



South Plains Financial, Inc.

First Quarter 2026
Earnings Call Transcript

April 28, 2026

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to South Plains Financial, Inc. First Quarter 2026 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions with instructions to follow at that time.

As a reminder, this conference is being recorded.

I would now like to turn the call over to Steve Crockett, Chief Financial Officer and Treasurer of South Plains Financial. Please go ahead.

Steven Crockett

Thank you, Operator, and good afternoon, everyone. We appreciate you joining our Earnings Conference Call.

The related earnings press release and earnings slide deck presentation issued today are available on the SEC's website, as well as the News and Events section of our website, spfi.bank. Please refer to Slide 2 of the presentation for our Safe Harbor Statements regarding forward-looking statements. All comments expressed or implied made during today's call are made only as of today's date and are subject to the Safe Harbor Statements in the presentation and earnings release.

In addition, please refer to Slide 2 of the presentation for our disclaimer regarding the use of non-GAAP financial measures. A reconciliation of these measures to the most comparable GAAP financial measures can be found in our presentation and earnings release.

I'm joined here today by Curtis Griffith, our Chairman and CEO; Cory Newsom, our President; and Brent Bates, City Bank's Chief Credit Officer.

Curtis, let me hand it over to you.

Curtis Griffith

Thank you, Steve, and good afternoon.

We delivered solid first quarter results highlighted by strong profitability, continued improvement in credit quality, and disciplined balance sheet management, as can be seen on Slide 4. While the market backdrop has been uncertain, we have continued to execute our strategy designed to enhance the earning power of City Bank. Our strategy remains focused on expanding our lending team across our high-growth Texas markets, while also pursuing accretive M&A.

We have a meaningful organic growth opportunity as we expand our lending team across our key Texas markets. We continue to selectively add experienced lenders who fit our culture and can bring long-term customer relationships to the bank. While we remain cautious and conservative given the uncertain macroeconomic backdrop, we are excited by the opportunities that we see to further expand our team and drive sustainable organic loan growth over time.

Turning to our M&A strategy and the Bank of Houston, we were pleased to complete our merger on April 1 and officially welcome the BOH team to Citibank. We've spent a significant amount of time on the integration

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since announcing the merger in December to ensure that our new employees are welcomed into the bank and positioned for success. We continue to be impressed with the BOH team, the dedication they have to delivering strong results in the Houston market, and the similarities in our cultures.

From an operational perspective, things are going according to plan. We expect the core conversion to be completed in early May and continue to see opportunities to reduce BOH's cost of funds over time. In fact, steps have already been taken to optimize the balance sheet as there has been a reduction in broker deposits and federal home loan bank borrowings starting in Q1. Overall, we believe BOH is a good strategic fit with low execution risk, and we continue to expect the merger to be 11% accretive to our earnings in 2027 with a tangible book value earn back of less than three years, which remains compelling.

Now that the BOH acquisition is completed, we will continue to explore additional M&A opportunities. However, our approach has not changed. We remain highly disciplined and patient, and to date, we have not identified another transaction that meets our strict criteria. As we've said many times in the past, we're not interested in growth for growth's sake. Any potential partner must align with our culture, credit discipline, and community banking focus while also making strategic and financial sense for our Shareholders.

Turning to the market backdrop, we remain cautious over the near term as inflationary pressures appear to be resurfacing, driven in part by elevated energy prices related to the ongoing conflict in the Middle East. These dynamics may limit the Federal Reserve's ability to further reduce interest rates and could act as a headwind to economic activity and loan growth as we move through the year. This could also limit our ability to further reduce our cost of funds.

While the near-term outlook is uncertain, we continue to be positive on the longer-term potential of the Texas economy, especially compared to the broader United States. Corporations continue to move their operations and headquarters to Texas, attracted by the state's pro-business environment, favorable demographics, and ongoing population growth, which provides a constructive backdrop for economic growth and relationship-based banking.

