UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number: 001-38895

South Plains Financial, Inc.
(Exact name of registrant as specified in its charter)

Texas	**75-2453320**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5219 City Bank Parkway Lubbock, Texas	**79407**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (806) 792-7101

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1.00 par value per share	SPFI	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 2, 2024, the registrant had 16,419,362 shares of common stock, par value $1.00 per share, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2024 (Unaudited)	December 31, 2023
ASSETS		
Cash and due from banks	$ 41,273	$ 62,821
Interest-bearing deposits in banks	330,666	267,337
Cash and cash equivalents	371,939	330,158
Securities available for sale	599,869	622,762
Loans held for sale ($9,686 and $6,615 at fair value at March 31, 2024 and December 31, 2023, respectively)	15,751	14,499
Loans held for investment	3,011,799	3,014,153
Allowance for credit losses on loans	(42,174)	(42,356)
Loans held for investment, net	2,969,625	2,971,797
Accrued interest receivable	16,605	20,881
Premises and equipment, net	54,221	55,070
Bank-owned life insurance	74,879	74,504
Goodwill	19,315	19,315
Intangible assets, net	2,247	2,429
Mortgage servicing rights	26,843	26,569
Deferred tax asset, net	21,309	19,413
Other assets	46,390	47,396
Total assets	$ 4,218,993	$ 4,204,793
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 974,174	$ 974,201
Interest-bearing	2,664,397	2,651,952
Total deposits	3,638,571	3,626,153
Accrued expenses and other liabilities	61,496	61,358
Subordinated debt	63,821	63,775
Junior subordinated deferrable interest debentures	46,393	46,393
Total liabilities	3,810,281	3,797,679
Stockholders' equity:		
Common stock, $1.00 par value per share, 30,000,000 shares authorized; 16,431,755 and 16,417,099 issued and outstanding at March 31, 2024 and December 31, 2023, respectively	16,432	16,417
Additional paid-in capital	97,406	97,107
Retained earnings	354,011	345,264
Accumulated other comprehensive loss	(59,137)	(51,674)
Total stockholders' equity	408,712	407,114
Total liabilities and stockholders' equity	$ 4,218,993	$ 4,204,793

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2024	2023
Interest income:		
Loans, including fees	$ 48,932	$ 39,597
Securities:		
Taxable	5,511	5,240
Non-taxable	809	1,116
Federal funds sold and interest-bearing deposits in banks	3,475	1,495
Total interest income	58,727	47,448
Interest expense:		
Deposits	21,663	11,370
Subordinated debt	835	1,012
Junior subordinated deferrable interest debentures	861	751
Total interest expense	23,359	13,133
Net interest income	35,368	34,315
Provision for credit losses	830	1,010
Net interest income, after provision for credit losses	34,538	33,305
Noninterest income:		
Service charges on deposit accounts	1,813	1,701
Income from insurance activities	34	1,411
Net gain on sales of loans	2,654	2,918
Bank card services and interchange fees	3,061	2,956
Other mortgage banking income (loss)	1,291	(633)
Investment commissions	434	389
Fiduciary fees	754	600
Other	1,368	1,349
Total noninterest income	11,409	10,691
Noninterest expense:		
Salaries and employee benefits	18,988	19,254
Occupancy and equipment, net	3,920	3,832
Professional services	1,483	1,648
Marketing and development	754	936
IT and data services	990	864
Bank card expenses	1,397	1,352
Appraisal expenses	227	278
Other	4,171	4,197
Total noninterest expense	31,930	32,361
Income before income taxes	14,017	11,635
Income tax expense	3,143	2,391
Net income	$ 10,874	$ 9,244

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2024	**2023**
Earnings per share:		
Basic	$ 0.66	$ 0.54
Diluted	$ 0.64	$ 0.53
Net income	$ 10,874	$ 9,244
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(10,832)	8,624
Less: Change in fair value on hedged state and municipal securities	1,385	(2,638)
Tax effect	1,984	(1,257)
Other comprehensive income (loss)	(7,463)	4,729
Comprehensive income	$ 3,411	$ 13,973

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Three Months Ended March 31, 2023						
Balance at beginning of period	17,027,197	$ 17,027	$ 112,834	$ 292,261	$ (65,108)	$ 357,014
Net income	—	—	—	9,244	—	9,244
Cash dividends declared - $0.13 per share	—	—	—	(2,208)	—	(2,208)
Other comprehensive income	—	—	—	—	4,729	4,729
Impact of adoption of ASU 2016-13 - CECL	—	—	—	(997)	—	(997)
Exercise of employee stock options and vesting of restricted stock units, net of 13,573 shares for cashless exercise and net of 13,892 shares for taxes	35,375	35	(378)	—	—	(343)
Stock-based compensation	—	—	525	—	—	525
Balance at end of period	17,062,572	$ 17,062	$ 112,981	$ 298,300	$ (60,379)	$ 367,964
Three Months Ended March 31, 2024						
Balance at beginning of period	16,417,099	$ 16,417	$ 97,107	$ 345,264	$ (51,674)	$ 407,114
Net income	—	—	—	10,874	—	10,874
Cash dividends declared - $0.13 per share	—	—	—	(2,127)	—	(2,127)
Other comprehensive loss	—	—	—	—	(7,463)	(7,463)
Exercise of employee stock options and vesting of restricted stock units, net of 2,606 shares for cashless exercise and net of 4,675 shares for taxes	16,062	16	(148)	—	—	(132)
Repurchases of common stock	(1,406)	(1)	(34)	—	—	(35)
Stock-based compensation	—	—	481	—	—	481
Balance at end of period	16,431,755	$ 16,432	$ 97,406	$ 354,011	$ (59,137)	$ 408,712

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 10,874	$ 9,244
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	830	1,010
Depreciation and amortization	1,625	1,698
Accretion and amortization	594	991
Other gains, net	—	(79)
Net gain on sales of loans	(2,654)	(2,918)
Proceeds from sales of loans held for sale	69,962	86,893
Loans originated for sale	(68,779)	(74,291)
Deferred income tax expense	88	47
Earnings on bank-owned life insurance	(375)	(300)
Stock-based compensation	481	525
Change in valuation of mortgage servicing rights	(55)	1,950
Net change in:		
Accrued interest receivable and other assets	6,496	609
Accrued expenses and other liabilities	73	(4)
Net cash provided by operating activities	19,160	25,375
Cash flows from investing activities:		
Activity in securities available for sale:		
Purchases	(299,849)	—
Maturities, prepayments, and calls	311,363	10,811
Loan originations and principal collections, net	1,027	(41,634)
Purchases of premises and equipment	(474)	(1,560)
Proceeds from sales of premises and equipment	—	642
Proceeds from sales of foreclosed assets	430	412
Net cash provided by (used in) investing activities	12,497	(31,329)
Cash flows from financing activities:		
Net change in deposits	12,418	101,624
Payments to tax authorities for stock-based compensation	(132)	(343)
Cash dividends paid on common stock	(2,127)	(2,208)
Payments to repurchase common stock	(35)	—
Net cash provided by financing activities	10,124	99,073
Net change in cash and cash equivalents	41,781	93,119
Beginning cash and cash equivalents	330,158	234,883
Ending cash and cash equivalents	$ 371,939	$ 328,002
Supplemental disclosures of cash flow information:		
Interest paid on deposits and borrowed funds	$ 24,188	$ 13,215
Income taxes paid	—	—
Supplemental schedule of noncash activities:		
Loans transferred to foreclosed assets	$ 380	$ 445
Additions to mortgage servicing rights	219	271

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – South Plains Financial, Inc. ("SPFI") is a Texas corporation and registered bank holding company that conducts its principal activities through its subsidiaries from offices located throughout Texas and Eastern New Mexico. Principal activities include commercial and retail banking, along with investment, trust, and mortgage services. The following were subsidiaries of SPFI as of March 31, 2024:

Wholly-Owned, Consolidated Subsidiaries:	
City Bank	Bank subsidiary
Ruidoso Retail, Inc.	Non-bank subsidiary
CB Provence, LLC	Non-bank subsidiary
CBT Brushy Creek, LLC	Non-bank subsidiary
CBT Properties, LLC	Non-bank subsidiary
Wholly-Owned, Equity Method Subsidiaries:	
South Plains Financial Capital Trusts ("SPFCT") III-V	Non-bank subsidiaries

On April 1, 2023, SPFI entered into a Securities Purchase Agreement ("Agreement") with Alliant Insurance Services, Inc. ("Alliant"), providing for the sale of Windmark Insurance Agency, Inc. ("Windmark"), City Bank's wholly-owned subsidiary, through a sale of all of the outstanding shares of capital stock of Windmark to Alliant. The transaction was consummated on April 1, 2023. Pursuant to the terms and subject to the conditions of the Agreement, SPFI received an aggregate purchase price of $36.1 million in exchange for Windmark's common shares, representing a pre-tax gain of $33.8 million. This transaction did not meet the criteria for discontinued operations reporting.

Basis of Presentation and Consolidation –
The consolidated financial statements in this Quarterly Report on Form 10-Q for the three months ended March 31, 2024 (this "Form 10-Q") include the accounts of SPFI and its wholly-owned consolidated subsidiaries (collectively referred to as the "Company") identified above. All significant intercompany balances and transactions have been eliminated in consolidation.

The interim consolidated financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows. All such adjustments were of a normal and recurring nature. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the Company's audited consolidated financial statements, and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on March 15, 2024 (the "2023 Annual Report on Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Determination of the adequacy of the allowance for credit losses ("ACL") is a material estimate that is particularly susceptible to significant change in the near term; the assumptions used in stock-based compensation, derivatives, mortgage servicing rights, and fair values of financial instruments can also involve significant management estimates.

Recent Accounting Pronouncements – Updates to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") are prescribed in Accounting Standards Updates ("ASUs"), which are not authoritative until incorporated into the ASC.

ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. The amendments in this Update modify the disclosure or presentation requirements of a variety of Topics in the Codification. Certain of the amendments represent clarifications to, or technical corrections of the current requirements. Each amendment in the ASU will only become effective if the SEC removes the related disclosure or presentation requirement from its existing regulations by June 30, 2027. The amendments in this ASU are not expected to have a material impact on the results of operations or financial position.

ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this Update require public entities to disclose information about reportable segments' significant expenses on an interim and annual basis. This update is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The adoption of ASU 2023-07 is not expected to have a material effect on the Company's financial statements.

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments in this Update are intended to improve the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction. It also includes certain other amendments intended to improve the effectiveness of income tax disclosures. This update is effective for fiscal years beginning after December 15, 2024. The adoption of ASU 2023-09 is not expected to have a material effect on the Company's financial statements.

Subsequent Events – The Company has evaluated subsequent events and transactions from March 31, 2024 through the date this Form 10-Q was filed with the SEC for potential recognition or disclosure as required by GAAP.

2. SECURITIES

The amortized cost, related gross unrealized gains and losses, allowance for credit losses, and estimated fair value of securities available for sale at the dates indicated follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2024					
Available for sale:					
State and municipal	$ 201,459	$ 1	$ (23,812)	$ —	$ 177,648
Residential mortgage-backed securities	344,258	—	(59,093)	—	285,165
Commercial mortgage-backed securities	47,576	—	(6,722)	—	40,854
Commercial collateralized mortgage obligations	69,486	—	(414)	—	69,072
Asset-backed and other amortizing securities	17,990	—	(1,661)	—	16,329
Other securities	12,000	—	(1,199)	—	10,801
	$ 692,769	$ 1	$ (92,901)	$ —	$ 599,869

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
December 31, 2023					
Available for sale:					
State and municipal	$ 202,814	$ 2	$ (22,241)	$ —	$ 180,575
Residential mortgage-backed securities	351,251	—	(50,547)	—	300,704
Commercial mortgage-backed securities	47,898	—	(6,150)	—	41,748
Commercial collateralized mortgage obligations	72,391	—	(461)	—	71,930
Asset-backed and other amortizing securities	18,476	—	(1,436)	—	17,040
Other securities	12,000	—	(1,235)	—	10,765
	$ 704,830	$ 2	$ (82,070)	$ —	$ 622,762

The amortized cost and estimated fair value of securities at March 31, 2024 are presented below by contractual maturity (dollars in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Declining-balance securities are shown separately since they are not due at a single maturity date.

	Available for Sale	
	Amortized Cost	Fair Value
Within 1 year	$ 409	$ 403
After 1 year through 5 years	6,380	6,198
After 5 years through 10 years	16,170	14,940
After 10 years	190,500	166,908
Declining-balance securities	479,310	411,420
	$ 692,769	$ 599,869

At both March 31, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. government, its agencies, or its sponsored enterprises, in an amount greater than 10% of stockholders' equity.

Securities with a carrying value of approximately $425.6 million and $438.9 million at March 31, 2024 and December 31, 2023, respectively, were pledged to collateralize public deposits and for other purposes as required or permitted by law.

The following table segregates securities with unrealized losses at the periods indicated, by the duration they have been in a loss position for which an allowance for credit losses has not been recorded (dollars in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2024						
State and municipal	$ 787	$ 1	$ 175,575	$ 23,811	$ 176,362	$ 23,812
Residential mortgage-backed securities	9	—	285,156	59,093	285,165	59,093
Commercial mortgage-backed securities	—	—	40,854	6,722	40,854	6,722
Commercial collateralized mortgage obligations	—	—	69,072	414	69,072	414
Asset-backed and other amortizing securities	—	—	16,328	1,661	16,328	1,661
Other securities	3,290	210	7,511	989	10,801	1,199
	$ 4,086	$ 211	$ 594,496	$ 92,690	$ 598,582	$ 92,901
December 31, 2023						
State and municipal	$ 207	$ —	$ 177,908	$ 22,241	$ 178,115	$ 22,241
Residential mortgage-backed securities	9	—	300,695	50,547	300,704	50,547
Commercial mortgage-backed securities	—	—	41,748	6,150	41,748	6,150
Commercial collateralized mortgage obligations	—	—	71,930	461	71,930	461
Asset-backed and other amortizing securities	—	—	17,040	1,436	17,040	1,436
Other securities	3,286	214	7,479	1,021	10,765	1,235
	$ 3,502	$ 214	$ 616,800	$ 81,856	$ 620,302	$ 82,070

There were 144 securities with an unrealized loss at March 31, 2024, generally due to increases in market rates. Management evaluates AFS securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or non-credit related factors. Consideration is given to the extent to which the fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for the anticipated recovery in fair value. Management does not have the intent to sell any of the securities in an unrealized loss position as there are adequate liquidity sources to meet expected and unexpected funding needs. The fair value of these securities is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of March 31, 2024, management believes the unrealized loss positions detailed in the previous table are due to non-credit related factors, including changes in interest rates and other market conditions, and therefore no ACL or losses have been recognized or realized in the consolidated financial statements.

