South Plains Financial, Inc.

First Quarter 2020 Earnings Call Transcript

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the South Plains Financial First Quarter 2020 Earnings Conference Call.

For today's presentation, all parties will be in a listen-only mode. Following the presentation the conference will be opened for questions, with instructions to follow at that time. As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Steven Crockett, Chief Financial Officer of South Plains Financial. Please go ahead, sir.

Steven Crockett

Thank you, Operator. And good afternoon, everyone. We appreciate your participation in our First Quarter 2020 Earnings Conference Call.

With me here today are Curtis Griffith, our Chairman and Chief Executive Officer; Cory Newsom, our President; and Brent Bates, City Bank's Chief Credit Officer. As a reminder, a telephonic replay of this call will be available through May 14, 2020.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements about our future expectations, beliefs, estimates, plans and prospects. Such statements are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated future results, performance or achievements expressed in or implied by the forward-looking statements.

Factors that could cause such differences include, but are not limited to, general economic conditions, the impact of the COVID-19 pandemic, changes in interest rates, regulatory considerations, competition and market expansion opportunities, changes in noninterest expenditures or in the anticipated benefits of such expenditures and changes in applicable laws and regulations. Therefore, the Company can give no assurance that the results contemplated in the forward-looking statements will be realized. Such risks and other factors are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission on March 25, 2020.

We urge listeners and readers of our earnings release to review the Risk Factors section of that Annual Report on Form 10-K and the Risk Factors section of other documents South Plains Financial files with the SEC from time to time. Listeners and readers of our earnings release are cautioned not to place undue reliance on forward-looking statements contained in this earnings call or in our earnings release. We do not undertake any duty to update such forward-looking statements, except as required by law.

Additionally, during today's call, we may discuss certain non-GAAP measures which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measures can be found in our earnings release.

At this point, I'll turn the call over to Curtis.

Curtis Griffith

Thank you, Steve, and good afternoon.

On today's call, I will provide an update on our operations in light of the ongoing COVID-19 pandemic that is impacting our nation and the world. I will then briefly review the highlights of our first quarter 2020 results, including an update on the integration of the West Texas State Bank, or WTSB. Cory will discuss the steps we are taking to manage our loan portfolio and Steve will then conclude with a more detailed review of our first quarter 2020 financial results. We will then open the call for your questions, and we have City Bank’s Chief Credit Officer, Brent Bates, here to help.

Over my nearly 50-year tenure in banking, I have seen many tumultuous periods, each of which had their own unique challenges. Ultimately, it has been the experience and talent of our people, combined with a well-capitalized balance sheet, which has consistently positioned City Bank to not just weather the storm but thrive. And we believe this time of crisis is no different, and we expect City Bank will continue to thrive through our dedication and support to our customers and communities. For without their success, ours would not be possible.

It is this philosophy and experience which guides our Company, and I would like to thank our employees for their hard work and dedication to ensure that our operations continue to run smoothly, and the services and support to our customers are uninterrupted during these difficult times.

I am very proud of our oversight committee for our business continuity and incident response here at the bank. They have been monitoring the spread of the coronavirus in the communities we serve for several weeks and have been continuously escalating our response, as well as our employee and customer communications as the pandemic has expanded. As a result of their efforts, we've put in place a pandemic task force, which met daily for 2 weeks and now meets on an as-needed basis as state and local officials announce changes to procedures. Our pandemic task force has implemented our business continuity plan to ensure the safety of our employees and customers, which remains our number one priority.

As part of our business continuity plan, we have enabled many of our employees to work from home, have restricted access to our bank lobbies to allowing customers in by appointment only, are providing essential banking services through our drive through windows and recently upgraded digital platforms, and have repositioned our staff and our operations center to allow for social distancing.

We are very fortunate to have our City Bank operations center that opened in 2018. It is a cutting-edge facility that handles our digital banking, treasury management, loan and deposit operations, and also houses our customer experience center. This facility is quite large, which has allowed us to effectively reposition our teams and provide more than adequate distancing. The facility also provides support for our employees who are working remotely. As a result, we have been able to provide our customers with seamless support and service while maintaining the safety and health of our employees.

Our investments in our infrastructure and technology are just one example of the many changes that our Senior Management team has implemented over the last six years as we have been working aggressively to improve our operations in still a disciplined credit culture, diversify our funding and scale the bank. We have learned many important lessons from the Great Recession and have been positioning City Bank to weather the next downturn. As a result, we remain confident in our underwriting, risk management and capital policies and plans.

