

# South Plains Financial



## Second Quarter 2022 Earnings Presentation

July 22, 2022

# Safe Harbor Statement and Other Disclosures



## FORWARD-LOOKING STATEMENTS

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## 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. 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 2022 Highlights

**Organic Loan Growth**  
**20.8% Annualized**

**Loans Held for Investment**  
**("HFI") \$2.58 B**

**Net Income**  
**\$15.9 M**

**EPS - Diluted**  
**\$0.88**

**ROAA**  
**1.61%**

**Efficiency Ratio**  
**64.0%**

**Net Interest Margin <sup>(1)</sup>**  
**4.02%**

**Average Yield on Loans**  
**5.57%**

- **Diluted earnings per share** was **\$0.88 per share**, an **increase of 13%** as compared to \$0.78 per share in 1Q'22
- Earnings growth primarily driven by a **20.8% annualized increase in loans HFI** as compared to 1Q'22 as recently hired lenders ramp their loan portfolios combined with a continued focus on organic growth
- Seeing broad strength across major markets of **Dallas, Houston and El Paso** which experienced a **28.0% annualized increase in loans HFI** to \$819.4 million
- Inflection point quarter as our **Mortgage Banking business has largely moderated** at 15% of total revenues
- **Visibility on second half 2022 earnings growth** has improved given strong second quarter loan growth combined with moderating Mortgage Banking operations
- **Credit continues to improve** as nonperforming assets to total assets declined to 20 bps in 2Q'22 from 33bps in 1Q'22
- **Repurchased 257,000 shares** in 2Q'22 as compared to 106,000 shares in 1Q'22

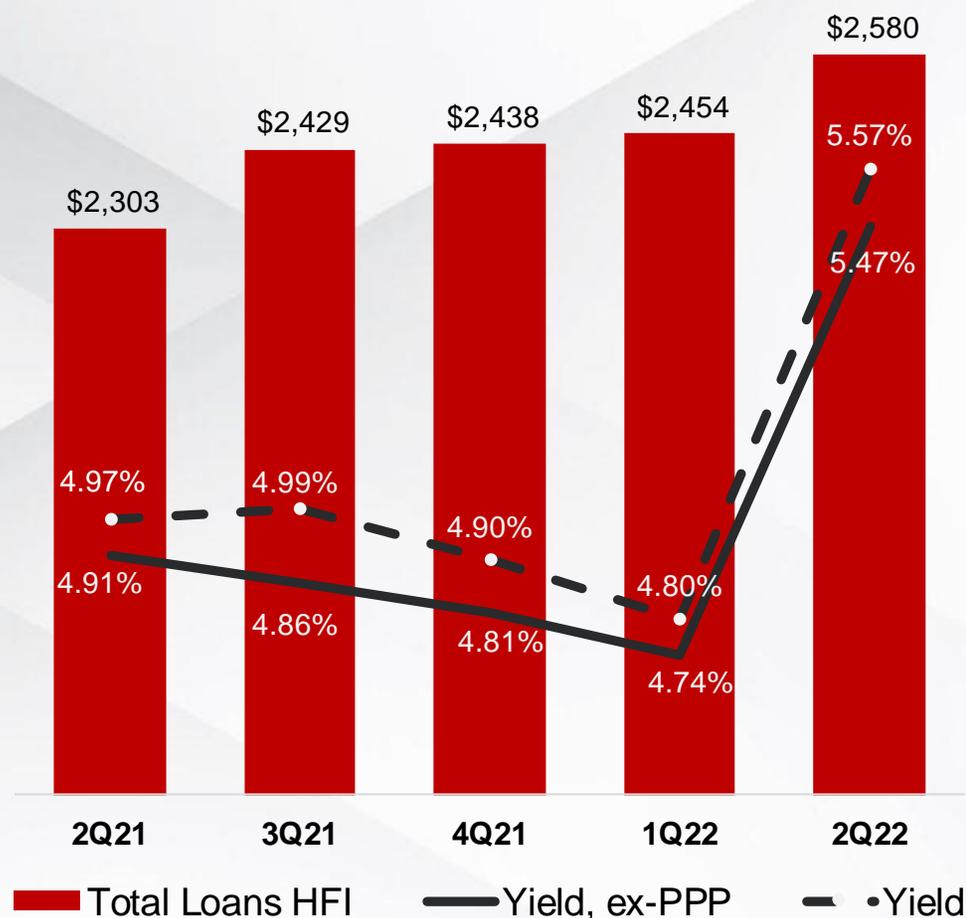
(1) Net interest margin is calculated on a tax-equivalent basis

Source: Company documents

# Loan Portfolio

## Total Loans HFI

\$ in Millions



## 2Q'22 Highlights

- ✓ Loans HFI increased \$126.9 million from 1Q'22, primarily due to:
  - \$148.2 million organic net loan growth. Remains relationship-focused with largest growth in commercial real estate, residential mortgage loans, and consumer auto loans.
  - SBA forgiveness and repayments of \$21.3 million in Paycheck Protection Program (“PPP”) loans
- ✓ Loans HFI increased \$277.0 million from 2Q'21
- ✓ 2Q'22 yield on non-PPP loans of 5.47%; an increase of 73 bps compared to 1Q'22. Includes \$4.4 million of income on large loan recoveries and prepayment penalties during 2Q'22, which equated to 70bps of yield.

