



South Plains Financial, Inc.

**Second Quarter 2024
Earnings Call Transcript**

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CONFERENCE CALL PARTICIPANTS

Brett Rabatin, *Hovde Group*

Joseph Yanchunis, *Raymond James*

Woody Lay, *KBW*

Stephen Scouten, *Piper Sandler*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the South Plains Financial, Inc. Second Quarter 2024 Earnings Conference Call.

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

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

Steven Crockett

Thank you, Operator, and good afternoon, everyone. We appreciate you joining our earnings conference call.

With me here today are Curtis Griffith, our Chairman and Chief Executive Officer; Cory Newsom, our President; and Brent Bates, our Chief Credit Officer. The related earnings press release and earnings presentation are available on our News & Events section of our website, spfi.bank.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements and are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated future results. Please see our Safe Harbor statements in our earnings press release and in our earnings presentation. All comments made during today's call are subject to those Safe Harbor statements. Any forward-looking statements presented herein are made only as of today's date, and we do not undertake any duty to update such forward-looking statements, except as required by law.

Additionally, during today's call, we may discuss certain non-GAAP financial measures, which we believe are useful in evaluating our performance. A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measures can also be found in our earnings release and in the earnings presentation.

Curtis, let me hand it over to you.

Curtis Griffith

Thank you, Steve, and good afternoon.

On today's call, I will briefly review the highlights of our second quarter 2024 results, as well as discuss our efforts to drive our profitability and returns as we continue to strive to be a high performing bank. Cory will discuss our loan portfolio as well as our initiatives to drive growth across the bank. Steve will then conclude with a more detailed review of our second quarter financial results.

Starting on Slide 4 of our earnings presentation, we delivered second quarter diluted earnings per share of \$0.66 as compared to \$0.64 in the first quarter of 2024. Strength in the quarter came from robust organic loan growth, which lifted the yield on our loan portfolio and contributed to our margin expansion. We also continued to closely manage our liquidity with a focus on maximizing the profitability and returns of the bank. This led to a modest reduction in customer deposits, as we worked to keep deposit costs steady through the quarter. Importantly, we believe competitive pressures for deposits have started to ease, while new loan yields have remained robust, leading to our solid NIM expansion in the quarter.

Looking to the second half of the year, we expect our NIM expansion to moderate as deposit costs are likely to move modestly higher, while loan growth returns to more normal levels, as Cory will discuss in a moment. Strength in the quarter also led to further improvement in our efficiency ratio, which declined to 66.7%, as compared to 67.9% in the linked quarter, while our return on average assets improved three basis points to 1.07% as compared to the first quarter. We also grew our tangible book value per share to \$24.15 at June 30, as compared to \$23.56 at March 31, 2024.

I am very pleased with the steady financial progress that we continue to deliver, which is a credit to our employees and their commitment to the bank and our customers. I'm also pleased that our performance is being recognized more broadly as Forbes Magazine ranked City Bank twelfth in their 2024 Best Banks in America list. While S&P Global Market Intelligence ranked us the twenty-eighth best performing U.S. Community bank with assets between \$3 billion and \$10 billion in 2023. This speaks to our Management team's focus on operating South Plains at a high level, while maximizing value for all our stakeholders.

Turning to credit, we continue to aggressively manage the credit quality of our loan portfolio. During the second quarter, we moved a substandard multifamily property loan in Houston to non-accrual. This is a loan that we have had rated substandard since June of last year and have been closely monitoring and proactively working on the credit over that time period. This is not a surprise nor a reflection of the multifamily market in Houston or in any of our markets. As we have discussed on prior calls, we have a strong credit culture that is focused on identifying problems early, working with our borrowers and taking the appropriate steps to resolve challenges.

We continue to vigorously stress test the credit quality of our loan portfolio in order to identify potential problems early and then work to remediate them. We will never sacrifice credit quality for growth, especially in the current environment, where we are starting to see a few stresses in the national economy. We are fortunate to operate in Texas, where the economy remains healthy with a growing population and a business-friendly state government.