Turning to our financials.

We reported net income of $7.1 million or $0.38 per diluted common share for the 2020 first quarter as compared to net income of $4.8 million or $0.32 per diluted common share in the first quarter of 2019.

Our net interest margin increased modestly to 4.13% in the first quarter of 2020 as compared to 4.03% in the fourth quarter of 2019.

Of note, our average cost of deposits declined 11 basis points to 65 basis points in the first quarter of 2020 as compared to 76 basis points in the fourth quarter of 2019. This improvement was largely driven by having a full quarter of WTSB's low-cost deposits.

Our adjusted efficiency ratio for the first quarter of 2020 was 72.5%, which excludes the effect of a $2.3 million gain on sale of securities, and compares to 81.8% in the first quarter of 2019.

I am very pleased with the continued progress that we have achieved in scaling our infrastructure.

Lastly, as Cory and Steve will discuss in more detail shortly, we recorded a $6.2 million provision for loan loss in the first quarter of 2020, which compares to $896,000 for the fourth quarter of 2019. The increase was largely due to our decision to downgrade the risk ratings on some of the more at-risk sectors in our portfolio, primarily energy and hospitality.

Importantly, we are working proactively with our borrowers who are most impacted by the pandemic and by low oil prices to help them weather the storm. While we expect our provision expense to remain at elevated levels over the balance of the next few quarters, we remain well capitalized with a common equity Tier 1 to risk-weighted assets ratio of 11.24%.

We also have sufficient liquidity on hand as well as $450 million in unpledged securities, and access to lines of credit with the Federal Home Loan Bank of Dallas, the Federal Reserve Bank and other banks.

Lastly, we remain confident in our underwriting and the overall soundness of our loan portfolio.

Turning to West Texas State Bank.

We completed WTSB's data conversion at the end of the first quarter of 2020, and it went very smoothly. All of the preplanning that our team went through made a significant difference and I am pleased with how quickly we have been able to integrate WTSB's operations into ours. Today, we are operating those six branches in five West Texas communities, all under the City Bank brand. We have also brought in a new regional head for our Permian Basin operations, who has significant in-market experience in both driving organic growth, as well as managing through challenging credit environments like we're facing today with the sharp drop in energy prices.

In our many years of banking around this region, we have seen numerous cycles in the oil business. This one began very suddenly, and it's certainly exacerbated by the effects of the coronavirus pandemic. However, like all the ones before it, we believe, it too will pass.

Outside of the Permian, our local Texas economies are broadly performing. And other than a few select industries, we are not seeing major employers lay off their workers at this time. Of course, the current environment is uncertain, and we are closely monitoring all available economic data. Given this uncertainty, we have suspended our share repurchase program and will continue to prudently evaluate our quarterly dividend with our Board of Directors each quarter.

Now let me turn the call to Cory.

Cory Newsom

Thank you, Curtis, and good afternoon, everyone.

As Curtis discussed, we've invested in our infrastructure and technology in order to transform our operations and build a foundation for future growth. As part of this investment, we've implemented a rigorous enterprise risk management system, or ERM, that delivers a systematic approach to risk measurement and enhances the effectiveness of risk management across the bank. Integrating this ERM system into our culture and strategic decision-making has improved all functional areas of business. For example, our asset quality improved significantly by enhancing our underwriting process and establishing a specific credit appetite that aligns to the broader enterprise risk management framework.

Importantly, our credit culture is a key differentiator of the bank as we consistently and aggressively review our portfolio for signs of potential issues, and act to remove those loans from our balance sheet before they become a real problem.

Our ERM system has only improved our ability to manage credit and has positioned our portfolio and the bank to successfully weather the uncertain economic environment, which we currently face. This is a significant change from our position in the last downturn, as our underwriting and our team are much stronger today than when we entered the Great Recession. We are also utilizing tremendous data and have a much better handle on our portfolio which will aid in our decision-making processes.

Additionally, our new Chief Credit Officer, Brent Bates, is providing critical leadership as we work to proactively manage our loan portfolio.