Source: Company documents

# Attractive Markets Poised for Organic Growth



## Dallas / Ft. Worth<sup>1</sup>

- ✓ Largest MSA in Texas. Steadily expanding population that accounts for over 26% of the state's population
- ✓ Attractive location for companies interested in relocating to more efficient economic environments
- ✓ Major U.S. Airport hub and large corporations in diversified sectors including financial services, transportation, energy and technology
- ✓ 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
- ✓ 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
- ✓ Leading corporations across a variety of industries propelling growth through new entrants and diversification
- ✓ Focus on commercial real estate lending

## Lubbock

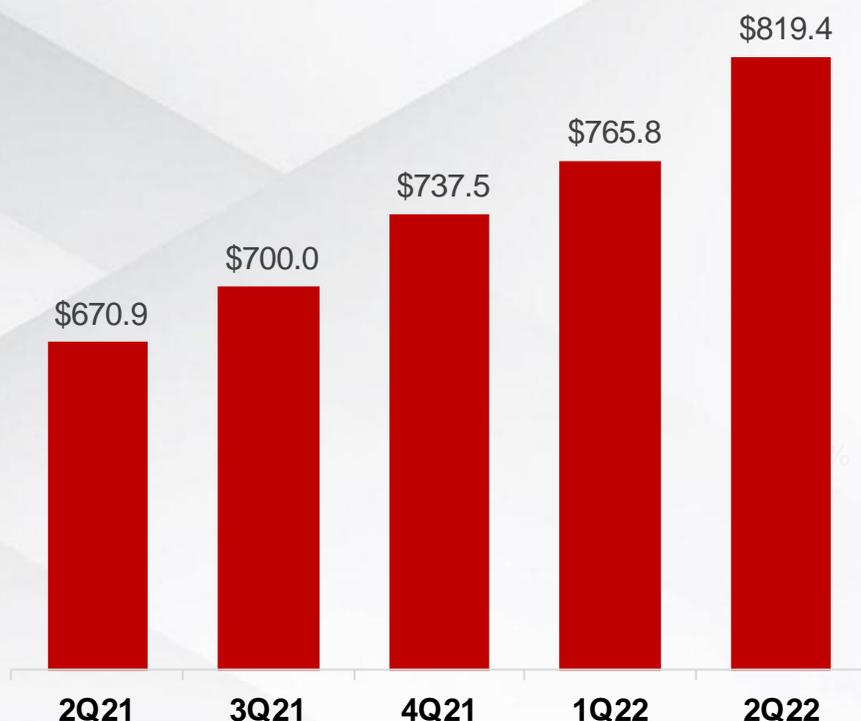
- ✓ Population in excess of 320,000 with major industries in agribusiness, education, and trade among others
- ✓ Home of Texas Tech University – enrollment of 40,000 students
- ✓ Focus on community bank approach and expanding local relationships

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

# Metropolitan Loan Growth

## Total Metropolitan Loans

*\$ in Millions*



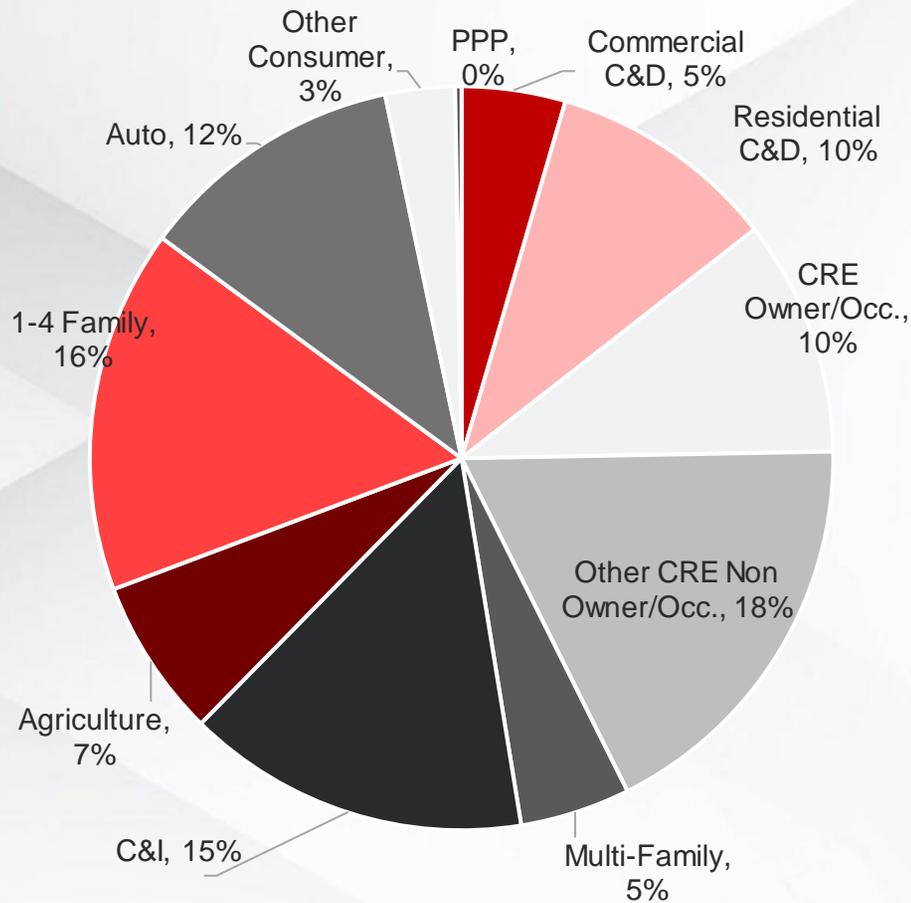
## 2Q'22 Highlights

- ✓ Loans HFI in Dallas, Houston and El Paso totaled \$819.4 million in 2Q'22 an increase of 28.0% from 1Q'22
- ✓ Expansion of lending team across the Company's MSA's is driving accelerated loan growth
- ✓ Existing infrastructure in Dallas, Houston and El Paso can support further growth
- ✓ Have ample liquidity to fund further growth as we continue to redeploy our low cost deposits into higher yielding loans
- ✓ New lenders continue to ramp more quickly than anticipated reaching breakeven ahead of plan, on average