3. LOANS HELD FOR INVESTMENT

Loans held for investment are summarized by category as of the periods presented below (dollars in thousands):

	March 31, 2024	December 31, 2023
Commercial real estate	$ 1,110,283	$ 1,081,056
Commercial - specialized	351,546	372,376
Commercial - general	527,576	517,361
Consumer:		
1-4 family residential	545,116	534,731
Auto loans	292,389	305,271
Other consumer	71,698	74,168
Construction	113,191	129,190
	3,011,799	3,014,153
Allowance for credit losses on loans	(42,174)	(42,356)
Loans, net	$ 2,969,625	$ 2,971,797

The Company has certain lending policies, underwriting standards, and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies, underwriting standards, and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial Real Estate – Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed and ensure appropriate collateral is obtained to secure the loan. Commercial real estate loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for non-income-producing properties. The repayment of these loans is generally dependent on the successful operation of the property securing the loans or the sale or refinancing of the property. Real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are diversified by type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

Commercial – General and Specialized – Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations, as agreed and ensure appropriate collateral is obtained to secure the loan. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and typically include personal guarantees. Owner-occupied real estate is included in commercial loans, as the repayment of these loans is generally dependent on the operations of the commercial borrower's business rather than on income-producing properties or the sale of the properties. Commercial loans are grouped into two distinct sub-categories: specialized and general. Commercial related segments that are considered "specialized" include agricultural production and real estate loans, energy loans, and finance, investment, and insurance loans. Commercial related segments that contain a broader diversity of borrowers, sub-industries, or serviced industries are grouped into the "general category." These include goods, services, restaurant & retail, construction, and other industries. Performance of these loans is subject to operating and cash flow results of the borrower, with risk in the volatility of operating results for particular industries.

Consumer – Loans to consumers include 1-4 family residential loans, auto loans, and other loans for recreational vehicles or other purposes. The Company utilizes a computer-based credit scoring analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk. The Company generally requires mortgage title insurance and hazard insurance on 1-4 family residential loans. All consumer loans are generally dependent on the risk characteristics of the borrower's ability to repay the loan, a consideration of the debt to income ratio, employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral.

Construction – Loans for residential construction are for single-family properties to developers, builders, or end-users. These loans are underwritten based on estimates of costs and completed value of the project. Funds are advanced based on estimated percentage of completion for the project. Performance of these loans is affected by economic conditions as well as the ability to control costs of the projects.

The ACL for loans was $42.2 million at March 31, 2024, compared to $42.4 million at December 31, 2023. The ACL for loans to loans held for investment was 1.40% at March 31, 2024 and 1.41% at December 31, 2023.

The following tables detail the activity in the ACL for loans for the periods indicated (dollars in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Beginning Balance	Provision for Credit Losses(1)	Charge-offs	Recoveries	Ending Balance
For the three months ended March 31, 2024					
Commercial real estate	$ 15,808	$ 62	$ (86)	$ —	$ 15,784
Commercial - specialized	4,020	(205)	—	33	3,848
Commercial - general	6,391	659	(375)	33	6,708
Consumer:					
1-4 family residential	9,177	273	(172)	2	9,280
Auto loans	3,601	(27)	(224)	65	3,415
Other consumer	968	238	(282)	59	983
Construction	2,391	(235)	—	—	2,156
	$ 42,356	$ 765	$ (1,139)	$ 192	$ 42,174

(1) The $830 thousand provision for credit loss on the consolidated statement of comprehensive income (loss) includes a $765 thousand provision for credit losses on loans and a $65 thousand provision for off-balance sheet credit exposures for the three months ended March 31, 2024.

For the three months ended March 31, 2023	Beginning Balance	Impact of CECL Adoption	Provision for Credit Losses[1]	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 13,029	$ 827	$ (475)	$ —	$ —	$ 13,381
Commercial - specialized	3,425	33	(11)	—	63	3,510
Commercial - general	9,215	(2,574)	(237)	(199)	62	6,267
Consumer:						
1-4 family residential	6,194	1,700	635	—	2	8,531
Auto loans	3,926	(332)	298	(254)	76	3,714
Other consumer	1,376	(235)	68	(214)	106	1,101
Construction	2,123	683	522	(272)	—	3,056
	$ 39,288	$ 102	$ 800	$ (939)	$ 309	$ 39,560

(1) The $1.0 million provision for credit loss on the consolidated statement of comprehensive income (loss) includes a $800 thousand provision for credit losses on loans and a $210 thousand provision for off-balance sheet credit exposures for the three months ended March 31, 2023.

The decrease in the provision for credit losses during the three months ended March 31, 2024, compared to the three months ended March 31, 2023, was primarily due to the change in unfunded loan commitments decreasing during the three months ended March 31, 2024 as compared to the three months ended March 31, 2023.

The following tables show the Company's amortized cost in loans and related ACL for collateral dependent loans by class using the fair value of collateral loss estimation methodology of evaluating expected credit losses at the dates indicated (dollars in thousands).

March 31, 2024	Equipment	Real Estate	Other	Total Loans Individually Evaluated	Total ACL for Individually Evaluated Loans
Commercial real estate	$ —	$ —	$ —	$ —	$ —
Commercial - specialized	—	—	—	—	—
Commercial - general	290	—	—	290	62
Consumer:					
1-4 family residential	—	—	—	—	—
Auto loans	—	—	—	—	—
Other consumer	—	—	—	—	—
Construction	—	—	—	—	—
	$ 290	$ —	$ —	$ 290	$ 62

December 31, 2023	Equipment	Real Estate	Other	Total Loans Individually Evaluated	Total ACL for Individually Evaluated Loans
Commercial real estate	$ —	$ —	$ —	$ —	$ —
Commercial - specialized	—	—	—	—	—
Commercial - general	353	691	—	1,044	142
Consumer:					
1-4 family residential	—	362	—	362	—
Auto loans	—	—	—	—	—
Other consumer	—	—	—	—	—
Construction	—	218	—	218	—
	$ 353	$ 1,271	$ —	$ 1,624	$ 142

The tables below provides an age analysis on accruing past-due loans and nonaccrual loans at the dates indicated (dollars in thousands):

March 31, 2024	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Nonaccrual with no ACL
Commercial real estate	$ 363	$ 16	$ —	$ —
Commercial - specialized	284	—	698	521
Commercial - general	615	266	474	58
Consumer:				
1-4 Family residential	1,502	821	812	—
Auto loans	692	136	—	—
Other consumer	722	129	28	—
Construction	96	—	—	—
	$ 4,274	$ 1,368	$ 2,012	$ 579

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Nonaccrual with no ACL
Commercial real estate	$ 499	$ 86	$ —	$ —
Commercial - specialized	521	—	213	—
Commercial - general	1,316	296	953	—
Consumer:				
1-4 Family residential	793	1,390	1,828	362
Auto loans	1,208	60	—	—
Other consumer	1,134	103	30	—
Construction	759	—	218	218
	$ 6,230	$ 1,935	$ 3,242	$ 580

Credit Quality Indicators

The Company grades its loans on a thirteen-point grading scale. These grades fit in one of the following categories: (i) pass, (ii) special mention, (iii) substandard, (iv) doubtful, or (v) loss. Loans categorized as loss are charged-off immediately. The grading of loans reflect a judgment by the Company about the risks of default associated with the loan. The Company reviews the grades on loans as part of the Company's on-going monitoring of the credit quality of the loan portfolio. These risk ratings are assigned based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

Pass loans have financial factors or nature of collateral that are considered reasonable credit risks in the normal course of lending and encompass several grades that are assigned based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring.

Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loans at some future date.

Substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize collection and present the distinct possibility that some loss will be sustained if the deficiencies are not corrected. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed. Substandard loans can be accruing or can be nonaccrual depending on the circumstances of the individual loans.

Doubtful loans have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. All doubtful loans are on nonaccrual.

In connection with the review of the Company's loan portfolio, management considers risk elements attributable to particular loan type or categories in assessing the quality of individual loans. The list of loans to be analyzed for individual evaluation consists of non-accrual loans over $250 thousand with direct exposure. Interest income recognized using a cash-basis method on non-accrual loans for the three months ended March 31, 2024 and 2023 was not significant. In addition, the Company closely monitors substandard accruing loans over $1 million with direct exposure, and past due accruing loans over $100 thousand for possible individual evaluation. All other loans will be evaluated collectively in designated pools unless a loss exposure has been identified. Additional funds committed to be advanced on individually analyzed loans are not significant.

The following tables reflect the amortized cost basis in loans held for investment by credit quality indicator and origination year at the dates indicated, and related year-to-date gross charge-offs. Loans acquired are shown in the table by origination year. The Company had an immaterial amount of revolving loans converted to term loans at March 31, 2024 and December 31, 2023.

Term Loans
Amortized Cost Basis by Origination Year
March 31, 2024

(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 36,646	$ 269,179	$ 333,666	$ 178,208	$ 48,271	$ 203,508	$ 6,939	$ 1,076,417
Special mention	—	—	—	—	454	5,599	—	6,053
Substandard	—	—	—	25,924	1,680	209	—	27,813
Total commercial real estate loans	$ 36,646	$ 269,179	$ 333,666	$ 204,132	$ 50,405	$ 209,316	$ 6,939	$ 1,110,283
Year-to-date gross charge-offs	$ —	$ —	$ 64	$ —	$ —	$ 22	$ —	$ 86
Commercial - specialized								
Pass	$ 34,312	$ 86,809	$ 50,711	$ 53,529	$ 18,133	$ 29,576	$ 74,554	$ 347,624
Special mention	—	—	2,595	—	—	—	—	2,595
Substandard	—	212	104	10	370	631	—	1,327
Total commercial - specialized loans	$ 34,312	$ 87,021	$ 53,410	$ 53,539	$ 18,503	$ 30,207	$ 74,554	$ 351,546
Year-to-date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - general								
Pass	$ 14,247	$ 84,488	$ 123,542	$ 89,825	$ 34,812	$ 99,454	$ 71,815	$ 518,183
Special mention	—	—	—	—	—	—	250	250
Substandard	—	106	2,765	4,644	121	1,142	365	9,143
Total commercial - general loans	$ 14,247	$ 84,594	$ 126,307	$ 94,469	$ 34,933	$ 100,596	$ 72,430	$ 527,576
Year-to-date gross charge-offs	$ —	$ 123	$ 210	$ 4	$ —	$ 38	$ —	$ 375
Consumer 1-4 family residential								
Pass	$ 23,811	$ 110,045	$ 154,624	$ 104,760	$ 50,440	$ 83,667	$ 4,583	$ 531,930
Special mention	—	—	—	—	—	—	—	—
Substandard	—	376	350	4,164	680	7,569	47	13,186
Total consumer 1-4 family residential loans	$ 23,811	$ 110,421	$ 154,974	$ 108,924	$ 51,120	$ 91,236	$ 4,630	$ 545,116
Year-to-date gross charge-offs	$ —	$ —	$ 121	$ 51	$ —	$ —	$ —	$ 172
Consumer auto loans								
Pass	$ 19,810	98,205	111,516	42,328	13,774	6,236	—	291,869
Special mention	—	—	—	—	—	—	—	—
Substandard	—	30	126	246	31	87	—	520
Total consumer auto loans	$ 19,810	$ 98,235	$ 111,642	$ 42,574	$ 13,805	$ 6,323	$ —	$ 292,389
Year-to-date gross charge-offs	$ —	$ 65	$ 119	$ 26	$ 8	$ 6	$ —	$ 224
Consumer other consumer								
Pass	$ 6,596	$ 20,664	$ 23,499	$ 8,840	$ 2,605	$ 7,653	$ 1,575	$ 71,432
Special mention	—	—	—	—	—	—	—	—
Substandard	—	84	53	41	8	79	1	266
Total consumer other consumer loans	$ 6,596	$ 20,748	$ 23,552	$ 8,881	$ 2,613	$ 7,732	$ 1,576	$ 71,698
Year-to-date gross charge-offs (1)	$ 62	$ 101	$ 61	$ 24	$ —	$ 34	$ —	$ 282
Construction								
Pass	$ 9,642	$ 62,805	$ 31,707	$ 2,635	$ 331	$ —	$ 4,840	$ 111,960
Special mention	—	315	—	820	—	—	—	1,135
Substandard	—	—	96	—	—	—	—	96
Total construction loans	$ 9,642	$ 63,120	$ 31,803	$ 3,455	$ 331	$ —	$ 4,840	$ 113,191
Year-to-date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(1)Includes $62 thousand in charged-off demand deposit overdrafts reported as 2024 originations.

