South Plains Financial, Inc.

First Quarter 2025
Earnings Call Transcript

April 24, 2025

CORPORATE PARTICIPANTS

Steven Crockett, *Chief Financial Officer*

Curtis Griffith, *Chairman, Chief Executive Officer*

Cory Newsom, *President*

Brent Bates, *Chief Credit Officer*

CONFERENCE CALL PARTICIPANTS

Woody Lay, *KBW*

Joe Yanchunis, *Raymond James*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the South Plains Financial First Quarter 2025 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. With me here today are Curtis Griffith, our Chairman and CEO; Cory Newsom, our President; and Brent Bates, the Bank's Chief Credit Officer. The related earnings press release and earnings presentation are available on the News and Events section of our website, spfi.bank.

Before we begin, I'd like to remind everyone that any forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated future results. Please see our Safe Harbor statements in our earnings press release and in our earnings presentation. All comments, expressed or implied, made during today's call are subject to those Safe Harbor statements. Any forward-looking statements made during this call are made only as of today's

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

date and 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 financial measures, which we believe are useful in evaluating our performance. A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measures can also be found in our earnings press release and in the earnings presentation.

Curtis, let me hand it over to you.

Curtis Griffith

Thank you, Steve, and good afternoon. Starting on Slide 4 of our presentation, we delivered strong first quarter results highlighted by solid deposit growth, healthy margin expansion as our cost of funds continued to improve and loan growth, which was in line with our expectations. Additionally, the credit quality of our loan portfolio continued to strengthen in the quarter which is a testament to our conservative culture and proactive approach to managing credit. This can be seen in our non-performing assets to total assets ratio, which improved to 16 basis points at the end of the first quarter down from 58 basis points at yearend 2024.

We often say on these calls that we will never sacrifice credit quality to grow the bank. That is a core pillar of our culture and we have been working hard for many years to position the bank to perform well through an economic downturn. We have continued to enhance the capabilities of our credit group, fostered a strong partnership between our production and credit teams and have worked proactively to stay ahead of potential challenges.

We believe the credit quality of our portfolio is strong and that we are in an advantageous position relative to some of our peers, especially given the uncertainty created by the new administration's recent tariff announcements, which certainly raises the possibility of a national recession during the year. Texas will not be immune from the effects of a recession, though we believe the State's pro-business and low tax environment will continue to support economic growth above that of the broader U.S. economy.

Our business is also more insulated from the proposed tariffs, given that our lending is focused more on commercial real estate than C&I loans that are dependent on manufacturing and industrial production. Importantly, we believe we have the liquidity, capital and team to take advantage of opportunities that can come in times of economic difficulties. In fact, we have refocused our efforts of adding lenders that fit our culture and can bring relationships to the bank.

Looking forward, we will continue to selectively add to our team across both our major metropolitan and rural markets as we position the bank for continued organic growth over the medium term. We believe that we are in a strong position to capitalize on opportunities to drive growth as the bank and the Company each significantly exceed the minimum regulatory capital levels necessary to be deemed well capitalized.

At March 31, 2025, our consolidated common equity Tier 1 risk-based capital ratio was 13.59% and our Tier 1 leverage ratio was 12.04%. We have the capital to support our customers as they continue to expand their businesses. Given our capital position, we remain focused on both growing the bank while also returning a steady stream of income to our shareholders through our quarterly dividend. As previously announced this past week, our Board of Directors authorized a $0.15 per share quarterly dividend, which will be our 24th consecutive quarterly dividend.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262   1-604-929-1352   www.viavid.com

We also continue to believe that our shares are trading below their intrinsic value and do not reflect the many growth opportunities that lie ahead to further build the bank. As a result, and as previously announced, our Board authorized a $15 million stock repurchase program in February and we spent $8.3 million to repurchase 250,000 shares in the first quarter. We have approximately $7 million of capacity remaining under the program, which continues to provide flexibility during volatile market environments as we have been experiencing. Looking forward, we will continue to balance our buyback with liquidity for growth as well as being mindful of the continued economic uncertainty that exists.

