of the crop appears to be salvageable. About 80% of the peanut crop has been picked and luckily there was not enough rain with the system to damage what is still in the ground. Overall, we were fortunate, but we will have some challenges.

We've had three consecutive years with a tropical system moving through our area in either the fall or late summer. In addition, unusually mild winter weather led to a whitefly outbreak last spring, which did affect vegetable production. As mentioned, we do expect credit costs to remain somewhat higher in the fourth quarter primarily due to loan growth, but will also reflect the impact of weather-related events.

I am happy to report that, after construction delays and unfavorable weather in the construction period, we finally opened our new full-service banking center in Tifton in August. We opened with over $27 million in earning assets and believe that this expansion provides a great opportunity for continued growth.

We have a long history of profitable operations and have paid a cash dividend for 90 consecutive years. Our most recent was in September with a dividend of $0.12 per common share and on a year-to-date basis we've paid $0.35 per share, up 6%.

Looking forward, we continue to make progress executing our strategy, and given our year-to-date performance, we anticipate 2018 will be a year of solid growth.

That does conclude my formal remarks. And with that, operator, we'd like to open the call for any questions.

Operator: At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please while we poll for questions. Our first question comes from Carlton Getz with Winter Harbor Capital.

Carlton Getz: Quick questions concerning the service charges on deposits. That number has been in decline incrementally over the last several quarters and last several years. Could you provide a little color on the bank's thinking around that trend and, looking forward, what the thoughts are?

DeWitt Drew: Yes. It's primarily related to a decrease in non-sufficient fund fees both on return items and overdraft items. Last year, through three quarters, I believe that number for NSF charges was $580,000. This year, it's just over $420,000, and that is the trend that we've seen in the last several years. I think it's attributable to lower gas prices primarily. At $4 a gallon, people going to work are going to fill up their tank, and if they overdraw, they're going to overdraw. At least we think, or our analysis indicates, that it's been paid at the pump primarily. Gas has been cheaper. More people are working. We are just going to have less.

Carlton Getz: All right. And then relative to the crop exposure, especially relative to the storm. I know you mentioned the peanut crop fortunately has been relatively in good condition since most of it has been picked or is in the ground. On a rough order of magnitude for the agricultural aspect of the loan portfolio, do you have an idea or a sense of what your exposure is to different commodities such as peanuts and cotton versus the vegetables?

DeWitt Drew: Vegetables is very small. We have, I believe, three or four small operating lines in aggregate less than $2 million for vegetable production. Most of our cotton lines is secured by the real estate -- by first lien on a real estate, so there's very little exposure there. In addition to that, the cotton growers are very disciplined in buying insurance. And we've reached out to most of our major producers and talked to them already about the weather event and their losses. And they think, with what they did harvest and with the payments on the insurance that they should be able to pay off their loans without any trouble this year. The difference being is there won't be a lot to go home with them. What was a bumper crop has now turned into "okay, we're just going to be able to pay out this year and we'll try again next year" sort of situation.

Pecan farmers, I hate to call our pecan farmers as hobby farmers, but for the majority of them, that's primarily what it is. They all have other things they do. And it's everything from paving contractors to physicians, to real estate -- income-producing real estate investors. So even though the pecan orchards are damaged, we think this year's crop will be okay once they get it in, but it may be a little bit of time before that production returns to the levels we've seen in the last few years. We don't think that there's any credit exposure on the pecan side.

On the cotton side, what exposure we have will probably be more a matter of timing as insurance proceeds are collected and paid on the loan. There are some other business that are ancillary to agriculture that will probably be affected. And we don't have any custom combining or cotton picking that we finance, but those businesses will be down. We have a couple of producers that build steel buildings primarily in the ag industry. Those businesses will be down, and we may see some slowness there too. But we think we're well positioned. And we think whatever problems and stresses we have are certainly manageable.

Carlton Getz: In that case, would it be fair to say that the additional reserves that you expect to see in the fourth quarter and going forward is primarily related to growth in the loan portfolio versus the storm exposure?

DeWitt Drew: Yes, I would say that is true. We do have a couple of small problems that are old that we are working out of this year. We just want them off the balance sheet. It's been long enough. But yes, if you look at our numbers we continue to have a very strong pipeline, and we've just got to put more money in the reserves.

Carlton Getz: Okay. And if you would, just one more question on what the most recent charge-offs were, I think, 0.4% for the quarter, which is quite a bump up for just a quarter. Was that related to a single loan or a concentration of events that drove that number?

DeWitt Drew: Two loans. The largest one was a retail outfit, one that did resale -- or retail and wholesale, lighting contractor, we charged down, not charged all. And the other we had a relationship here in Moultrie that we charged down also. We just wanted to reduce our exposure there also. And they're both in liquidation.

Operator: There are no further questions at this time. I'd like to turn the call back to DeWitt Drew for closing comments.

DeWitt Drew: I want to thank everybody for joining us on the call. We certainly appreciate your interest and your continued support and look forward to talking with you all again after our fourth quarter results.

Again, thank you for participating, and have a great day.

Operator: This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.