Term Loans
Amortized Cost Basis by Origination Year
December 31, 2023

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 254,766	$ 324,601	$ 189,211	$ 50,660	$ 47,988	$ 174,859	$ 3,842	$ 1,045,927
Special mention	—	—	—	11,677	—	—	—	11,677
Substandard	—	82	21,152	1,699	149	370	—	23,452
Total commercial real estate loans	$ 254,766	$ 324,683	$ 210,363	$ 64,036	$ 48,137	$ 175,229	$ 3,842	$ 1,081,056
Year-to-date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - specialized								
Pass	$ 117,912	$ 56,152	$ 57,839	$ 19,883	$ 10,376	$ 22,758	$ 83,368	$ 368,288
Special mention	—	2,938	—	—	—	—	300	3,238
Substandard	—	105	196	393	19	137	—	850
Total commercial - specialized loans	$ 117,912	$ 59,195	$ 58,035	$ 20,276	$ 10,395	$ 22,895	$ 83,668	$ 372,376
Year-to-date gross charge-offs	$ —	$ —	$ —	$ 11	$ —	$ —	$ —	$ 11
Commercial - general								
Pass	$ 88,911	$ 128,627	$ 90,957	$ 35,794	$ 45,660	$ 68,990	$ 44,131	$ 503,070
Special mention	—	—	—	—	—	1,565	250	1,815
Substandard	201	2,930	4,676	227	2,749	1,442	251	12,476
Total commercial - general loans	$ 89,112	$ 131,557	$ 95,633	$ 36,021	$ 48,409	$ 71,997	$ 44,632	$ 517,361
Year-to-date gross charge-offs	$ —	$ 47	$ 50	$ 33	$ 18	$ 321	$ —	$ 469
Consumer 1-4 family residential								
Pass	$ 113,897	$ 156,549	$ 106,619	$ 51,940	$ 31,345	$ 56,666	$ 3,770	$ 520,786
Special mention	—	—	—	—	—	—	—	—
Substandard	376	382	4,238	708	3,758	4,483	—	13,945
Total consumer 1-4 family residential loans	$ 114,273	$ 156,931	$ 110,857	$ 52,648	$ 35,103	$ 61,149	$ 3,770	$ 534,731
Year-to-date gross charge-offs	$ —	$ —	$ 1	$ —	$ —	$ —	$ —	$ 1
Consumer auto loans								
Pass	$ 106,149	124,588	48,686	16,524	6,812	1,935	—	304,694
Special mention	—	—	—	—	—	—	—	—
Substandard	16	189	199	60	81	32	—	577
Total consumer auto loans	$ 106,165	$ 124,777	$ 48,885	$ 16,584	$ 6,893	$ 1,967	$ —	$ 305,271
Year-to-date gross charge-offs	$ 113	$ 377	$ 254	$ 14	$ 49	$ 81	$ —	$ 888
Consumer other consumer								
Pass	$ 23,719	$ 26,899	$ 10,198	$ 3,190	$ 2,539	$ 6,107	$ 1,364	$ 74,016
Special mention	—	—	—	—	—	—	—	—
Substandard	—	13	44	10	—	84	1	152
Total consumer other consumer loans	$ 23,719	$ 26,912	$ 10,242	$ 3,200	$ 2,539	$ 6,191	$ 1,365	$ 74,168
Year-to-date gross charge-offs (1)	$ 624	$ 244	$ 88	$ 32	$ 72	$ 80	$ —	$ 1,140
Construction								
Pass	$ 61,903	$ 53,930	$ 5,511	$ 331	$ —	$ —	$ 6,250	$ 127,925
Special mention	131	—	820	—	—	—	—	951
Substandard	—	314	—	—	—	—	—	314
Total construction loans	$ 62,034	$ 54,244	$ 6,331	$ 331	$ —	$ —	$ 6,250	$ 129,190
Year-to-date gross charge-offs	$ 48	$ —	$ 271	$ —	$ —	$ —	$ —	$ 319

(1) Includes $574 thousand in charged-off demand deposit overdrafts reported as 2023 originations.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extensions, an other than insignificant payment delay, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. In some cases, the Company provides multiple types of concessions on one loan. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The following tables present the amortized cost basis of loans at the dates indicated that were both experiencing financial difficulty and modified during the three months ended March 31, 2024 and 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below (dollars in thousands):

March 31, 2024	Payment Delay	Term Extension	Interest Rate Reduction	Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial real estate	$ —	$ —	$ —	$ —	0.00%
Commercial - specialized	—	—	—	—	0.00%
Commercial - general	—	—	—	35	0.01%
Consumer:					
1-4 family	—	—	—	—	0.00%
Auto loans	—	—	—	—	0.00%
Other consumer	—	—	—	—	0.00%
Construction	—	—	—	—	0.00%
	$ —	$ —	$ —	$ 35	0.00%

March 31, 2023	Payment Delay	Term Extension	Interest Rate Reduction	Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial real estate	$ —	$ —	$ —	$ —	0.00%
Commercial - specialized	—	—	—	—	0.00%
Commercial - general	—	2,999	—	42	0.60%
Consumer:					
1-4 family	—	199	—	—	0.04%
Auto loans	—	40	—	—	0.01%
Other consumer	—	—	—	—	0.00%
Construction	—	—	—	—	0.00%
	$ —	$ 3,238	$ —	$ 42	0.12%

The following table presents the financial effects of the loan modifications presented above to borrowers experiencing financial difficulty for the three months ended March 31, 2024 and 2023 (dollars in thousands):

March 31, 2024	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate	$ —	0.00%	—
Commercial - specialized	—	0.00%	—
Commercial - general	—	1.75%	49
Consumer:			
1-4 Family residential	—	0.00%	—
Auto loans	—	0.00%	—
Other consumer	—	0.00%	—
Construction	—	0.00%	—
	$ —	1.75%	49

March 31, 2023	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate	$ —	0.00%	—
Commercial - specialized	—	0.00%	—
Commercial - general	—	0.25%	43
Consumer:			
1-4 Family residential	—	0.00%	10
Auto loans	—	0.00%	15
Other consumer	—	0.00%	—
Construction	—	0.00%	—
	$ —	0.25%	41

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following presents the performance of such loans that have been modified in the last twelve months (dollars in thousands):

March 31, 2024	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual
Commercial real estate	$ 2,241	$ —	$ —	$ —
Commercial - specialized	165	—	—	16
Commercial - general	1,176	—	—	290
Consumer:				
1-4 Family residential	484	23	—	11
Auto loans	86	—	—	—
Other consumer	—	5	—	—
Construction	2,399	—	—	—
	$ 6,551	$ 28	$ —	$ 317

During the three months ended March 31, 2024, the Company had $31 thousand in loans made to borrowers experiencing financial difficulty that were modified during the last twelve months that subsequently defaulted. During the three months ended March 31, 2023, the Company had no loans made to borrowers experiencing financial difficulty that were modified during the last twelve months that subsequently defaulted. Payment default is defined as movement to nonperforming status, foreclosure, or charge-off.

4. GOODWILL AND INTANGIBLES

The Company had goodwill of $19.3 million at March 31, 2024 and December 31, 2023, respectively.

Other intangible assets, which consisted of core deposit intangibles at the dates indicated are summarized below (dollars in thousands):

	March 31, 2024	December 31, 2023
Amortized intangible assets		
Core deposit intangible	$ 6,679	$ 6,679
Less: Accumulated amortization	(4,432)	(4,250)
Other intangible assets, net	$ 2,247	$ 2,429

5. MORTGAGE SERVICING RIGHTS

The following table reflects the changes in fair value of the Company's mortgage servicing rights asset included in the Consolidated Balance Sheets, and other information related to the serviced portfolio, for the periods or dates presented (dollars in thousands):

	Three Months Ended March 31,	
	2024	2023
Beginning balance	$ 26,569	$ 27,474
Additions	219	271
Valuation adjustment	55	(1,950)
Ending balance	$ 26,843	$ 25,795

	March 31, 2024	December 31, 2023
Mortgage loans serviced for others	$ 1,983,974	$ 2,001,476
Mortgage servicing rights assets as a percentage of serviced mortgage loans	1.35%	1.33%

The following table reflects the key assumptions used in measuring the fair value of the Company's mortgage servicing rights as of the dates indicated:

	March 31, 2024	December 31, 2023
Weighted average constant prepayment rate	7.38%	7.46%
Weighted average discount rate	10.16%	10.66%
Weighted average life in years	8.07	8.09

6. BORROWING ARRANGEMENTS

Subordinated Debt

In December 2018, the Company issued $14.1 million of notes that have a maturity date of December 2030 and a weighted average fixed rate of 6.41% for the first seven years. After the fixed rate periods, the notes will float at the *Wall Street Journal* prime rate, with a floor of 4.0% and a ceiling of 7.5%. These notes pay interest quarterly, are unsecured, and may be called by the Company at any time after the remaining maturity is five years or less. Additionally, these notes are intended to qualify for Tier 2 capital treatment, subject to regulatory limitations.

On September 29, 2020, the Company issued $50.0 million in subordinated debt notes. Proceeds were reduced by approximately $926 thousand in debt issuance costs. The notes have a maturity date of September 2030 with a fixed rate of 4.50% for the first five years. After the expiration of the fixed rate period, the notes will reset quarterly at a variable rate equal to the then current three-month Secured Overnight Financing Rate ("SOFR"), as published by the Federal Reserve Bank of New York, plus 438 basis points. These notes pay interest semi-annually, are unsecured, and may be called by the Company at any time after the remaining maturity is five years or less. Additionally, these notes qualify for Tier 2 capital treatment, subject to regulatory limitations.

As of March 31, 2024, the total amount of subordinated notes outstanding was $64.1 million less approximately $279 thousand of remaining debt issuance costs for a total balance of $63.8 million. As of December 31, 2023, the total amount of subordinated notes outstanding was $64.1 million less approximately $325 thousand of remaining debt issuance costs for a total balance of $63.8 million.

Notes Payable and Other Borrowings
As of March 31, 2024 and December 31, 2023, City Bank had no outstanding advances from the Federal Home Loan Bank of Dallas ("FHLB").

7. STOCK-BASED COMPENSATION

Equity Incentive Plan
The 2019 Equity Incentive Plan ("Plan") was approved by the Company's Board of Directors on January 16, 2019 and by its shareholders on March 6, 2019. The purpose of the Plan is to: (i) attract and retain the best available personnel for positions of substantial responsibility, (ii) provide additional incentive to employees, directors and consultants, and (iii) promote the success of the Company's business. The Plan permits the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, and other stock-based awards. The maximum aggregate number of shares of common stock that may be issued pursuant to all awards under the Plan was 4,919,505 at March 31, 2024. The maximum aggregate number of shares that may be issued under the Plan may be increased annually by up to 3% of the total issued and outstanding common shares of the Company at the beginning of each fiscal year.

The fair value of each option award is estimated on the date of grant using the Black-Scholes model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock and similar peer company averages. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted represents the period of time that options granted are expected to be outstanding, which takes in to account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Options
A summary of activity in the Plan during the period indicated is presented in the table below (dollars in thousands, except per share data):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Three Months Ended March 31, 2024				
Outstanding at beginning of year:	1,280,858	$ 16.91		$ 12,767
Granted	32,465	29.32		—
Exercised	(3,565)	20.01		(24)
Forfeited	—	—		—
Expired	—	—		—
Balance, March 31, 2024	1,309,758	$ 17.21	4.98	$ 12,743
Exercisable at end of period	1,176,105	$ 16.27	4.61	$ 12,411
Vested at end of period	1,176,105	$ 16.27	4.61	$ 12,411

A summary of assumptions used to calculate the fair values of the awards granted during the periods noted is presented below:

	Three Months Ended March 31,	
	2024	2023
Expected volatility	40.45%	39.13% to 39.68%
Expected dividend yield	1.80%	1.74% to 1.90%
Expected term (years)	6.1	6.1 to 6.3
Risk-free interest rate	3.94%	3.91% to 3.98%
Weighted average grant date fair value	$ 11.10	$ 10.26

The total intrinsic value of options exercised during the three months ended March 31, 2024 and 2023 was $26 thousand and $275 thousand, respectively.

Restricted Stock Awards and Units
A summary of activity in the Plan during the period indicated is presented in the table below:

	Number of Shares	Weighted-Average Grant Date Fair Value
Three Months Ended March 31, 2024		
Outstanding at beginning of year:	125,917	$ 26.58
Granted	85,403	26.54
Vested	(19,778)	27.45
Forfeited	(3,169)	24.34
Balance, March 31, 2024	188,373	$ 26.50

Restricted stock units granted under the Plan typically vest from one to four years, but vesting periods may vary. Compensation expense for these grants will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The total fair value of restricted stock units vested during each of the three months ended March 31, 2024 and 2023 was $543 thousand and $907 thousand, respectively.

For the three months ended March 31, 2024 and 2023 the Company recorded stock-based compensation expense related to the Plan of $481 thousand and $525 thousand, respectively. The total unrecognized compensation cost for the awards outstanding under the Plan at March 31, 2024 was $4.9 million and will be recognized over a weighted average remaining period of 1.86 years.

8. OFF-BALANCE-SHEET ACTIVITIES, COMMITMENTS AND CONTINGENCIES

Financial instruments with off-balance-sheet risk - The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Company's consolidated financial statements. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for recorded instruments.

Financial instruments whose contract amounts represent credit risk outstanding at the dates indicated follow (dollars in thousands):

	March 31, 2024	December 31, 2023
Commitments to grant loans and unfunded commitments under lines of credit	$ 634,758	$ 598,800
Standby letters of credit	11,943	11,503

Commitments to grant loans and extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company requires collateral supporting those commitments if deemed necessary.

FHLB Letters of Credit - The Company may use FHLB letters of credit to pledge to certain public deposits. There were no FHLB letters of credit outstanding at March 31, 2024 or December 31, 2023.

Litigation – The Company is a defendant in legal actions arising from time to time in the normal course of business. Management believes that the ultimate liability, if any, arising from these matters will not materially affect the consolidated financial statements, based on information known as of the date the consolidated financial statements were issued.

9. CAPITAL AND REGULATORY MATTERS

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by its banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and its bank subsidiary's financial statements. Under capital guidelines and the regulatory framework for prompt corrective action, the Company and its bank subsidiary must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its bank subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2024 and December 31, 2023, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of March 31, 2024 and December 31, 2023, the Company met the definition of "well-capitalized" under the applicable regulations of the Board of Governors of the Federal Reserve System and the bank subsidiary was "well capitalized" under the FDIC's regulatory framework for prompt corrective action and the Basel III capital guidelines. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since March 31, 2024 that management believes have changed the bank subsidiary's category.