To conclude, we believe that we're in a strong capital position that will allow us to execute our growth strategy and benefit from the many opportunities that we have in front of us. Given our capital position, we remain focused on both growing City Bank while also returning a steady stream of income to our Shareholders through our quarterly dividend and keeping a share buyback program in place. To that end, our Board of Directors authorized a \$0.17 per share quarterly dividend on April 16, which will be our twentieth consecutive dividend.

Now let me turn the call over to Cory.

Cory Newsom

Thanks, Curtis, and hello everyone.

Starting on Slide 5, our loans held for investment decreased by \$41 million to \$3.1 billion in the first quarter as compared to the linked quarter. The decrease was primarily due to the expected early payoff of a \$30 million multifamily loan, which we discussed on our fourth quarter call, and \$24 million of seasonal net paydowns of agricultural loans. Importantly, we experienced strong, unfunded loan commitment growth during the quarter driven in part by our new hires, which was notable. These commitments are largely in construction and will fund through the year.

Our yield on loans was 6.83% in the first quarter as compared to 6.79% in the linked quarter. Excluding problem loan interest and fee recoveries noted on Slide 5, our yield on loans has held relatively steady over the last four quarters. While we have not experienced a material impact on our loan yields from the FOMC's most recent 25 basis point reductions in their target interest rate in September and December, we do expect our loan yields to moderate in the quarters ahead. As Steve will touch on, our goal is to maintain our margin as we grow our balance sheet in order to drive earnings growth and returns.

Turning to Slide 7, our loans held for investment in our major metropolitan markets of Dallas, Houston, and El Paso declined by \$23 million to \$1 billion as compared to the linked quarter largely due to the expected early payoff of the multifamily loan that I just mentioned. Looking ahead, we also expect another early payoff of approximately \$34 million multifamily loan, and some large payoffs will continue to be a headwind to loan growth. Importantly, our loan pipeline remains healthy, and we remain confident in delivering our loan growth guidance for the full year, albeit towards the lower end of our mid- to high-single-digit range.

We will also continue to execute our organic growth strategy as we look for lenders who fit our culture and can bring deep local market knowledge and long-term customer relationships to the bank. We continue to benefit from the consolidation that the Texas banking industry continues to undergo as large regional and out-of-state institutions continue to acquire Texas-based franchises. Additionally, South Plains remains committed to being a Texas-focused community bank with experienced local bankers empowered to serve their markets.

As competitors integrate acquisitions or streamline operations, we continue to attract both customers and talented bankers, reflecting the strength of our culture and conservative operating philosophy. Importantly, South Plains occupies a unique position in our market, offering the product breadth and capabilities that smaller banks cannot match while delivering the personalized service larger banks often struggle to provide. We believe this balance provides a durable competitive advantage as we move through 2026 and beyond.

Since launching our recent organic growth strategy, we have completed about 50% of our expected hiring occurring across our Dallas, Houston, and Midland markets. I continue to be pleased with the quality of bankers that we are speaking to and remain optimistic on our ability to recruit exceptional talent to the bank through the balance of the year now that we have cleared the first quarter, which is typically a slower time for hiring.

Skipping ahead to Slide 11, we generated \$11.3 million of non-interest income in the first quarter compared to \$10.9 million in the linked quarter. The increase from the fourth quarter of 2025 was primarily due to an increase of \$1.5 million in mortgage banking revenues, partially offset by a loss of approximately \$800,000 in an SBIC investment. Mortgage revenues grew mainly as a result of the quarter-over-quarter change of \$915,000 in the MSR Fair Value Adjustment, as can be seen on Slide 12.

Overall, we continue to be pleased with how our mortgage business is performing in this low transaction and interest rate environment, and we believe we are well-positioned for the eventual upturn in volumes. For the first quarter, non-interest income was 21% of bank revenues, essentially flat with the linked quarter. Continuing to grow our non-interest income remains a focus of our team.

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

Steven Crockett

Thanks, Cory.

