

# South Plains Financial



## Second Quarter 2023 Earnings Presentation

July 25, 2023

# Safe Harbor Statement and Other Disclosures



## FORWARD-LOOKING STATEMENTS

This presentation contains, and future oral and written statements of South Plains Financial, Inc. ("South Plains" or the "Company" or "SPFI") and City Bank ("City Bank" or the "Bank") may contain, statements about future events that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect South Plains' current views with respect to future events and South Plains' financial performance. Any statements about South Plains' expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. Forward-looking statements include, but are not limited to: (i) projections and estimates of revenues, expenses, income or loss, earnings or loss per share, and other financial items, (ii) statements of plans, objectives and expectations of South Plains or its management, (iii) statements of future economic performance, and (iv) statements of assumptions underlying such statements. Forward-looking statements should not be relied on because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of South Plains and City Bank. These risks, uncertainties and other factors may cause the actual results, performance, and achievements of South Plains and City Bank to be materially different from the 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, potential recession in the United States and our market areas, the impacts related to or resulting from recent bank failures and any continuation of the recent uncertainty in the banking industry, including the associated impact to the Company and other financial institutions of any regulatory changes or other mitigation efforts taken by government agencies in response thereto, increased competition for deposits and related changes in deposit customer behavior, changes in market interest rates, the persistence of the current inflationary environment in the United States and our market areas, the uncertain impacts of ongoing quantitative tightening and current and future monetary policies of the Board of Governors of the Federal Reserve System, the effects of declines in housing prices in the United States and our market areas, increases in unemployment rates in the United States and our market areas, declines in commercial real estate prices, uncertainty regarding United States fiscal debt and budget matters, severe weather, natural disasters, acts of war or terrorism or other external events, regulatory considerations, competition and market expansion opportunities, changes in non-interest expenditures or in the anticipated benefits of such expenditures, the receipt of required regulatory approvals, changes in non-performing assets and charge-offs, adequacy of loan loss reserves, changes in tax laws, current or future litigation, regulatory examinations or other legal and/or regulatory actions, the impact of any tariffs, terrorist threats and attacks, acts of war or threats thereof or other pandemics. Due to these and other possible uncertainties and risks, South Plains can give no assurance that the results contemplated in the forward-looking statements will be realized and readers are cautioned not to place undue reliance on the forward-looking statements contained in this presentation. For more information about these factors, please see South Plains' reports filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"), including South Plains' most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q on file with the SEC, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Further, any forward-looking statement speaks only as of the date on which it is made and South Plains undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as required by law. All forward-looking statements, express or implied, herein are qualified in their entirety by this cautionary statement.

## NON-GAAP FINANCIAL MEASURES

Management believes that certain non-GAAP performance measures used in this presentation provide meaningful information about underlying trends in its business and operations and provide both management and investors a more complete understanding of the Company's financial position and performance. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, SPFI's reported results prepared in accordance with GAAP. Numbers in this presentation may not sum due to rounding.

# Today's Speakers



**Curtis C. Griffith**  
*Chairman & Chief Executive Officer*

- Elected to the board of directors of First State Bank of Morton, Texas, in 1972 and employed by it in 1979
- Elected Chairman of the First State Bank of Morton board in 1984
- Chairman of the Board of City Bank and the Company since 1993



**Cory T. Newsom**  
*President*

- Entire banking career with the Company focused on lending and operations
- Appointed President and Chief Executive Officer of the Bank in 2008
- Joined the Board in 2008



**Steven B. Crockett**  
*Chief Financial Officer & Treasurer*

- Appointed Chief Financial Officer in 2015
- Previously Controller of City Bank and the Company for 14 and 5 years respectively
- Began career in public accounting in 1994 by serving for seven years with a local firm in Lubbock, Texas

# Second Quarter 2023 Highlights

Deposit Growth  
1.9%

Uninsured / Uncollateralized  
Deposits 16%

Organic Loan Growth  
6.8%

Loans Held for Investment  
("HFI") \$2.98 B

Net Income  
\$29.7 M

EPS - Diluted  
\$1.71

Net Interest Margin <sup>(1)</sup>  
("NIM") 3.65%

Average Yield on Loans  
5.94%

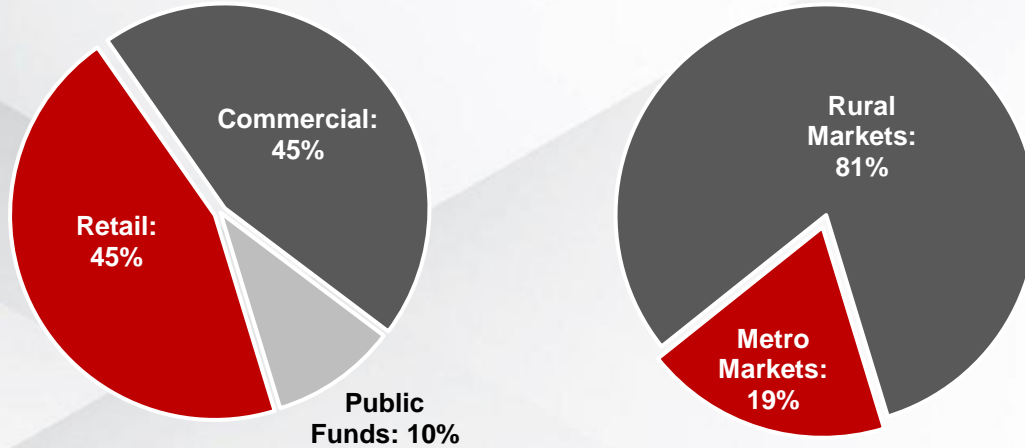
- Diluted earnings per share for the second quarter was **\$1.71**, compared to \$0.53 for the first quarter of 2023
- Excluding one-time gains and charges related to the sale of Windmark Insurance Agency, Inc. ("Windmark") and the repositioning of the securities portfolio, second quarter diluted earnings per share was **\$0.55**
- Loans grew **\$190.4 million, or 6.8%**, during the second quarter as compared to the first quarter of 2023
- Deposits grew **\$66.5 million, or 1.9%**, during the second quarter as compared to the first quarter of 2023
- Net Interest Margin held steady from March 2023 levels at 3.65% as higher loan yields offset the rise in deposit costs
- Completed the sale of Windmark for **\$35.5 million** on April 1, 2023
- Offset a portion of the Windmark gain through the **strategic sale of \$56 million of our investment securities resulting in a realized loss of \$3.4 million**. Reinvested those proceeds in higher yielding loans which will be **accretive in subsequent quarters**
- Recorded a **\$3.7 million provision for credit losses** in the second quarter due to strong organic loan growth and \$1.3 million in specific reserves for a previously-classified credit relationship totaling \$13.3 million that was placed on nonaccrual in May 2023
- **Classified loans declined \$3.5 million** during the second quarter to \$67.4 million from \$70.9 million at March 31, 2023

# Granular Deposit Base & Ample Liquidity



South Plains  
Financial, Inc.