Turning briefly to M&A, we had expected community bank M&A activity to pick up this year, but the current general uncertainty has made both buyers and sellers reluctant to make major decisions. That said, a more prolonged downturn could reduce seller expectations to more reasonable levels and serve as a catalyst to drive more deals. Our focus remains on growing the bank organically and we believe our liquidity, capital, people and the credit quality of our loan portfolio, uniquely positions us to support our customers and gain market share. While economic growth may slow through the rest of the year, we remain focused on expanding our lending platform and working to bring long term customer relationships to City Bank.

Now let me turn the call over to Cory.

Cory Newsom

Thank you, Curtis, and good afternoon, everyone. Starting on Slide 5, our loans held for investment increased $20.8 million or 2.7%, annualized to $3.08 billion in the first quarter as compared to the linked quarter. We experienced loan growth in commercial owner occupied real estate loans and commercial goods and services loans, partially offset by the expected seasonal decrease in our agricultural production loans. Our yield on loans was 6.67% in the first quarter, essentially unchanged from the 6.69% in the linked quarter. We were able to keep the yield relatively constant despite the effect of a full quarter of the reduction in short term rates that occurred during the last four months of 2024. Looking forward, we expect the yield on our loan portfolio to stabilize near current levels pending further short term interest rate changes by the Federal Reserve.

Skipping to Slide 7, loans in our major metropolitan markets of Dallas, Houston, and El Paso decreased by $18 million in the first quarter to $1.04 billion. While new loan production in these markets is building over the past two quarters, these markets also observed a higher level of scheduled and early payments on loans that exceeded new loan production. We anticipate early payments on loans may remain elevated for the remainder of the first half of the year before moderating in the second half. Our current pipeline for our metro market remains strong, particularly in El Paso and Houston. At quarter end, our major metro loan portfolio represented 33.8% of our total loan portfolio.

Turning to the Permian, our efforts to build our brand in this market are beginning to pay dividends as we are attracting high quality customer relationships to City Bank. We've demonstrated to the market that we are positioned to support our customers over the long term, which is resonating, especially given competitor acquisitions which are creating customer dissatisfaction and dislocation. Our success can be seen in our first quarter results where we had the strongest loan growth in a single quarter since entering the market in 2019.

I would also reiterate that we are doing business with customers in the energy service industry who have long histories of success through cycles while we also underwrite loans to much lower oil prices to ensure our portfolio is insulated from downturns.

Skipping to Slide 9, our indirect auto loan portfolio grew $7 million to $243 million at the end of the first quarter as compared to $236 million at the end of the linked quarter. As we've discussed on our prior

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

calls, we have carefully managed the portfolio over the last year with a focus on maintaining its credit quality as competitors have been more aggressive at the higher or better end of the credit spectrum as volumes have declined.

While the competitive environment has improved, we remain very conscious of the economic backdrop and potential stresses that the tariffs could create on the economy and the consumer as well as used car prices. As a result, we've tightened our loan to value requirements to ensure we proactively manage the current environment and any potential challenges to come. We believe the credit quality of our indirect portfolio remains very strong and are pleased to see our 30 plus days past due loans declined to 41 basis points from 47 basis points in the fourth quarter. We believe our tightening credit standards will further protect the bank and credit profile of our indirect auto portfolio.

Looking ahead to the remainder of 2025, we remain cautiously optimistic that the economic growth across our Texas markets can remain resilient, though we are cognizant of the uncertainty that has been created. As a result, we would expect our loan growth to trend to the lower end of our low to mid-single-digit range for the full year 2025.

Turning to Slide 10. We generated $10.6 million of non-interest income in the first quarter as compared to $13.3 million in the linked quarter. This was primarily due to decrease of $2.8 million in mortgage banking revenues mainly from a decrease of $3 million in the fair value adjustment of mortgage servicing rights asset as interest rates that affect the value decreased in the first quarter of 2025. We've begun to selectively hire to position our business for a positive turn in the residential housing cycle which we expect will occur eventually given the pent-up demand that exists as a result of in-migration and demographic trends.

That said, we will remain vigilant with a tight focus on managing the expense structure of this business compared to revenues to ensure we maintain our profitability. For the first quarter, non-interest income was 22% of bank revenues as compared to 26% in the fourth 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 was $0.72 compared to $0.96 from the linked quarter. Of note, there was a $0.14 per share after-tax differential in the mortgage servicing rights fair value adjustment in the first quarter as compared to the fourth quarter.