For the first quarter, diluted earnings per share were \$0.85 compared to \$0.90 from the linked quarter. This decrease was primarily due to acquisition-related expenses, which I'll touch on in a moment, and the SBIC investment loss, partially offset by a lower provision for credit losses.

Starting on Slide 14, net interest income was \$43 million for the first quarter, in line with the fourth quarter's result. Our net interest margin on a tax-equivalent basis was 4.04% in the first quarter, as compared to 4% in the linked quarter. Our first quarter NIM was positively impacted by five basis points due to \$545,000 of non-accrual loan interest recovery. Excluding the problem loan interest and fee recoveries noted on this slide, we've delivered steady NIM expansion through 2025, in which has started to moderate. As a result,

our goal is to maintain our profitability at current levels while growing our balance sheet, which will drive earnings and returns.

As outlined on Slide 15, deposits increased by \$154 million, or 4% from the linked quarter, to \$4.03 billion. During the quarter, we experienced strong organic growth across retail, commercial, and public fund deposits. As in prior years, we expect a portion of the public funds to flow back out of the bank, and for other depositors to see outflows in the second quarter as customers make their annual tax payments. As a result, we would expect deposit growth to be flat to down in the second quarter, before returning to growth in the second half of 2026, before you factor in acquisition deposits.

Non-interest bearing deposits modestly increased by \$11 million in the first quarter, and represents 25.7% of total deposits at the end of that quarter, as compared to 26.4% at the end of the linked quarter. Our cost of deposits decreased by 4 basis points, to 1.97%, compared to the linked quarter, as we have continued to reprice our deposit base lower following the FOMC's most recent 25 basis point reduction in December. Looking forward, we expect our cost of funds to hold steady in the second quarter, absent further rate reductions by the Fed, and before we factor in the cost of the acquisition deposits.

Turning to Slide 17, our ratio of allowance for credit losses to total loans held for investment was 1.44% at the end of the first quarter, stable from the prior quarter end. We recorded a \$260,000 provision for credit losses, which all related to unfunded loan commitments, in the first quarter, which compares to \$1.8 million in the linked quarter. The decrease in provision expense was largely attributable to the decrease in loan balances, combined with the decrease of \$4.8 million in non-performing loans, and a \$460,000 decrease in loan net charge-offs.

Skipping ahead to Slide 19, our non-interest expense increased \$2.5 million to \$35.5 million in the first quarter, as compared to the linked quarter. We had a \$1.8 million increase in personnel expenses, mainly due to annual salary adjustments and higher incentive-based compensation. We also had a \$542,000 increase in professional service expenses. There was approximately \$1.5 million in acquisition-related expenses in the first quarter of 2026, of which \$1.2 million was for professional services, as compared to approximately \$500,000 in the fourth quarter of 2025, all of which was for professional services. I'll touch on our expectations for the second quarter in a moment.

Moving to Slide 21, we remain well capitalized with tangible common equity to tangible assets of 10.48% at the end of the first quarter, representing a modest decline from the end of the fourth quarter. Tangible book value per share increased to \$29.65 as of March 31, 2026, compared to \$29.05 as of December 31, 2025. The increase was primarily driven by \$11.8 million in net income after dividends paid.

Turning to Slide 23, we provided high-level financials for BOH, as well as spot metrics for key financial metrics for the Pro Forma Combined Bank at March 31, 2026, to help you with your modeling of South Plains looking to the second quarter of 2026. At or as of the first quarter ended March 31, 2026, consolidated BOH had approximately \$632 million of loans, with a portfolio loan yield of 6.94% and \$596 million of deposits, where non-interest bearing deposits represented 16% of that total, and interest bearing deposits had a cost of 342 basis points. BOH had \$15 million in borrowings, and their NIM was 3.9%. BOH had \$226,000 of non-interest income, and their non-interest expense was \$4 million for the first quarter, excluding transaction-related expenses. Pro Forma for the deal for the first quarter, the combined bank's cost of deposits was 210 basis points, and the NIM was 4.02%.

This concludes our prepared remarks. I will now turn the call back to the Operator to open the line for any questions. Operator?

