Operator: Greetings, and welcome to the Southwest Georgia Financial Corporation First Quarter 2019 Financial Results. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Craig Mychajluk, Investor Relations for SGB. Thank you, Mr. Mychajluk. 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 first quarter and then we will 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 sec.gov.

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. Coming off a strong year where we had record results, we delivered mixed results in the first quarter. This was evident in higher net interest income, sound asset quality and solid deposit growth. Those achievements are reflective of our team's continued hard work and dedication to meeting the needs of our customers. We are, however, finding challenges in deposit pricing and labor cost, particularly, in the cost of hourly wages.

Our pre-tax income for the quarter was up $241,000, or nearly 20%, to $1.5 million. Net income of $1.2 million was comparable with last year's first quarter, largely due to prior year benefiting from an adjustment to estimated tax accruals. On a per diluted share basis, earnings were $0.48.

We have seen some contraction in our net interest margin, which on a tax equivalent basis was 3.82%. After four rate increases last year, the overall cost of interest bearing deposits increased 46 basis points as customers migrated to higher yielding accounts. During the prior year, both mix and pricing moved in ways unfavorable to the bank. We continue to reprice balloon loans at higher rates to help offset this, and believe our continued focus on managing asset and liability mix will allow us to maintain healthy levels in net interest income.

For the quarter, net interest income was up $318,000 to $4.8 million, which reflects higher interest and fees on loans of $828,000, partially offset by higher costs on interest bearing deposits of $678,000. Our loan loss provision nearly halved to $116,000, due to a decrease in nonperforming loans and a reduced level of loan growth in the recent quarter.

Noninterest income was up 24% to $1.2 million, primarily due to a gain of $143,000 related to the extinguishment of debt as well as from higher insurance and brokerage revenue, and swipe fees from debit cards.

We continue to invest in people and technology to drive our success. The $420,000 increase in noninterest expense was largely a reflection of investments necessary to support our growth as well as from the tight labor market. We have seen turnover in hourly staff and are being proactive in protecting valued staff as well as being strategic in adding new associates in key areas of the bank. Costs associated with our hourly employees increased approximately $132,000 compared with last year, while we also saw a 17% increase in the cost of providing employee health insurance. Those increases were partially offset by a $44,000 decrease in accruals for incentive based and profit sharing compensation.

In addition, our occupancy, equipment and data processing costs have all increased over the prior year. When we crossed the $500 million mark in total assets, base costs for enterprise priced software increased substantially. Also our focus on gathering business checking deposits increased activity charges, which show up in data processing expenses.

Total assets reached $551 million, an increase of 8% year-over-year. At quarter end, total loans were $378 million, up $42.5 million or almost 13% from last year. That growth was broad-based across our footprint. Loan origination in the first quarter, however, was somewhat muted. We continue to replace scheduled payments and payoffs, but the pipeline is not as robust as has been in the past. We have a pipeline of large prospects, but overall activity appears to have slowed in our markets and we're taking a cautious stance about the general economy.

We continue to maintain an appropriate discipline around loan quality with nonperforming assets at 0.24% of total loans and 0.19% of total assets, but are continuing to work through a few stressed farm credits. The stress has been primarily weather related and should not be significant to our operations.

We have been successful in attracting deposits to support our loan growth and reduce our reliance on the Federal Home Loan Bank. Total deposits were up $70 million to $489 million, an increase of 17% since last year's first quarter. Last year's growth was primarily in business interest bearing checking, money market accounts and certificates of deposit, as customers searched for yield.

Deposit growth during the recent quarter looks just as strong, with mix being more favorable. Half of the year-over-year increase, $35 million, occurred in the first quarter of this year. Two thirds of this year's increase came from business transaction accounts. Specifically, $12 million was from noninterest bearing business checking, $5 million in interest bearing business checking and $6 million in public NOW accounts. We will continue to focus on deposit pricing and mix this year, and will adjust as needed to accommodate changes and opportunities to originate earning assets in our markets.

We paid total dividends of $0.12 per share in the first quarter. That was the 91st consecutive year paying dividends.

We are pleased overall with the past quarter and remain focused on long-term success. We have an incredibly talented and dedicated group of associates. We will continue to be disciplined in our approach to growing the business. And we'll continue to make the appropriate investments in both back office and customer facing areas of our operations, all while maintaining standards of excellence.

And that concludes my formal remarks. With that, we'd like to open the call for any questions.

Operator: Our first question comes from the line of Mike Shay with Strategic Value Bank Partners.

Mike Shay: Congrats on what I'm looking at is a very successful quarter from a deposit standpoint. I look back over the past couple of quarters, say, going back to the second quarter of '18, looking at your year-on-year deposit-gathering activities from 6% to 11%, 15% and now 17%, so really fantastic trend overall. I was wondering if you can shed a bit more color on essentially how those transaction accounts, more so on the business end, are really being won? Where do you see the rest of full year '19 tracking out from here, from that standpoint?

DeWitt Drew: One of our market Presidents come up with an idea last summer when we talked about reducing our reliance on Federal Home Loan Bank borrowings to be more competitive with our money market accounts in order to attract and gather business checking accounts. And that discussion really came about as a result of a mailer I got from Capital One, offering 2.5%, I believe, on a money market account for 6 months. He said, if we can offer something more competitive than we have been in our markets we can use that as a lead to get our foot in the door in a lot of places. And he was right, we really did exceed expectations and that was a large part of driving the exceptional growth we've had over the past year. Part of it also is Tifton. We opened Tifton and in 6 months have gone from $0 to I believe more than $25 million in deposits in that market or real close to it. They have had great success there. Colquitt County is not a growth market, but we grew deposits over 8% there. I believe it's really the entire sales staff, just talk about our banking division. Jeff Hanson is Head of our Banking Division, and our three market Presidents, they just do a great job. I mean we're beating on the doors, telling people what we have to offer and at times, moving some cheap funding to something that's advantageous for the customer, when we think they're going to be searching for yield anyway, if they're not already. That has shown up in our deposit cost. Our deposit costs have gone up because of those efforts.

Mike Shay: Sure. I look at things now too ending the first quarter just from a loan-to-deposit standpoint, I think the most liquid I've seen, right around 77-or-so-percent. I imagine that's probably also a way of, say, getting your foot in the door from a lending standpoint. I know you mentioned a little bit of a weakness in the market, kind of more than anything else. If you could just shed a little bit of color on that too? Just kind of the main drivers and what really is kind of causing some of that near-term weakness with respect to, maybe not the pipeline, but more so just the market in general?

DeWitt Drew: I think a lot of it is commodity prices. You know we have a tariff on cotton being shipped to China. The cost of it has been passed on to producers so far. That is a large part of it. The Ag economy in general, we don't do much grain farming around here, our row crop is principally peanuts and cotton. And the cotton prices are pretty good. Nationally, peanut consumption is down, but it's still strong in this market, the production of peanuts and the sale of peanuts. But long term, I wonder about what the future is for peanut production, I think it may be less going forward. And also over in Valdosta, we've had a pretty good run over the last 7 or 8 years of some industrial developments and commercial development, warehouses being built. That has slowed also. Of course, anything attached to a big-box retailer right now is a little stressed as rents are going down. We think those are all things to be cautious about.

Operator: There are no further questions in the queue. I'd like to hand the call back to management for closing comments.

DeWitt Drew: Thanks everyone for joining us on the call. We certainly 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 for participating today and have a great day.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.