We will remain cautious and vigilant given the current high interest rate environment. As a result, we are aggressively preparing for whatever environment may come over the next few quarters and have confidence in the credit quality of our loan portfolio. While the economic outlook may be uncertain, we believe that we are in a strong position as the Bank and the Company each significantly exceed the minimum regulatory levels necessary to be deemed well capitalized. At June 30, 2024, the consolidated common equity Tier 1 risk-based capital ratio was 12.61%, and our Tier 1 leverage ratio was 11.81%. Additionally, our loans held for investment to deposit ratio stood at 85% at quarter end.

Given our capital position, we remain focused on both growing the bank, while also returning a steady stream of income to our Shareholders through our quarterly dividend. Yesterday, our Board of Directors authorized a \$0.14 per share quarterly dividend, which will be our twenty-first consecutive quarterly dividend to be paid on August 12, 2024, for Shareholders of record on July 29, 2024. We also have a \$10 million stock repurchase program in place, which our Board authorized in February. We had limited buyback activity through the second quarter, as we balanced liquidity for growth, as well as being mindful of the limited trading volume of our shares.

To conclude, the bank is doing well and is positioned, we believe, to drive organic growth across both our community and metropolitan markets, while being well prepared for varying economic conditions as we have proactively managed the credit quality of our loan portfolio, to ensure we're staying ahead of any challenges. I'm excited for the many opportunities that lay ahead.

Now let me turn the call over to Cory.

Cory Newsom

Thank you, Curtis, and good afternoon, everyone.

Starting on Slide 6, we grew our loan portfolio by \$82.5 million or 10.9% annualized in the second quarter as compared to the linked quarter. Our loan growth remained relationship-focused and occurred primarily in direct-energy loans, seasonal agriculture-related loans and single-family property loans. As I will touch on, this loan growth was partially offset by the expected decline in our consumer auto loan portfolio. We also experienced an approximate \$20 million loan payoff in the second quarter, which was at a below market interest rate and provides us the opportunity to redeploy the liquidity at a market rate.

Looking forward, we continue to expect low to mid-single-digit loan growth for the full year 2024. Our guidance is based on expectation that we could continue to experience payoffs through the second half of the year. Additionally, several of our bigger construction and development loans have largely been funded through the second quarter, so this tailwind that we've been experiencing is set to decline. Overall, if our payoffs are lower-than-anticipated, we would expect full year loan growth to be at the high end of our range.

The yield on our loan portfolio was 6.6% in the second quarter, up seven basis points as compared to 6.53% in the linked quarter. As we move through the year, it is expected that the Federal Reserve may begin to reduce their benchmark interest rate by 25 or 50 basis points depending on their ability to bring inflation closer to the 2% target. We continue to believe that a lack of liquidity in our markets may keep new

loan yields elevated, while rates begin to decline, which will be supportive of our margin and net interest income growth.

Turning to Slide 8, we grew loans by \$8 million or 3% annualized to \$1.07 billion in our major metropolitan markets of Dallas, Houston and El Paso as compared to the linked quarter. Our growth was impacted by the \$20 million pay down in El Paso, which I previously mentioned. Our major metropolitan loan portfolio now represents 34.5% of our total loan portfolio, which speaks to the scale that our lenders have achieved.

Looking forward, we continue to benefit from dislocation caused by competitive mergers which continues to provide opportunities for our team to take share and move relationships to South Plains. The Permian Basin is also a region that continues to experience dislocation as competitors go through both ownership and leadership changes which is creating an opportunity to attract high quality loan and deposit relationships to South Plains. As I discussed on our first quarter call, we've invested in our people, branches and infrastructure in the Permian and are hitting our stride as our City Bank brand continues to gain acceptance in the region.

The loan growth that we've been experiencing should drive interest income growth in the quarter ahead while we have opportunities to reprice loans as outlined on Slide 9. As we have been discussing, we expect to continue to deliver interest income growth as many lower rate loans continue to experience principal repayments and/or rate resets. We expect the pace to continue through the third quarter.

