



**Operator:** Greetings and welcome to the Southwest Georgia Financial Corporation Fourth Quarter 2017 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.

It is now my pleasure to introduce your host, Craig Mychajluk, Investor Relations for Southwest Georgia Financial Corporation. 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 fourth quarter and full year and then 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.sgfc.com](http://www.sgfc.com).

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](http://www.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. As you all are aware, the Tax Cuts and Jobs Act significantly reduced corporate tax rates. The Act caused us to revalue net deferred tax assets and resulted in a one-time charge of \$419,000, reflected in higher income tax expense. The effect to earnings per share was \$0.17 for the quarter and full year. We reported earnings of \$0.28 for the quarter and earnings of a \$1.49 for the full year. Absent the impairment to the deferred tax assets, earnings for the quarter and year would have been \$0.44 and \$1.66, respectively. The \$1.66 would have been another record. We wish we could have reported record earnings, but certainly do not wish to forgo a tax cut.

While reported earnings were \$717,000 and \$3.8 million for the quarter and year, respectively, core earnings for the quarter and year, adjusted for the deferred tax impairment, were \$1.1 million and \$4.2 million, respectively. Higher earnings were driven by expanded net interest income, which was partially offset by higher overhead expenses. For the year, net interest income was up \$1.4 million, or 9%, to \$17.2 million. For the quarter, the increase was \$441,000 to \$4.5 million.

At \$330 million, loans grew 13% for the year. Loan growth was present in all three of our geographic regions, with particular strength in Valdosta. That region now holds approximately 55% of the Bank's loans. Loan mix was stable and relatively unchanged from the prior period. The portfolio is centered in real estate at about 75% of loans. Construction and development is 7% of the portfolio and about 50% of Tier 1 capital. Twenty percent of the portfolio is agriculture-related. Over half the agriculture lending we do is related to poultry. In all, \$40 million is either poultry or crop production with 80% of that amount being poultry.

We do have one large farm relationship in liquidation and we expect no further loss. There are also two lending relationships to retail establishments in various stages of liquidation. One is in



Valdosta and the other in rural Colquitt County. Our initial assessment is that we are in a relatively strong collateral position and loss exposure will be minimal, if any at all. With nonperforming loans to total loans at 0.51%, asset quality remains very strong. Loan loss provisions were higher, necessitated by the strong loan growth.

Overall, the balance sheet grew 9% to \$489 million. Growth was funded primarily by deposit growth of 7%. Deposits at year-end were up to \$397 million. Transaction accounts were \$223 million, or 56% of total deposits. Growth in transaction deposits was 7%, or \$15 million, year-over-year. Time, savings and money market deposits increased a net of \$12 million. The balance of the growth was funded by a \$13 million increase in Federal Home Loan Bank debt.

Our system migration is behind us now. The expenses associated with the migration and with staffing for our Tifton expansion were the primary drivers behind an increase in noninterest expenses.

We know that long term our organic growth will be limited by the growth in deposits. Although our rate of growth at the Bank is considerably higher than that of the markets we serve as a whole, we certainly remain concerned about disintermediation in a higher rate environment. For that reason, we are evaluating our deposit products and cash management services and looking at some significant changes.

We are also anxious to bring our Tifton banking facility online. Weather delays are pushing our likely opening date well into the second quarter, possibly even early third quarter. In short, we feel it is necessary to continue to invest in people, plant and technology in order to drive growth.

Lastly, succession planning is a topic we would like to address. Our Chief Operating Officer, John Cole, is planning on retiring at the end of the year. Although I am only 61 years old, we need to be thinking of my successor when we evaluate bringing on a new Chief Operating Officer. It is our intent to evaluate both internal and external candidates, and make sure there is sufficient time for an orderly transition.

Our strategic focus has not changed. In the years ahead, we will continue to look for ways to improve our offerings and to better serve our customers. We will lead with people and focus on relationship building, all while continuing to invest in our communities.

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

**Operator:** Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, you may 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 while we poll for questions.

We have no questions at this time. I'd like to hand the call back over to Management for closing comments.

**DeWitt Drew:** Thank you all 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 first quarter results. Again, thank you for participating 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.