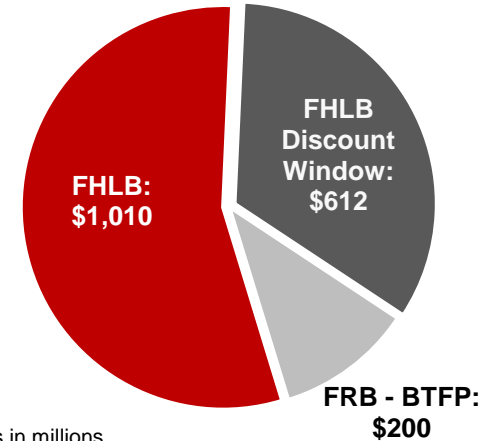
## Total Deposit Base Breakdown



- ✓ Average deposit account size is approximately \$36 thousand
- ✓ City Bank's percentage of **estimated uninsured or uncollateralized deposits is 16% of total deposits**
  - Total of \$577 million
  - Includes \$98 million of parent company deposits
  - Excludes collateralized public fund deposits

## Total Borrowing Capacity

**\$1.82 Billion**



- ✓ SPFI had \$1.82 billion of **available** borrowing capacity, as follows:
  - \$1.01 billion with FHLB of Dallas
  - \$612 million through the Federal Reserve's Discount Window
  - \$200 million via the Federal Reserve's Bank Term Funding Program <sup>(1)</sup>
  - No borrowings utilized during 2Q'23

Source: Company documents

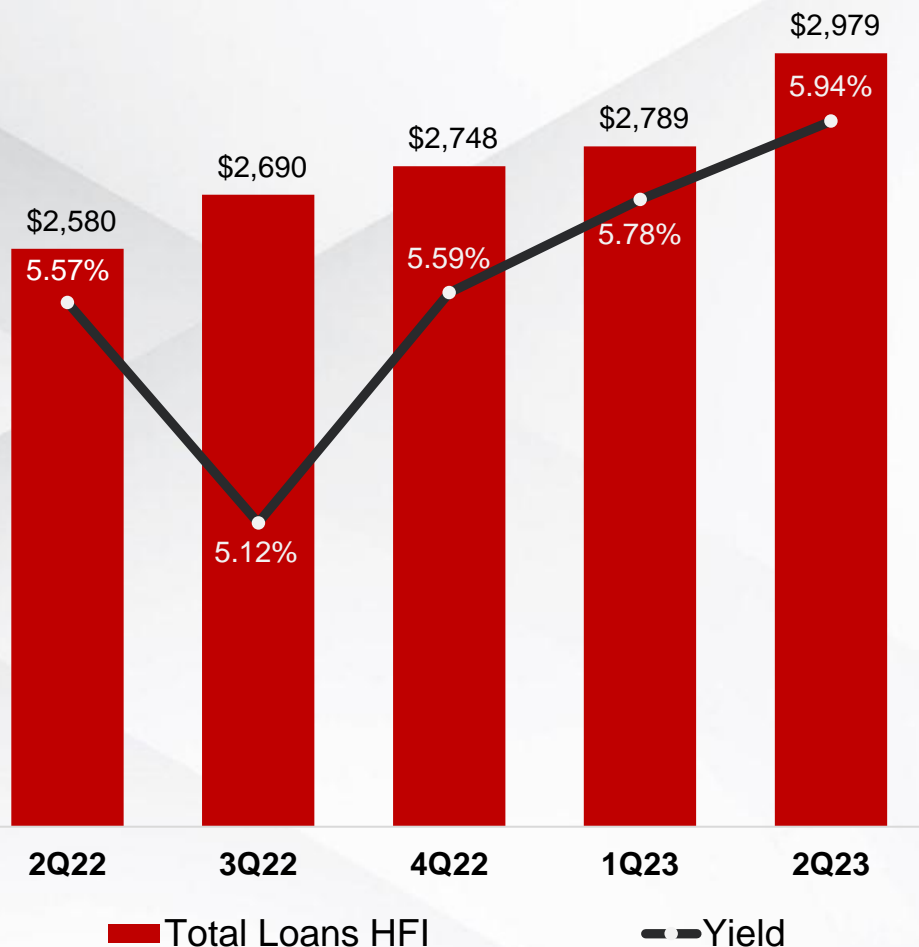
(1) No securities are currently pledged to this program; amount represents securities available to be pledged

Data as of June 30, 2023

# Loan Portfolio

## Total Loans HFI

*\$ in Millions*



## 2Q'23 Highlights

- ✓ Loans HFI increased \$190.4 million from 1Q'23, primarily due to organic net loan growth
  - Organic net loan growth was primarily driven by increases in commercial real estate, residential mortgage and energy loans
- ✓ Loans HFI increased \$398.2 million from 2Q'22
- ✓ 2Q'23 yield on loans of 5.94%, an increase of 16 bps compared to 1Q'23

Source: Company documents

# Attractive Markets Poised for Organic Growth

## Dallas / Ft. Worth

- ✓ Largest MSA in Texas and fourth largest in the nation
- ✓ Steadily expanding population that accounts for over 26% of the state's population
- ✓ MSA with the largest job growth in 2022 (+5.9%)
- ✓ Attractive location for companies interested in relocating to more efficient economic environments
- ✓ Focus on commercial real estate lending

## El Paso

- ✓ Population of 865,000+
- ✓ Adjacent in proximity to Juarez, Mexico's growing industrial center and an estimated population of 1.5 million people
- ✓ Home to four universities including The University of Texas at El Paso
- ✓ Focus on commercial real estate lending

## Houston

- ✓ Second largest MSA in Texas and fifth largest in the nation
- ✓ Total Non-Farm Employment was up 5.6% in 2022 compared to 2021
- ✓ Called the "Energy Capital of the World," the area also boasts the world's largest medical center and second busiest port in the U.S
- ✓ Focus on commercial real estate lending

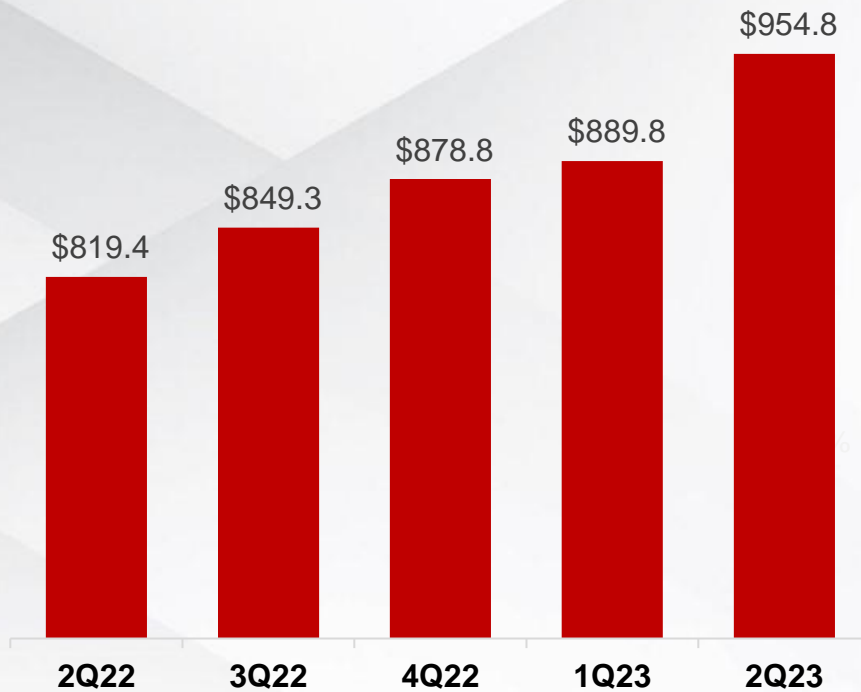
## Lubbock

- ✓ Population in excess of 320,000 with major industries in agribusiness, education, and trade among others
- ✓ Home of Texas Tech University – enrollment of 40,000 students
- ✓ Focus on community bank approach and expanding local relationships

# Metropolitan Loan Growth

## Total Metropolitan Loans

*\$ in Millions*



## 2Q'23 Highlights

- ✓ Loans HFI in our Dallas, Houston and El Paso metro markets increased 7.3% in 2Q'23 as compared to 1Q'23
- ✓ Major metropolitan market loan portfolio represents 32% of Bank's total loans at June 30, 2023

