Southwest Georgia Financial Corporation
Third Quarter 2017 Financial Results
October 24, 2017

Operator: Greetings and welcome to the Southwest Georgia Financial Corporation Third Quarter 2017 Financial Results. At this time, all participants are in a listen-only mode. A brief 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, Deborah Pawlowski, Investor Relations for Southwest Georgia Financial Corporation. Please go ahead.

Deborah Pawlowski: Thank you, Rob, 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 Chief Executive Officer, and Karen Boyd, our Senior Vice President and Treasurer.

We will start with DeWitt's formal remarks on the third quarter and then open 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.

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.

With that, I'd like to turn the call over to DeWitt to begin. DeWitt?

DeWitt Drew: Thank you, Debbie, and good afternoon, everyone. Thank you for being with us today.

With three quarters of the year in the books, we continue to be encouraged with our results, especially given the significant investments we've made to improve our efficiency and back-office operations, and to make us more competitive.

For the quarter, net income and earnings per share were down nominally from the prior-year period. However, on a year-to-date basis, we continued to trend higher than last year's record earnings per share pace.

Our balance sheet continued to show impressive growth, with assets at $477 million, up 8%, driven by loan growth of $43 million, or 15% from last year. Total loans at the end of the third quarter were $330 million. On a sequential basis, the loan portfolio was up 2%. We have seen broad-based loan increases, with deeper strength in Valdosta. Our Valdosta Banking Region now holds 55% of the bank's total loans.

Looking at the loan mix in the quarter, it was still relatively unchanged from prior periods, with the bulk centered in real estate at about 75% of loans. About 30% of that was residential, with the residential volume about 60% owner occupied. Construction and development was about 8% of loans, and non-owner occupied commercial real estate, exclusive of the A&D, was 19% of loans. The loan pipeline continues to be strong and as diverse as is the portfolio itself.

The loan loss provision was higher in the quarter, which was necessitated by our exceptional loan growth. As for asset quality, we were relatively consistent with the second quarter, though there was a slight increase in some metrics year-over-year.

Total nonperforming loans were 0.47% of total loans outstanding at the quarter end compared with 0.40% in the sequential second quarter, and 0.12% as of September 30, 2016. About two-thirds of the $1.5 million of nonperforming loans is from one customer relationship where the loans are well collateralized.

Overall credit quality is still solid, and when comparing with historic norms, our current levels still remain at extremely low levels. We will continue to apply our conservative underwriting standards as we grow in both our legacy and new markets.

Total deposits grew 6% year-over-year to $385 million. Non-interest bearing deposits were up 8% to $128 million, while interest bearing deposits grew 5% to $256 million. Demand and NOW accounts are up to 12,000 accounts with balances over $215 million. Year-over-year growth has been 3% and 6%, respectively. The average cost of interest-bearing deposits was 0.44% and the average cost of all interest-bearing funds was 0.64%. Sequentially from the second quarter, there was a $6 million decrease in total deposits related to seasonal variations. In order to fund the difference between loan and deposit growth, we've taken on more debt at the Federal Home Loan Bank, which was up $11.5 million at the end of the quarter.

Our strong loan growth contributed to a 10% increase in net interest income to $4.4 million in the quarter. On a sequential basis, net interest income was up 1%. Net interest margin was 4.14% in the third quarter, consistent with the sequential second quarter and 2016 third quarter. As we've been saying, an improving interest rate environment will be of further benefit. Our balance sheet is well-structured and well-positioned for increased rates. Keep in mind that there is a lag in the effect of rising rates on our variable loans.

Non-interest income was $1.0 million for the quarter, down 9% from last year's third quarter, and down 12% from the 2017 second quarter, primarily due to lower mortgage banking services income and less gains on the sale of securities.

Non-interest expense was $4.1 million compared with $4.0 million in the sequential second quarter, and $3.7 million in last year's third quarter. As I mentioned earlier, we continued to make investments in systems, facilities, and people. Some of the more major items included a migration to a new core processing provider and our added personnel for our Tifton expansion. During the third quarter, we also contended with increased expenses from a mass reissue of debit cards as we switched from Visa to MasterCard. That switch should provide us with income and expense opportunities going forward.

Just briefly looking at our markets, Valdosta has been a really good experience for us. Our team has done a tremendous job as we continue to see nice demand for our products and services. We now have 2,100 checking accounts in Valdosta, and balances over $35 million. Those totals were up 10% and 12%, respectively. Total deposits there are now approaching $90 million, and have increased 17% since this time last year.

The Tifton market has been getting our increased attention as we build out a new full-service banking center there. We are looking forward to the completion, which is expected in the first half of 2018. Our expectation is to spend a total of $3.6 million, and open with over $25 million in earning assets. We continue to believe that this expansion provides a great opportunity for SGB, and we expect to continue to see measurable evidence of market acceptance, especially when we are open.

Finally, let's talk about our Moultrie market, which is primarily an agricultural market. Moultrie holds 75% of the bank's total deposits, and has seen organic loan growth, albeit at a lower rate than that experienced in Valdosta and Tifton. As we have discussed on our previous calls, this market has been doing relatively well, but we have seen some market headwinds with soft commodity prices and weather-related events. Cattle and cotton prices have recovered somewhat, but Hurricane Irma did have an effect on the market, and Valdosta as well. Early cotton was damaged and the pecan crop experienced what appears to be a 30% loss. Overall, we are managing these challenges well, and do not expect there to be any material effect on the bank's performance as a result.

Overall, it was a successful quarter, in spite of the noise from weather-related events and migration costs. Those costs will continue into the fourth quarter, but should be finished before year end. In September, we paid a quarterly cash dividend of $0.11 per common share, and as always, we're committed to returning earnings to shareholders, and proud that we've been doing so for 89 consecutive years in the form of a cash dividend.

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

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star, two if you'd 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 keys. One moment please while we poll for questions.

Once again, that's star, one to ask a question.

Thank you. At this time, I would like to turn the floor back to Management for closing remarks.

DeWitt Drew: Well, thank 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 fourth quarter and year end results. Again, thanks for participating and have a great day.

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