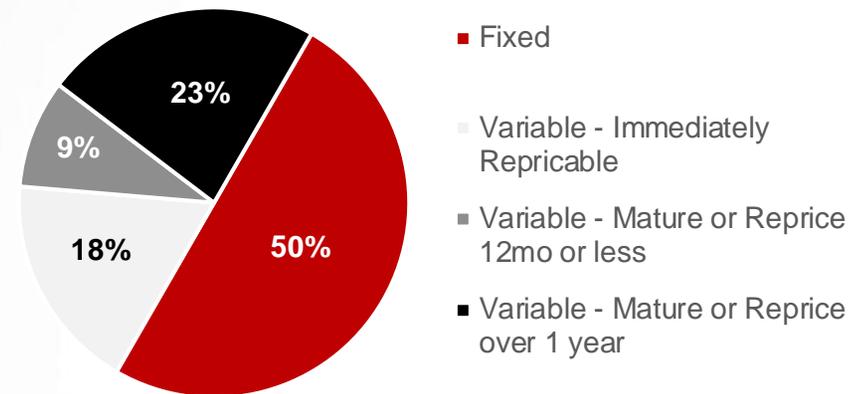
Source: Company documents

# Loan HFI Portfolio

## Loan Mix



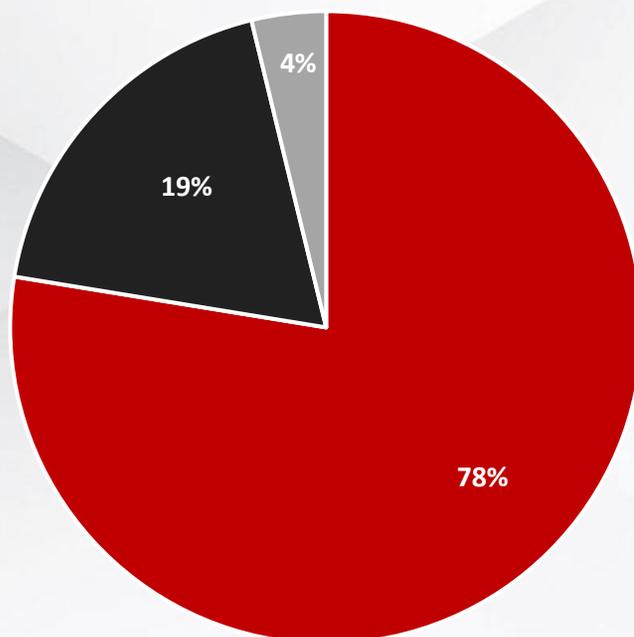
## Fixed vs. Variable Rate at 6/30/22



Loan Portfolio (\$ in millions)	6/30/22
Commercial C&D	\$ 116.5
Residential C&D	256.5
CRE Owner/Occ.	264.7
Other CRE Non Owner/Occ.	462.5
Multi-Family	123.7
C&I	385.5
Agriculture	178.3
1-4 Family	407.9
Auto	299.7
Other Consumer	78.1
PPP	7.1
<b>Total</b>	<b>\$ 2,580.5</b>

Source: Company documents

## Indirect Auto Credit Breakdown



- Level 1 - Credit Score 690 +
- Level 2 - Credit Score 635 - 689
- Level 3 - Credit Score Below 635

## Indirect Auto Highlights

- ✓ Total indirect auto loans increased \$40.8 million in 2Q'22 to \$280.4 million, compared to 1Q'22
- ✓ Expanded footprint through the addition of several high quality auto dealerships
- ✓ Disciplined underwriting approach to selectively grow indirect auto lending portfolio
- ✓ Strong credit quality in sector positioned for resiliency across economic cycles:
  - ✓ Credit Score 690+: \$217.4 million
  - ✓ Credit Score 635-689: \$52.2 million
  - ✓ Credit Score Below 635: \$10.6 million

Source: Company documents

# Mortgage Banking Overview

## Mortgage Banking Activity

\$ in Millions



## 2Q'22 Highlights

- ✓ Inflection point quarter as mortgage banking activity is moderating
- ✓ Mortgage loan originations decreased 12% in 2Q'22 compared to 1Q'22
- ✓ Have aggressively managed the decline in volumes since the peak through expense and headcount reduction
- ✓ Mortgage servicing rights – a positive fair value adjustment of \$1.2 million in 2Q'22, compared to \$4.5 million in 1Q'22.

Source: Company documents

# Noninterest Income Overview

## Noninterest Income

\$ in Millions



## 2Q'22 Highlights

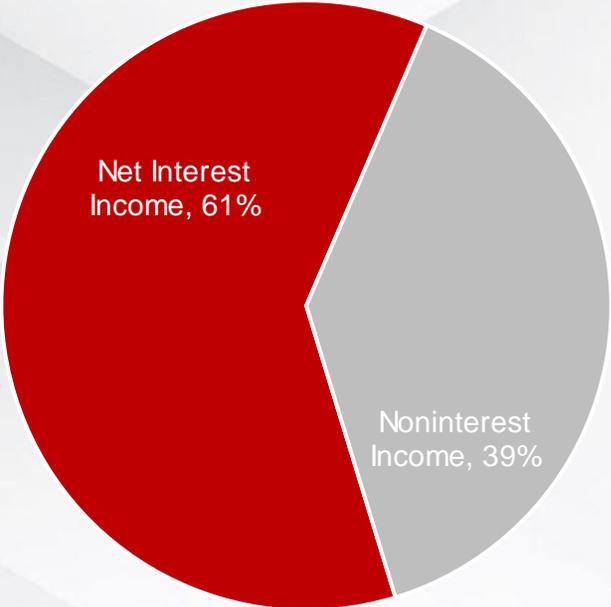
- ✓ Mortgage banking revenues have largely moderated at 15% of total Bank revenues
- ✓ Noninterest income of \$18.8 million, compared to \$23.7 million in 1Q'22; this decline is primarily due to \$5.0 million decrease in mortgage banking activities revenue and aligns with our forecast based upon the mortgage market's return to more historical levels
- ✓ Growth in bank card services and interchange fees, partially offset by a decrease in service charges on deposits