Source: Company documents

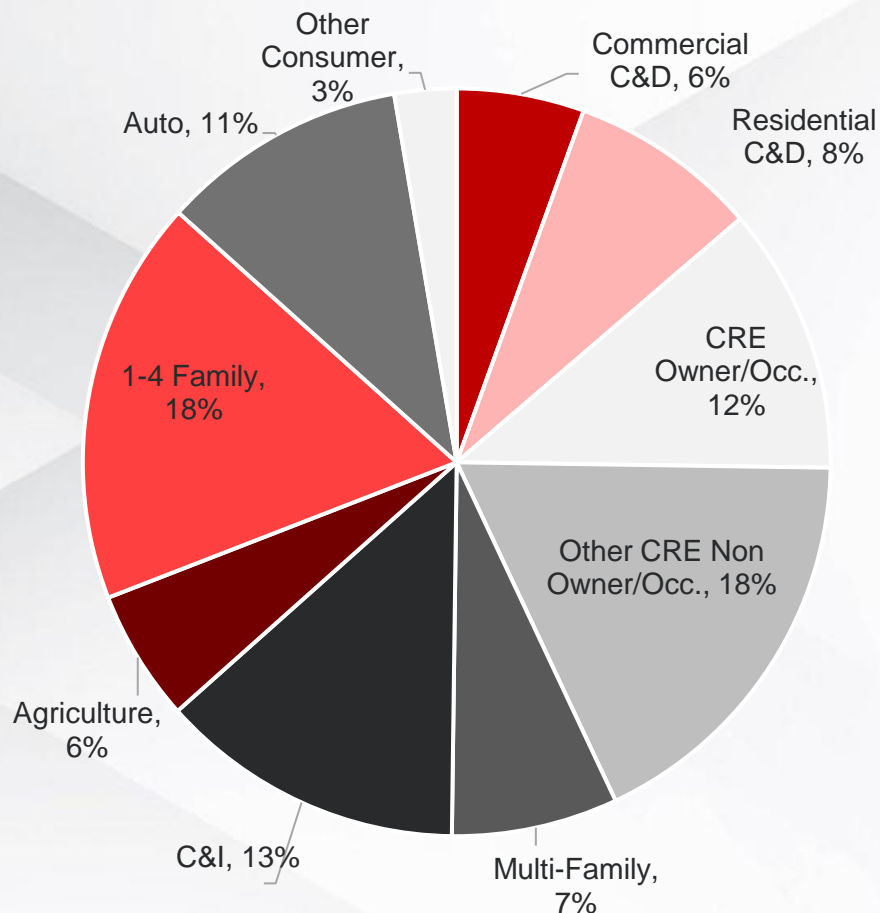
Source: Company documents

(1) The Bank defines its "major metropolitan markets" to include Dallas, Houston and El Paso, Texas

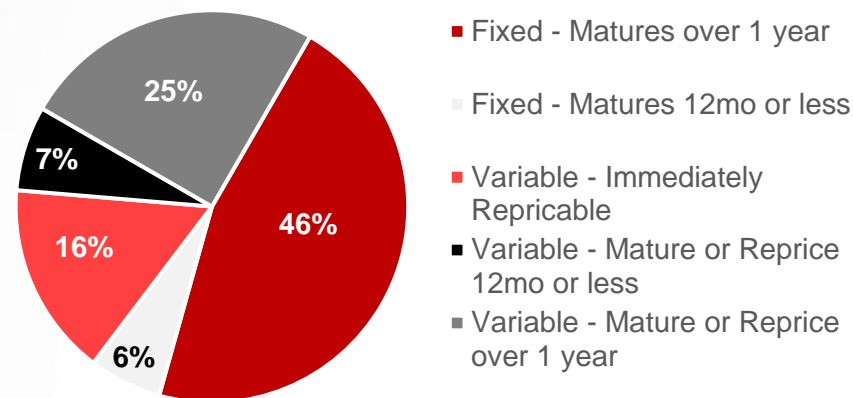


# Loan HFI Portfolio

## Loan Mix



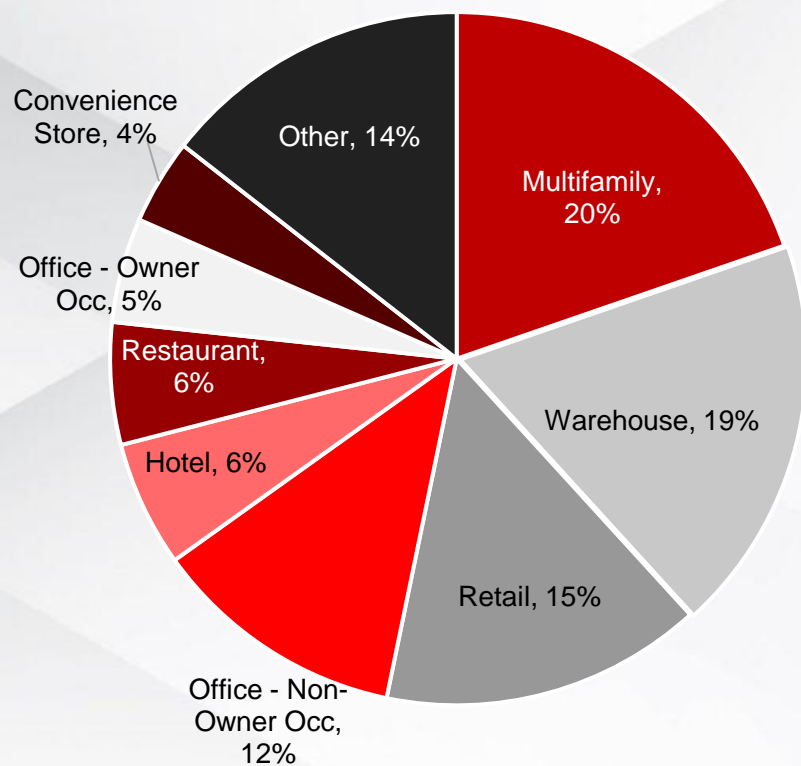
## Fixed vs. Variable Rate at 6/30/23



Loan Portfolio (\$ in millions)	6/30/23
Commercial C&D	\$ 164.3
Residential C&D	244.0
CRE Owner/Occ.	343.3
Other CRE Non Owner/Occ.	529.8
Multi-Family	214.3
C&I	393.6
Agriculture	169.4
1-4 Family	522.5
Auto	318.1
Other Consumer	79.8
<b>Total</b>	<b>\$ 2,979.10</b>

Source: Company documents

## CRE Sector Breakdown



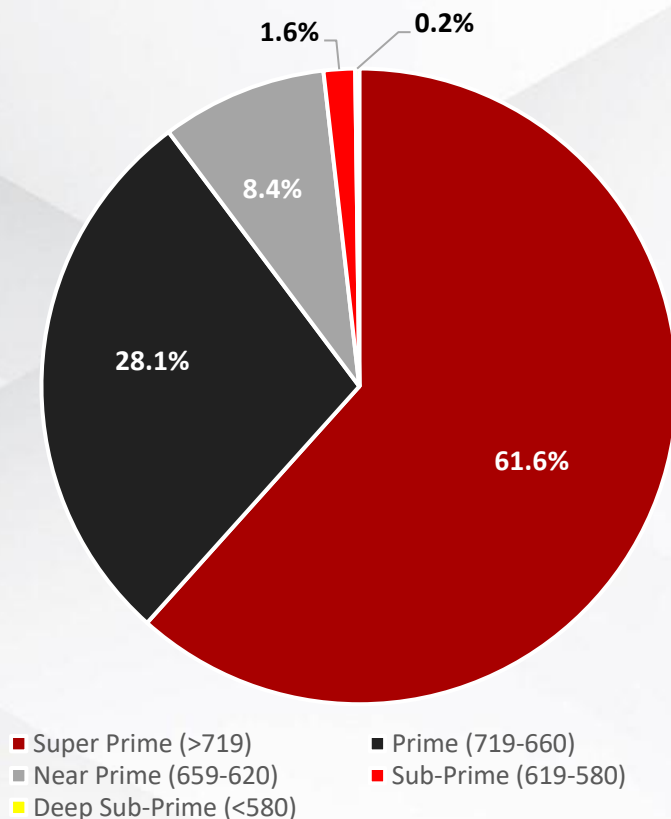
## Office Highlights

- ✓ 6.1% of total loans HFI
- ✓ 29% is owner-occupied
- ✓ Average loan size is \$864 thousand
- ✓ Medical offices comprise 11% of office loans