Looking at our loan portfolio in more detail. Loans held for investment at the end of the first quarter of 2020 were $2.11 billion, which is a modest decline as compared to loans of $2.14 billion at year-end 2019. As a reminder, there is seasonality in our business as we experienced $34.5 million in seasonal agricultural loan pay downs. Within our portfolio, approximately 5.4% of our loans are hotel and assisted living and 3.9% are restaurant and retail business loans, which does not include properties under construction. Additionally, our direct energy exposure is 4.3% of our portfolio.

As Curtis touched on, we are taking a more focused and proactive approach to help our borrowers weather this unprecedented environment. As an example, we have already reached out to a vast majority of our customers with loan balances in excess of $1 million in an attempt to proactively assess and address the challenges they are facing in this environment. We have also assigned Curtis, myself, Brent Bates and the bank's Chief Lending Officer, Chris Koop, to the most at-risk portions of our loan portfolio to guarantee that we have the support and oversight necessary to ensure that both the customer and the bank are looked after.

As part of our efforts to support our customers and protect the bank, we have offered varying forms of loan modifications ranging from 90-day payment deferrals to six- to 12-month interest-only terms to provide our borrowers relief. As of April 24, we had modified just over 17% of our loan portfolio with approximately 76% of those modifications moving to loans to interest-only, which is our preferred loan modification as it better aligns the needs of the customer and the bank. We believe the speed of our response is making a notable difference in the eyes of our borrowers and communities that we serve.

While the outlook is uncertain, we remain very confident in our disciplined underwriting culture, our risk management processes and our liquidity position. As we look out at the balance of the year and into 2021, we are confident that we have the capital to absorb the losses in our portfolio that could result from an adverse stress environment and feel well positioned to take advantage of opportunities that could be created in these difficult times.

We've also been active in assisting our customers in accessing the small business Paycheck Protection Program created under the CARES Act, and have originated over $170 million in PPP loans through April 24. That represents over 1,100 customers whose PPP loan applications were approved and funded in just a few short weeks.

Helping our customers' access PPP loans is just one way that we have been helping during this challenging time. Serving our communities is also very important for South Plains and our Management team. We have been a supporter of local and Permian food banks and have recently increased our financial support given the challenging economic environment for so many as a result of the coronavirus pandemic.

Turning to fee income, which is a priority for our team.

We generated $18.9 million of noninterest income in the first quarter of 2020, which compares to $16.7 million that we generated in the fourth quarter of 2019. The increase from the fourth quarter of 2019 was primarily the result of an increase of $2.1 million in mortgage banking revenue as a result of an increase of $28.2 million in mortgage loan origination and $2.3 million gain on sale of securities, partially offset by $1.5 million in annual profit sharing bonuses related to crop insurance activities recognized in the fourth quarter of 2019.

Overall, the prevailing low interest rate environment has driven strong refinance volumes. Looking forward, it is difficult to forecast how loan volumes will continue to trend as a result of the pandemic, though we believe our pipeline remains healthy and closings are happening.

Overall, our fee income is primarily driven by our mortgage operation, debit card and other banking service charge income and income from our insurance trust and investment service business. Our fee income provides shareholders with a recurring and diversified earnings stream as it represented 32% of total revenue for the first quarter, excluding the gain on sale of securities.

I would like to now turn the call over to Steve.

Steven Crockett

Thank you, Cory.

This afternoon, I will briefly review the remainder of our first quarter 2020 results as Curtis and Cory have touched on many aspects of our results before turning the line back over to Curtis for concluding remarks.

Net interest income was $30.2 million for the first quarter of 2020 as compared to $24.5 million for the first quarter of 2019. The increase was largely attributable to a rise in our average loans of $211 million, primarily from the WTSB acquisition and a decrease of 56 basis points in the rate paid on non-maturity interest-bearing deposits.

In the first quarter of 2020, deposits decreased $31 million to $2.67 billion as compared to $2.7 billion in the fourth quarter of 2019. The decrease in deposits during the first quarter of 2020 was largely a result of some outflows of balances acquired from WTSB, which had temporarily increased in the fourth quarter of 2019.

We ended the first quarter of 2020 with total noninterest-bearing deposits of $741 million or 27.8% of total deposits, and $189 million of our noninterest-bearing deposits are attributed to the WTSB acquisition.

Cory touched on our loan portfolio and the steps that we are taking to work with our borrowers to manage our credit. Overall, we believe our strict underwriting and strong credit culture has our loan portfolio well positioned as we endure in this uncertain environment. This can be seen as our nonperforming assets to total assets ratio only slightly increased 4 basis points to 28 basis points in the first quarter of 2020 as compared to the fourth quarter of 2019.