Source: Company documents

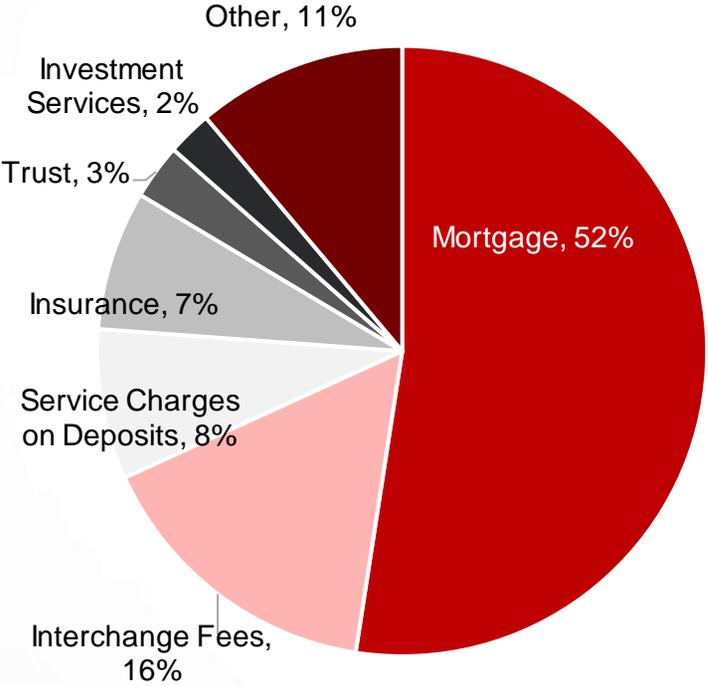
# Diversified Revenue Stream

Six Months Ended June 30, 2022

**Total Revenues**  
*\$109.6 million*



**Noninterest Income**  
*\$42.5 million*

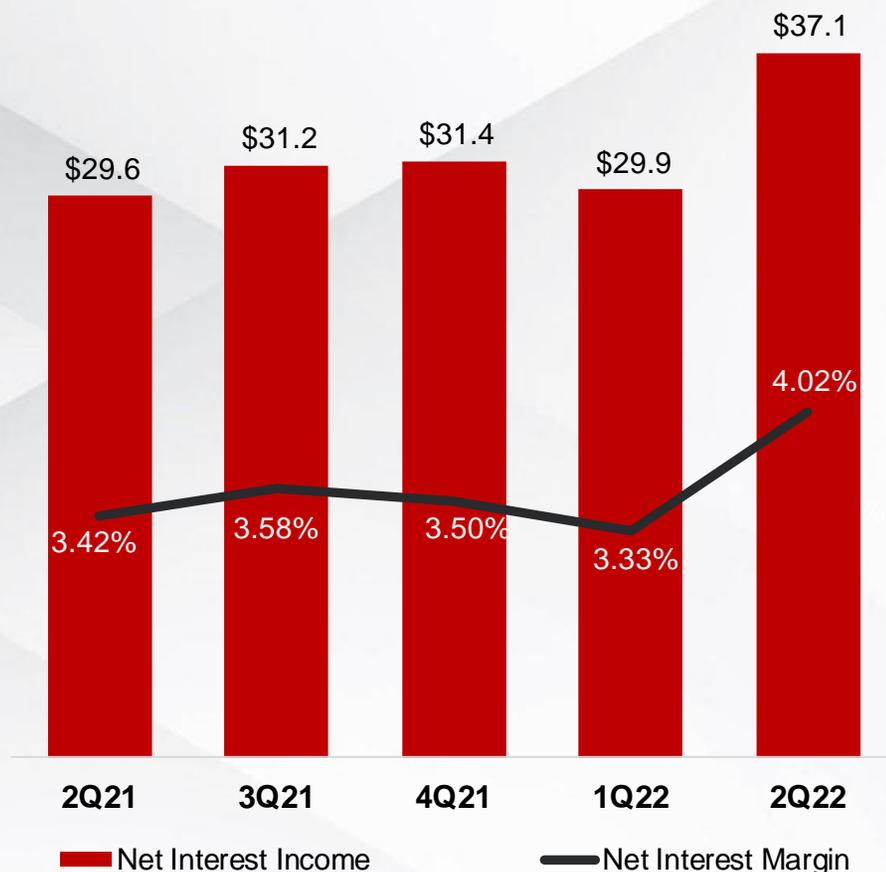


Source: Company documents

# Net Interest Income and Margin

## Net Interest Income & Margin

*\$ in Millions*



## 2Q'22 Highlights

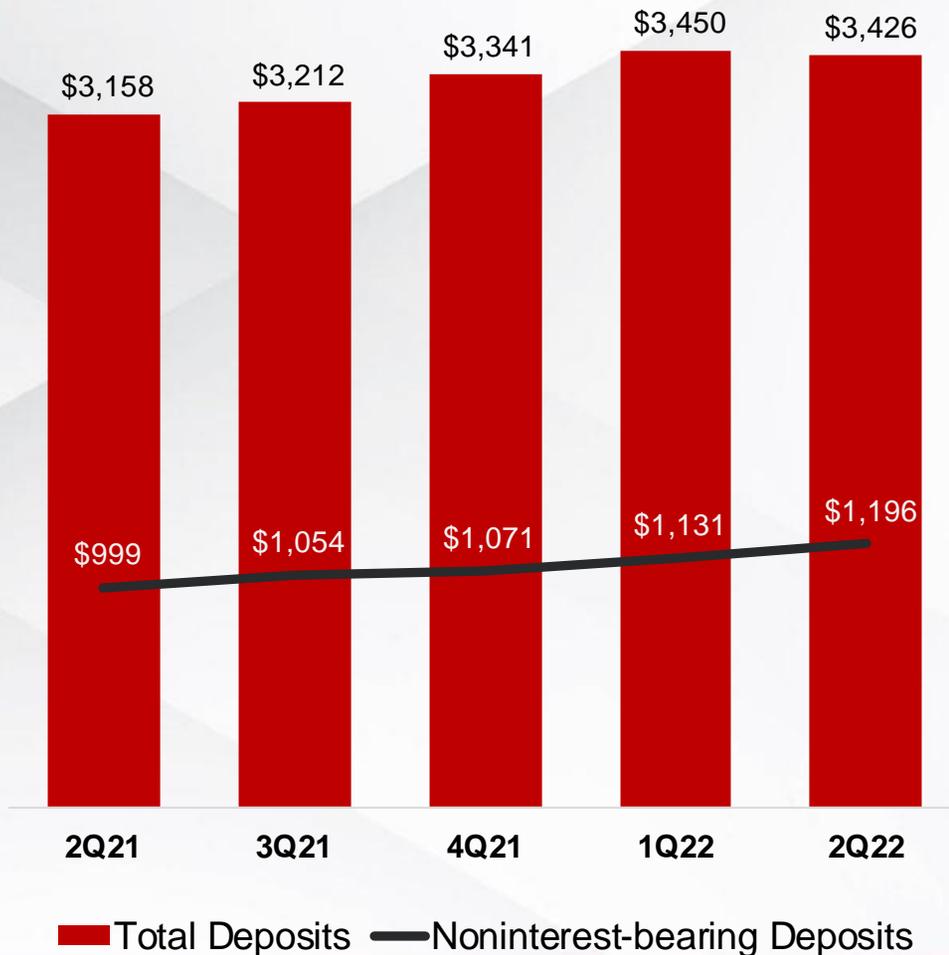
- ✓ Net interest income of \$37.1 million, compared to \$29.9 million in 1Q'22
- ✓ 2Q'22 net interest margin, calculated on a tax-equivalent basis ("NIM"), of 4.02% and an increase of 69 bps compared to 1Q'22:
  - ✓ \$66.7 million increase in average loans outstanding
  - ✓ Includes \$4.4 million of income on large loan recoveries and prepayment penalties during 2Q'22, which equated to 48bps of NIM
  - ✓ 21 bps NIM increase from loan growth, liquidity redeployment, and rising interest rates