CRE Portfolio (\$ in millions)		6/30/2023
Property Type		Total
Multifamily		\$214.3
Warehouse		201.4
Retail		163.3
Office – Non-Owner Occ		129.2
Hotel		63.8
Restaurant		62.0
Office – Owner Occ		53.0
Convenience Store		43.2
Other		157.2
<b>Total</b>		<b>\$1,087.4</b>

Source: Company documents

## Indirect Auto Credit Breakdown



## Indirect Auto Highlights

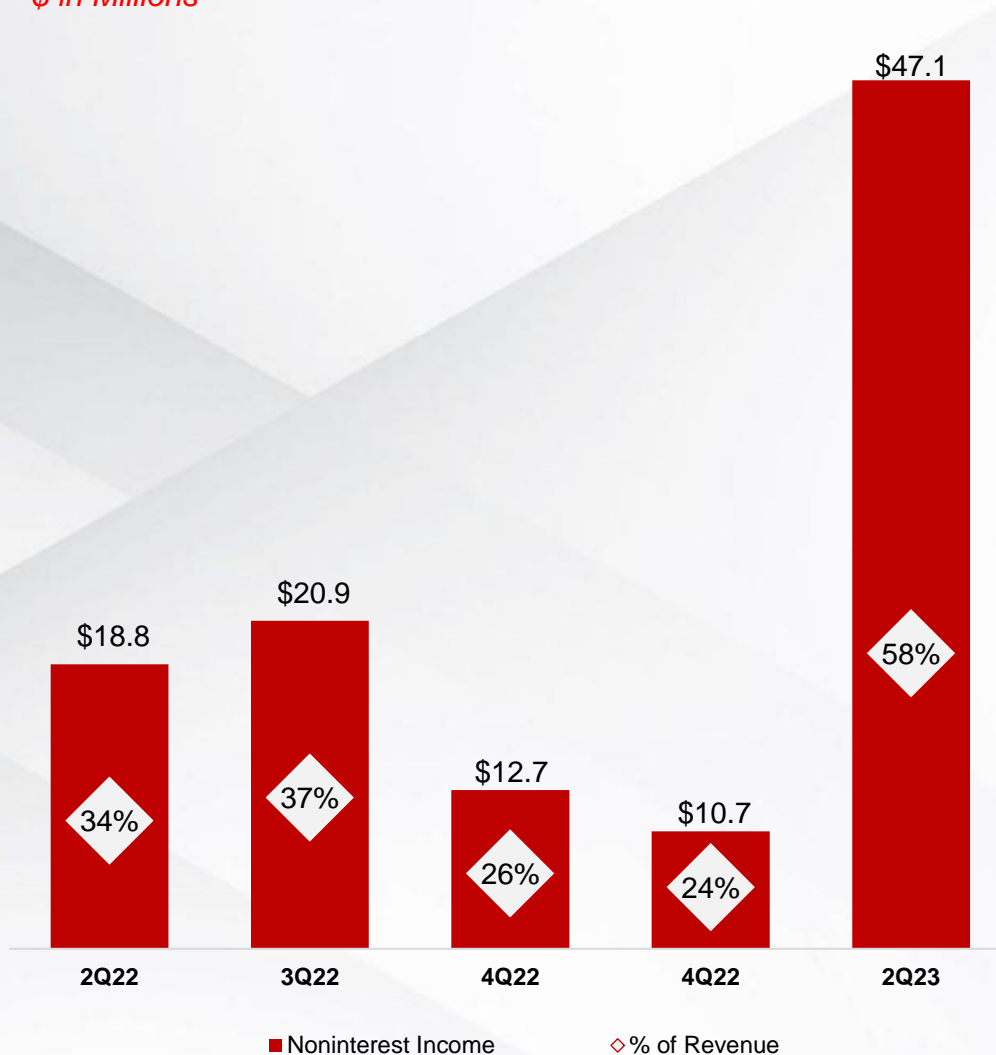
- ✓ Indirect auto loans totaled \$297.9 million
- ✓ Disciplined underwriting approach, management anticipates a modest reduction of the portfolio over time while improving yields
- ✓ Strong credit quality in sector positioned for resiliency across economic cycles:
  - Super Prime Credit (>719): \$183.7 million
  - Prime Credit (719-660): \$83.8 million
  - Near Prime Credit (659-620): \$25.1 million
  - Sub-Prime Credit (619-580): \$4.8 million
  - Deep Sub-Prime Credit (<580): \$0.6 million
- ✓ Loans past due 30+ days: 35 bps

Source: Company documents  
Data as of June 30, 2023

# Noninterest Income Overview

## Noninterest Income

*\$ in Millions*



## 2Q'23 Highlights

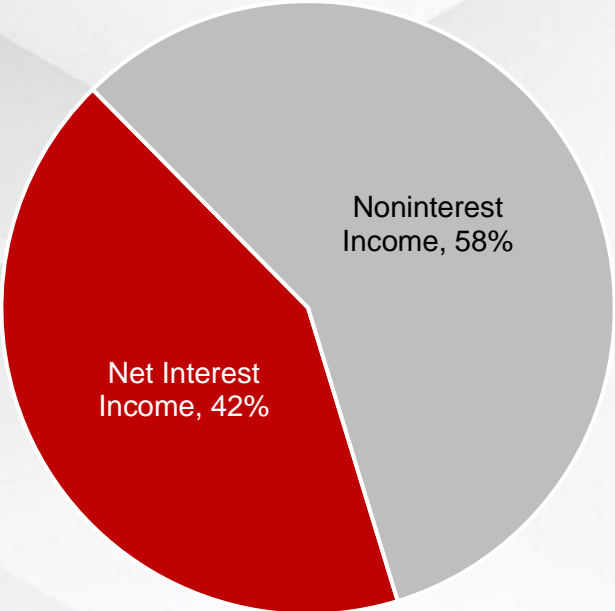
- ✓ Noninterest income of \$47.1 million, compared to \$10.7 million in 1Q'23, primarily due to:
  - The \$33.5 million gain on sale of Windmark on April 1, 2023
  - An increase of \$3.0 million in mortgage banking activities revenue
  - Partially offset by a reduction of \$1.4 million in income from insurance activities due to the sale of Windmark