The Company and its bank subsidiary's actual capital amounts and ratios at the dates indicated follows (dollars in thousands):

	Actual		Minimum Required Under BASEL III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2024						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 598,737	17.00%	$ 369,815	10.50%	N/A	N/A
City Bank	501,116	14.23%	369,645	10.50%	$ 352,043	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	491,287	13.95%	299,374	8.50%	N/A	N/A
City Bank	457,487	13.00%	299,237	8.50%	281,634	8.00%
Common Equity Tier 1 to Risk Weighted Assets:						
Consolidated	446,287	12.67%	246,543	7.00%	N/A	N/A
City Bank	457,487	13.00%	246,430	7.00%	228,828	6.50%
Tier I Capital to Average Assets:						
Consolidated	491,287	11.51%	171,622	4.00%	N/A	N/A
City Bank	457,487	10.72%	171,516	4.00%	213,318	5.00%
December 31, 2023						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 589,565	16.74%	$ 369,753	10.50%	N/A	N/A
City Bank	494,353	14.04%	369,635	10.50%	$ 352,033	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	482,044	13.69%	299,324	8.50%	N/A	N/A
City Bank	450,607	12.80%	299,228	8.50%	281,627	8.00%
Common Equity Tier 1 to Risk Weighted Assets:						
Consolidated	437,044	12.41%	246,502	7.00%	N/A	N/A
City Bank	450,607	12.80%	246,423	7.00%	228,822	6.50%
Tier I Capital to Average Assets:						
Consolidated	482,044	11.33%	171,037	4.00%	N/A	N/A
City Bank	450,607	10.60%	170,945	4.00%	212,594	5.00%

The Company is subject to the Basel III capital ratio requirements which include a "capital conservation buffer" of 2.50% above the regulatory minimum risk-based capital adequacy requirements. This 2.50% capital conservation buffer is reflected in the table above. Both the Company's and the Bank's actual ratios, as outlined in the table above, exceeded the Basel III risk-based capital requirement with the capital conservation buffer as of March 31, 2024.

State banking regulations place certain restrictions on dividends paid by banks to their shareholders. Dividends paid by the Company's bank subsidiary would be prohibited if the effect thereof would cause the bank subsidiary's capital to be reduced below applicable minimum capital requirements.

10. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset-liability management strategy to help manage its interest rate risk position. These interest rate swaps are designated and qualify as fair value hedges and are entered into to reduce exposure to changes in fair value of fixed rate financial instruments. The notional amount of the interest rate swaps do not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amounts and the other terms of the individual interest rate swap agreements.

The following table reflects the changes in fair value hedges included in the Consolidated Statements of Comprehensive Income (Loss) for the periods indicated (dollars in thousands):

		Three Months Ended March 31,	
Interest Rate Contracts	**Location**	**2024**	**2023**
Change in fair value of interest rate swaps hedging investment securities	Other noninterest expense	$ 1,312	$ (2,654)
Change in fair value of hedged investment securities	Other noninterest expense	(1,385)	2,638
Change in fair value of interest rate swaps hedging fixed rate loans	Interest income - Loans	$ 237	$ —
Change in fair value of hedged fixed rate loans	Interest income - Loans	(153)	—

The following table reflects the fair value hedges included in the Consolidated Balance Sheets at the dates indicated (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Included in other liabilities:				
Interest rate swaps related to fixed rate loans	$ —	$ —	$ 987	$ 10
Interest rate swaps related to state and municipal securities	—	—	—	—
Included in other assets:				
Interest rate swaps related to fixed rate loans	$ 8,602	$ 385	$ 7,796	$ 158
Interest rate swaps related to state and municipal securities	123,760	17,940	123,760	16,628

Mortgage banking derivatives

The net gains (losses) relating to free standing derivative instruments used for risk management are summarized below for the periods indicated (dollars in thousands):

		Three Months Ended March 31,	
	Location	**2024**	2023
Gain (loss) on mortgage banking derivatives	Net gain (loss) on sales of loans	$ 308	$ (281)

The following table reflects the amount and fair value of mortgage banking derivatives in the Consolidated Balance Sheets at the dates indicated (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Included in other assets:				
Forward contracts related to mortgage loans held for sale	$ —	$ —	$ —	$ —
Interest rate lock commitments	30,678	442	16,887	444
Included in other liabilities:				
Forward contracts related to mortgage loans held for sale	$ 26,197	$ 112	$ 19,021	$ 422

The Company had received cash collateral of $18.1 million and $18.3 million to offset asset derivative positions on its interest rate swaps at March 31, 2024 and December 31, 2023, respectively. This amount is reported in other liabilities in the Consolidated Balance Sheets. The Company had advanced $1.1 million to offset liability derivative positions on its interest rate swaps at March 31, 2024 and December 31, 2023, respectively. Additionally, the Company had advanced $440 thousand on its mortgage forward contracts at March 31, 2024 and December 31, 2023, respectively. The advanced cash collateral amounts are reported in cash and due from banks in the Consolidated Balance Sheets.

11. EARNINGS PER SHARE

The factors used in the earnings per share computation for the periods indicated follow (dollars in thousands, except per share data):

	Three Months Ended March 31,	
	2024	2023
Net income	$ 10,874	$ 9,244
Weighted average common shares outstanding - basic	16,429,919	17,046,713
Effect of dilutive securities:		
Stock-based compensation awards	508,938	514,043
Weighted average common shares outstanding - diluted	16,938,857	17,560,756
Basic earnings per share	$ 0.66	$ 0.54
Diluted earnings per share	$ 0.64	$ 0.53

12. FAIR VALUE DISCLOSURES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Valuation techniques that are consistent with the market approach, the income approach and/or the cost approach are required by GAAP. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Significant unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table summarizes fair value measurements as of the dates indicated below (dollars in thousands):

	Level 1	Level 2	Level 3	Total
March 31, 2024				
Assets (liabilities) measured at fair value on a recurring basis:				
Securities available for sale:				
State and municipal	$ —	$ 177,648	$ —	$ 177,648
Residential mortgage-backed securities	—	285,165	—	285,165
Commercial mortgage-backed securities	—	40,854	—	40,854
Commercial collateralized mortgage obligations	—	69,072	—	69,072
Asset-backed and other amortizing securities	—	16,329	—	16,329
Other securities	—	10,801	—	10,801
Loans held for sale (mandatory)	—	9,686	—	9,686
Mortgage servicing rights	—	—	26,843	26,843
Asset derivatives	—	18,767	—	18,767
Liability derivatives	—	(112)	—	(112)
Assets measured at fair value on a non-recurring basis:				
Loans held for investment	—	—	228	228
December 31, 2023				
Assets (liabilities) measured at fair value on a recurring basis:				
Securities available for sale:				
State and municipal	$ —	$ 180,575	$ —	$ 180,575
Residential mortgage-backed securities	—	300,704	—	300,704
Commercial mortgage-backed securities	—	41,748	—	41,748
Commercial collateralized mortgage obligations	—	71,930	—	71,930
Asset-backed and other amortizing securities	—	17,040	—	17,040
Other securities	—	10,765	—	10,765
Loans held for sale (mandatory)	—	6,615	—	6,615
Mortgage servicing rights	—	—	26,569	26,569
Asset derivatives	—	17,230	—	17,230
Liability derivatives	—	(432)	—	(432)
Assets measured at fair value on a non-recurring basis:				
Loans held for investment	—	—	1,482	1,482

Securities – Fair value is calculated based on market prices of similar securities using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded.

Mortgage servicing rights – Mortgage servicing rights are reported at fair value using Level 3 inputs. The mortgage servicing rights asset is valued by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the mortgage servicing rights asset is impacted by a variety of factors, including prepayment speeds, default rates, and discount rates, which are significant unobservable inputs. Mortgage servicing rights are the only Level 3 asset measured at fair value on a recurring basis, see Note 5 for the Level 3 change activity for the three months ended March 31, 2024 and 2023.

Derivatives – Fair value of derivatives is based on valuation models using observable market data as of the measurement date.

Loans held for investment – Includes certain collateral-dependent loans which are reported at fair value, for which a specific allocation of the allowance for credit losses is based off of the underlying collateral, less estimated disposal costs, if repayment is expected solely from the sale of the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Fair Values of Assets Recorded on a Recurring Basis for which the Fair Value Option has been Elected

Loans held for sale (mandatory) – Loans held for sale originated for mandatory delivery are reported at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for these assets. This election allows for a more effective offset of the changes in fair values of the assets and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC Topic 815, Derivatives and Hedging. For assets for which the fair value option has been elected, the earned current contractual interest payment is recognized in interest income, loan origination costs and fees on fair value option loans are recognized in earnings as incurred and not deferred. At March 31, 2024, and December 31, 2023, there were no gains or losses recorded attributable to changes in instrument-specific credit risk. Fair value is determined using quoted prices for similar assets, adjusted for specific attributes of that loan. At March 31, 2024 and December 31, 2023 the aggregate fair value of loans held for sale for mandatory delivery was $9.7 million and $6.6 million, respectively. The aggregate unpaid principal balance as of the same dates was $9.4 million and $6.4 million, respectively, representing differences between fair value and unpaid principal balance of $255 thousand and $190 thousand, respectively. The Company had no loans held for sale for mandatory delivery designated as nonaccrual or 90 days or more past due at each of March 31, 2024 and December 31, 2023.

The total fair value option impact on noninterest income for loans held for sale for mandatory delivery is included in Net gain on sales of loans in the consolidated statements of comprehensive income (loss). For the three months ended March 31, 2024 and 2023 the net (gain) loss amount totaled $(372) thousand and $(261) thousand, respectively.

The following table presents quantitative information about recurring and non-recurring Level 3 fair value measurements at the dates indicated (dollars in thousands):

	Fair Value	Valuation Techniques	Unobservable Inputs	Range of Discounts
March 31, 2024				
Non-recurring:				
Loans held for investment	$ 228	Third party appraisals or inspections	Collateral discounts and selling costs	20%-25%
Recurring:				
Mortgage servicing rights	26,843	Discounted cash flows	Constant prepayment rate	7.38%
			Discount rate	10.16%
December 31, 2023				
Non-recurring:				
Loans held for investment	$ 1,482	Third party appraisals or inspections	Collateral discounts and selling costs	20%-100%
Recurring:				
Mortgage servicing rights	26,569	Discounted cash flows	Constant prepayment rate	7.46%
			Discount rate	10.66%

The estimated fair values, and related carrying amounts, of the Company's financial instruments that are not previously disclosed in the recurring fair values section are as follows (dollars in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
March 31, 2024					
Financial assets:					
Cash and cash equivalents	$ 371,939	$ 371,939	$ —	$ —	$ 371,939
Loans held for investment, net	2,969,625	—	—	2,857,552	2,857,552
Loans held for sale (best efforts)	6,065	—	6,172	—	6,172
Accrued interest receivable	16,605	—	16,605	—	16,605
Financial liabilities:					
Deposits	$ 3,638,571	$ —	$ 3,638,349	$ —	$ 3,638,349
Accrued interest payable	4,229	—	4,229	—	4,229
Junior subordinated deferrable interest debentures	46,393	—	33,530	—	33,530
Subordinated debt	63,821	—	57,050	—	57,050

	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2023					
Financial assets:					
Cash and cash equivalents	$ 330,158	$ 330,158	$ —	$ —	$ 330,158
Loans held for investment, net	2,971,797	—	—	2,848,536	2,848,536
Loans held for sale (best efforts)	7,884	—	7,977	—	7,977
Accrued interest receivable	20,881	—	20,881	—	20,881
Financial liabilities:					
Deposits	$ 3,626,153	$ —	$ 3,625,321	$ —	$ 3,625,321
Accrued interest payable	5,057	—	5,057	—	5,057
Junior subordinated deferrable interest debentures	46,393	—	33,098	—	33,098
Subordinated debt	63,775	—	57,497	—	57,497

13. IMMATERIAL CORRECTION OF PRIOR PERIOD ERROR

The Company identified an immaterial prior period error in the Consolidated Statements of Cash Flows related to cash flow activity of certain of the Company's portfolio mortgage loans and third-party brokered loans erroneously being included in the cash flow activity for loans held for sale. The Company assessed the materiality of this change in presentation on prior period consolidated financial statements in accordance with SEC Staff Accounting Bulletin No. 99, "Materiality," (ASC Topic 250, Accounting Changes and Error Corrections). Based on this assessment, the Company concluded that these error corrections in its Consolidated Statements of Cash Flows are not material to any previously presented consolidated financial statements. The corrections had no impact on the Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income (Loss), or Consolidated Statements of Changes in Stockholders' Equity, or notes to these consolidated financial statements, for any previously presented interim or annual consolidated financial statements.

The financial reporting periods affected by this error include the Company's previously reported interim unaudited consolidated financial statements for each of the fiscal year-to-date periods ended March 31, 2023; June 30, 2023; and September 30, 2023. A summary of the immaterial corrections to the Company's previously reported unaudited consolidated financial statements follows.

Corrected Consolidated Statement of Cash Flows for Three Months Ended March 31, 2023 (in thousands):

	As Reported	Immaterial Correction	As Corrected
Proceeds from sales of loans held for sale	$ 101,266	$ (14,373)	$ 86,893
Loans originated for sale	$ (88,664)	$ 14,373	$ (74,291)

14. SUBSEQUENT EVENTS

Dividend Declaration

On April 18, 2024, the Company declared a cash dividend of $0.14 per share of common stock to be paid on May 13, 2024 to all shareholders of record as of April 29, 2024.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations for the periods covered by this Quarterly Report on Form 10-Q (this "Form 10-Q") and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Annual Report on Form 10-K") filed with the Securities and Exchange Commission (the "SEC") pursuant to Rule 424(b) of the Securities Act of 1933, as amended (the "Securities Act"), on March 15, 2024. Unless we state otherwise or the context otherwise requires, references in this Form 10-Q to "we," "our," "us" and "the Company" refer to South Plains Financial, Inc., a Texas corporation, our wholly-owned banking subsidiary, City Bank, a Texas banking association and our other consolidated subsidiaries. References in this Form 10-Q to the "Bank" refer to City Bank.