Operator

Thank you. If you would like to ask a question, please 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 keys.

Our first question is from Woody Lay with KPW. Please proceed.

Woody Lay

Hey, guys. Thanks for taking my question. The Pro Forma slide deck, Slide 23, is super helpful. Thanks for providing that. You mentioned that you went through some balance sheet repositioning of BOH, and it looks like the balance sheet shrank a little bit. Could you just sort of walk through the repositioning you went through? It sounds like, despite the smaller balance sheet, it doesn't impact the EPS accretion outlook.

Steven Crockett

Yeah. Woody, this is Steve. I would just say there were not a lot of big changes during the quarter for them, but it did start changing as they moved on. They were able to tighten up a little bit on liquidity from where they had been, knowing where the deal was headed. Some of the Federal Home Loan Bank borrowings had dropped from where they had been. Some of the broker deposits did not get redone, so a little bit of back and forth on some of that with us working with them. That started.

We'll continue looking to optimize the balance sheet and seeing what borrowings would be pretty easy—when those come up, they're all short-term on that. We'll continue to look at the non-core funding where we can and pair that back. Overall, like you said, there's not a huge impact to the net interest margin. Their net interest margin for the whole quarter was 390. As you got closer to the end of the quarter, if you were looking at it for the month of March or toward the end there, it would have been a little bit higher than that.

Cory Newsom

Steve and I have had tons of conversations about this. As he always likes to remind me, this is a bit more of a marathon than a sprint. We're trying to be very, very thoughtful on how we manage the balance sheet. There may even be things on our balance sheet that we can eliminate as a result of stuff that they bring across. We just think it blends nicely with what we have, but there's definitely room for improvement as we move forward.

Woody Lay

Yes. That's helpful color. As you just mentioned, you think there could be room for improvement, especially maybe repricing some of the higher-costing deposits. How realistic of an opportunity is that in the near term? Do you think that could lead to some NIM expansion going forward?

Steven Crockett

The opportunity is real. It's just trying to balance the overall liquidity position we're at, what loan growth expectations are, all of that. Finding which —we don't want to run off—we're not looking to lose customers. We're looking at the non-core type stuff. The stuff that's easier, we will certainly do, but it's just going to be part of the overall plan. We want to do the best that we can and improve it if we can, but also knowing, as we said, it's not about what our number looks like next quarter. It's about where we end up the year and next year and just trying to do it in a thoughtful manner. There are definitely some non-core sources that we can look at doing something with.

Cory Newsom

Woody, the other thing that you've got to keep in mind, they do a good job of pricing the loans on the other side. What we're really trying to factor in is being prepared for the kind of demand that they had to keep down just a little bit getting up to this. There's no question, the liquidity kept getting tighter and tighter. It

made it a bit of a challenge on some of the funding opportunities. That's one of the things that we think we bring to the table and how we can be very beneficial with the purchase of this bank that we bought.

What we have not wanted to do was go buy a bank and then screw it up from all the benefits that we thought we could bring across with it. There is no question that we think there's room to improve on the deposit cost. I can tell you unequivocally, our ultimate focus is trying to look at what our core NIM was before this acquisition and make sure that we do not diminish that in any form or fashion if we can help it.

Curtis Griffith

Woody, this is Curtis. I was telling you in our last ALCO meeting, they'd already put together the list of some of the broker deposits and other non-core funding sources. Some of those are non-maturity as well. Essentially, as all of the higher cost stuff hits maturity and payoff dates, we're fortunate right now that we've got a lot of on-hand liquidity. We want to grow core deposits in the Houston market. I'll be very clear about that. As some of these higher cost things that are not core hit the dates we can, we'll just pay them off.

Yes, we'll get some benefit, but don't lose sight of the fact that overall, this is still a fairly small piece of our overall balance sheet. It's not going to be a radical improvement in overall deposit costs for us. If you look at it on a BOH stand-alone basis of what they were formerly, yes, we can make a pretty significant improvement in that.