Source: Company documents

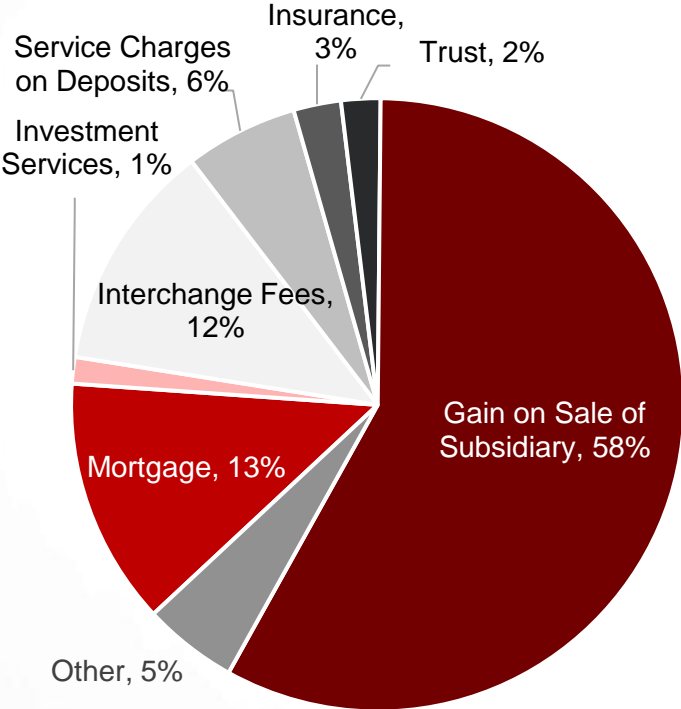
# Diversified Revenue Stream

Six Months Ended June 30, 2023

**Total Revenues**  
*\$81.7 million*



**Noninterest Income**  
*\$47.1 million*

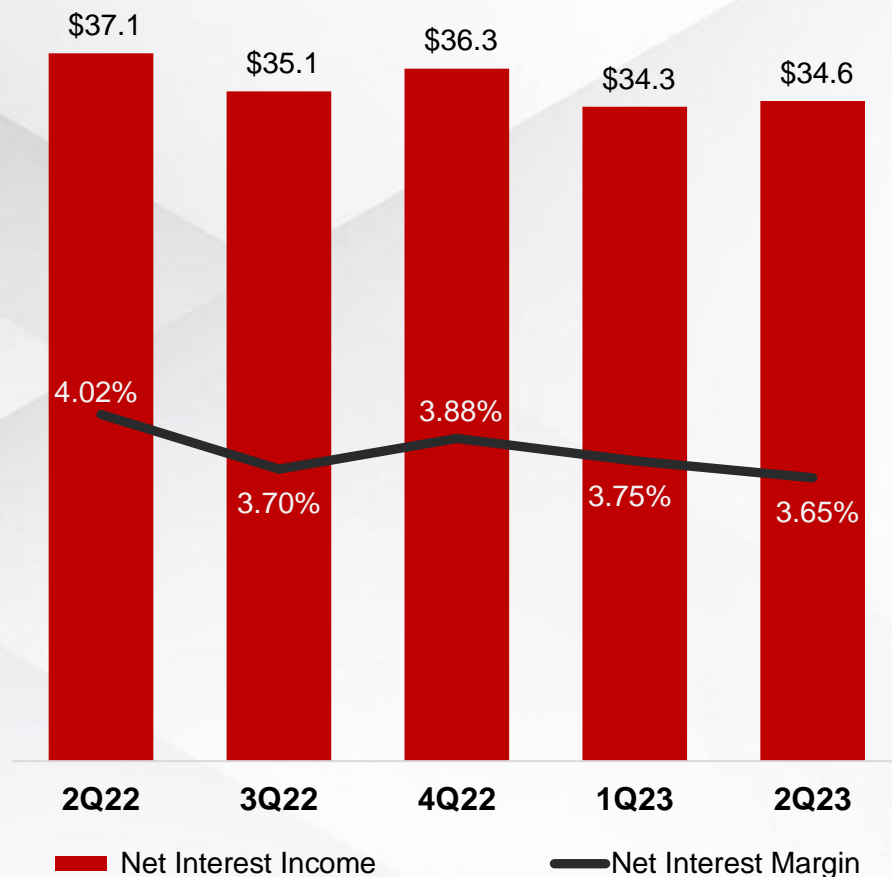


Source: Company documents

# Net Interest Income and Margin

## Net Interest Income & Margin

*\$ in Millions*



## 2Q'23 Highlights

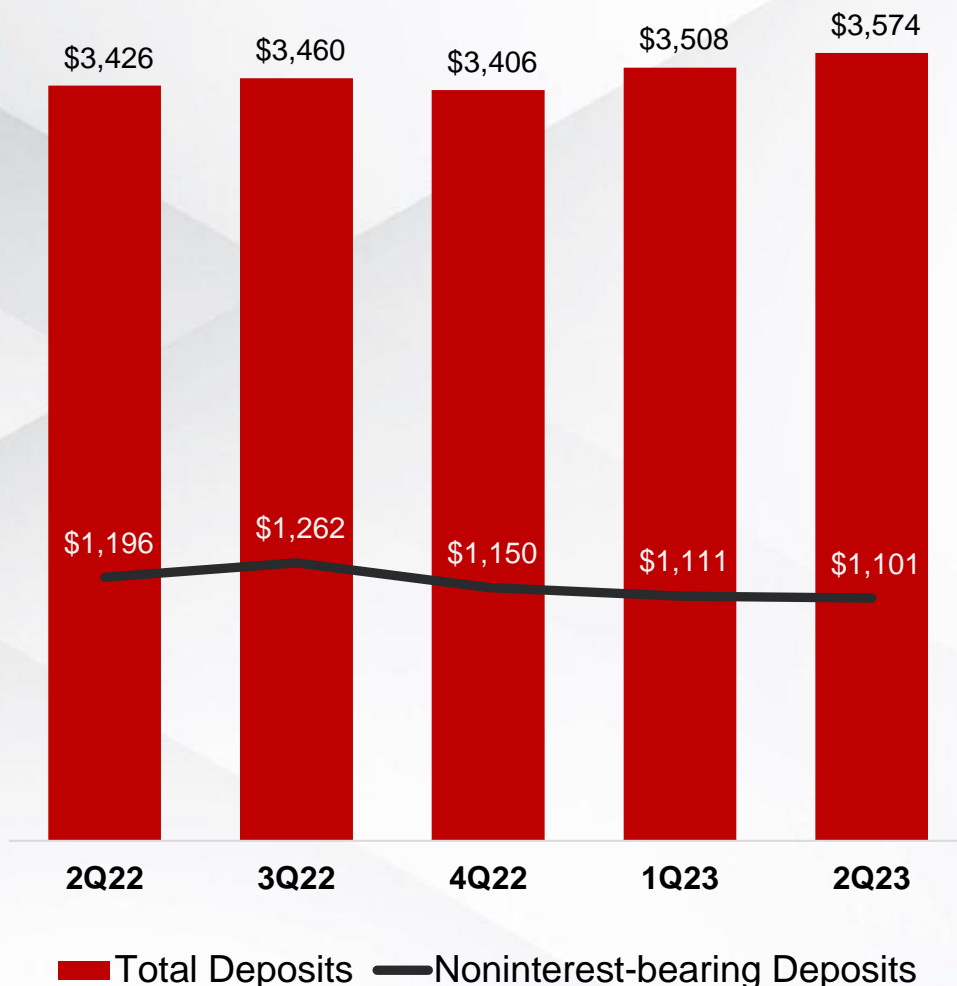
- ✓ Net interest income (“NII”) of \$34.6 million, compared to \$34.3 million in 1Q'23
- ✓ 2Q'23 NIM of 3.65%, a decrease of 10 bps compared to 1Q'23, though stable from March '23
- ✓ Interest income increased \$3.4 million 2Q'23 from 1Q'23, primarily due to an increase of \$3.3 million in loan interest income, largely offset by an increase of \$3.1 million in interest expense
- ✓ The average yield on loans was 5.94% for 2Q'23, compared to 5.78% for 1Q'23