Turning to Slide 10, our indirect auto loan portfolio declined \$19.7 million to \$253.7 million at the end of the second quarter. We remain cautious with a focus on maintaining the credit quality of this portfolio as competitors continue to be more aggressive at the higher end of the credit spectrum while volumes have declined. We're not changing how we price risk and are comfortable seeing our portfolio gradually shrink. As Curtis said, we will never sacrifice credit quality for the sake of growth. This can be further seen in the indirect portfolio's strong credit quality where 30-plus days past due were 21 basis points in the second quarter, essentially flat from 22 basis points in the first quarter. Additionally, our 10 to 29-day past dues are an early indicator that the consumer is having challenges and ours continued to hold steady through the second quarter.

Turning to Slide 11, we generated \$12.7 million of non-interest income in the second quarter as compared to \$11.4 million in the linked quarter. This was primarily due to increases of a million dollars in bank card service charges and interchange revenue mainly as a result of continued growth in customer card usage and incentives received during the period, \$408,000 in income from investments in small business investment companies and incremental growth at our treasury management business. These increases were partially offset by a decrease of \$548,000 in mortgage banking revenues, which included a decrease of \$735,000 in the fair value adjustment of the mortgage servicing rights assets.

For the second quarter, non-interest income was 26% of bank revenues as compared to 24% in the first quarter. Continuing to grow our non-interest income remains a focus of our team.

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

Steven Crockett

Thanks, Cory.

For the second quarter, diluted earnings per share was \$0.66 which compares to \$0.64 per share in the linked quarter. Turning to Slide 13, net interest income was \$35.9 million for the second quarter as compared to \$35.4 million for the linked quarter. Interest income increased \$481,000 in the second quarter

as compared to the linked quarter, primarily due to a \$1.6 million rise in loan interest income and a decrease of \$930,000 in interest income on other interest earning assets.

The growth in loan interest income was mainly due to an increase in average loans of \$68.1 million and a rise of seven basis points in the yield on loans. Our net interest margin calculated on a tax equivalent basis was 3.63% in the second quarter, as compared to 3.56% in the linked quarter. The seven basis point increase to our NIM was due primarily to higher loan yields that more than offset the rise in our cost of deposits. Our non-interest bearing deposits declined modestly through the second quarter to 26.3% of total deposits, as compared to 26.8% in the linked quarter.

As outlined on Slide 14, our average cost of deposits was 243 basis points in the second quarter, an increase of two basis points from the linked quarter, as the competition for deposits has eased through the quarter. Importantly, we have been aggressively managing our funding costs to maximize our profitability, which has led to a modest decline in our deposit base in the quarter. We continue to pursue initiatives to drive organic deposit growth to match our liquidity needs, as we work to drive loan growth through the second half of the year. We will continue to prudently manage our liquidity, as we focus on our profitability and returns.

Turning to Slide 15, our ratio of allowance for credit losses to total loans held for investment was 1.40% at June 30, 2024, unchanged from the end of the prior quarter. We have recorded a \$1.8 million provision for credit losses in the second quarter, which was largely attributable to net charge off activity, increased loan balances and higher non-performing loans during the quarter. As Curtis touched on, our non-performing loans totaled \$23.5 million at the end of the second quarter, an increase of \$20 million from the first quarter, due to a previously classified \$20.6 million multifamily property credit that was placed on non-accrual status after the maturity date was accelerated.

Skipping ahead to Slide 18, our non-interest expense was \$32.6 million in the second quarter, as compared to \$31.9 million in the linked quarter. The \$642,000 increase was largely the result of a rise of \$436,000 in mortgage commission expense as loan originations increased. Looking ahead to the third quarter, we expect non-interest expense to modestly rise from the second quarter's level.

Moving to Slide 20, we remain well-capitalized with tangible common equity to tangible assets of 9.44% at the end of the second quarter, an increase of 22 basis points from the end of the first quarter. Tangible book value per share increased to \$24.15 as of June 30, 2024, compared to \$23.56 as of March 31, 2024. The increase was primarily driven by \$8.8 million of net income after dividends paid.