As Curtis mentioned, we did add to our reserves in the first quarter of 2020, given the headwinds that we are seeing and expecting from the pandemic and the drop in oil prices. We currently estimate provision expense to remain elevated over the balance of the year before beginning to decline in 2021.

The yield on average earning assets was 4.88% for the first quarter of 2020, a decrease of 24 basis points as compared to the same quarterly period in 2019, and was driven by the overall decline in interest rates for the first quarter of 2020. Additionally, our interest-earning assets increased $417 million, primarily due to the WTSB acquisition, with approximately half of the growth occurring in loans.

Given our liquidity after the acquisition of WTSB, we made the decision to purchase investment securities as we work to optimize our balance sheet. Late in the fourth quarter of 2019, we purchased approximately $300 million of investment securities, primarily consisting of mortgage-backed securities and Texas municipal bonds.

We sold approximately $90 million of our legacy portfolio mortgage-backed securities in early January 2020 and recorded a gain of $2.3 million. In March 2020, we reinvested those proceeds largely in Texas municipal bonds.

The overall portfolio unrealized gain increased $18.9 million to a total of $20.1 million during the first quarter of 2020.

Looking forward, we plan to continue to better manage our liquidity to further drive interest income. During the first quarter of 2020, our noninterest expense was $34.0 million as compared to $31.7 million for the fourth quarter of 2019. The increase was primarily due to a $1.7 million increase in personnel expense, predominantly related to the WTSB acquisition and increased commissions paid on higher volumes of mortgage loan originations.

During the first quarter of 2020, we also saw an increase in other variable mortgage expenses, such as appraisal expenses and credit reports due to the increased mortgage production. The first quarter increase in other noninterest expense was largely a result of a full quarter of core expenses for our added Permian Basin branches. Additionally, we incurred approximately $630,000 in data conversion expenses and IT equipment purchased in connection with upgrading branch equipment at acquired and existing local branches.

We will be aggressive with our expense structure as the integration of WTSB is now largely behind us, and we expect our quarterly expense run rate to begin to decline in the second quarter of 2020. We see our expense structure as a partial offset to the impact on our business from a weakening economy.

We grew our tangible book value to $16.54 per share at March 31, 2020 from $15.46 at December 31, 2019.

Additionally, we remain well capitalized with Tier 1 capital to average assets of 10.34% at the end of the first quarter of 2020 compared to 9.70% in the first quarter of 2019.

As Curtis discussed, we are watching our capital closely, and our Board of Directors will continue to review our dividend quarterly. On April 16, we announced that our Board of Directors had approved our third consecutive quarterly dividend of $0.03 per share.

As you think about modeling our business, it is important to remember that our first quarter 2020 results were positively impacted by a $1.86 million securities gain net of taxes. As a result, our second quarter 2020 earnings per share, return on average assets and return on average equity may all contract. Additionally, our net interest margin could also contract in the second quarter of 2020 given that we will have a full quarter of the rate cuts that were done in March 2020.

Lastly, we expect our capital and liquidity to hold steady through the second quarter of 2020 though there will be some fluctuations due to PPP loan fundings and any borrowings necessary to facilitate them.

I will now turn the call back to Curtis for concluding remarks.

Curtis Griffith

Thank you, Steve.

To conclude, I would once again like to thank our employees for their hard work during such a challenging time. They have kept our operations running with minimal disruptions as we have adapted to our new normal as a result of the pandemic. While we will certainly see a contraction in the economy for some period of time, I am confident in our underwriting, the credit worthiness of our portfolio and our capital.

We stand ready to support our customers and our communities and look forward to further growing the bank as opportunities present themselves. With that, I'd like the Operator to open the line for any questions. Operator?

Operator

Absolutely. If you would like to ask a question please signal by pressing star, one on your telephone keypad. If you are using a speaker phone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again press star, one to ask a question.

We'll first go with Brad Milsaps from Piper Sandler. Please go ahead.

Bradley Milsaps

I was writing quickly. I just want to confirm a few numbers. Cory, I think you said hotel, 3.9% of the loan portfolio; restaurant, 5.4%; and energy 4.3%. Is that correct?

Cory Newsom

Yes. That's correct.

Bradley Milsaps

Okay. I was just curious on those categories, maybe which of the three maybe gives you the most concern at this point? And just curious if you have specific reserve levels for each of those three categories?