Source: Company documents

# Deposit Portfolio

## Total Deposits

*\$ in Millions*



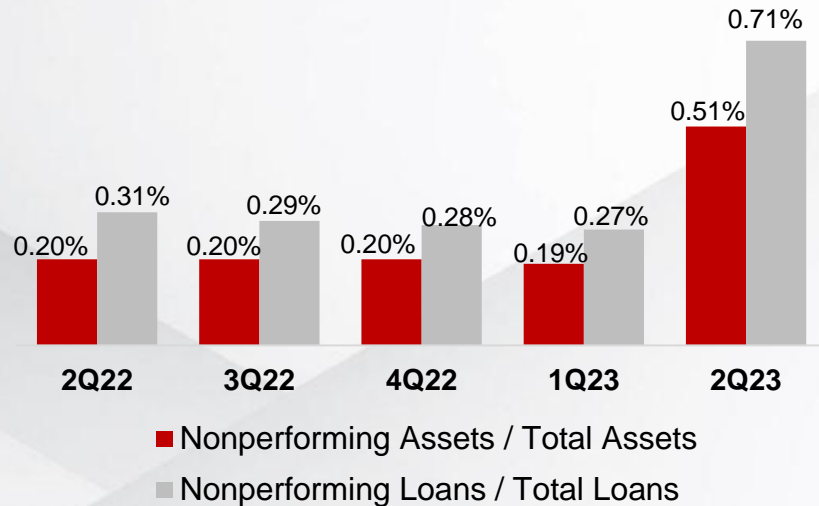
## 2Q'23 Highlights

- ✓ Total deposits of \$3.57 billion at 2Q'23, an increase of \$66.5 million from 1Q'23
  - Growth in deposits was driven by an \$81 million increase in brokered deposits
  - Partially offset by a \$67 million decline in public funds
- ✓ Cost of interest-bearing deposits increased to 2.45% in 2Q'23 from 2.03% in 1Q'23
  - Average cost of deposits was 169 bps as compared to 136 bps in 1Q'23
- ✓ Noninterest-bearing deposits to total deposits was 30.8% in 2Q'23, compared to 31.7% in 1Q'23

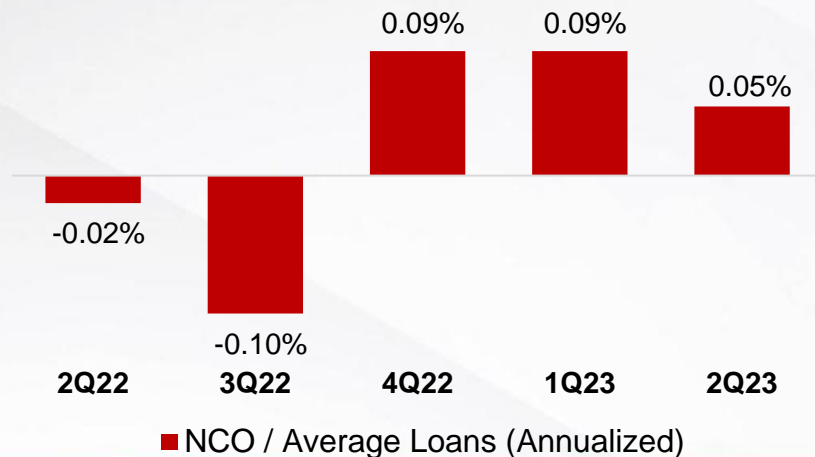
Source: Company documents

# Credit Quality

## Credit Quality Ratios



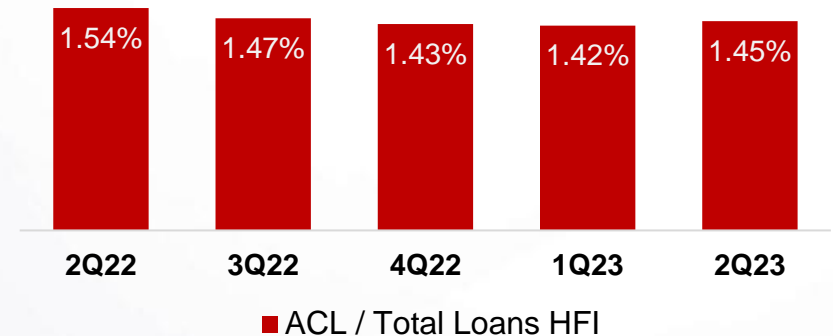
## Net Charge-Offs to Average Loans



## 2Q'23 Highlights

- ✓ The Company recorded a provision for credit losses of \$3.7 million in 2Q'23, compared to \$1 million in 1Q'23
  - The provision was for loan growth and \$1.3 million for specific reserves on one previously classified credit relationship that was placed on nonaccrual status in 2Q'23
- ✓ Ratio of Allowance for Credit Losses ("ACL") to loans HFI was 1.45% at 6/30/2023

