Southwest Georgia Financial Corporation
First Quarter Financial Results
April 24, 2018

Operator: Greetings, and welcome to the Southwest Georgia Financial Corporation First 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, Mr. Craig Mychajluk, Investor Relations for Southwest Georgia Financial Corporation. Thank you, you may begin.

Craig Mychajluk: Yes, 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 first quarter and then we'll open up the call for Q&A. You should have a copy of our financial results that were 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 other 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, let me 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. SGB delivered strong performance in the first quarter, and that was evident in higher net interest income, a robust net interest margin, sound asset quality and higher deposits. These achievements were reflective of our team's continued hard work and dedication to meeting the needs of our customers.

We recorded earnings of $0.48 for the quarter, up $0.06 from this time last year. Higher earnings were driven by expanded net interest income, but was mostly offset by higher overhead expenses and loan loss provisions, along with lower non-interest income. There was some noise when looking at the year-over-year increase. The previous period had benefited $124,000 from sale of securities and, in 2018, we incurred $141,000 in additional loan loss provisions. There was an adjustment in the first quarter that was made to estimated tax accruals. We do expect to accrue taxes at 14% for the remainder of 2018, and if loan growth is sustained, we may continue to have higher provisions for the remainder of the year.

Net interest income was up $382,000 to $4.4 million, as average total loans during the quarter were up nearly $30 million and our margin expanded as loan portfolio yield increased more than our cost of funds. The loan growth reflects the continuing success of strategic initiatives that were designed to increase our geographic footprint to both Valdosta and Tifton. At quarter-end, loans were up 8% and loan mix was stable and relatively unchanged from the prior period, with it centered in real estate at about 75% of loans. It's encouraging to note that our pipeline continues to look solid, with contributions coming from our entire footprint.

Asset quality performance metrics once again reflect the strong portfolio and our disciplined risk management processes, even as we continue to grow loans. Non-performing loans to total loans were 0.45% in the first quarter. Our lending and management teams continue to diligently monitor and manage the portfolio.

The balance sheet crossed the $0.5 billion mark, growing 8% to $510 million. Asset growth was funded primarily by deposit growth of 6%, with the balance funded by a $13 million increase in federal home loan bank debt. Deposits at quarter end were $418 million, with transaction accounts making up more than half of that balance. Municipal deposits drove up some of the total deposit growth, due to seasonally improved influx from tax deposits.

I had mentioned previously our concern about disintermediation in a higher rate environment and that we're evaluating our deposit products and cash management services and looking at some significant changes. In one week on May 1, we will be rolling out new checking account products for business and personal customers. The objective is not only to streamline our product set but to enhance our offerings in the current environment. While we have grown non-interest bearing deposits, we know the core funding has room for improvement and we remain focused on core deposit growth. Other potential changes are still being reviewed.

Non-interest income continues to be impacted by lower service charges as the economy improves, as well as decreased mortgage banking fees as a result of the closing of Empire Financial Services. Insurance service revenue was also down about $45,000 due to lower contingency fees. Even though recent investments in our infrastructure have increased our operating cost, we believe these investments will provide lasting long term benefits that will support our current projected growth. Going forward we continue to prudently invest a portion of our growth in developing our infrastructure and are poised to open our new banking center in Tipton this summer.

In summary, we're off to a very good start in 2018. We anticipate another successful and exciting year, as we focus on customer experiences and continue to provide quality products while remaining and maintaining high standards of excellence. Overall, we're confident that our long term focus will deliver value to our Investors, customers and the communities we serve.

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

Operator: Thank you. 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.

Thank you. Our first question comes from the line of Baird Hansen with Strategic Value Bank Partners. Please proceed with your question.

Baird Hansen: Good afternoon, everyone.

DeWitt Drew: Baird, good hear to hear from you.

Baird Hansen: Good to hear from you as well. Just a quick one from me on net interest margin. If I look at the net interest margin, it has been decreasing slightly since about Q2 2017. If the Fed proceeds with how everyone is thinking and raises rates a couple of times this year, should we expect that to continue or stay flat?

DeWitt Drew: We're encouraged, because, for the first time this quarter, we did see loan yields increase quarter-over-quarter. That's a factor of the last increase that finally got some of our variable rate loans off of their floors. Now, I will say that we're looking hard at our deposit rates, and actually did make a fairly large, for us, adjustment in the first quarter, because of disintermediation, because we know that we're going through this account change cycle, but really won't be able to do anything with rates on deposit liabilities until after the first cycle, after the change, which will be the month of June.

So, there may be some short term pressure, but we are, as I said, seeing some movement on the asset side in loans and some increased yields that we are very hopeful will stabilize the net interest margin.

Baird Hansen: That's helpful. Thank you.

DeWitt Drew: Okay.

Operator: Thank you. There are no other questions at this time. Mr. Drew, I'll turn the floor back to you for any final comments.

DeWitt Drew: Well, thank you, Melissa. I want to thank everyone for participating with us on the call. We appreciate your continued interest and support. Please feel free to reach out to us at any time and we look forward to talking with all of you again after our second quarter results. Again, thank you and have a great day.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.