Cory Newsom

I'll let Brent take that one.

Brent Bates

Yes. This is Brent. As we look at kind of our higher risk segments, we feel like the hospitality and energy sectors were hit kind of early on, and we feel like those may be the longer to recover. So that's kind of how we've looked at it. We've taken hands-on approach to the modification process to those sectors. And when you look at hospitality, we've got a lot of limited service hospitality. So we feel good about that. That's really the vast majority of our portfolio there. And to your question on reserves, our reserves on energy book is about 4.3%; on hospitality, it's 3.3%. So that was really where we focused our reserves for the quarter, or provision I should say, were on those higher risk segments.

Bradley Milsaps

Got it. In the restaurant reserves, is there a specific reserve there?

Brent Bates

Yes. Our retail restaurant reserves are closer to 2%.

Bradley Milsaps

Okay.

Brent Bates

When we look at our restaurant portfolio, I mean, it's really centered in QSRs that have maintained operations. That's two-thirds of our portfolio there. And they're well-known brands. So far, we're not hearing the level of stress there, at least in our smaller portfolio of restaurants.

Bradley Milsaps

Got it. That's helpful. And then within the energy portfolio, can you remind me kind of the breakdown kind of between service and E&P in that book? I mean, I think you inherited most of that from the most recent acquisitions. Is that right?

Brent Bates

Yes. Some of it. When you look at our energy book, really 92% of that are service related. I would caveat, I'd say, there's a third or more of that that is in something that you might categorize as I mentioned, almost like a midstream. So that's being kind of conservative, calling it service. But about a quarter of that came through the acquisition. So three-quarters of our energy book is legacy and about a quarter is acquired. But again, the largest credit of the bank represents over a third of the portfolio is backed by really strong guarantor and we feel good about that. The guarantor has strength beyond the energy industry and cash flow ability there. So we take comfort there at least.

Curtis Griffith

This is Curtis, Brad, if you're still on there, we're not trying to gloss over anything. It's going to be some tough times in the energy sector. The oil patch is going to be in, we think, a fairly extended period of downturn. We're just fortunate that it's not a huge piece of our overall portfolio. And as Brent indicated, some of the larger credits we have really strong guarantor support with lots of on-hand liquidity. They're not really dependent on revenue coming in from the energy side to continue to be able to make some payments, if it came down to that. So it doesn't mean we won't have some hiccups, but we're not losing too much sleep over that one.

Bradley Milsaps

Right. Right. That’s helpful, Curtis. That's helpful, thank you. And maybe just switching gears quickly to the margin. I know, Steve, you mentioned that you do expect some compression near term. Sort of excluding the impact of the PPP program, could you sort of frame that up for us a little bit, kind of what your expectations are in terms of magnitude? It looks like you guys are continuing to make some progress on the deposit side of things, but just kind of curious kind of how you're feeling about kind of total magnitude of the compression based on what we see in the rate environment?

Steven Crockett

Yes. That's a good question. And as you said, the PPP will definitely, over the next quarter or two, will skew those numbers somewhat with the low rate plus the fee. But excluding that, we did make good headway on the deposit side. And we've seen that maintain so far. But just one aside to the Q1 numbers, we had about 3 to 4 basis points of income related to payments on purchased impaired loans. So it was up 3 to 4 basis points due to that. Looking forward, we'll continue to fight for the margin that we've got. But you could see it drop 5 to 7 basis points or so.

Operator

We'll next go with Brady Gailey from KBW. Please go ahead.

Brady Gailey

So 4.3% of loans in energy, that's the direct exposure. Is there any way to quantify what the indirect energy exposure would be?

Brent Bates

Well, when you're thinking about direct being inclusive of service, that's the 4.3%. We have taken a look, obviously, we have majority of the assets down through the acquisition are going to be centered in those markets down there. And we've also kind of gone through the portfolio and looked for other segments within the bank that's going to be tied at least indirectly to the energy book. And we're not finding a great deal. I mean, I would say in the 2% is what we found direct outside of the acquisition. And so that's kind of where we're seeing it right now, what we've identified as the largest credits that we don't have in this book that may be somewhat tied in with that industry.