## ACL to Total Loans HFI



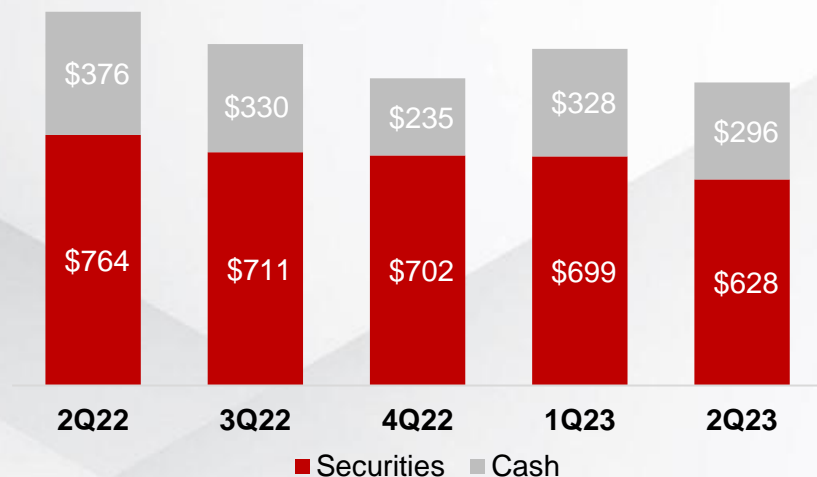
Source: Company documents



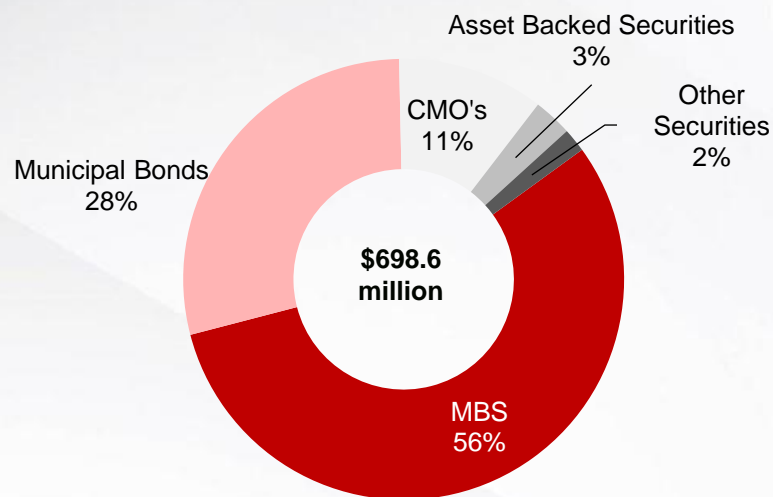
# Investment Securities

## Securities & Cash

\$ in Millions



## 2Q'23 Securities Composition



## 2Q'23 Highlights

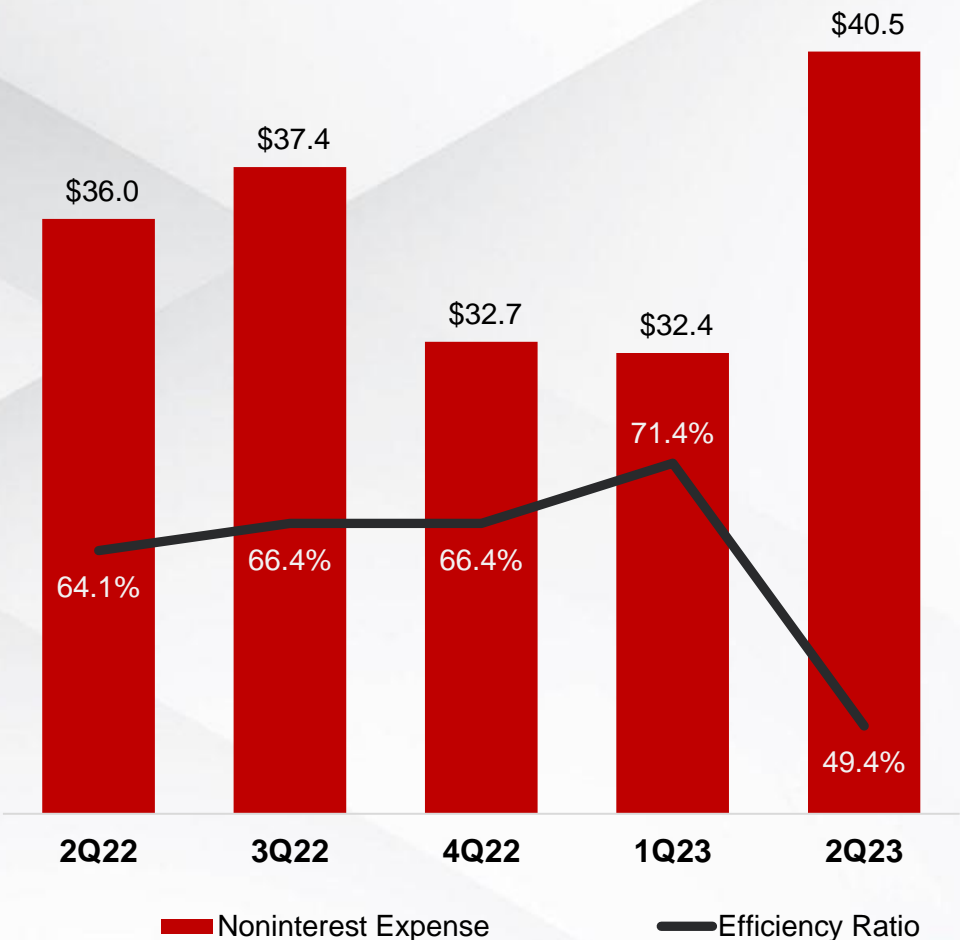
- ✓ Investment securities totaled \$628 million at June 30, 2023, a decrease of \$70.5 million from March 31, 2023
  - The decrease was largely the result of a strategic sale of \$56 million of investment securities during the period
- ✓ All municipal bonds are in Texas
- ✓ All MBS, CMO, and Asset Backed securities are U.S. Government or GSE
- ✓ Duration of the securities portfolio was 6.92 years at quarter end

Source: Company documents

# Noninterest Expense and Efficiency

## Noninterest Expense

*\$ in Millions*



## 2Q'23 Highlights

- ✓ Noninterest expense for 2Q'23 increased \$8.1 million from 1Q'23 primarily due to:
  - \$4.5 million in transaction expenses and related incentive-based compensation from the Windmark sale
  - Realized a loss of \$3.4 million on the strategic sale of investment securities
- ✓ Adjusted efficiency ratio was 67.1%
- ✓ Will continue to manage expenses to drive profitability

Source: Company documents

Note: Adjusted efficiency ratio is a non-GAAP measure. See appendix for the reconciliation of non-GAAP measures to GAAP

# Balance Sheet Growth and Development

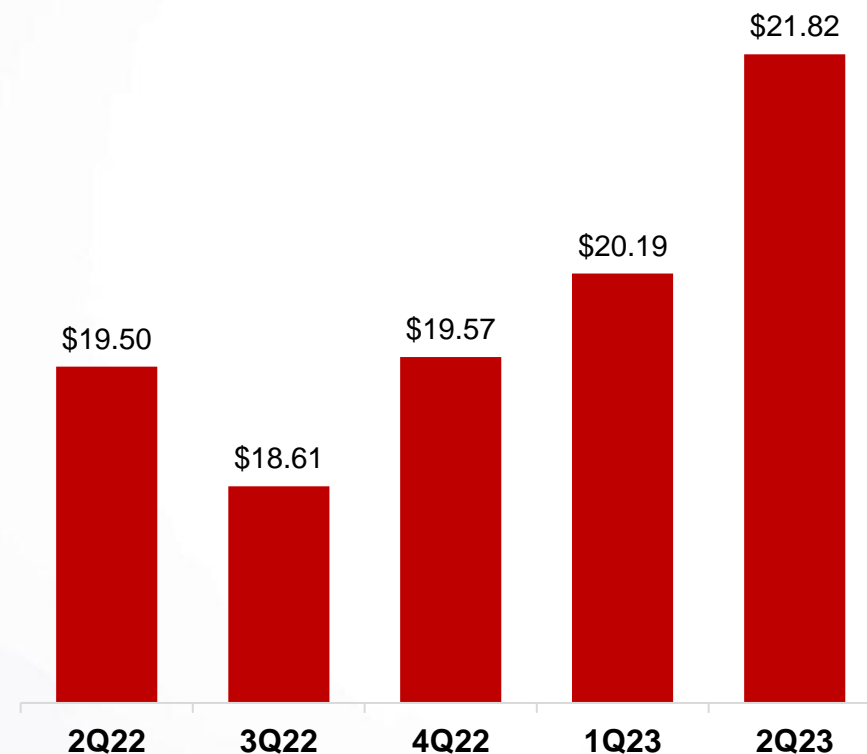


## Balance Sheet Highlights

*\$ in Millions*



## Tangible Book Value Per Share

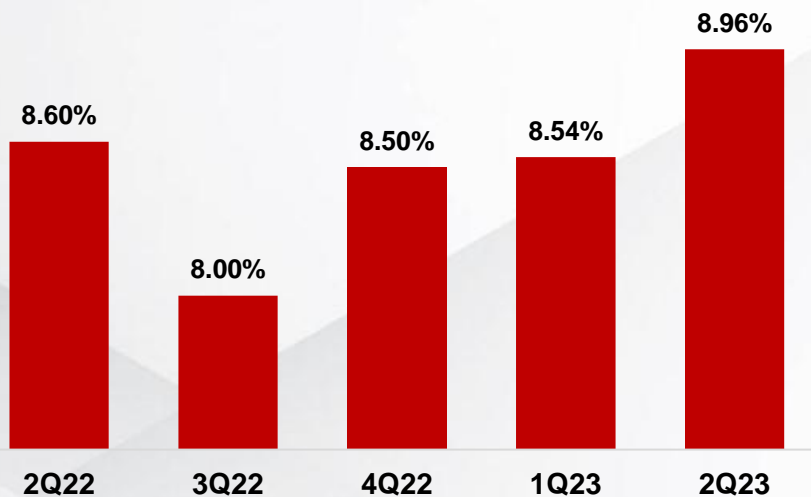


Note: Tangible book value per share is a non-GAAP measure. See appendix for the reconciliation of non-GAAP measures to GAAP