Cautionary Notice Regarding Forward-Looking Statements

This Form 10-Q contains statements that we believe are "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "strive," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- 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;
- the persistence of the current inflationary pressures, or the resurgence of elevated levels of inflation, in the United States and our market areas, and its impact on market interest rates, the economy and credit quality;
- the adequacy of the allowance for credit losses;
- our ability to effectively execute our expansion strategy and manage our growth, including identifying and consummating suitable acquisitions;
- business and economic conditions, particularly those affecting our market areas, as well as the concentration of our business in such market areas;
- high concentrations of loans secured by real estate located in our market areas;
- risks associated with our commercial loan portfolio, including the risk of declines in commercial real estate prices or deterioration in value of the general business assets that secure such loans;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- increases in unemployment rates in the United States and our market areas;
- risks associated with our agricultural loan portfolio, including the heightened sensitivity to weather conditions, commodity prices, and other factors generally outside the borrowers and our control;
- risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;
- public funds deposits comprising a relatively high percentage of our deposits;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- our ability to maintain our reputation;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses;
- our ability to attract, hire and retain qualified management personnel;
- our dependence on our management team, including our ability to retain executive officers and key employees and their customer and community relationships;

- interest rate fluctuations, which could have an adverse effect on our profitability;
- competition from banks, credit unions and other financial services providers;
- our ability to keep pace with technological change or difficulties we may experience when implementing new technologies;
- risks related to cyber incidents or other system failures, such as service denials, cyber-attacks, security breaches and data breaches;
- our ability to maintain effective internal control over financial reporting;
- employee error, fraudulent activity by employees or customers and inaccurate or incomplete information about our customers and counterparties;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- costs and effects of litigation, investigations or similar matters to which we may be subject, including any effect on our reputation;
- natural disasters, severe weather, acts of god, acts of war or terrorism, outbreaks of hostilities, public health outbreaks (such as the COVID-19 pandemic or any future pandemic), other international or domestic calamities, and other external events or matters beyond our control;
- uncertainty regarding United States fiscal debt and budget matters;
- tariffs and trade barriers;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act Wall Street Reform and Consumer Protection Act, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"), and others relating to banking, consumer protection, securities and tax matters; and
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, current and future governmental monetary and fiscal policies, including the uncertain impacts of ongoing quantitative tightening and current and future policies of the Board of Governors of the Federal Reserve System ("Federal Reserve") and as a result of initiatives of the Biden administration.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Form 10-Q and the risk factors set forth in our 2023 Annual Report on Form 10-K. Because of these risks and other uncertainties, our actual future results, performance or achievements, or industry results, may be materially different from the results indicated by the forward-looking statements in this Form 10-Q. In addition, our past results of operations are not necessarily indicative of our future results. Accordingly, you should not rely on any forward-looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which such forward-looking statements were made. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Available Information

The Company maintains an Internet web site at *www.spfi.bank.* The Company makes available, free of charge, on its web site (under *www.spfi.bank/financials-filings/sec-filings*) the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Exchange Act as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company also makes available, free of charge, through its web site (under *www.spfi.bank/corporate-governance/documents-charters*) links to the Company's Code of Conduct and the charters for its board committees. In addition, the SEC maintains an Internet site (at *www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company routinely posts important information for investors on its web site (under *www.spfi.bank* and, more specifically, under the News & Events tab at *www.spfi.bank/news-events/press-releases*). The Company intends to use its web site as a means of disclosing material non-public information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company's web site, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

The information contained on, or that may be accessed through, the Company's web site is not incorporated by reference into, and is not a part of, this Form 10-Q.

Overview

We are a bank holding company headquartered in Lubbock, Texas, and our wholly-owned subsidiary, City Bank is one of the largest independent banks in West Texas and has additional banking operations in the Dallas, El Paso, Greater Houston, the Permian Basin, and College Station, Texas markets, and the Ruidoso, New Mexico market. Through City Bank, we provide a wide range of commercial and consumer financial services to small and medium-sized businesses and individuals in our market areas. Our principal business activities include commercial and retail banking, along with investment, trust and mortgage services.

Recent Developments

New Stock Repurchase Program

As previously announced, on February 26, 2024, SPFI's board of directors (the "Board") approved a new stock repurchase program for up to $10.0 million of the outstanding shares of the Company's common stock (the "Stock Repurchase Program"). The Stock Repurchase Program began when announced and has an expiration date of February 26, 2025, subject to earlier termination or extension of the Stock Repurchase Program by the Board.

Results of Operations

We had net income of $10.9 million, or $0.64 per diluted common share, for the three months ended March 31, 2024, compared to net income of $9.2 million, or $0.53 per diluted common share for the three months ended March 31, 2023. Return on average equity (annualized) was 10.72% and return on average assets (annualized) was 1.04% for the three months ended March 31, 2024, compared to 10.34% and 0.95%, respectively, for the three months ended March 31, 2023. The increase in net income of $1.6 million was primarily the result of an increase of $1.1 million in net interest income, an increase of $0.7 million in noninterest income, a decrease of $0.2 million in the provision for credit losses, and a decrease of $0.4 million in noninterest expense.

Net Interest Income

Net interest income is the principal source of the Company's net income and represents the difference between interest income (interest and fees earned on assets, primarily loans and investment securities) and interest expense (interest paid on deposits and borrowed funds). We generate interest income from interest-earning assets that we own, including loans and investment securities. We incur interest expense from interest-bearing liabilities, including interest-bearing deposits and other borrowings, notably FHLB advances and subordinated notes. To evaluate net interest income, we measure and monitor (i) yields on our loans and other interest-earning assets, (ii) the costs of our deposits and other funding sources, (iii) our net interest spread and (iv) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as the annualized net interest income on a fully tax-equivalent basis divided by average interest-earning assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income.

The following table presents, for the periods indicated, information about: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. For purposes of this table, interest income, net interest margin and net interest spread are shown on a fully tax-equivalent basis.

	Three Months Ended March 31,					
	2024			2023		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans [1]	$ 3,014,537	$ 48,940	6.53%	$ 2,778,876	$ 39,602	5.78%
Investment securities – taxable	554,081	5,511	4.00%	585,427	5,240	3.63%
Investment securities – non-taxable	156,254	1,024	2.64%	213,191	1,413	2.69%
Other interest-earning assets [2]	298,969	3,475	4.67%	161,955	1,495	3.74%
Total interest-earning assets	4,023,841	58,950	5.89%	3,739,449	47,750	5.18%
Noninterest-earning assets	184,293			189,477		
Total assets	$ 4,208,134			$ 3,928,926		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW, savings and money market deposits	$ 2,285,981	$ 17,997	3.17%	$ 1,988,555	$ 9,984	2.04%
Time deposits	374,852	3,666	3.93%	283,997	1,386	1.98%
Short-term borrowings	3	—	0.00%	4	—	0.00%
Notes payable & other longer-term borrowings	—	—	0.00%	—	—	0.00%
Subordinated debt securities	63,798	835	5.26%	75,984	1,012	5.40%
Junior subordinated deferrable interest debentures	46,393	861	7.46%	46,393	751	6.57%
Total interest-bearing liabilities	$ 2,771,027	$ 23,359	3.39%	$ 2,394,933	$ 13,133	2.22%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 958,334			$ 1,109,344		
Other liabilities	70,860			62,160		
Total noninterest-bearing liabilities	1,029,194			1,171,504		
Stockholders' equity	407,913			362,489		
Total liabilities and stockholders' equity	$ 4,208,134			$ 3,928,926		
Net interest income		$ 35,591			$ 34,617	
Net interest spread			2.50%			2.95%
Net interest margin [3]			3.56%			3.75%

(1) Average loan balances include nonaccrual loans and loans held for sale.
(2) Includes income and average balances for interest-earning deposits at other banks, nonmarketable securities, federal funds sold, and other miscellaneous interest-earning assets.
(3) Net interest margin is calculated as the annualized net interest income, on a fully tax-equivalent basis, divided by average interest-earning assets.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table sets forth the effects of changing rates and volumes on our net interest income during the period shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Change applicable to both volume and rate have been allocated to volume.

	Three Months Ended March 31, 2024 over 2023		
	Change due to:		Total Variance
	Volume	Rate	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ 3,358	$ 5,980	$ 9,338
Investment securities – taxable	(281)	552	271
Investment securities – non-taxable	(377)	(12)	(389)
Other interest-earning assets	1,265	715	1,980
Total increase (decrease) in interest income	3,965	7,235	11,200
Interest-bearing liabilities:			
NOW, Savings, MMDAs	1,493	6,520	8,013
Time deposits	443	1,837	2,280
Short-term borrowings	—	—	—
Notes payable & other borrowings	—	—	—
Subordinated debt securities	(162)	(15)	(177)
Junior subordinated deferrable interest debentures	—	110	110
Total increase (decrease) interest expense:	1,774	8,452	10,226
Increase (decrease) in net interest income	$ 2,191	$ (1,217)	$ 974

Net interest income for the three months ended March 31, 2024 was $35.4 million, compared to $34.3 million for the three months ended March 31, 2023, an increase of $1.1 million, or 3.1%. The increase in net interest income was comprised of an increase of $11.3 million, or 23.8%, in interest income, partially offset by a $10.2 million, or 77.9%, increase in interest expense. The growth in interest income was attributable to increases of $9.3 million in loan interest income and $1.9 million in interest income from securities and other interest-earning assets. The increase in loan interest income was mainly due to growth of $235.7 million in average loans outstanding and the rising interest rate environment, along with approximately $667 thousand in recoveries of interest on loans that had previously been maintained on nonaccrual during the first quarter of 2024. The increase in interest income on securities and other interest-earning assets was primarily due to rising market interest rates and a higher liquidity level in the current year quarter.

The $10.2 million increase in interest expense for the three months ended March 31, 2024 was primarily related to a 117 basis point increase in the rate paid on interest-bearing liabilities over the same period in 2023. This increase in rate was primarily as a result of the significantly rising short-term interest rates paid on deposits, which grew 124 basis points during the compared period. Additionally, average noninterest-bearing demand deposits decreased $151.0 million and average interest-bearing deposits increased $388.3 million at March 31, 2024 as compared to March 31, 2023.

For the three months ended March 31, 2024, net interest margin and net interest spread were 3.56% and 2.50%, respectively, compared to 3.75% and 2.95%, respectively, for the same period in 2023, which reflects the changes in interest income and interest expense discussed above.

Provision for Credit Losses

Credit risk is inherent in the business of making loans. We establish an allowance for credit losses ("ACL") through charges to earnings, which are shown in the statements of comprehensive income (loss) as the provision for credit losses. Credit losses on loans are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. The provision for credit losses is determined by conducting a quarterly evaluation of the adequacy of our allowance for credit losses and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to our earnings. The provision for credit losses and the amount of allowance for each period are dependent upon many factors, including loan growth, net charge offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in our market areas.

The provision for credit losses for the three months ended March 31, 2024 was $0.8 million, compared to $1.0 million for the three months ended March 31, 2023. During the first quarter of 2024, the provision for credit losses for loans was $765 thousand and the provision for credit losses on off-balance sheet credit exposures was $65 thousand. The provision for credit losses on loans was predominantly the result of $947 thousand in net charge-offs during the quarter, partially offset by a decreased balance of nonperforming loans and a small decrease in loans outstanding. The provision in the first quarter of 2023 was primarily the result of organic loan growth and $630 thousand in net charge-offs during the quarter. The allowance for credit losses as a percentage of loans held for investment was 1.40% at March 31, 2024 and 1.41% at December 31, 2023.

The provision for credit losses is a significant factor in the Company's operating results. For further discussion regarding the provision for credit losses and management's assessment of the adequacy of the ACL for loans, see "Allowance for Credit Losses for Loans" and "Asset Quality" under "Financial Condition" in this Item 2, below.

Noninterest Income

While interest income remains the largest single component of total revenues, noninterest income is an important contributing component. The largest portion of our noninterest income is associated with our mortgage banking activities. Other sources of noninterest income include service charges on deposit accounts, bank card services and interchange fees, and income from insurance activities.

The following table sets forth the major components of our noninterest income for the periods indicated:

	Three Months Ended March 31,		
	2024	**2023**	**Increase (Decrease)**
	(Dollars in thousands)		
Noninterest income:			
Service charges on deposit accounts	$ 1,813	$ 1,701	$ 112
Income from insurance activities	34	1,411	(1,377)
Bank card services and interchange fees	3,061	2,956	105
Mortgage banking activities	3,945	2,286	1,659
Investment commissions	434	389	45
Fiduciary income	754	600	154
Other income and fees[1]	1,368	1,348	20
Total noninterest income	$ 11,409	$ 10,691	$ 718

(1) Other income and fees includes income and fees associated with the increase in the cash surrender value of life insurance, safe deposit box rental, check printing, collections, legal settlements, wire transfer, Small Business Investment Company ("SBIC") investments, and other miscellaneous services.

Noninterest income for the three months ended March 31, 2024 was $11.4 million, compared to $10.7 million for the three months ended March 31, 2023, an increase of $0.7 million, or 6.7%. Significant changes in the components of noninterest income are detailed below.

Mortgage banking activities - Income from mortgage banking activities increased $1.7 million, or 72.6%, to $3.9 million for the three months ended March 31, 2024 from $2.3 million for the three months ended March 31, 2023. This increase was primarily due to a $55 thousand positive fair value adjustment to our mortgage servicing rights portfolio in the first quarter of 2024 compared to a negative fair value adjustment of $2.0 million in the first quarter of 2023 as interest rates that affect the value rose modestly in the first quarter of 2024 compared to falling in the first quarter of 2023.

Income from insurance activities - Due to the sale of the Bank's wholly-owned insurance subsidiary, Windmark Insurance Agency, Inc. ("Windmark"), which was completed in the second quarter of 2023, there was a decline of $1.4 million in income from insurance activities for three months ended March 31, 2024 as compared to the same period in 2023.

Noninterest Expense

The following table sets forth the major components of our noninterest expense for the periods indicated:

	Three Months Ended March 31,		
	2024	2023	Increase (Decrease)
	(Dollars in thousands)		
Noninterest expense:			
Salaries and employee benefits	$ 18,988	$ 19,254	$ (266)
Occupancy expense, net	3,920	3,832	88
Professional services	1,483	1,648	(165)
Marketing and development	754	936	(182)
IT and data services	990	864	126
Bankcard expenses	1,397	1,352	45
Appraisal expenses	227	278	(51)
Other expenses[1]	4,171	4,197	(26)
Total noninterest expense	$ 31,930	$ 32,361	$ (431)

(1) Other expenses include items such as banking regulatory assessments, telephone expenses, postage, courier fees, directors' fees, and insurance.

Noninterest expense for the three months ended March 31, 2024 was $31.9 million compared to $32.4 million for the three months ended March 31, 2023, a decrease of $0.4 million, or 1.3%. Significant changes in the components of noninterest expense are detailed below.