I'll turn the call back to Curtis for concluding remarks.

Curtis Griffith

Thank you, Steve.

To conclude, I'm very proud of our second quarter results, as we continue to focus on maximizing our profitability and returns, as we strive to deliver value for all of our stakeholders. Through the quarter, we generated healthy loan growth, while keeping our funding costs relatively stable, which led to an expansion of our NIM. Looking forward, we are seeing a slight easing of competitive pressures on deposit costs, good opportunities to expand lending across our markets and are making progress on growing our non-interest income. I believe we're well-positioned to further grow the bank, and I remain optimistic on the future for South Plains.

Thank you again for your time today. Operator, please open the line for any questions.

Operator

Thank you. Our first question comes from the line of Brett Rabatin with Hovde Group. Please proceed with your question.

Brett Rabatin

Hey, good afternoon, everyone.

I wanted to start with the fee income and the bank card. Is the second quarter level of fees, is that a good run rate to build off of from here or do you expect any of those various buckets to be different relative to the second quarter and the back half of the year?

Steven Crockett

Yes, Brett, this is Steve. It's a little bit elevated on the bank card side. There's some annual rebates and a few things that make that a little bit higher usually in the second quarter, \$400,000 or so probably. But outside of that, overall non-interest income, those other line items should be pretty good run rate outside of maybe what mortgage might do.

Brett Rabatin

Okay. That's helpful. Then Curtis, you guys talked about the deposit pressures maybe easing a little bit. Can you give us any examples of that, whether it's being able to reprice some 5% CDs lower or when you say easing, can you maybe quantify that a little more?

Curtis Griffith

I think I'd say that we're just seeing fewer ads out in the local media about rates that start with a six. There might still be a few out there and there's definitely still some out there that are in the fives. But we're just not seeing the ad dollars being spent, I guess, to try to move business over. We certainly have some competitors who are still very hungry for deposits.

We've taken the position that we're not going to see a whole lot of stuff run off, but we're going to keep reasonable liquidity, and if some high-cost deposits want to move elsewhere, we'll give them a chance. But right now, that's the way I kind of summarize it that the advertising dollars being spent to promote very high interest CDs or money market accounts has kind of diminished in most of our markets.

Cory Newsom

Brett, this is Cory. Hope you're doing good. I think I would just tack on with that though. We have been working at reducing some of the rates that we have on some of our deposits and we're not seeing any runoff that's coming with it. Now we're not going to be so naive to think that we're going to cut them down and try to replace them. It's too much of a challenge to go chase new dollars, but we have been slowly dialing that down a little bit.

Brett Rabatin

Okay. If I could sneak in one last one around that multifamily loan, could you provide any color on appraisal? Do you have a specific reserve on it? Then just how you see that loan working off the non-accrual bucket?

Cory Newsom

Brett, this is Cory. I'm going to first tell you how we got—where we ended up with this one. We've sat around and had this discussion with you guys on many occasions about how we try to identify problems early and this is a perfect example of this. I mean, we've identified this credit well over a year ago and have been working towards trying to get it resolved. I would think that this one is fully accounted for. I think that's probably where I'm going to stop with it on that. I would tell you that we don't view this credit as being systemic with what people are talking about with multifamily. We think this one's isolated in its own right.

I think we're in the process of working our way out of this one, but I think I'm really proud of the fact that the way we identified it. It falls right in line with the things that we have sat back and talked about trying to identify these credits early and try to work our way through them. We've got a pretty good history of that, and this is just one example of it.

Brett Rabatin

Okay, thanks. Appreciate all the color.

Curtis Griffith

Thanks, Brett.

Operator

Thank you. Our next question comes from the line of Joe Yanchunis with Raymond James. Please proceed with your question.

Joseph Yanchunis

Good afternoon.

Over the past few quarters, your metro markets have been delivering the lion's share of the loan growth. I understand there was a \$20 million pay down, I believe you said at El Paso. But is there anything to call out for the outsized loan growth coming from your rural markets? Do you expect that trend to continue for the balance of the year?