Curtis Griffith

As an illustration, looking at our hospitality book, we've got about 16% of that are related to hotels that are located down in the Permian. And certainly, they're going to be impacted possibly over a longer period of time than hotel properties in other markets in Texas. But again, it's still a pretty manageable number. There were quite a few loans that we'd acquired that because of the particular lender that was involved in making them, were not, in fact, located in the Permian region. So it's not like the entire loan book was all tied down there to the activity in the Permian. All of those down there will have some struggles. I was comforted to find out when we did a little looking on our indirect portfolio that only a very small portion of our indirect auto lending is to ZIP codes that are down in the Midland, Odessa area. So I was concerned we might have some impact there, but it's going to be pretty minimal.

Brady Gailey

All right. And then so $170 million of PPP loans, I think most banks have seen a gain of around… or a fee of around 3%. Is that the right way to think about it for you guys? And as you look round two of the PPP, what's the… how active do you think you'll be in the second round?

Cory Newsom

So we've calculated the first round. The first round, we came in $173 million. That fee is going to be somewhere we anticipate close to around $6 million. So about 3.5%.

Brady Gailey

All right. And then $173 million in the first round, any idea how much you'll potentially do in the second round?

Cory Newsom

We've not been able to fund any to any great extent yet. But from an approval standpoint, we're $35 million into it.

Brady Gailey

Okay. And then looking at the expense base, there's $34 million this quarter. I heard Steve say that will be coming down next quarter. Any idea of the magnitude of how much reduction you could see on the expense side?

Steven Crockett

I think we showed $630,000 in Q1 that would be nonrecurring, although we do still have a little bit of conversion expense, I think, that will tail off in Q2. So we should see the majority of that number coming out over the next couple of quarters. And then in addition to that, we have begun implementing some new cost saving strategies on our own as well.

Cory Newsom

If you look back and what we had projected on cost savings, I think we're very much on track, and we're staying the course of what we had originally projected. However, we think there'll be some additional ones that just like Steve alluded to. I mean, we've just got through reworking our health plan that renews in July. We've been able to adapt that plan into some significant cost savings for the Company. I mean, that's the kind of stuff we're consistently staying after trying to find improvement.

Operator

That concludes our question-and-answer session for today. I'm handing the floor back to the speakers for closing remarks.

Curtis Griffith

Well, let me close the call out by thanking everyone. Thank you, Operator, for your help. Thanks, everybody, that joined our call today. We hope you and your families are continuing to stay safe through this.

We are definitely in uncertain times and unprecedented times. Our approach is that it is going to take several months before the economy returns to some sense of normalcy. And the way we're working with our portfolio is driven by that thought. We do hope we will be back in great condition by sometime during 2021, but we've still got some rocky times ahead of us, I believe, before we're back to anything resembling like what we had been accustomed to prior to the pandemic.

I am very proud of our employees. They have worked so hard to support our customers and our local communities through all of this, and have gone above and beyond with extended hours, working in difficult environments and are still doing their best every day, and I do appreciate every one of them.

Our investments in technology and infrastructure and our people has really positioned us to succeed through a time like this. We've got some challenging headwinds, certainly. But with all of that working together, we feel pretty confident that we'll come out strong.

And our local economies are still continuing to function. They're all diminished. Everyone is, but we're really optimistic. Many of our industries are trying to continue to perform during this environment. As we've mentioned, clearly, the energy industry has been very hard hit that will affect certain areas in which we maintain bank locations. But our locations in many of the other parts of the State have been somewhat not hit nearly as hard. Let me just phrase it that way.

All of the economies have been tightened up because of the stay-at-home rules and the businesses that have been required to stay closed during these times. But as our Governor has indicated, the State will gradually begin to open back up and we believe you're going to see some economic activity improve. But a lot of our manufacturing sector and other basic industries continue to move along.

Agriculture for us is very important, and we are still seeing farmers getting ready to plant a crop. We are fortunate we don't have a huge amount of exposure to the livestock sector. As many of you know, that has certainly been hard hit recently by the closing of some packing plants. But our row crop farmers are gearing up to have another good year, we hope, and they're moving on despite all the other challenges out there.

The customers that are impacted, we are aggressively and proactively working with them to ensure that they're looked after to the best we can, and we'll be protecting the bank as we deal with the problems that may crop up in the portfolio.

And finally, we believe we remain well positioned and well-capitalized to take advantage of some opportunities that may occur as we begin to come out of this dire situation. And we will plan to grow our bank and scale our infrastructure as that happens.

I thank you all for your time today, and stay safe. Operator?

Operator

This concludes today's call. Thank you for participating. You may now disconnect.