Salaries and employee benefits - Salaries and employee benefits decreased $0.3 million, or 1.4%, from $19.3 million for the three months ended March 31, 2023 to $19.0 million for the three months ended March 31, 2024. This decrease was primarily driven by a reduction of $1.5 million in core Windmark personnel costs due to the sale, partially offset by an increase in incentive-based compensation.

Financial Condition

Our total assets increased $14.2 million, or 0.3%, to $4.22 billion at March 31, 2024, compared to $4.20 billion at December 31, 2023. Our loans held for investment decreased $2.4 million, or 0.1%, to $3.01 billion at March 31, 2024, compared to $3.01 billion at December 31, 2023. Our securities portfolio decreased $22.9 million, or 3.7%, to $599.9 million at March 31, 2024, compared to $622.8 million at December 31, 2023. Total deposits increased $12.4 million, or 0.3%, to $3.64 billion at March 31, 2024, compared to $3.63 billion at December 31, 2023.

Loan Portfolio

Our loans represent the largest portion of earning assets, greater than our securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing the Company's financial condition. We originate substantially all of the loans in our portfolio, except certain loan participations that are independently underwritten by the Company prior to purchase.

Loans held for investment increased $2.4 million, or 0.1%, to $3.01 billion at March 31, 2024, compared to $3.01 billion at December 31, 2023. There was growth that occurred primarily in multi-family and single-family property loans, offset by decreases in seasonal agricultural-related loans, residential construction loans, and consumer auto loans.

The following table shows the contractual maturities of our loans held for investment portfolio at March 31, 2024:

	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Fifteen Years	Due after Fifteen Years	Total
	(Dollars in thousands)				
Commercial real estate	$ 103,482	$ 618,846	$ 304,994	$ 82,961	$ 1,110,283
Commercial - specialized	121,050	106,591	73,371	50,534	351,546
Commercial - general	74,320	187,740	141,724	123,792	527,576
Consumer:					
1-4 family residential	34,465	93,462	85,209	331,980	545,116
Auto loans	2,924	191,702	97,763	—	292,389
Other consumer	8,460	44,815	18,423	—	71,698
Construction	83,483	24,456	2,618	2,634	113,191
Total loans	$ 428,184	$ 1,267,612	$ 724,102	$ 591,901	$ 3,011,799

The following table shows the distribution between fixed and adjustable interest rate loans for maturities greater than one year as of March 31, 2024:

	Fixed Rate	Adjustable Rate
	(Dollars in thousands)	
Commercial real estate	$ 450,240	$ 556,561
Commercial - specialized	87,581	142,915
Commercial - general	160,048	293,208
Consumer:		
1-4 family residential	310,922	199,729
Auto loans	289,465	—
Other consumer	63,238	-
Construction	15,027	14,681
Total loans	$ 1,376,521	$ 1,207,094

At March 31, 2024, there was $1.49 billion in adjustable rate loans, with $744.1 million of these loans that mature or reprice in the next twelve months. Of these loans that mature or reprice in the next twelve months, $500.7 million will reprice immediately upon changes in the underlying index rate, with the remaining $243.4 million being subject to rate ceilings, floors above the current index, or a future repricing date. *The Wall Street Journal* prime rate is the predominate index used by the Bank. Further, there is $136.7 million of fixed rate loans that mature in the next twelve months as of March 31, 2024.

The Bank is primarily involved in real estate, commercial, agricultural and consumer lending activities with customers throughout Texas and Eastern New Mexico. We have a collateral concentration, as 73.2% of our loans were secured by real property as of March 31, 2024, compared to 72.7% as of December 31, 2023. We believe that these loans are not concentrated in any one single property type and that they are geographically dispersed throughout the areas we serve. Although the Bank has diversified portfolios, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the markets in which it operates, which consist primarily of agribusiness, wholesale/retail, oil and gas and related businesses, healthcare industries and institutions of higher education. Commercial real estate loans represent 40.5% of loans held for investment as of March 31, 2024 and represented 40.1% of loans held for investment as of December 31, 2023. Further, these loans are geographically diversified, primarily throughout the state of Texas as well as Eastern New Mexico.

We have established concentration limits in the loan portfolio for commercial real estate loans and unsecured lending, among other loan types. All loan types are within established limits. We use underwriting guidelines to assess the borrowers' historical cash flow to determine debt service, and we further stress test the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending to allow us to react to a borrower's deteriorating financial condition, should that occur.

Commercial Real Estate. Our commercial real estate portfolio includes loans for commercial property that is owned by real estate investors, construction loans to build owner-occupied properties, and loans to developers of commercial real estate investment properties and residential developments. Commercial real estate loans are subject to underwriting standards and processes similar to our commercial loans. These loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for non-income-producing properties. The repayment of these loans is generally dependent on the successful operation of the property securing the loans or the sale or refinancing of the property. Real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing our real estate portfolio are diversified by type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

Commercial real estate loans increased $29.2 million, or 2.7%, to $1.11 billion as of March 31, 2024 from $1.08 billion as of December 31, 2023. The increase was primarily driven by increases in multifamily property loans and commercial land development loans, partially offset by a decrease in hospitality loans.

Commercial – General and Specialized. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed, and to ensure appropriate collateral is obtained to secure the loan. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and typically include personal guarantees. Owner-occupied real estate is included in commercial loans, as the repayment of these loans is generally dependent on the operations of the commercial borrower's business rather than on income-producing properties or the sale of the properties. Commercial loans are grouped into two distinct sub-categories: specialized and general. Commercial related loans that are considered "specialized" include agricultural production and real estate loans, energy loans, and finance, investment, and insurance loans. Commercial related loans that contain a broader diversity of borrowers, sub-industries, or serviced industries are grouped into the "general category." These include goods, services, restaurant & retail, construction, and other industries. Performance of these loans is subject to operating and cash flow results of the borrower, with risk in the volatility of operating results for particular industries.

Commercial general loans increased $10.2 million, or 2.0%, to $527.6 million as of March 31, 2024 from $517.4 million as of December 31, 2023. The increase in commercial general loans was primarily due to increases in loans to companies in the restaurant and retail industry.

Commercial specialized loans decreased $20.8 million, or 5.6%, to $351.5 million as of March 31, 2024 from $372.4 million as of December 31, 2023. This decrease was primarily due to net repayments of $27.7 million in seasonal agricultural-related loans, partially offset by increased loans to finance and investment companies.

Consumer. We utilize a computer-based credit scoring analysis to supplement our policies and procedures in underwriting consumer loans. Our loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize our risk. Residential real estate loans are included in consumer loans. We generally require mortgage title insurance and hazard insurance on these residential real estate loans. All consumer loans are generally dependent on the risk characteristics of the borrower's ability to repay the loan, a consideration of the debt to income ratio, employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral.

Consumer and other loans decreased $5.0 million, or 0.5%, to $909.2 million as of March 31, 2024 from $914.2 million as of December 31, 2023. The decrease in these loans was primarily a result of a $12.9 million decrease in auto loans, partially offset by an increase of $10.4 million in 1-4 family residential loans. As of March 31, 2024, our consumer loan portfolio was comprised of $545.1 million in 1-4 family residential loans, $292.4 million in auto loans, and $71.7 million in other consumer loans.

Construction. Loans for residential construction are for single-family properties to developers, builders, or end-users. These loans are underwritten based on estimates of costs and completed value of the project. Funds are advanced based on estimated percentage of completion for the project. Performance of these loans is affected by economic conditions as well as the ability to control costs of the projects.

Construction loans decreased $16.0 million, or 12.4%, to $113.2 million as of March 31, 2024 from $129.2 million as of December 31, 2023. The decrease resulted from reduced demand for residential construction as interest rate levels remained elevated and projects were completed and sold.

Non-owner occupied office real estate loans are included in commercial real estate loans and totaled $134.5 million at March 31, 2024. Owner occupied office real estate loans are included in commercial loans and totaled $62.8 million at March 31, 2024.

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Company's Consolidated Balance Sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit to our customers is represented by the contractual or notional amount of those instruments. Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Company until the instrument is exercised. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. The amount and nature of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the potential borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private short-term borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments for which collateral is deemed necessary.

The following table summarizes commitments we have made as of the dates presented.

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Commitments to grant loans and unfunded commitments under lines of credit	$ 634,758	$ 598,800
Standby letters of credit	11,943	11,503
Total	$ 646,701	$ 610,303

Allowance for Credit Losses for Loans

The ACL provides a reserve against which loan losses are charged for current expected credit losses. Management evaluates the appropriate level of the allowance for credit losses on a quarterly basis. The analysis takes into consideration the results of an ongoing loan review process, the purpose of which is to determine the level of credit risk within the portfolio and to ensure proper adherence to underwriting and documentation standards. Additional allowances are provided to those loans which appear to represent a greater than normal exposure to risk. The quality of the loan portfolio and the adequacy of the ACL is assessed by regulatory examinations and the Company's internal and external loan reviews. The ACL consists of two elements: (1) specific valuation allowances established for expected losses on specifically analyzed loans and (2) collective valuation allowances calculated using comparable and quantifiable information from both internal and external sources about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Expected credit losses are estimated over the contractual term of the loans and adjusted for expected prepayments.

To determine the adequacy of the ACL on loans, the Company applied a dual credit risk rating ("DCRR") methodology that estimates each loan's probability of default and loss given default to calculate the expected credit loss to non-analyzed loans. The DCRR process quantifies the expected credit loss at the loan level for the entire loan portfolio. Loan grades are assigned by a customized scorecard that risk rates each loan based on multiple probability of default and loss given default elements to measure the risk of the loan portfolio. The ACL estimate incorporates the Company's DCRR loan level risk rating methodology and the expected default rate frequency term structure to derive loan level life of loan estimates of credit losses for every loan in the portfolio. The estimated credit loss for each loan is adjusted based on one-year through the cycle estimate of expected credit loss to a life of loan measurement that reflects current conditions and forecasts. The life of loan expected loss is determined using the contractual weighted average life of the loan adjusted for prepayments. Prepayment speeds are determined by grouping the loans into pools based on segments and risk rating. After the life of loan expected losses are determined, they are adjusted to reflect the Company's reasonable and supportable economic forecast over a selected range of a one to two years. The Company has developed regression models to project net charge-off rates based on macroeconomic variables ("MEVs"), typically a one-year period is used. MEV's considered in the analysis consist of data gathered from the St. Louis Federal Reserve Research Database ("FRED"), such as, federal funds rate, 10-year treasury rates, 30-year mortgage rates, crude oil prices, consumer price index, housing price index, unemployment rates, housing starts, gross domestic product, and disposable personal income. These regression models are applied to the Company's economic forecast to determine the corresponding net charge-off rates. The projected net charge-off rates for the given economic scenario are used to adjust the through the cycle expected losses. Qualitative adjustments are also made to ACL results for additional risk factors that are relevant in assessing the expected credit losses within our loan segments. These qualitative factor ("Q-Factor") adjustments may increase or decrease management's estimate of the ACL by a calculated percentage based upon the estimated level of risk within a particular segment. Q-Factor risk decisions consider concentrations of the loan portfolio, expected changes to the economic forecasts, large relationships, and other factors related to credit administration, such as borrower's risk rating and the potential effect of delayed credit score migrations. Management quantifiably identifies segment percentage Q-Factor adjustments using a scorecard risk rating system scaled to historical loss experience within a segment and management's perceived risk for that particular segment. In addition to the loan level evaluations, nonaccrual loans with a balance of $250 thousand or more are individually analyzed based on facts and circumstances of the loan to determine if a specific allowance amount may be necessary. Specific allowances may also be established for loans whose outstanding balances are below the above threshold when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan category.

The ACL for loans was $42.2 million at March 31, 2024, compared to $42.4 million at December 31, 2023, a decrease of $0.2 million, or 0.4%. The decrease is primarily the result of $947 thousand in net charge-offs during the first quarter of 2024, partially offset by a $765 thousand provision for credit losses on loans recorded in March 2024. Uncertainty regarding forecasted economic conditions remains, due to the continued elevated interest rate environment and persistent inflation in the United States, and additional provisions for credit losses may be necessary in future periods.

The following table provides an analysis of the ACL for loans and other data during the periods indicated.

	Three Months Ended March 31,	
	2024	2023
	(Dollars in thousands)	
Average loans outstanding during the period		
Commercial real estate	$ 1,089,341	$ 916,117
Commercial – specialized	360,360	319,288
Commercial – general	519,889	492,442
Consumer:		
1-4 family residential	538,260	476,168
Auto loans	298,551	319,982
Other consumer	73,071	82,287
Construction	121,925	148,317
Loans held for sale	13,140	24,275
Total average loans outstanding during the period	$ 3,014,537	$ 2,778,876
Net charge-offs (recoveries) during the period		
Commercial real estate	$ 86	$ —
Commercial – specialized	(33)	(63)
Commercial – general	342	137
Consumer:		
1-4 family residential	170	(2)
Auto loans	159	178
Other consumer	223	108
Construction	—	272
Total net charge-offs (recoveries) during the period	$ 947	$ 630
Ratio of net charge-offs (recoveries) to average loans during the period		
Commercial real estate	0.01%	0.00%
Commercial – specialized	(0.01)%	(0.02)%
Commercial – general	0.07%	0.03%
Consumer:		
1-4 family residential	0.03%	0.00%
Auto loans	0.05%	0.06%
Other consumer	0.31%	0.13%
Construction	0.00%	0.18%
Total ratio of net charge-offs (recoveries) to average loans during the period	0.03%	0.02%

The following table provides other loan data as of the dates indicated.

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Total loans held for investment outstanding	$ 3,011,799	$ 3,014,153
Nonaccrual loans	$ 2,012	$ 3,242
Allowance for credit losses	$ 42,174	$ 42,356
Ratio of allowance to total loans held for investment	1.40%	1.41%
Ratio of allowance to nonaccrual loans	2,096.12%	1,306.48%
Ratio of nonaccrual loans to total loans held for investment	0.07%	0.11%

Net charge-offs totaled $947 thousand and were 0.13% (annualized) of average loans outstanding for the three months ended March 31, 2024, compared to $630 thousand and 0.09% (annualized) for the three months ended March 31, 2023. The increase in net charge-offs in the first quarter of 2024 was primarily the result of an increase of $125 thousand in commercial construction company net charge-offs in the first quarter of 2024 compared to the same period in 2023. The ACL for loans as a percentage of loans held for investment was 1.40% at March 31, 2024 and 1.41% at December 31, 2023.