Woody Lay

I appreciate all the color there. Maybe just last for me, sticking on the NIM and looking at your core loan yields for stand-alone for South Plains. If I adjust for the interest recovery, it still looks like loan yields were up quarter over quarter. Just was curious on the dynamic driving some of that loan yield expansion.

Steven Crockett

I'll start and then I'll let Brent jump in. Obviously, we have seen some of the loans that have repriced down with what the Fed's did in the fourth quarter. Again, we still continue to have loans that have been in the lower part, the fixed rate stuff from three to five years ago that is continuing to help mitigate some of that. That has been beneficial to us.

Brent Bates

Woody, this is Brent. A little bit of that is the mix inside the portfolio. Some loan types are yielding better than others. That mix does influence that. Overall, yields are holding pretty well.

Cory Newsom

Woody, just go back on both sides of the balance sheet. As we've said on every call that we do, we're still using exception-based pricing all the way through. Our first and foremost is to get all you can get on the loan side. There are some opportunities out there that we can be as competitive as we need to be at the same time. We're going to do that if we think the credit warrants what we need to do. Like I said, we are very focused on this, on how this comes together, but really looking at the NIM more than anything.

Woody Lay

Alright. I appreciate you all taking all my questions.

Steven Crockett

Always. Thank you.

Operator

Our next question is from Brett Rabatin with StoneX. Please proceed.

Brett Rabatin

Good afternoon, everyone. I wanted to talk about the loan pipeline. You've added some more lenders, and you're going to be an over \$5 billion bank here in 2Q. Are any of these new lenders that you're adding in what you call specialized lines of business? Is that something that you guys are thinking about, maybe as you get a little bigger, doing some things that might be a little more specialized as opposed to the traditional community banking subset?

Cory Newsom

Brett, let me go first. I want to be very, very clear about this. Of all the lenders we've hired, there's not a single one that we've hired that's going to put us into something that we don't think we have good expertise in doing, or gets us out of the fairway that we like to stay in. No, we're not getting into anything that's specialized that could ever, I think, lead to some issues.

Now, if you want to talk about the quality of these lenders, very, very good. They blend nicely with the quality of the team that we already had in place. The thing that we like is it's bringing us opportunities to have new relationships that we would not have had had we not done these hires that have come along. We're very, very fortunate with the ones that we've done. Please note, we're not getting outside of our skis by any stretch.

Brett Rabatin

Okay, that's helpful. Then, just back on the cost of insuring funds for Bank of Houston, I was looking at the regulatory data and saw that the cost was down 12 basis points linked quarter to 346. That's obviously, I think, one of the key opportunities for the margin from here. Just competitively in Houston, what are you guys seeing on rate competition on deposits, and how much can you lower that over the coming quarters?

Cory Newsom

I think it's very, very competitive. One thing that Bank of Houston adds nicely to the other Houston business that we have, they do a better job with deposit relationships than we've been able to do on our own, and that's okay. But I think the fact that we can manage liquidity, that they're not facing the same constraints they've had in the past, I think we have the ability to improve the cost of funds that are actually there. I mean, we do see the benefits that are going to come with this. There's definitely room to improve the cost of funding in that portion of the portfolio.

Brett Rabatin

Okay. Then, maybe just lastly for me on mortgage banking, obviously a little noise with the servicing asset, but better than I would have expected given seasonality and 1Q and some higher interest rates. I know mortgage is tough to predict, but maybe, Brent, any thoughts on what you see mortgage from here? It's obviously been a business you like, but it was down last year. Can it get back to '24 levels or better, or just any thoughts on production and sale margins?

Brent Bates

Yeah, this is Brent. I mean, look, mortgage is a good business. We like it. But right now, it's kind of the same song, second or third, fourth, first verse, quarter over quarter. We're doing well. We're not losing money at it. We're making money, but it's not the days you're talking about as robust. I think rates probably have to drop quite a bit to make a meaningful difference there.