Starting on Slide 12. Net interest income was $38.5 million for the first quarter, unchanged from the linked quarter. Our net interest margin calculated on a tax equivalent basis was 3.81% in the first quarter, as compared to 3.75% in the linked quarter. The six basis point increase to our NIM was primarily due to a 10 basis point decline in our cost of deposits in the quarter as we experienced a full quarter of the effects of re-pricing our interest bearing deposits as the Fed reduced their short-term interest rate in the last four months of 2024.

Our non-interest bearing deposits were 25.5% of total deposits in the first quarter as compared to 25.8% in the linked quarter. The slight decrease was due to a $140.7 million increase in interest bearing deposits during the quarter as we experienced a large inflow of public fund deposits as well as organic growth in retail and commercial deposits.

As outlined on Slide 13, deposits increased by $171.6 million to $3.79 billion at the end of the first quarter. Our cost of deposits was 219 basis points in the first quarter down from 229 basis points in the linked

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

quarter. I would add that the noted inflow of public fund deposits contributed to the deposit strength this quarter and we would expect to see some of this to flow back out in the second quarter as well as quarterly tax payments, which we typically see seasonally.

Turning to Slide 15. Our ratio of allowance for credit losses to total loans held for investment was 1.40% at March 31, 2025, a decrease of two basis points from the end of the prior quarter. We recorded a $420,000 provision for credit losses in the first quarter, which was largely attributable to net charge-off activity and increased loan balances partially offset by improved credit quality. The improved credit quality was largely a result of placing the $19.0 million multi-family property loan in Houston back on accrual status, given that the loan has demonstrated sustained payment performance and has an overall improved credit structure without granting concessions. This has driven a sharp improvement in our non-performing loans which now total $6.5 million at the end of the first quarter as compared to $24.0 million in the fourth quarter. Subsequent to quarter end, this multi-family credit was repaid in full.

Skipping ahead to Slide 18, our non-interest expense was $33.0 million in the first quarter as compared to $29.9 million in the linked quarter. As we discussed on our fourth quarter call, we expected our first quarter 2025 non-interest expense to be more in line with that of the third quarter of 2024, given the number of one-time benefits that we experienced in the fourth quarter of 2024. Looking forward, we currently expect the first quarter's non-interest expense will be a good run rate for the balance of the year.

Moving to Slide 20. We remain well capitalized with tangible common equity to tangible assets of 9.64% at the end of the first quarter, a decrease of 28 basis points from the end of the fourth quarter as our total assets grew 16% annualized. Tangible book value per share increased to $26.05 as of March 31, 2025, compared to $25.40 as of December 31, 2024. The increase was primarily driven by $9.8 million of net income after dividends paid and by a $2.7 million increase in accumulated other comprehensive income, partially offset by stock repurchases of $8.3 million.

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

Operator

Thank you. We'll now be conducting a question-and-answer session. 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 to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment please while we poll for questions.

Our first question is from Woody Lay with KBW.

Woody Lay

Hey, good afternoon, guys.

Curtis Griffith

Hi, Woody.

Cory Newsom

Hi, Woody.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Woody Lay

Wanted to start on deposit costs. You all have done a really good job over the past couple of quarters bringing that down. Do you think there's room to continue to move deposit costs down from here or are we sort of at a—are we hitting the trough level?

Steven Crockett

Yes. Woody, this is Steve. I'll start and then let anyone else jump in. We've done the bulk of the work, but there's definitely some accounts, some of the exception pricing maybe that we've got that we continue to look at. We were proud of how the quarter ended up and where we are there, but there is some room on some of those accounts and given, especially given kind of where our liquidity is today. I mean you saw our growth in deposits. That gives us a little bit more room to maybe be able to absorb some loss if we happen to see that if we change some of that pricing.

Cory Newsom

Woody, I mean there's not much you could add to what Steve just said. I think the thing that I agree with him more than anything is yes, there's room and we're trying to balance that between trying to make sure that we keep the level of liquidity that we're comfortable with, without overpaying. We look every day how we can cut a little bit more and we continue to find it. But yes, we have every desire and intention to continue to build a bigger margin.

Woody Lay

Yes, that kind of goes into my next question with paired on the loan side, the loan yield has been pretty sticky the past couple quarters. Do you think the margin can continue to move higher from here?