Source: Company documents

# Deposit Portfolio

## Total Deposits

*\$ in Millions*

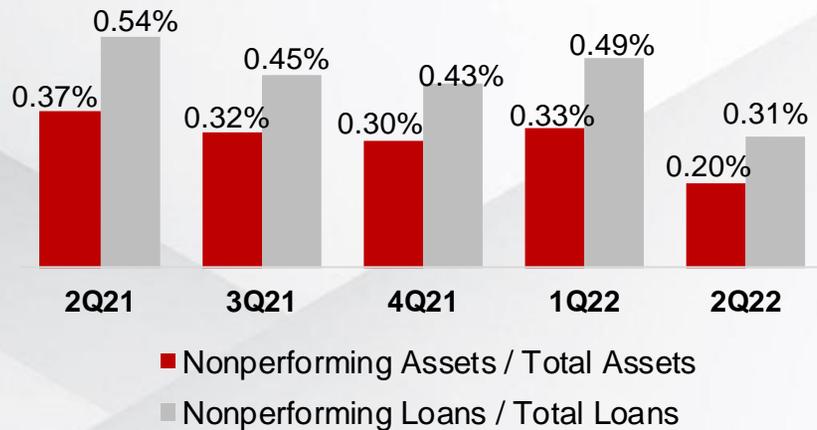


## 2Q'22 Highlights

- ✓ Total deposits of \$3.43 billion at 2Q'22, a decrease of approximately \$24 million from 1Q'22
  - ✓ Decrease was primarily due to large tax payments made during the quarter
- ✓ Cost of interest-bearing deposits increased in 2Q'22 to 42 bps from 34 bps in 4Q'21
- ✓ Noninterest-bearing deposits represented 34.9% of deposits in 2Q'22, compared to 32.8% in 1Q'22

Source: Company documents

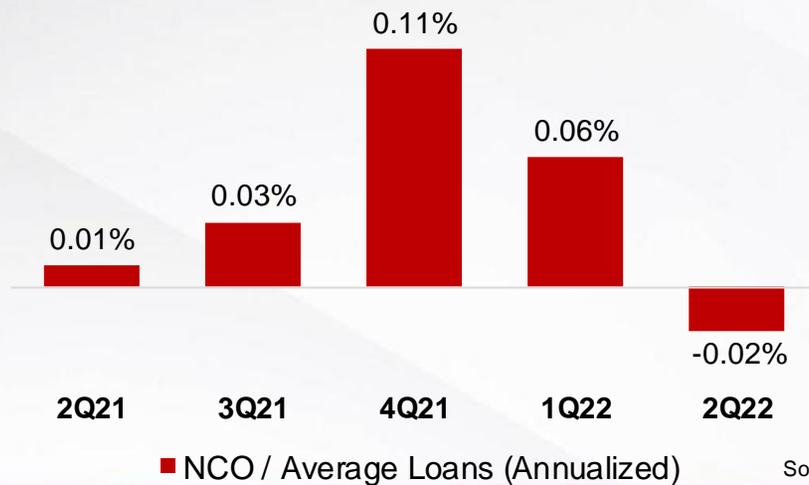
## Credit Quality Ratios



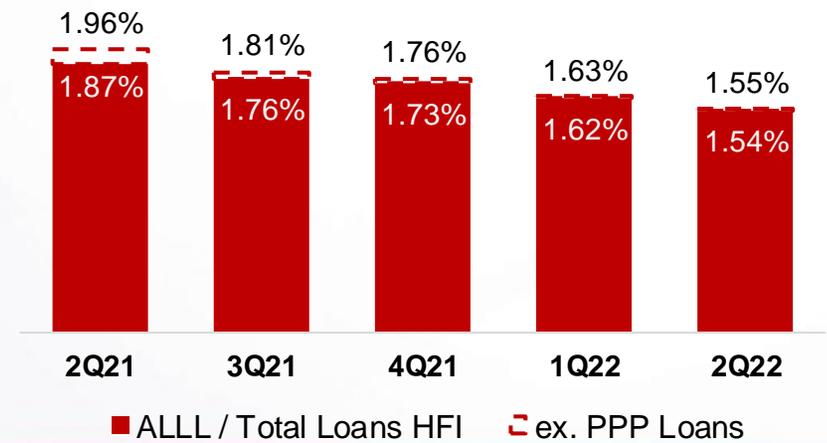
## 2Q'22 Highlights

- ✓ The Company did not record a provision for loan losses in the second quarter of 2022, compared to a negative provision for loan losses of \$2.1 million in 2Q'21
- ✓ The Company continued to experience improving credit metrics in the loan portfolio during the second quarter of 2022, specifically in the hotel segment
- ✓ Ratio of Allowance for Loan Losses (“ALLL”) to loans HFI was 1.54% at 6/30/22

