Southwest Georgia Financial Corporation
Second Quarter 2019 Financial Results
July 23, 2019

Operator: Greetings, and welcome to Southwest Georgia Financial Corporation's Second Quarter 2019 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Craig Mychajluk, Investor Relations.

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 Karen Boyd, Senior Vice President and Treasurer; Ross Dekle, Executive Vice President and Moultrie Region President; and Donna Lott, Executive Vice President and Chief Administrative Officer. Karen is going to provide the formal remarks on the second 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 Karen to begin the discussion.

Karen Boyd: Thank you, Craig. Good afternoon, everyone, and thank you for being with us today. We had a solid quarter, given the backdrop of increased investments related to our expansion efforts and other customer service enhancing initiatives. Net income was up 13% to $1.3 million and, on a per diluted share basis, earnings were $0.51, which was up three cents over the first quarter of this year, and up six cents over last year.

If you recall, in 2018, we achieved record earnings per share and, on a year-to-date basis, we are on track to beat that performance this year.

We are seeing an extraordinary amount of pricing pressure on both sides of the balance sheet; however, our team has done a notable job managing these pressures. The average cost of all interest bearing liabilities has increased 32 basis point to 1.16% as interest bearing deposits continued to move into higher yielding CD's and tiered money market accounts. Balloon loans are being repriced at higher rates to help counteract this.

We were able to expand our net interest margin 10 basis points to 4.06% as our continued focus on managing asset and liability mix, combined with our customer-centric and community-focused approach, has allowed us to maintain healthy levels of net interest income.

For the quarter, net interest income was up $485,000 to more than $5 million, which reflects higher interest and fees on loans of $856,000, partially offset by higher costs on interest bearing deposits of $493,000. Our provision was higher, which was commensurate with the level of loan growth.

Noninterest income was up $247,000 to $1.3 million, primarily due to a gain from the sale of fixed assets. Higher insurance revenue of 9% was mostly offset by smaller declines in other business lines.

The $418,000 increase in noninterest expense was impacted by each line item, but largely reflected the investments necessary to support our growth as well as from the tight labor market. Nearly half of that increase was within salary and employee benefits and, as a reminder, when we crossed the $500 million mark in total assets, base costs for enterprise priced software increased substantially.

As I mentioned, the strategic investments we made to organically grow our franchise are paying off, as demonstrated by our strong loan and deposit growth. And, it is important to note that we are not chasing questionable credits or overpriced deposits.

Total assets reached $552 million, an increase of 9% year-over-year. Loans grew more than 12% to $388 million, with contributions coming from each of our markets. While demand has softened somewhat, since the end of the first quarter, the loan portfolio has increased approximately $11 million, or 11% on an annualized basis. And, we still have a solid pipeline.

We are maintaining high standards of credit quality, with our nonperforming asset ratios improving over last year at 0.41% of total loans and 0.30% of total assets.

Our loan growth was funded by strong deposit growth, which was up nearly 13%, or $52 million, to $468 million. More than a third of that growth was from noninterest-bearing transaction accounts. Given the success of our deposit gathering activities, we have reduced our reliance on the Federal Home Loan Bank.

Deposit growth during the recent quarter was down slightly, but that was primarily due to seasonal fluctuations and prudent discipline given pricing pressure. We will continue to focus on deposit pricing and mix this year, and will make the appropriate adjustments as needed to take advantage of opportunities in our markets. We also believe continued disruptions in the banking industry will create additional deposit opportunities for us.

We paid total dividends of $0.24 per share through the first half of the year, representing a 4% increase over last year's comparable period. This year also marks the 91st consecutive year of paying dividends.

We continue to make excellent progress in growing the business and earnings in a very competitive banking market and challenging rate environment. The contributions of our talented and dedicated staff that tirelessly focus on providing superior customer service has made this possible. We believe the future looks bright and that our strategic plan and strong balance sheet position us for continued success.

That concludes my formal remarks. With that, we would like to open the call for any questions.

Operator: At this time, we will be conducting a question-and-answer session. Our first question comes from the line of Mike Shay with Strategic Value Bank Partners. Please proceed with your question.

Michael Shay: Good afternoon.

Karen Boyd: Good afternoon.

Michael Shay: Maybe a little bit more on the funding side and if you could go into a little bit more detail on the driver of those noninterest-bearing deposits in Q2 and how that tracks over the full year. Lastly, can you give some thoughts on margins and where the overall rate backdrop is now versus where we were a year ago and also provide color on what you are expecting for the second half of the year?

Karen Boyd: Okay. Ross, I'll defer to you on the deposits and then we can take over from there if needed.

Ross Dekle: Thank you, Karen. I appreciate the question. I believe your group has attended these calls in the past, so you know that we changed our deposit mix last year in an aggressive attempt to grow our core deposit base. What we are seeing now in the growth of noninterest-bearing accounts is the fruition of that plan. As Karen mentioned, our deposit and our interest expense, which are primarily based on deposit pricing, has gone up, but this has resulted in the growth of noninterest-bearing accounts, because of a "relationship focus" in our customer acquisitions, and the actual obtaining of more deposits per customer through the course of our normal business and calling efforts.

Michael Shay: Okay. Great.

Karen Boyd: Does that answer your question, Mike, or do you need anything further?

Michael Shay: That does on the deposit side. Now, go over the same point on the margin side as well. You mentioned the disruption piece, so maybe where you're seeing that market wise that's kind of closer to home or Tifton or where exactly that's being felt the most?

Karen Boyd: As far as the margin, we have increased some of our deposit rates a little to try to sustain those relationships that Ross was talking about a moment ago. But we do have to be considerate of the Fed and the moves that they make and make sure that we make sound decisions on our pricing strategy. As far as the markets, I'll let Ross speak to the pressures in the market.

Ross Dekle: Well, to speak to Karen's portion of the question too, what we're realizing is the repricing and scheduled renewal of loan assets on the books as well and that has allowed us to gain some yield particularly on loans that had five-year calls, as improvements in the rate environment in that five year period have allowed us to continue to gain yields on our loan assets and we'll continue to see some of that as we progress forward.

As far as market competition, we have been really focused on banking relationships both from a retention aspect and from a prospecting perspective. With that being said, our pricing in that regard and the stress we see in the way of interest expense on deposit accounts is subject to a little bit of fluctuation just out of sheer competition. However, we've been very successful in retaining key relationships and a good portion of that increase you saw during the quarter was the result of those efforts and to combat what are competitive prices on deposits in all of the markets we share across our footprint.

Michael Shay: Great. That's really helpful. Thank you.

Operator: There are no further questions at this time and I would like to turn the call back to Karen Boyd for closing remarks?

Karen Boyd: 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 you all again after our third quarter results. Again, thank you for participating today and have a great day.

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