Steven Crockett

Yes. Again, some of that will depend on what overall liquidity does, and given where loans are able to fund. I don't know that we would see an expansion of it. I mean, we were up six basis points. I don't know that we'd be able to duplicate that again necessarily outside of any one time things that would come through, but we would like to continue to expand it. It may be a little bit less than that.

Cory Newsom

But I mean, Woody, you've looked through our stuff and you know that we've talked about, we've had a little bit of runoff on loans. We're okay with some of that, because some of those were cheap loans and the fact that we've got some repricing that's still in place over the next 24 plus months. I don't really think you're going to see the compression. I think there may be a little bit of room for expansion and we're never going to be the guys who are going to go out there and tell you that we can do a whole lot more than we can, but I think we've got room.

Steven Crockett

Again, we're starting with a good—a lot of other banks were starting from a lot lower net interest margin number. We've been able to keep ours at pretty good level. There's not quite as much upside on some of that. But yes, we'll continue to—we watch it every day.

Curtis Griffith

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com

Woody, this Curtis. I think as Steve touched on, Cory did too—our high levels of liquidity do give us a little extra flexibility. I hope we start seeing more pickup in loan volume that there's so much uncertainty out there right now, it's going to be a challenge. But if we do get a little pickup there, I think we could continue to push the NIM up a little bit because those loans will come on at current pricing. Again, everything looks like it's setting up that those rates may stay about this level.

I don't know that we're going to see a move back up, but I don't know that the expected additional 100 points drop that we originally were kind of looking at over the next 8 months to 12 months that may not happen. I realize there's certainly pressure from the Administration to cut it. But if you look at where the overall economy is going and if we do have continue to have the inflationary pressure, I think we're going to be able to hold line on the loan pricing. As we've said, we just don't have to bid up to buy deposits. We're getting some good deposit growth in even at the levels that we currently price.

Woody Lay

That's great color. Maybe just last for me on loan payoffs. I think you called out some elevated payoffs and that could persist next quarter. Any way to frame the dollar amount of payoffs you saw in the first quarter and how that might compare to previous quarters?

Brent Bates

Yes, this is Brent. Our payoffs were probably $10 million or so higher in the first quarter relative to the fourth quarter of last year. We just see, I think, more so going forward, there are some larger real estate credits that we expect are going to payoff, including the multifamily that was mentioned in the introduction. That's we think probably more likely in the second quarter, maybe bleeding over in the third quarter of this year, but it could be higher than our first quarter.

But the other side of that coin is our production is higher as well and our pipelines remain healthy. The net effect of it—we can work hard and overcome those payoffs and we're okay with the payoffs that are anticipated. Some are lower rates, some are—were expected to payoff.

Cory Newsom

A lot of these were—a lot of the stuff that we're seeing is just stuff that was going to stabilize and move out anyway. We're not seeing anything—we don't have this rash of payoffs that are coming, and—we're $10 million ahead. That's one loan, in the whole scheme of things. We're going to show you how the numbers stack up, but there's nothing that we see that's out of character for us.

Woody Lay

Got it. All right. Thanks for taking my question.

Curtis Griffith

Thank you.

Cory Newsom

Thanks, Woody.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

As a reminder if you'd like to ask a question please press star, one. Our next question is from Joe Yanchunis with Raymond James.

Joe Yanchunis

Good afternoon.

Curtis Griffith

Good afternoon, Joe.

Cory Newsom

Hey, Joe.

Joe Yanchunis

You have a history of taking advantage of market disruption to add talent. How would you characterize the current hiring landscape and how many new hires have you budgeted for the year? In your prepared remarks, you talked about kind of growing your headcount within mortgage ahead of a hopeful housing recovery. Do you think that hiring within mortgage will continue?

Cory Newsom

Yes. We're always looking for good talent, but we're not going to hire just to hire. I would tell you as a general rule, we're really comfortable hiring in any market we have right now. We think we have the capacity to do it. That said, we're not going to go overzealous trying to just hire 20 lenders just to try to figure out what we can do.

We're in our season. I mean, if you look at typically most of the time, people are pretty tied down to the first quarter. Now we're starting to see it open back up a little bit. You know that we take a more rigorous approach to our hiring because we're very selective in who we're going to bring on. But we're actively—we are hiring and we're actively looking, and we're very comfortable looking at any of the markets that we have.