## Net Charge-Offs to Average Loans



## ALLL to Total Loans HFI

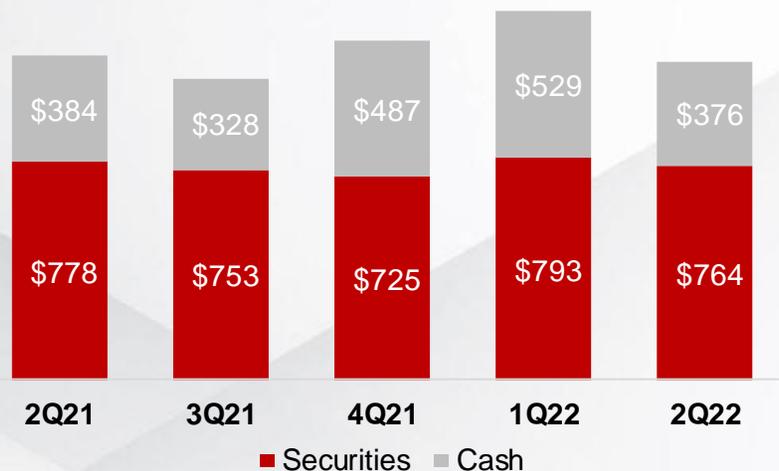


Source: Company documents

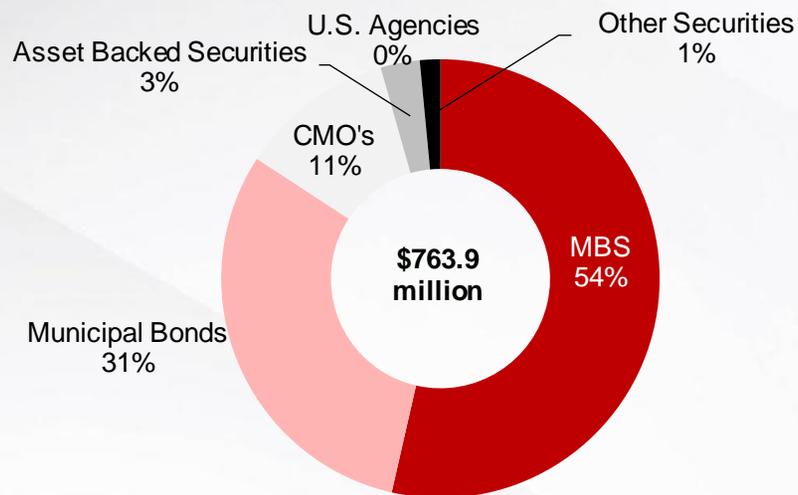
# Investment Securities

## Securities & Cash

\$ in Millions



## 1Q'22 Securities Composition



## 2Q'22 Highlights

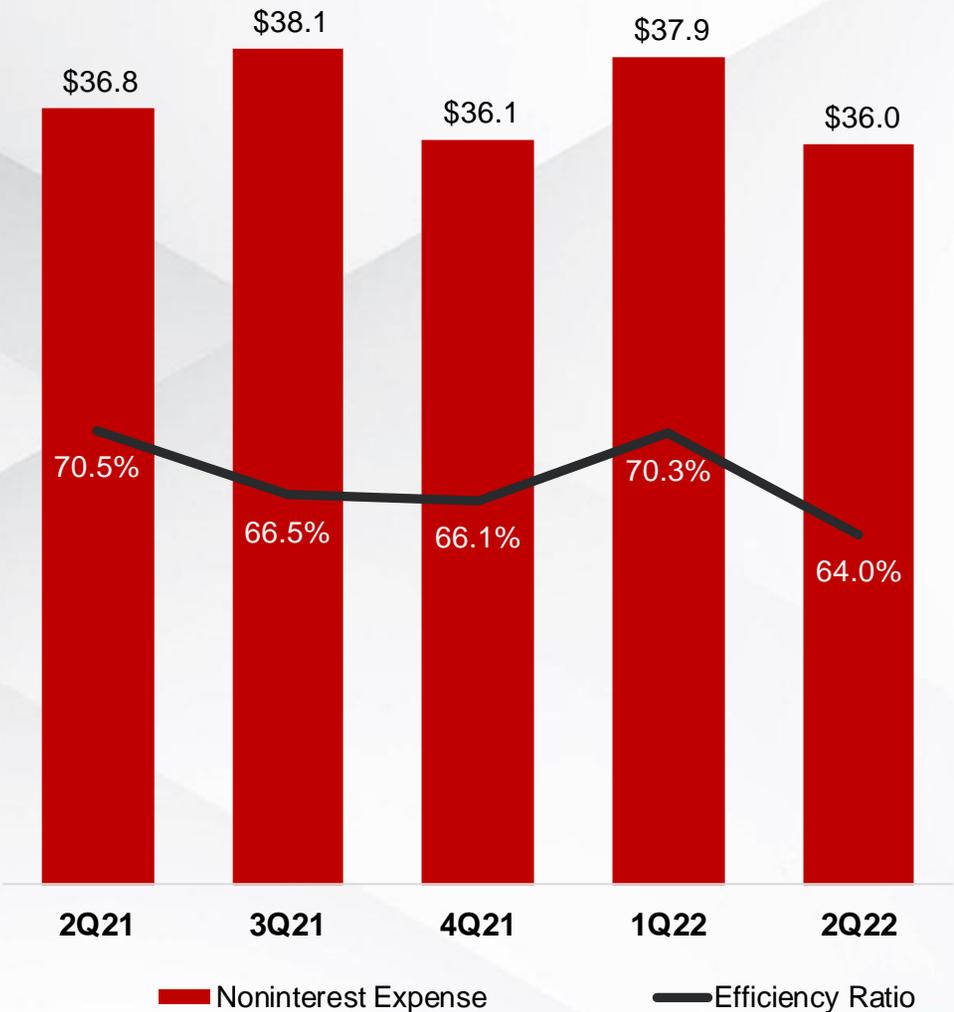
- ✓ Investment Securities totaled \$763.9 million at 6/30/2022, a decrease of \$29.4 million from 1Q'22
- ✓ All municipal bonds are in Texas
- ✓ All MBS, CMO, and Asset Backed securities are U.S. Government or GSE
- ✓ Duration – 6.87 years
- ✓ 2Q'22 yield – 2.19%

Source: Company documents

# Noninterest Expense and Efficiency

## Noninterest Expense

*\$ in Millions*



## 2Q'22 Highlights

- ✓ Noninterest expense for 2Q'22 decreased \$1.9 million from 1Q'22 primarily due to:
  - ✓ Lower mortgage commissions and other variable mortgage-based expenses due to the reduction in mortgage loan originations
  - ✓ Partially offset by additional commercial lenders hired as part of a planned initiative and increased incentive-based compensation based on strong results in the quarter