Brent Bates

Yes, Joe, this is Brent. Our pipelines have been pretty stable throughout this year. What I would say is, it is getting a little bit more granular. Average loan balance coming in, we think is going to be a little bit smaller, but the total pipeline's staying about the same. We've got a pretty good mix, but it is becoming less, this year becoming less metro and more of our other markets.

Cory Newsom

Joe, if you look at what really makes up some of the non-metro for us, bringing the stuff back into West Texas and the Permian and stuff, we've had great business in these markets. It's a nice complement to what we're doing in the metro stuff.

Joseph Yanchunis

No absolutely. Okay. Perhaps I missed this in the materials. Did you quantify how much stock you repurchased in the quarter? Given the recent run in the stock, can you shed some color on your appetite for share repurchase activity from here?

Steve Crockett

Yes. I'll start. It was a nominal amount in the buyback and really occurred in the earlier part of the quarter. I think we had talked maybe a little bit last quarter, about we've got the buyback in place, but we were fairly aggressive with it in the previous buyback plan, but we were going to be a little bit more cautious in where that is. I'll let Curtis talk and I'll pull up that number, but it's definitely not a significant number.

Curtis Griffith

Joe, of course, we're very pleased at the recent run up. I'd like to think some of that's just recognizing some value that we bring in, but we also understand, obviously, it's a very broad-based increase to most bank stocks out there as. I guess, the market begins to realize that bank stocks have generally all been undervalued for quite a while now, and maybe some money is moving back out of some of the high flying tech stocks and finding a home in the financials. I figure we're a beneficiary of that a little bit. Yes, we still want to have the plan in place in case we do see some decline in there to be then supportive of the market. But at current levels, we'd be pretty slow to be adding anything in there in terms of buyback. We'll just see where the market goes from here, but we're getting on up there and I think some more— I'll just say reasonable prices, I guess, on how the stocks has been trading lately.

Steve Crockett

Yes. We bought about 12,000, 13,000 shares back during the quarter, a little about \$300,000 or \$400,000 worth.

Joseph Yanchunis

Okay. Then last one for me here, given the forward curve, can you discuss the impact to loan yields with the 25 basis point rate cut?

Steven Crockett

Yes, I'll start. We've been looking at this ongoing. We really think a 25 basis point cut, it's going to be closer to neutral to us I would say just again given the assumptions we've got and the repricing that we know about. It's going to take a few more rate cuts before you would start to see anything above that. But 25, you could see in the short term maybe a little bit of more expense than—or little bit less interest income than you would see reduction in interest expense just until we are able to—a few of the deposits they may not reprice on the same day as you would see a rate cut. We do have public funds and a few other deposits that are directly tied to an index that we would see some relief on. But it's going to take a few more rate cuts before we start to see a more meaningful benefit.

Cory Newsom

Joe, I think I would just go on with what Steve said. I think if you look at it in, I think in a worst case scenario, it's neutral. I think we would work as we do on a consistent basis to try to take advantage of it in every way possible. But I think even in a worst case, it's just neutral to us.

Joseph Yanchunis

Understood. Thanks for taking my questions.

Steven Crockett

Thanks Joe.

Curtis Griffith

Thanks Joe.

Operator

Thank you. Our next question comes from the line of Woody Lay with KBW. Please proceed with your question.

Woody Lay

Hey, guys. Wanted to start on loan growth, it was pretty impressive, especially given the pay downs you saw in the quarter. Could you just talk through sort of the appetite your customers have for credit in this current environment?

Brent Bates

Yes. This is Brent. One of the things I think was mentioned—one of the things that drove our growth this quarter was ag operating lines, about \$25 million of that funding. While we're seeing a good pipeline and good volume, and it's been pretty steady over the last couple of quarters, it's certainly less than it has been in the last past years. But I feel like it's sustainable. The types of deals we're seeing are across the board, but the C&I loans that really drove our growth this quarter were mostly M&A-related strategic transactions with wealthy families that were making a strategic decision about their business. We're still seeing a little bit of that right now that makes sense for us, makes sense for them.