Curtis Griffith

Joe, this is Curtis. Just as an illustration, you mentioned mortgage. We had one of our long-time really, one of our best mortgage markets in which we had a couple of retirements of people that we hated to lose, they were really well known in the market, did a great job, and we've been looking a while to try to find someone to bring into that market. Well, we finally had a chance. This person has been a great track record, long-time, mortgage person in that market. We jumped at the chance to bring her on. That's the kind of thing we'll do. Of course, yes, we're not going to go out and just blank and hire some people just to grow headcount. It's got to be somebody that really makes sense and is a good fit for us.

Joe Yanchunis

I appreciate it. Just kind of—in your prepared remarks, you talked about the opportunity in the Permian. What concentration of your loan portfolio is in energy? Kind of how much growth did you see in the quarter?

Curtis Griffith

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

It was you know that…

Cory Newsom

Eight, Slide 8?

Curtis Griffith

Yes. Was it on this one?

Steven Crockett

That should be on—no, actually, it's yes. This one not have.

Curtis Griffith

That didn't break it out. I'm sorry.

Steven Crockett

Yes. This one does not have it.

Curtis Griffith

It's all in the C&I.

Steven Crockett

Curtis, let me pull that for you, just a second.

Curtis Griffith

Yes, this is broken out by type, but not by…

Cory Newsom

Let him pull that and see if there's something else we can answer while he's pulling it.

Curtis Griffith

Yes.

Cory Newsom

Under 5%. I think it's about 4%, around 4%.

Curtis Griffith

Did you hear that, Joe?

Joe Yanchunis

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Around 4%, okay.

Brent Bates

Really driven largely by energy service business rather than direct E&P. But it's around 4%. That doesn't include all the other loans in the Permian area, but does include our service business.

Joe Yanchunis

Okay. Then just kind of ex-mortgage, how would you characterize kind of the outlook from here for fee income?

Steven Crockett

Yes, I'll start. Fee income by and large is dependent upon mortgage. That's typically the biggest piece of that. If we exclude that for a minute, I would say fee income and most of the other areas have been growing definitely year-over-year. Some of them maybe not necessarily quarter-over-quarter, but we have seen some growth in most of the other lines. We feel good about where those are and maybe not huge increases, but just continue to try to advance those mortgage. I'll let Cory speak a little bit more on mortgage. You kind of get some mixed signals of where the mortgage market is and where that's going to end up with mortgage rates and what we'll be able to accomplish there.

Cory Newsom

We've talked, our guys are—they're of the position right now that we probably will outperform 2024 slightly. We're not going set the world on fire, but as far as for the volume year-to-date that we should continue to outperform just a little bit. If you look at treasury, to me it's not huge needle moving, but if you look at percentage wise of the treasury increases that we're seeing, it's—we like the outcomes. We are very focused on the fee income aspect of it.

Joe Yanchunis

All right, gentlemen. Well, I appreciate you taking my questions.

Steven Crockett

Thanks, Joe.

Curtis Griffith

Thanks, Joe.

Cory Newsom

Thanks, Joe.

Brent Bates

Thanks.

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-0262 1-604-929-1352 www.viavid.com

Thank you. There are no further questions at this time. I would like to hand the floor back over to Curtis Griffith for any closing comments.

Curtis Griffith

Thank you, Operator. Thanks to all of you that joined us today on today's call. To conclude, I am proud not only of our first quarter results, but also the financial position of South Plains, which is a testament to our talented employees whose hard work and commitment to the bank is a true key to our success. While the economic outlook is uncertain, I remain very optimistic for the future. My optimism stems from years of hard work that we have invested in positioning City Bank to perform well through the next economic downturn.

We believe the credit quality of our loan portfolio is strong and our relationships with our customers span many years and sometimes even generations. I also believe we have the team and the capital to take advantage of opportunities to further grow the bank through the cycle. We are focused on hiring experienced lenders that add to our great team and will continue to do so over the balance of the year when we find the right fit. Taken together, we believe we're in an advantageous position to succeed and to continue to deliver value to our shareholders.

Thank you again for your time today.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-0262 1-604-929-1352 www.viavid.com