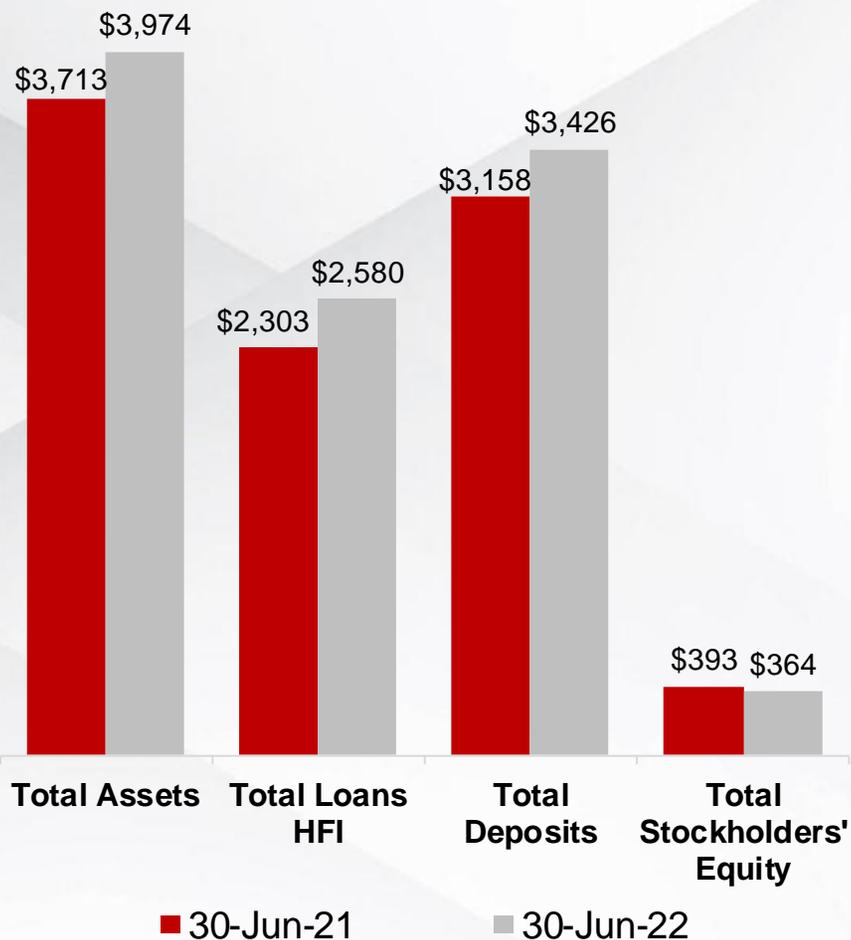
Source: Company documents

# Balance Sheet Growth and Development

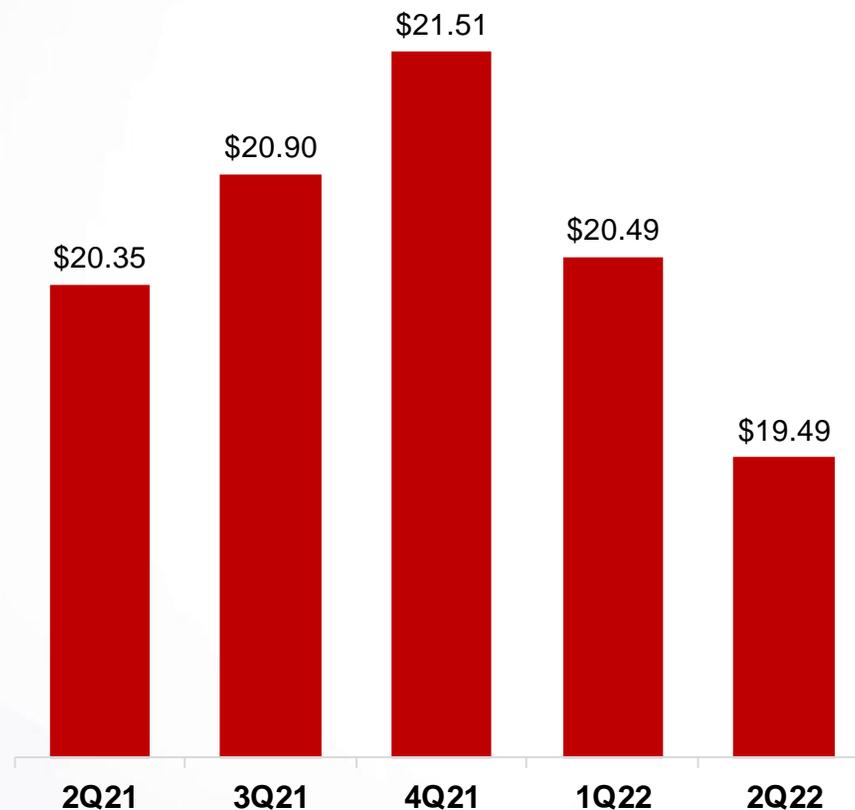


## Balance Sheet Highlights

*\$ in Millions*



## Tangible Book Value Per Share

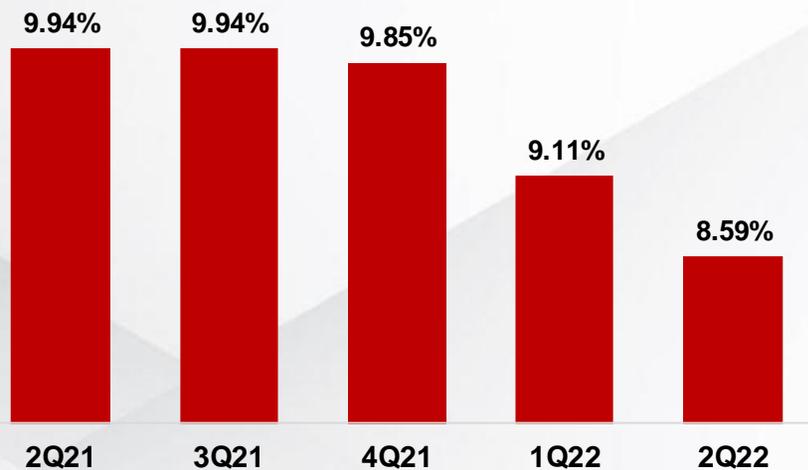


Note: Tangible book value per share is a non-GAAP measure. See appendix for the reconciliation to GAAP

