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 June 30, 2023

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 August 3, 2023, the registrant had 16,913,686 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)

	June 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from banks	$ 64,497	$ 61,613
Interest-bearing deposits in banks	231,084	173,270
Cash and cash equivalents	295,581	234,883
Securities available for sale	628,093	701,711
Loans held for sale ($15,516 and $10,038 at fair value at June 30, 2023 and December 31, 2022, respectively)	22,158	30,403
Loans held for investment	2,979,063	2,748,081
Allowance for credit losses on loans	(43,137)	(39,288)
Loans held for investment, net	2,935,926	2,708,793
Accrued interest receivable	15,917	16,432
Premises and equipment, net	56,416	56,337
Bank-owned life insurance	73,804	73,174
Goodwill	19,315	19,508
Intangible assets, net	2,834	4,349
Mortgage servicing rights	26,658	27,474
Deferred tax asset, net	22,359	22,818
Other assets	51,068	48,181
Total assets	$ 4,150,129	$ 3,944,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 1,100,767	$ 1,150,488
Interest-bearing	2,473,755	2,255,942
Total deposits	3,574,522	3,406,430
Accrued expenses and other liabilities	61,131	58,265
Subordinated debt	76,054	75,961
Junior subordinated deferrable interest debentures	46,393	46,393
Total liabilities	3,758,100	3,587,049
Stockholders' equity:		
Common stock, $1.00 par value per share, 30,000,000 shares authorized; 16,952,072 and 17,027,197 issued and outstanding at June 30, 2023 and December 31, 2022, respectively	16,952	17,027
Additional paid-in capital	111,133	112,834
Retained earnings	325,772	292,261
Accumulated other comprehensive loss	(61,828)	(65,108)
Total stockholders' equity	392,029	357,014
Total liabilities and stockholders' equity	$ 4,150,129	$ 3,944,063

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

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

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Interest income:				
Loans, including fees	$ 42,864	$ 35,419	$ 82,461	$ 64,797
Securities:				
Taxable	5,365	3,542	10,605	5,918
Non-taxable	1,108	1,137	2,224	2,281
Federal funds sold and interest-bearing deposits in banks	1,484	654	2,979	836
Total interest income	50,821	40,752	98,269	73,832
Interest expense:				
Deposits	14,433	2,317	25,803	4,207
Notes payable & other borrowings	5	—	5	—
Subordinated debt	1,013	1,013	2,025	2,025
Junior subordinated deferrable interest debentures	789	317	1,540	548
Total interest expense	16,240	3,647	29,373	6,780
Net interest income	34,581	37,105	68,896	67,052
Provision for credit losses	3,700	—	4,710	(2,085)
Net interest income, after provision for credit losses	30,881	37,105	64,186	69,137
Noninterest income:				
Service charges on deposit accounts	1,745	1,612	3,446	3,385
Income from insurance activities	37	1,577	1,448	3,147
Net gain on sales of loans	3,528	5,979	6,446	13,472
Bank card services and interchange fees	4,043	3,478	6,999	6,700
Other mortgage banking income	1,731	2,690	1,098	8,834
Investment commissions	420	466	809	1,012
Fiduciary fees	597	635	1,197	1,247
Gain on sale of subsidiary	33,488	—	33,488	—
Other	1,523	2,398	2,872	4,735
Total noninterest income	47,112	18,835	57,803	42,532
Noninterest expense:				
Salaries and employee benefits	23,437	21,990	42,691	44,693
Occupancy and equipment, net	4,303	4,033	8,135	7,770
Professional services	1,716	2,647	3,364	5,272
Marketing and development	784	758	1,720	1,478
IT and data services	888	941	1,752	1,994
Bank card expenses	1,316	1,328	2,668	2,651
Appraisal expenses	301	508	579	1,073
Realized loss on sale of securities	3,409	—	3,409	—
Other	4,345	3,851	8,542	9,049
Total noninterest expense	40,499	36,056	72,860	73,980
Income before income taxes	37,494	19,884	49,129	37,689
Income tax expense	7,811	4,001	10,202	7,528
Net income	$ 29,683	$ 15,883	$ 38,927	$ 30,161