Curtis Griffith

Woody, this is Curtis. One of the other things, and we've hit on this several times, we had some fairly significant construction projects going. While there are not new loans on the books in the quarter, they were loans that still hadn't completed their construction. There were still draws out there. We're not completely to the end of that, but we're getting fairly close. I would say that we are not seeing the volume of new construction lending coming in that we had nine months ago. That's one effect.

You saw a nice bump out there in some loan balances that weren't truly new loans on the books. They were just continuing to fund up what we'd already had committed. That's one reason. We're being pretty cautious, I think, that third and fourth quarter, we'll still get some growth, I do believe that. But it's probably not going to be at the level we saw here in the second quarter.

Cory Newsom

Woody, I think we go one step further though. We're sitting here latter part of July right now. We actually have a crop in the field. We haven't had a crop in the field in two years. We hadn't funded up even to this point in the year, we haven't had fundings even to where we are, for the most part our anticipated fundings in a long time. If you couple that with some of the additional loan growth that we see, we're going to be conservative in what we think is going to be out there and we're going to be careful about the type of stuff

that gets through our credit culture. But I'm telling you, you get a little bit of ag to add into it this year that we hadn't had in a couple of years.

Curtis Griffith

The ag loans traditionally, when we have a good crop, you'll see some fairly significant fundings in the third quarter. While we'll get some pay downs during the calendar year, we really won't see much until fairly late in the fourth quarter. We'll get the benefit of that for most of the next two quarters out there, as those fundings get off the books too. As Cory said, we're glad to have it because we just haven't had much the last couple of years.

Woody Lay

Yes. That's really helpful color. Then I think you also mentioned growth in the direct energy loans in the quarter. Could you quantify the growth in that segment?

Brent Bates

It was about \$15 million. It's really energy-related transactions. There's service transactions. There was corporate bridge transactions. Some of that may be temporary fundings, but good business, good overall business with deposit and other fee income business. Some of that will be temporary, but it's really energy-related more on the service side than I would say direct E&P.

Curtis Griffith

Yes. We didn't suddenly decide to loan a bunch of money to people to go dig oil wells, just to be clear. Now the loans are very much energy-related, as Brent says, but we didn't suddenly change direction and start funding a bunch of exploration loans.

Woody Lay

Yes. Got it. Then lastly, you called out some initiatives implemented in order to boost deposit growth. Just any detail you can provide on those initiatives?

Cory Newsom

I don't think that there's—there really isn't any one smoking gun out there. For us to sit there trying to tell you that I think would be remiss. I think we do a really good job from a customer service standpoint chasing—the treasury, we talk about treasury all the time. But I'm telling you, our team is amazing in what we've been able to pull together, and we have continued to expand that, but it all gets down to deliverables. It's just one aspect of what we're doing throughout the bank. Is there one secret smoking gun? I don't think there's anything there. But I think you can see we're maintaining deposit levels that—I mean, something's working.

Woody Lay

Definitely. All right. Thanks for taking my questions.

Cory Newsom

Thanks Woody.

Operator

Thank you. Our next question comes from the line of Stephen Scouten with Piper Sandler. Please proceed with your question.

Stephen Scouten

Hey. Thanks, guys. Good afternoon. I wanted to just revisit that conversation around rate cuts and how your balance sheet might respond. Are you guys' still modestly liability sensitive overall? Can you remind me what amount of the book is kind of truly floating? I think it was maybe in the 15%-16% of loans that are truly floating rate, but just a refresher there?

Steven Crockett

Yes. We are still slightly as liability sensitive at this point, but very, very slightly given what we're estimating on different pay downs, different things on the loan side. As far as the mix, yes, there's about 19% of the portfolio that's variable that would reprice immediately.