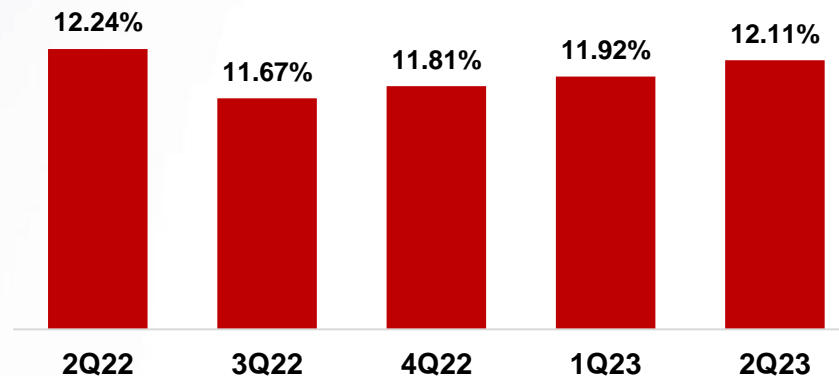
Source: Company documents

# Strong Capital Base

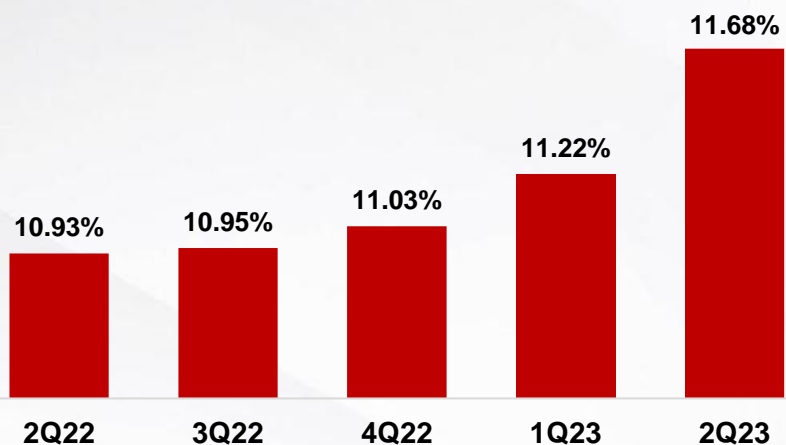
Tangible Common Equity to Tangible Assets Ratio



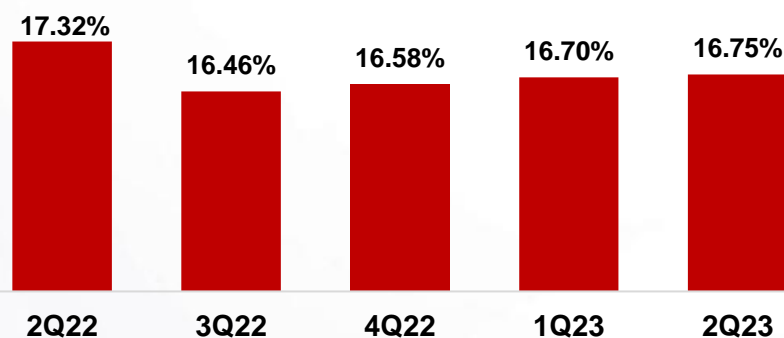
Common Equity Tier 1 Ratio



Tier 1 Capital to Average Assets Ratio



Total Capital to Risk-Weighted Assets Ratio



Source: Company documents  
Note: Tangible common equity to tangible assets ratio is a non-GAAP measure. See appendix for the reconciliation of non-GAAP measures to GAAP

# SPFI's Core Purpose and Values Align: Centered on Relationship-Based Business

## THE POWER OF RELATIONSHIPS

At SPFI, we build lifelong, trusted relationships so you know you always have someone in your corner that understands you, cares about you, and stands ready to help.



## Our Core Purpose is:

To use the power of relationships to help people succeed and live better

## HELP [ALL STAKEHOLDERS] SUCCEED

- **Employees** → great benefits and opportunities to grow and make a difference.
- **Customers** → personalized advice and solutions to achieve their goals.
- **Partners** → responsive, trusted win-win partnerships enabling both parties to succeed together.
- **Shareholders** → share in the prosperity and performance of the Bank.

## LIVE BETTER

We want to help everyone live better. At the end of the day, we do what we do to help enhance lives. We create a great place to work, help people achieve their goals, and invest generously in our communities because there's nothing more rewarding than *helping people succeed and live better.*

# Appendix

# Non-GAAP Financial Measures



	March 31, 2023	December 31, 2022	For the quarter ended September 30, 2022	June 30, 2022	March 31, 2022
<b>Pre-tax, pre-provision income</b>					
Net income	\$ 9,244	\$ 12,621	\$ 15,458	\$ 15,883	\$ 14,278
Income tax expense	2,391	3,421	3,962	4,001	3,527
Provision for credit losses	1,010	248	(782)	-	(2,085)
Pre-tax, pre-provision income	<u>\$ 12,645</u>	<u>\$ 16,290</u>	<u>\$ 18,638</u>	<u>\$ 19,884</u>	<u>\$ 15,720</u>
	March 31, 2023	December 31, 2022	As of September 30, 2022	June 30, 2022	March 31, 2022
<b>Tangible common equity</b>					
Total common stockholders' equity	\$ 367,964	\$ 357,014	\$ 341,799	\$ 364,222	\$ 387,068
Less: goodwill and other intangibles	(23,496)	(23,857)	(24,228)	(24,620)	(25,011)
<b>Tangible common equity</b>	<u>\$ 344,468</u>	<u>\$ 333,157</u>	<u>\$ 317,571</u>	<u>\$ 339,602</u>	<u>\$ 362,057</u>
<b>Tangible assets</b>					
Total assets	\$ 4,058,049	\$ 3,944,063	\$ 3,992,690	\$ 3,974,724	\$ 3,999,744
Less: goodwill and other intangibles	(23,496)	(23,857)	(24,228)	(24,620)	(25,011)
<b>Tangible assets</b>	<u>\$ 4,034,553</u>	<u>\$ 3,920,206</u>	<u>\$ 3,968,462</u>	<u>\$ 3,950,104</u>	<u>\$ 3,974,733</u>
Shares outstanding	<u>17,062,572</u>	<u>17,027,197</u>	<u>17,064,640</u>	<u>17,417,094</u>	<u>17,673,407</u>
Total stockholders' equity to total assets	9.07%	9.05%	8.56%	9.16%	9.68%
Tangible common equity to tangible assets	8.54%	8.50%	8.00%	8.60%	9.11%
Book value per share	\$ 21.57	\$ 20.97	\$ 20.03	\$ 20.91	\$ 21.90
Tangible book value per share	\$ 20.19	\$ 19.57	\$ 18.61	\$ 19.50	\$ 20.49

Source: Company documents  
\$ in thousands

# Non-GAAP Financial Measures

	As of and for the quarter ended
	<u>June 30, 2023</u>
<b>Efficiency Ratio</b>	
Noninterest expense	\$ 40,499
Net interest income	\$ 34,581
Tax equivalent yield adjustment	303
Noninterest income	<u>47,112</u>
Total income	\$ 81,996
Efficiency ratio	<u><u>49.39%</u></u>
Noninterest expense	\$ 40,499
Less: Windmark transaction related expenses	(4,532)
Less: net loss on sale of securities	<u>(3,409)</u>
Adjusted noninterest expense	32,558
Total income	\$ 81,996
Less: gain on sale of Windmark	<u>(33,488)</u>
Adjusted total income	\$ 48,508
<b>Adjusted efficiency ratio</b>	<u><u>67.12%</u></u>

Source: Company documents  
\$ in thousands