Cory Newsom

Brett, here's the thing you've got to look at mortgage. Do we think we're setting the world on fire? Absolutely not. Here's the thing that we're proud of, and I know that there's others that are being successful like we are, and when I talk about success, we've kept the nucleus of this business together and we're not losing any money. That is what we've been very, very focused on. We're also very focused on hiring in this portion of the industry as well, but we're trying to be very thoughtful about how we go about that.

We are trying to advance the ball with the hiring aspect of that, but more than anything, what we look at on the mortgage is that we can offer this service to our clients without referring them to a competitor and be able to turn the spigot back on when rates improve and the demand comes back like it should. I don't know that if you sit here and look over the last three or four years, if we'd sit here and been losing money every quarter on this, I don't know that we'd still be doing it. But we know how to run this and keep it in the black and keep it very efficient. I think our guys have done a very, very good job with it, and we're very proud to be in this business because it's something that we want to be able to offer our clients.

Brett Rabatin

Okay, great. I appreciate all the color, guys.

Steven Crockett

Thanks, Brett.

Operator

Our next question is from Stephen Scouten with Piper Sandler. Please proceed.

Stephen Scouten

Hey, good evening, everyone. I wanted to just follow back around on kind of the loan growth commentary, if I could. I think, as you said, Cory, you guys had talked about the multifamily payoff last quarter. Just kind of wondering if the incremental payoff that you spoke of, the \$30 million-plus, was already anticipated in your guide or kind of, if not, what changed in terms of loan growth demand or dynamics overall?

Cory Newsom

I don't think there's anything that we're seeing like that that wasn't just kind of in the normal course of business. A lot of these have kind of just run their cycle of life. I mean, from the time that we help them go out there and finance them, whether they're going to try to get them stabilized with whatever, we've never been in a position that we're the long-term holder of some of these multi families in most of these situations. Brent, am I describing that correctly?

Brent Bates

Yeah, Stephen. We anticipated this. This is what we talked about in the fourth quarter. It was kind of baked in, and we think there's probably maybe one more that is stabilized. These are credits that are looking for long-term fixed-rate financing that we're just not going to do. But we like the credit that they're performing, and this was kind of the plan all along back from origination. I'd say it's fully expected.

Cory Newsom

I would say most of these, when we come into something like a multifamily or something of this caliber, I mean, we're usually a five-year player in one of these deals to where it goes out. It can usually get some

non-recourse funding from some other arm that's out there that's not necessarily as traditional as what we are. We kind of think we fit that role pretty well, and I don't know that we're really prepared to start being the long-term holder on some of this stuff. What we try to make sure is that we're ready to turn around and find something to replace it if those things continue to cycle. Typically, we're using some of the same relationships that are cycling some of this stuff on multiple occasions. We're going to be careful with our hold limit. I mean, we'd like to see this fall off and the next one come back on and just keep going.

Brent Bates

To Cory's point, just adding on, I mean, to your comment, that's really where some of our unfunded growth came from, replacing with same clients that were successful achieving their long-term fixed-rate goal.

Stephen Scouten

Got it. Okay. Makes sense. I mean, if I think about the reduction in loans on an end-of-period basis this quarter, I mean, that would seem to imply, if you think you can still hit the guide, that there's maybe \$200 million of incremental organic growth for the rest of the year, a pretty significant pace. Am I thinking about that correctly for the rest of the year?

Cory Newsom

We're still very comfortable with the guidance that we put out. I mean, we're not sitting here trying to convince everybody that we're going to be high single digits, but I mean, low to mid-single-digit growth, we're still very comfortable where we think we are.

Stephen Scouten

Okay. Helpful. Then, maybe lastly, I know it's still very early days here, but just in terms of BOH and the extraction of the synergies, kind of how has that progressed? Do you feel good about the realization of all those cost saves and kind of any change in terms of the timing of when you'd anticipate those coming through?