Stephen Scouten

Got it. Okay, helpful. Thank you. Then on the loan growth commentary, it sounds like things will continue at a nice pace, maybe not quite as rapid as we saw this quarter. But how do you think about overall balance sheet growth beyond that? Obviously, you did have strong growth this quarter, but average earning assets were actually down. Just wondering how that mix will play out and if you think you'll see actual balance sheet growth along with the loan growth moving forward?

Curtis Griffith

I wouldn't look for really large asset growth, but we've still been working hard in some of our markets, Permian in particular, to add to the team and get more relationships in the bank. We're not trying to shrink the bank by any means. What we are trying to do is rationally maintain the proper liquidity out there to not be paying interest on money that we really don't have any good use for. Particularly, if we do get back into an environment of Fed rate cuts, we want to be proactive in trying to plan for those and not be tying down a lot of high cost deposits for a long time.

We continue to lean toward paying up very competitive rates on our new accounts, money market accounts, and we'll continue to utilize that tool in markets that we see chances to expand in. We have seen some pretty good deposit growth even in our metro markets. I think that's going to continue. Again, we're not trying to grow at any superfast pace, but as long as we can get a fairly steady low to mid-level percentage of asset growth annualized, I think we're pretty happy with that right now in this environment.

Stephen Scouten

Yes, that makes a lot of sense. Then I guess lastly—I'm sorry, Cory, go ahead.

Cory Newsom

No, you just go with what Curtis was talking about. We're trying to figure out how much of a rate cut it's going to take to really have that next boost in loan growth and loan demand that really comes in. Our focus is making sure that we're prepared ahead of time to be able to fund that. You couple that with the election that's coming, and we talked about this election, but it's coming fast. As few of the rate cuts in there, if

there's one or two this year or what happens after the first of the year, we're just trying to make sure we're prepared from the funding side because we do see—we still see the demand that's here. We know of different projects that are just waiting for some improvement.

Stephen Scouten

Yes. Makes sense. I guess along those lines, your internal capital build the last several quarters has been extremely robust, and it sounds like maybe share repurchase not all that attractive to these levels. Is that really saving that dry powder for growth that could be coming down the line or is it M&A? Or can you walk me through how you think about those capital usage priorities?

Curtis Griffith

In this environment, Cory mentioned earlier, with the uncertainties out there, the election, the geopolitical thing around the world, we could see some major upsets here and there. I'd a lot rather have a little too much capital than too little. We're going to continue to try to maintain a solid growth rate in that. If the right opportunity comes along for an M&A deal, we've got some, as you say, dry powder to use on it. First and foremost, we want to be sure that, we're well-capitalized with whatever organic growth comes our way. That's really job one right there.

Cory Newsom

Stephen, also keep in mind, we have a little bit of sub-debt that we're trying to make sure we're very well prepared and positioned to take care of based on how rates reset on it. If you go back and look at—if you want to talk about buyback, we're conscious of where we're trading, from a trading volume on a consistent basis, because we want to get better at that.

We want to make sure we're prepared for whatever growth; whatever opportunities might come. We've seen some M&A activity recently, but not a lot, but it may open back up. Who knows? We just want to be ready.

Stephen Scouten

Yes. I love it. Thanks. Optionality is always good. Appreciate all the time, guys.

Curtis Griffith

Thank you.

Operator

Thank you. We have reached the end of the question-and-answer session. I'll now turn the call back over to Curtis Griffith for closing remarks.

Curtis Griffith

Thank you, Operator. Thanks, everybody that participated on the call today. We do think we are well-positioned now for whatever may come our way. We do face potential challenges, as we just said out there in the national economy and perhaps the world situation. While we can't plan for everything, we still believe here that being cautious and conservative in our approach to handling of our capital and our depositors' funds is the right thing to do.

We love the markets that we're in. We think we will continue to have expansion opportunities in those markets, and we have some awesome people out there on the team, that continue to work very hard every day to bring that business into City Bank and South Plains Financial. They're the reason that we can do what we can do. I always want to say, thank you to every one of them because we wouldn't be here without them.

With that, I will close the call. Thank you.

Operator

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