While the entire ACL for loans is available to absorb losses from any part of our loan portfolio, the following table sets forth the allocation of the allowance for credit losses for the periods presented and the percentage of allowance in each classification to total allowance:

	March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial real estate	$ 15,784	37.4%	$ 15,808	37.3%
Commercial – specialized	3,848	9.1	4,020	9.5
Commercial – general	6,708	15.9	6,391	15.1
Consumer:				
1-4 family residential	9,280	22.0	9,177	21.7
Auto loans	3,415	8.1	3,601	8.5
Other consumer	983	2.4	968	2.3
Construction	2,156	5.1	2,391	5.6
Total allowance for credit losses	$ 42,174	100.0%	$ 42,356	100.0%

Asset Quality

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

Loans that exhibit characteristics different from their pool characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective ACL evaluation. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. Depending on a particular loan's circumstances, we analyze loans for specific allowance based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to our attention as part of our problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The specific allowance amount on a collateral-dependent loan is charged-off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned ("OREO") until sold and is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. OREO and repossessed assets are reported as foreclosed assets.

Nonperforming loans include nonaccrual loans and loans past due 90 days or more. Nonperforming assets consist of nonperforming loans plus foreclosed assets.

At March 31, 2024, our total nonaccrual loans were $2.0 million, or 0.07% of total loans held for investment, as compared to $3.2 million, or 0.11% of total loans held for investment, at December 31, 2023. These loans within this amount that exceeded $250 thousand were specifically analyzed and specific valuation allowances were established as necessary and included in the ACL for loans as of March 31, 2024 to cover any probable loss. Two relationships totaling approximately $972,000 that were on nonaccrual at December 31, 2023 were fully repaid in the first quarter of 2024.

Nonperforming loans were $3.4 million at March 31, 2024 and $5.2 million at December 31, 2023. This decrease of $1.8 million is mainly due to the improvement in the nonaccrual loans noted above.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extensions, an other than insignificant payment delay, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the ACL for loans. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. In some cases, the Company provides multiple types of concessions on one loan. The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. Upon the Company's determination that a modified loan has subsequently been deemed to not be fully collectible, the uncollectible amount is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL for loans is adjusted by the same amount.

If a borrower on a restructured accruing loan has demonstrated performance under the previous terms, is not experiencing financial difficulty and shows the capacity to continue to perform under the restructured terms, the loan will remain on accrual status. Otherwise, the loan will be placed on nonaccrual status until the borrower demonstrates a sustained period of performance, which generally requires six consecutive months of payments.

Securities Portfolio

The securities portfolio is the second largest component of the Company's interest-earning assets, and the structure and composition of this portfolio is important to an analysis of the financial condition of the Company. The securities portfolio serves the following purposes: (i) it provides a source of pledged assets for securing certain deposits and borrowed funds, as may be required by law or by specific agreement with a depositor or lender; (ii) it provides liquidity to even out cash flows from the loan and deposit activities of customers; (iii) it can be used as an interest rate risk management tool, since it provides a large base of assets, the maturity and interest rate characteristics of which can be changed more readily than the loan portfolio to better match changes in the deposit base and other funding sources of the Company; and (iv) it is an alternative interest-earning asset when loan demand is weak or when deposits grow more rapidly than loans.

The securities portfolio consists of securities classified as either held-to-maturity or available-for-sale. Securities consist primarily of state and municipal securities, mortgage-backed securities and U.S. government sponsored agency securities. We determine the appropriate classification at the time of purchase. All held-to-maturity securities are reported at amortized cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. All available-for-sale securities are reported at fair value.

Total securities at March 31, 2024 were $599.9 million, representing a decrease of $22.9 million, or 3.7%, compared to $622.8 million at December 31, 2023. The decrease was primarily due to $11.5 million in maturities, prepayments and calls, net of short-term purchases and maturities and by a $10.8 million decrease in the unrealized gain/loss at March 31, 2024 as compared to December 31, 2023.

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. During the first quarter of 2024, the fair value of the Company's available for sale securities decreased by $10.8 million. The decline was a result of the increase in market interest rates during the first quarter 2024. At March 31, 2024, the Company evaluated whether the decline in fair value has resulted from credit losses or other factors. Within this evaluation, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by rating agency, and adverse conditions specifically related to the security, among other factors. Based on management's evaluation no unrealized losses on securities were determined to be due to credit loss. Additionally, we anticipate full recovery of amortized cost with respect to these securities by maturity, or sooner in the event of a more favorable market interest rate environment. We do not intend to sell these securities and it is not probable that we will be required to sell them before recovery of the amortized cost basis, which may be at maturity, thus no ACL or losses have been recognized in the Company's consolidated financial statements.

The following table sets forth certain information regarding contractual maturities and the weighted average yields of our investment securities as of the date presented. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay an obligation with or without call or prepayment penalties.

	As of March 31, 2024							
	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years Through Ten Years		Due after Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(Dollars in thousands)							
Available-for-sale								
State and municipal	$ 409	1.56%	$ 6,380	2.12%	$ 4,170	2.14%	$ 190,500	2.29%
Residential mortgage-backed securities	—	—	2,752	2.03	850	2.68	340,656	2.20
Commercial mortgage-backed securities	—	—	—	—	47,576	2.22	—	—
Commercial collateralized mortgage obligations	—	—	—	—	69,486	5.99	—	—
Asset-backed and other amortizing securities	—	—	—	—	3,191	3.15	14,799	2.75
Other securities	—	—	—	—	12,000	4.47	—	—
Total available-for-sale	$ 409	1.56%	$ 9,132	2.10%	$ 137,273	4.35%	$ 545,955	2.24%

	As of December 31, 2023							
	Due in One Year or Less		Due after One Year Through Five Years		Due after Five Years Through Ten Years		Due after Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(Dollars in thousands)							
Available-for-sale								
State and municipal	$ 735	3.65%	$ 6,112	1.73%	$ 4,897	2.15%	$ 191,070	2.28%
Residential mortgage-backed securities	—	—	3,038	2.02	920	2.91	347,293	2.20
Commercial mortgage-backed securities	—	—	—	—	47,898	2.22%	—	—
Commercial collateralized mortgage obligations	—	—	—	—	72,391	6.01	—	—
Asset-backed and other amortizing securities	—	—	—	—	2,359	3.07	16,117	2.79
Other securities	—	—	—	—	12,000	4.47	—	—
Total available-for-sale	$ 735	3.65%	$ 9,150	1.83%	$ 140,465	4.38%	$ 554,480	2.24%

Deposits

Deposits represent the Company’s primary and most vital source of funds. We offer a variety of deposit products including demand deposits accounts, interest-bearing products, savings accounts and certificate of deposits. We put continued effort into gathering noninterest-bearing demand deposit accounts through loan production, customer referrals, marketing staffs, mobile and online banking and various involvements with community networks.

Total deposits at March 31, 2024 were $3.64 billion, representing an increase of $12.4 million, or 0.3%, compared to $3.63 billion at December 31, 2023. The increase in deposits was organic growth. As of March 31, 2024, 26.8% of total deposits were comprised of noninterest-bearing demand accounts, 62.7% of interest-bearing non-maturity accounts and 10.5% of time deposits.

The following table shows the deposit mix as of the dates presented:

	March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 974,174	26.8%	$ 974,201	26.9%
NOW and other transaction accounts	518,804	14.3	562,066	15.5
Money market and other savings	1,764,627	48.4	1,722,170	47.5
Time deposits	380,966	10.5	367,716	10.1
Total deposits	$ 3,638,571	100.0%	$ 3,626,153	100.0%

The following table summarizes our average deposit balances and weighted average rates paid on deposits, on an annualized basis, for the periods indicated.

	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 958,334	—%	$ 1,109,344	—%
Interest-bearing deposits:				
NOW and interest-bearing demand accounts	498,800	3.71%	335,227	1.67%
Savings accounts	136,359	0.92%	151,953	1.06%
Money market accounts	1,650,822	3.19%	1,501,375	2.22%
Time deposits	374,852	3.93%	283,997	1.98%
Total interest-bearing deposits	2,660,833	3.27%	2,272,552	2.03%
Total deposits	$ 3,619,167	2.41%	$ 3,381,896	1.36%

Time deposits in amounts of more than $250 thousand represent the type of deposit most likely to affect the Company's future earnings because of interest rate sensitivity. The effective cost of these funds is generally higher than other time deposits because the funds are usually obtained at premium rates of interest.

The scheduled maturities of time deposits of more than $250 thousand as of March 31, 2024 follows:

(Dollars in thousands)	Three Months	Three to Six Months	Six to 12 Months	After 12 Months	Total
	$ 5,883	$ 38,684	$ 51,796	$ 1,142	$ 97,505

The estimated amount of uninsured deposits as of March 31, 2024 was $998.1 million. This represented approximately 18% of total deposits and excludes collateralized public fund deposits.

Borrowed Funds

In addition to deposits, we utilize advances from the FHLB and other borrowings as a supplementary funding source to finance our operations.

FHLB Advances. The FHLB allows us to borrow, both short and long-term, on a blanket floating lien status collateralized by first mortgage loans and commercial real estate loans as well as FHLB stock. At March 31, 2024 and December 31, 2023, we had total remaining borrowing capacity from the FHLB of $1.13 billion and $1.10 billion, respectively, with no outstanding balance. We had no long-term FHLB borrowings during the three months ended March 31, 2024 or 2023.

Federal Reserve Bank of Dallas. The Bank has a line of credit with the Federal Reserve Bank of Dallas (the "FRB"). The amount of the line is determined on a monthly basis by the FRB. The line is collateralized by a blanket floating lien on all agriculture, commercial and consumer loans. The amount of the line was $619.8 million and $595.4 million at March 31, 2024 and December 31, 2023, respectively, with no outstanding balance. We had no long-term FRB borrowings during the three months ended March 31, 2024 or 2023.

Lines of Credit. The Bank has uncollateralized lines of credit with multiple banks as a source of funding for liquidity management. The total amount of the lines was $140.0 million and $140.0 million as of March 31, 2024 and December 31, 2023, respectively. The lines were not used, other than testing during the three months ended March 31, 2024 or the three months ended March 31, 2023.

Subordinated Debt. In December 2018, the Company issued $14.1 million of notes that have a maturity date of December 2030 and an average fixed rate of 6.41% for the first seven years. After the fixed rate periods, the notes will float at the *Wall Street Journal* prime rate, with a floor of 4.0% and a ceiling of 7.5%. These notes pay interest quarterly, are unsecured, and may be called by the Company at any time after the remaining maturity is five years or less. Additionally, these notes are intended to qualify for Tier 2 capital treatment, subject to regulatory limitations.

On September 29, 2020, the Company issued $50.0 million in subordinated notes. Proceeds were reduced by approximately $926 thousand in debt issuance costs. The notes have a maturity date of September 2030 with a fixed rate of 4.50% for the first five years. After the expiration of the fixed rate period, the notes will reset quarterly at a variable rate equal to the then current three-month Secured Overnight Financing Rate, as published by the Federal Reserve Bank of New York, plus 438 basis points. These notes pay interest semi-annually, are unsecured, and may be called by the Company at any time after the remaining maturity is five years or less. Additionally, these notes are intended to qualify for Tier 2 capital treatment, subject to regulatory limitations.

As of March 31, 2024, the total amount of subordinated debt securities outstanding was $64.1 million less approximately $279 thousand of remaining debt issuance costs for a total balance of $63.8 million.

Junior Subordinated Deferrable Interest Debentures and Trust Preferred Securities. Between March 2004 and June 2007, the Company formed three wholly-owned statutory business trusts solely for the purpose of issuing trust preferred securities, the proceeds of which were invested in junior subordinated deferrable interest debentures. The trusts are not consolidated and the debentures issued by the Company to the trusts are reflected in the Company's Consolidated Balance Sheets. The Company records interest expense on the debentures in its consolidated financial statements. The amount of debentures outstanding was $46.4 million at March 31, 2024 and December 31, 2023. The Company has the right, as has been exercised in the past, to defer payments of interest on the securities for up to twenty consecutive quarters. During such time, corporate dividends may not be paid. The Company is current in its interest payments on the debentures.

The chart below indicates certain information, as of March 31, 2024, about each of the statutory trusts and the junior subordinated deferrable interest debentures, including the date the junior subordinated deferrable interest debentures were issued, outstanding amounts of trust preferred securities and junior subordinated deferrable interest debentures, the maturity date of the junior subordinated deferrable interest debentures, and the interest rates on the junior subordinated deferrable interest debentures.

Name of Trust	Issue Date	Amount of Trust Preferred Securities	Amount of Debentures	Stated Maturity Date of Trust Preferred Securities and Debentures(1)	Interest Rate of Trust Preferred Securities and Debentures(2)(3)
			(Dollars in thousands)		
South Plains Financial Capital Trust III	2004	$ 10,000	$ 10,310	2034	3-mo. CME Term SOFR + 291 bps; 8.23%
South Plains Financial Capital Trust IV	2005	20,000	20,619	2035	3-mo. CME Term SOFR + 165 bps; 6.98%
South Plains Financial Capital Trust V	2007	15,000	15,464	2037	3-mo. CME Term SOFR + 176 bps; 7.09%
Total		$ 45,000	$ 46,393		

(1) May be redeemed at the Company's option.
(2) Interest payable quarterly with principal due at maturity.
(3) Rate as of last reset date, prior to March 31, 2024.

Liquidity and Capital Resources

Liquidity

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Our liquidity position is supported by management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and fair value of unpledged investment securities. Other available sources of liquidity include wholesale deposits, and additional borrowings from correspondent banks, FHLB advances, and the Federal Reserve discount window. At March 31, 2024, the Bank had the capacity to borrow funds from the FHLB and the Federal Reserve discount window of up to approximately $1.1 billion and $620 million, respectively.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

Management believes that the Company has adequate liquidity to meet its obligations. However, if 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, or other events, cause these sources of external funding to become restricted or are eliminated, the Company may not be able to raise adequate funds or may incur substantially higher funding costs or operating restrictions in order to raise the necessary funds to support the Company's operations and growth.