Cory Newsom

Here's what I'll tell you. This is kind of what we're really proud of, and this is what we've been very, very focused on, is trying to make sure that we're efficient in the process of trying to do an acquisition, because I think it's going to impact how people look at us on the next acquisition that we want to do. If you look at how this one came together, we closed, we have converted and integrated everything about this inside of a quarter. That's—we're going to do a conversion May 8, and our team has been very, very thoughtful. I mean, we've had—from project lead all the way through trying to make sure that we take this from cradle to grave all the way in the right fashion.

The other side of that is we've tried to make sure that we maintain very good communication in trying to onboard these people so that we can be successful. The last thing we want to do is come in here and not be successful in retaining the business that we have, that they have, that we really like. If you look back through when we did due diligence, I mean, we were past 65% of the portfolio. Look at it, we liked what we saw, and we don't want to lose it. We've had to really be thoughtful in trying to make sure that we're prepared to do this in a way that we can find success instead of the way you see some transactions have gone where you kind of have a big runoff after the fact. I don't see that coming for us. I'm really content where we are. I don't think any one of us would sit here and tell you that we, I don't think you could find buyer's regret at any point in time with us right now at all.

Curtis Griffith

This is Curtis. To be clear, this is not in the projections and everything that we put out. But we felt all along and in talking and working with the team there, I think we're even more convinced of it, that they have some real good opportunities. They were becoming, as we've said a few times now, pretty constrained by liquidity. Now that's not a problem. I guess ultimately everybody, we've got to maintain good liquidity. We're not going to get stretched, but it's going to be transformative to their ability to go back out to their customers and customers they wanted to get and start bringing those loans in. That's not going to happen overnight. I don't look for huge increases in Q2. But I do think that we'll hit some targets in Q3, Q4 for overall for the year. Because I think the business is there and I think this team can go get it.

Cory Newsom

We like what Bank of Houston brings to us. But I think it's fair to say they like what we bring to them. I think we just expand a little bit of an opportunity with some of the scale that we've had the ability to probably do that. It's been a little bit more challenging for them. Yeah, I do feel really good about it right now. But we're not taking anything for granted. We're very, very focused on it.

Stephen Scouten

Yeah. What are you hearing, last thing from me really, what are you hearing from your customers maybe in west Texas and kind of throughout your footprint around the price of oil and the macro impacts from the Iranian conflict? If that extends, if the price of oil extends here around \$100 for a longer period of time, would that have a pronounced impact on those markets and potentially the long growth targets?

Cory Newsom

I think there's a lot of them that are taking advantage of price of oil if they're on that side of the deal. But nobody's going out there and trying to make long-term commitments on a price of oil being at that level. We're not seeing any of that with our customer base. Everybody we talk to, they're all telling you the same thing. It ain't going to last. We're not going to get ourselves back to a corner on it. Brent, you've talked about, I mean, from the deck of your underwriting, I mean, you don't factor that in at all.

Brent Bates

Yeah, we don't. We don't factor in. I mean, on the consumer side, we haven't seen any impact on that side either from the consumer side of that at this stage.

Cory Newsom

I don't think we really have much of our customer base that's in a position where they get hurt by it in some big fashion.

Stephen Scouten

Got it. Thanks so much for the time.

Cory Newsom

You bet. Thanks, Steve.

Operator

As a reminder, it is star, one on your telephone keypad if you would like to ask a question.

Our next question is from Joe Yanchunis with Raymond James. Please proceed.

Joseph Yanchunis

Good afternoon.

Steven Crockett

Hi, Joe.

Joseph Yanchunis

I wanted to beat the horse one more time and ask about the NIM here. It sounds like you're optimistic you can keep the NIM relatively steady. I understand there's a lot of moving parts. In your deck you call it a pro forma NIM of 4.02. Does that pro forma NIM back out the one-time loan interest recovery you received in the March quarter? I'm just trying to understand what the jumping off point is.

Steven Crockett

No, that is just using our gross NIM, just pushing the two together.