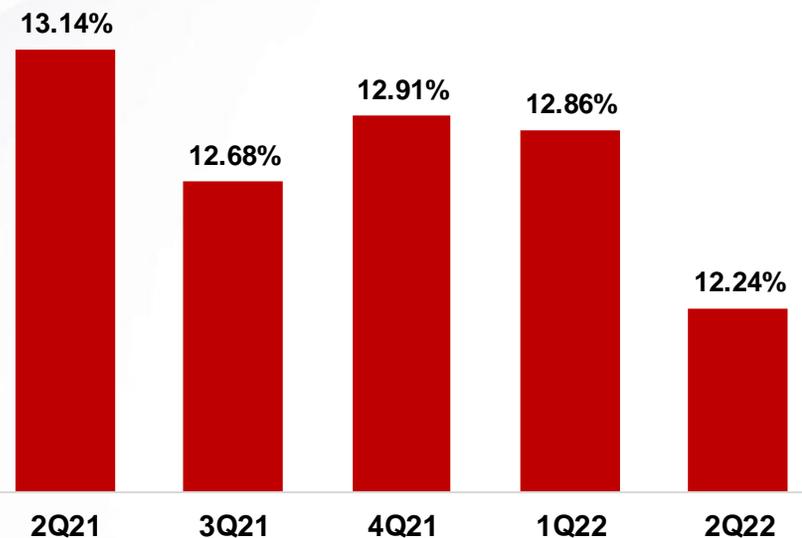
Source: Company documents

# Strong Capital Base

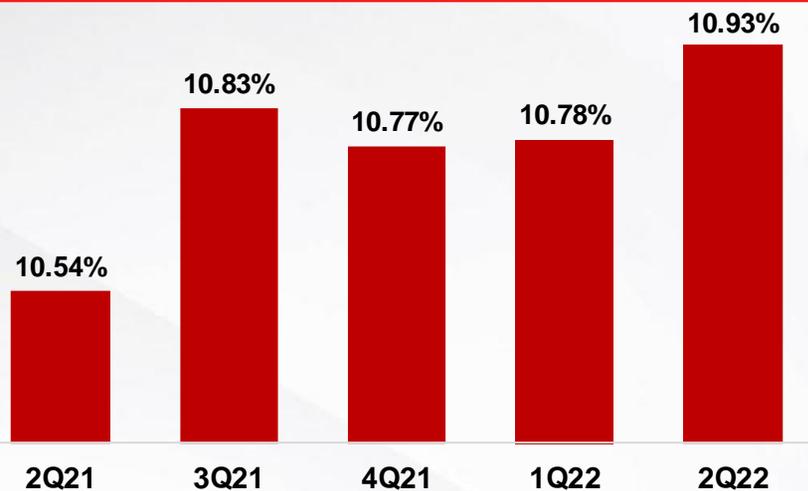
Tangible Common Equity to Tangible Assets Ratio



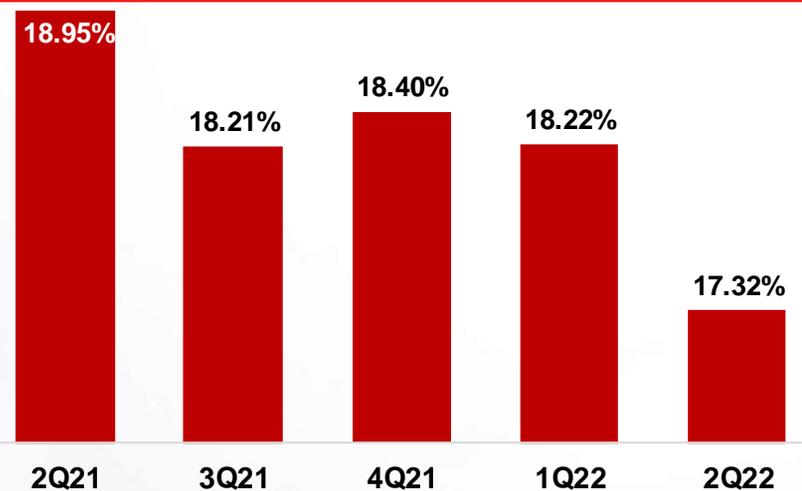
Common Equity Tier 1 Ratio



Tier 1 Capital to Average Assets Ratio



Total Capital to Risk-Weighted Assets Ratio



Source: Company documents

Note: Tangible common equity to tangible assets is a non-GAAP measure. See appendix for the reconciliation 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 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



	As of and for the quarter ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
<b>Pre-Tax, Pre-Provision Income</b>					
Net income	\$ 15,936	\$ 14,278	\$ 14,614	\$ 15,190	\$ 13,650
Income tax expense	4,001	3,527	3,631	3,716	3,422
Provision for loan losses	-	(2,085)	-	-	(2,007)
Pre-tax, pre-provision income	\$ 19,937	\$ 15,720	\$ 18,245	\$ 18,906	\$ 15,065

	As of the quarter ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
<b>Tangible common equity</b>					
Total common stockholders' equity	\$ 364,026	\$ 387,068	\$ 407,427	\$ 398,276	\$ 392,815
Less: goodwill and other intangibles	(24,620)	(25,011)	(25,403)	(25,804)	(26,226)
<b>Tangible common equity</b>	\$ 339,406	\$ 362,057	\$ 382,024	\$ 372,472	\$ 366,589
<b>Tangible assets</b>					
Total assets	\$ 3,974,772	\$ 3,999,744	\$ 3,901,855	\$ 3,774,175	\$ 3,712,915
Less: goodwill and other intangibles	(24,620)	(25,011)	(25,403)	(25,804)	(26,226)
<b>Tangible assets</b>	\$ 3,950,152	\$ 3,974,733	\$ 3,876,452	\$ 3,748,371	\$ 3,686,689
Shares outstanding	17,417,094	17,673,407	17,760,243	17,824,094	18,014,398
Total stockholders' equity to total assets	9.16%	9.68%	10.44%	10.55%	10.58%
Tangible common equity to tangible assets	8.59%	9.11%	9.85%	9.94%	9.94%
Book value per share	\$ 20.90	\$ 21.90	\$ 22.94	\$ 22.34	\$ 21.81
Tangible book value per share	\$ 19.49	\$ 20.49	\$ 21.51	\$ 20.90	\$ 20.35

Source: Company documents