Capital

Total stockholders' equity increased to $408.7 million as of March 31, 2024, compared to $407.1 million as of December 31, 2023, an increase of $1.6 million, or 0.4%. The increase from December 31, 2023 was primarily the result of $10.9 million in net earnings for the three months ended March 31, 2024, partially offset by a decrease in accumulated other comprehensive income of $7.5 million related to fair value changes in available for sale securities and related fair value hedges, net of tax, partially offset by $2.1 million of dividends paid.

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. The capital amounts and classifications are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors. Qualitative measures established by regulation to ensure capital adequacy required us to maintain minimum amounts and ratio of common equity tier 1 ("CET1") capital, tier 1 capital and total capital to risk-weighted assets and of tier 1 capital to average consolidated assets, referred to as the "leverage ratio."

The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

As of March 31, 2024 and December 31, 2023, both we and the Bank met all the capital adequacy requirements to which we and the Bank were subject. At March 31, 2024, we and the Bank were "well capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since March 31, 2024 that would materially adversely change such capital classifications. From time to time, we may need to raise additional capital to support our and the Bank's further growth and to maintain our "well capitalized" status.

The table below summarizes the capital requirements applicable to us and the Bank in order to be considered "well capitalized" from a regulatory perspective, as well as our and the Bank's capital ratios as of the dates indicated.

	March 31, 2024		December 31, 2023	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
South Plains Financial, Inc.:				
Total capital (to risk-weighted assets)	$ 598,737	17.00%	$ 589,565	16.74%
Tier 1 capital (to risk-weighted assets)	491,287	13.95	482,044	13.69
CET 1 capital (to risk-weighted assets)	446,287	12.67	437,044	12.41
Tier 1 capital (to average assets)	491,287	11.51	482,044	11.33
City Bank:				
Total capital (to risk-weighted assets)	$ 501,116	14.23%	$ 494,353	14.04%
Tier 1 capital (to risk-weighted assets)	457,487	13.00	450,607	12.80
CET 1 capital (to risk-weighted assets)	457,487	13.00	450,607	12.80
Tier 1 capital (to average assets)	457,487	10.72	450,607	10.60

Community Bank Leverage Ratio

On September 17, 2019, the federal banking agencies jointly finalized a rule to be effective January 1, 2020 and intended to simplify the regulatory capital requirements described above for qualifying community banking organizations that opt into the Community Bank Leverage Ratio ("CBLR") framework, as required by Section 201 of the EGRRCPA. The final rule became effective on January 1, 2020, and the CBLR framework became available for banks to use beginning with their March 31, 2020 Call Reports. Under the final rule, if a qualifying community banking organization opts into the CBLR framework and meets all requirements under the framework, it will be considered to have met the well-capitalized ratio requirements under the "prompt corrective action" regulations described above and will not be required to report or calculate risk-based capital. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9%, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. Although the Company and the Bank are qualifying community banking organizations, the Company and the Bank have elected not to opt in to the CBLR framework at this time and will continue to follow the Basel III capital requirements as described above.

Treasury Stock

The Company repurchased stock in accordance with its previously-announced stock repurchase program during the three months ended March 31, 2024, repurchasing 1,406 shares of common stock for a total of $35 thousand. These shares were retired immediately upon repurchase by the Company and not included in treasury stock. See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," of this Form 10-Q for further information.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our interest rate risk policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Interest rate sensitivity involves the relationships between rate-sensitive assets and liabilities and is an indication of the probable effects of interest rate fluctuations on the Company's net interest income. Interest rate-sensitive assets and liabilities are those with yields or rates that are subject to change within a future time period due to maturity or changes in market rates. The model is used to project future net interest income under a set of possible interest rate movements. The Company's Investment/Asset Liability Committee ("ALCO Committee") reviews this information to determine compliance with the limits set by the Bank's board of directors.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the ALCO Committee, in accordance with policies approved by the Bank's board of directors. The ALCO Committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO Committee considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO Committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO Committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model. The average lives of non-maturity deposit accounts are based on decay assumptions and are incorporated into the model. All of the assumptions used in our analyses are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run a simulation model for a static balance sheet and other scenarios. These models test the impact on net interest income from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for gradual parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 7.5% for a 100 basis point shift, 15% for a 200 basis point shift, and 22.5% for a 300 basis point shift.

The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

	March 31, 2024	December 31, 2023
Change in Interest Rates (Basis Points)	Percent Change in Net Interest Income	Percent Change in Net Interest Income
+300	(5.97)	(10.02)
+200	(3.88)	(6.59)
+100	(1.84)	(3.21)
-100	0.79	3.35
-200	1.85	6.86

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Form 10-Q have been prepared in accordance with GAAP. GAAP requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

The Company's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of the Company are monetary in nature. Management believes the impact of inflation on financial results depends upon the Company's ability to react to changes in interest rates and by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction, or at the same magnitude, as the prices of other goods and services. However, other operating expenses do reflect general levels of inflation. Management seeks to manage the relationship between interest rate-sensitive assets and liabilities in order to protect against wide net interest income fluctuations, including those resulting from inflation.
Various information shown elsewhere in this Report will assist in the understanding of how well the Company is positioned to react to changing interest rates and inflationary trends. In particular, additional information related to the Company's interest rate-sensitive assets and liabilities is contained in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report under the heading "Interest Rate Sensitivity and Market Risk."

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional financial measures discussed in this Report as being non-GAAP financial measures. We classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the U.S. in our consolidated statements of comprehensive income (loss), balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Report may differ from that of other companies reporting measures with similar names. It is important to understand how other banking organizations calculate their financial measures with names similar to the non-GAAP financial measures we have discussed in this Report when comparing such non-GAAP financial measures.

Tangible Book Value Per Common Share. Tangible book value per share is a non-GAAP measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share. We believe that the tangible book value per common share measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate tangible common equity, as described above, and tangible assets as total assets less goodwill, core deposit intangibles and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common stockholders' equity to total assets. We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period of tangible common equity to tangible assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and total assets to tangible assets and then presents book value per common share, tangible book value per common share, total stockholders' equity to total assets, and tangible common equity to tangible assets:

	March 31, 2024	December 31, 2023
	(Dollars in thousands)	
Total stockholders' equity	$ 408,712	$ 407,114
Less: Goodwill and other intangibles	(21,562)	(21,744)
Tangible common equity	$ 387,150	$ 385,370
Total assets	$ 4,218,993	$ 4,204,793
Less: Goodwill and other intangibles	(21,562)	(21,744)
Tangible assets	$ 4,197,431	$ 4,183,049
Shares outstanding	16,431,755	16,417,099
Total stockholders' equity to total assets	9.69%	9.68%
Tangible common equity to tangible assets	9.22%	9.21%
Book value per share	$ 24.87	$ 24.80
Tangible book value per share	$ 23.56	$ 23.47

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to GAAP and conform to general practices within the industry in which we operate. To prepare consolidated financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the consolidated financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our consolidated financial statements.

The Jumpstart Our Business Startups Act (the "JOBS Act") permits us an extended transition period for complying with new or revised accounting standards affecting public companies. We have elected to take advantage of this extended transition period, which means that the consolidated financial statements included in this Form 10-Q, as well as any financial statements that we file in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as we remain an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period under the JOBS Act.

The following is a discussion of the critical accounting policies and significant estimates that we believe require us to make the most complex or subjective decisions or assessments.

Securities. Investment securities may be classified into trading, held-to-maturity, or available-for-sale portfolios. Securities that are held principally for resale in the near term are classified as trading. Securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as trading or held-to-maturity are available-for-sale and are reported at fair value with unrealized gains and losses excluded from earnings, but included in the determination of other comprehensive income (loss). Management uses these assets as part of its asset/liability management strategy; they may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors. Management determines the appropriate classification of securities at the time of purchase. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. The cost of securities sold is based on the specific identification method.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which is not materially different from the effective interest method required by GAAP.

Loans are placed on non-accrual status when, in management's opinion, collection of interest is unlikely, which typically occurs when principal or interest payments are more than ninety days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses. The ACL for loans is established for future expected credit losses through a provision for credit losses charged to earnings. Expected losses are calculated using comparable and quantifiable information both internal and external about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Expected credit losses are estimated over the contractual term of the loans and adjusted for expected prepayments when appropriate. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Company's ACL for loans consists of specific valuation allowances established for probable losses on specifically analyzed loans and collective valuation allowances calculated using comparable and quantifiable information both internal and external about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

The ACL for loans is evaluated on a quarterly basis by management and is based upon management's review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The determination of the adequacy of the ACL for loans is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank's loans are generally secured by specific items of collateral including real property, crops, livestock, consumer assets, and other business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on various factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Loans that exhibit characteristics different from their pool characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective ACL for loans evaluation. Certain of these loans are considered to be collateral dependent with the borrower experiencing financial difficulty. For these loans, the fair value of collateral practical expedient is elected whereby the allowance is calculated as the amount by which the amortized cost exceeds the fair value of collateral, less costs to sell. All non-accrual loans $250 thousand or greater are analyzed for a specific ACL.

The Company estimates expected credit losses on off-balance sheet credit exposures over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL for off-balance sheet credit exposures is adjusted through provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Utilization rates are determined based on a two-year rolling average of historical usage. Expected loss rates for all pass rated loans are used to determine the ACL for off-balance sheet credit exposures.

For AFS securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized costs basis is written down to fair value through income. For AFS securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss). Changes in the ACL are recorded as provision for credit losses. Losses are charged against the allowance when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest is excluded from the estimate of credit losses on securities.

Loans Held for Sale. Loans held for sale are comprised of residential mortgage loans. Loans that are originated for best efforts delivery are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. All other loans held for sale are carried at fair value. Loans sold are typically subject to certain indemnification provisions with the investor; management does not believe these provisions will have any significant consequences.

Mortgage Servicing Rights Asset. When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the consolidated statement of comprehensive income (loss) effect recorded in net gain on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates present value of estimated future servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports change in fair value of servicing assets in earnings in the period in which the changes occur, and are included with other noninterest income in the consolidated financial statements. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Goodwill and Other Intangible Assets. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least annually or more frequently if events and circumstances exist that indicate that an impairment test should be performed. Intangible assets with definite lives are amortized over their estimated useful lives.

Recently Issued Accounting Pronouncements

See Note 1, Summary of Significant Accounting Policies, in the notes to the consolidated financial statements included elsewhere in this Form 10-Q regarding the impact of new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

The Company manages market risk, which, as a financial institution is primarily interest rate volatility, through the ALCO Committee of the Bank, in accordance with policies approved by its board of directors. The Company uses an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Market Risk" herein for a discussion of how we manage market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) were effective as of the end of the period covered by this Form 10-Q.

Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions, as described in our Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Annual Report on Form 10-K”) filed with the SEC on March 15, 2024. Except as described in our 2023 Annual Report on Form 10-K, we are not presently involved in any other litigation, nor to our knowledge is any litigation threatened against us, that in management’s opinion would result in any material adverse effect on our financial position or results of operations or that is not expected to be covered by insurance.

Item 1A. Risk Factors

In evaluating an investment in any of our securities, investors should consider carefully, among other things, information under the heading “Cautionary Notice Regarding Forward-Looking Statements” in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this Form 10-Q and the risk factors previously disclosed under the heading “Risk Factors” in Part I, Item 1A of our 2023 Annual Report on Form 10-K. Management believes there have been no material changes in the risk factors disclosed by the Company in the 2023 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On February 21, 2024, the Company’s board of directors approved a new stock repurchase program pursuant to which the Company may, from time to time, purchase up to $10.0 million of its outstanding shares of common stock (the “New Program”). The shares can be repurchased from time to time in privately negotiated transactions or the open market, including pursuant to Rule 10b5-1 trading plans, and in accordance with applicable regulations of the SEC. The Company is not obligated to purchase any shares of its common stock under the New Program and the timing and exact amount of any repurchases depends on various factors including, the performance of the Company’s stock price, general market and other conditions, applicable legal requirements and other factors. The New Program may be terminated or amended by the Company’s board of directors at any time prior to the expiration date of February 26, 2025.

The following table summarizes the share repurchase activity for the three months ended March 31, 2024.

	Total Shares Repurchased	Average Price Paid Per Share	Total Dollar Amount Purchased Pursuant to Publicly-Announced Plans	Maximum Dollar Amount Remaining Available for Repurchase Pursuant to Publicly-Announced Plans
January 2024	—	$ —	$ —	$ 10,000,000
February 2024	—	—	—	10,000,000
March 2024	1,406	24.99	35,140	9,964,860
Total	1,406			

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended March 31, 2024, none of the directors or officers of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Formation of South Plains Financial, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on April 12, 2019) (File No. 333-230851).
3.2	Second Amended and Restated Bylaws of South Plains Financial, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 1, 2021) (File No. 001-38895).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following material from South Plains Financial, Inc.'s Form 10-Q for the quarter ended March 31, 2024, formatted in XBRL (eXtensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

* Filed with this Form 10-Q

** Furnished with this Form 10-Q

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

South Plains Financial, Inc.

Date: May 6, 2024

By: /s/ Curtis C. Griffith
Curtis C. Griffith
Chairman and Chief Executive Officer

Date: May 6, 2024

By: /s/ Steven B. Crockett
Steven B. Crockett
Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Curtis C. Griffith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of South Plains Financial, Inc. (the “registrant”) for the quarter ended March 31, 2024 (this “report”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2024 By: /s/ Curtis C. Griffith

Curtis C. Griffith
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven B. Crockett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of South Plains Financial, Inc. (the “registrant”) for the quarter ended March 31, 2024 (this “report”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2024

By: /s/ Steven B. Crockett
Steven B. Crockett
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of South Plains Financial, Inc. (the "Company") for the quarter ended March 31, 2024 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2024

By: /s/ Curtis C. Griffith
Curtis C. Griffith
Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of South Plains Financial, Inc. (the "Company") for the quarter ended March 31, 2024 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2024

By: /s/ Steven B. Crockett
Steven B. Crockett
Chief Financial Officer