Joseph Yanchunis

Okay, got it. Then shifting over to loans. Can you talk about, you know, just a little more about your energy portfolio and what the exposure is on a pro forma basis? What does loan demand look like in that vertical in the quarter?

Brent Bates

Yeah, Joe, most of our energy portfolio is really on the CNI servicing side. That's small business clients that we know well, have been in the business and survived cycles in the past. Really, we don't have a whole lot of exposure in that segment to upstream lending.

Joseph Yanchunis

Okay, so pretty steady then for on a pro forma basis. I think last update you gave, I think it was around 4%.

Brent Bates

Yes. Yeah, we're still running under 5% of the portfolio.

Joseph Yanchunis

Then what about in the—it looks like the major metro market loan balances appear to be on a downward trajectory. I assume that's a function of payoffs. Can you talk about your pipeline that exists within these markets, especially given the backdrop of your aggressive lender hire approach?

Brent Bates

Yeah, the pipeline is really—I'm pleased with it, particularly on a combined basis. It's strong. I think what you're seeing there is the effect of the decline in multifamily over the last, really, four quarters, which is exactly what we experienced this quarter, loans going into the permanent market for long-term fixed rates. I think that's really the effect that you're seeing there in the metro markets. A lot of those loans were in our metro markets. But our pipelines are very strong, particularly on a combined basis.

Cory Newsom

Joe, I think if you go back and look, over the last year, we had identified a handful of credits that we wanted to exit a relationship with. We didn't hide it in any form or fashion. We don't have that right now. I mean, we feel pretty good about the portfolio. I don't really know of anything of any significance that we've got identified that we need to separate from. I think we accomplished what we wanted to. We identified the ones that we felt like that probably weren't prepared to move into higher rates from the cheaper stuff, the way they got into it originally. I think we're kind of past that. We're stressing the portfolio every which way you can imagine, and we feel really good about it. That's why we still feel confident about the guidance we gave out on loan growth.

Joseph Yanchunis

Okay. Then, last one for me here. It sounds like the year-over-year decline in multifamily portfolio loans could reverse with some of the unfunded commitments that you have. Just wondering, what are you seeing the best risk-adjusted returns across your portfolios right now?

Cory Newsom

Sorry, I couldn't hear you, Joe. What was your question?

Joseph Yanchunis

The best risk-adjusted returns that you're seeing from a lending perspective.

Cory Newsom

CD secured. No, I mean, if you look at the owner-occupied stuff, there's a variety of things. Just like we said earlier, we're not getting out there doing a lot of stuff that is a little bit edgy in any stretch.

Brent Bates

I'd agree. To Cory's point. On our residential sides, we've got pretty good risk-adjusted yields there as well as ag. Production still actually has good yields on the funded balances as it funds throughout the year.

Joseph Yanchunis

Okay, great. Thank you for taking my questions.

Cory Newsom

Thanks, Joe.

Operator

We have reached the end of our question-and-answer session. I would like to turn the conference back over to Curtis Griffith for closing remarks.

Curtis Griffith

Thank you, Operator, and thanks to everyone who joined us on today's call.

We are pleased with our first quarter performance. It reflects strong profitability, improving credit quality, and continued discipline across our balance sheet. We've also successfully completed the Bank of Houston acquisition, a transaction that meaningfully enhances our presence in a highly attractive market and aligns well with our long-term strategy. We believe we've laid the foundation to continue building a larger, more capable community bank. That includes investments in our people, technology, operating infrastructure that

support both organic growth and disciplined M&A. While the near-term environment remains uncertain, we are confident in our strategy, our capital position, and our ability to execute. Most importantly, we remain focused on creating a long-term value for our Shareholders while continuing to serve our customers and communities.

I'd also like to take a moment to thank our employees across City Bank, including our newest team from Bank of Houston, for their hard work, commitment, and professionalism, particularly during a period of ongoing change. Their dedication to our customers and communities continues to be a key driver of our success. Thank you again for your time and interest in South Plains Financial.

Operator

Thank you. This will conclude today's conference. You may disconnect at this time and thank you for your participation.