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Earnings per share:				
Basic	$ 1.74	$ 0.91	$ 2.28	$ 1.71
Diluted	$ 1.71	$ 0.88	$ 2.23	$ 1.66
Net income	$ 29,683	$ 15,883	$ 38,927	$ 30,161
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale	(7,109)	(42,097)	1,514	(86,974)
Less: Change in fair value on hedged state and municipal securities	1,866	3,450	(771)	10,349
Reclassification adjustment for loss on sale of securities	3,409	—	3,409	—
Tax effect	385	8,116	(872)	16,091
Other comprehensive income (loss)	(1,449)	(30,531)	3,280	(60,534)
Comprehensive income (loss)	$ 28,234	$ (14,648)	$ 42,207	$ (30,373)

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										
	Shares		Amount		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total
Six Months Ended June 30,											
Balance at December 31, 2021	17,760,243	$	17,760	$	133,215	$	242,750	$	13,702	$	407,427
Net income	—		—		—		30,161		—		30,161
Cash dividends declared - $0.22 per share	—		—		—		(3,889)		—		(3,889)
Other comprehensive loss	—		—		—		—		(60,534)		(60,534)
Impact of adoption of Topic 842 related to leases	—		—		—		(717)		—		(717)
Exercise of employee stock options and vesting of restricted stock units, net of 4,824 shares for cashless exercise and net of 7,129 shares for taxes	20,337		20		(215)		—		—		(195)
Repurchases of common stock	(363,486)		(363)		(8,845)		—		—		(9,208)
Stock-based compensation	—		—		1,177		—		—		1,177
Balance at June 30, 2022	17,417,094	$	17,417	$	125,332	$	268,305	$	(46,832)	$	364,222
Balance at December 31, 2022	17,027,197	$	17,027	$	112,834	$	292,261	$	(65,108)	$	357,014
Net income	—		—		—		38,927		—		38,927
Cash dividends declared - $0.26 per share	—		—		—		(4,419)		—		(4,419)
Other comprehensive income	—		—		—		—		3,280		3,280
Impact of adoption of ASU 2016-13 - CECL	—		—		—		(997)		—		(997)
Exercise of employee stock options and vesting of restricted stock units, net of 24,140 shares for cashless exercise and net of 13,892 shares for taxes	37,829		38		(380)		—		—		(342)
Repurchases of common stock	(112,954)		(113)		(2,435)		—		—		(2,548)
Stock-based compensation	—		—		1,114		—		—		1,114
Balance at June 30, 2023	16,952,072	$	16,952	$	111,133	$	325,772	$	(61,828)	$	392,029
Three Months Ended June 30,											
Balance at March 31, 2022	17,673,407	$	17,673	$	130,618	$	255,078	$	(16,301)	$	387,068
Net income	—		—		—		15,883		—		15,883
Cash dividends declared - $0.11 per share	—		—		—		(1,939)		—		(1,939)
Other comprehensive loss	—		—		—		—		(30,531)		(30,531)
Impact of adoption of Topic 842 related to leases	—		—		—		(717)		—		(717)
Exercise of employee stock options and vesting of restricted stock units, net of 272 shares for taxes	675		1		(1)		—		—		—
Repurchases of common stock	(256,988)		(257)		(5,933)		—		—		(6,190)
Stock-based compensation	—		—		648		—		—		648
Balance at June 30, 2022	17,417,094	$	17,417	$	125,332	$	268,305	$	(46,832)	$	364,222
Balance at March 31, 2023	17,062,572	$	17,062	$	112,981	$	298,300	$	(60,379)	$	367,964
Net income	—		—		—		29,683		—		29,683
Cash dividends declared - $0.13 per share	—		—		—		(2,211)		—		(2,211)
Other comprehensive loss	—		—		—		—		(1,449)		(1,449)
Exercise of employee stock options and vesting of restricted stock units, net of 10,567 shares for cashless exercise	2,454		3		(3)		—		—		—
Repurchases of common stock	(112,954)		(113)		(2,435)		—		—		(2,548)
Stock-based compensation	—		—		590		—		—		590
Balance at June 30, 2023	16,952,072	$	16,952	$	111,133	$	325,772	$	(61,828)	$	392,029

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)

	Six Months Ended June 30,	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 38,927	$ 30,161
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	4,710	(2,085)
Provision for foreclosed asset losses	97	—
Depreciation and amortization	3,240	3,508
Accretion and amortization	1,980	2,077
Other gains, net	(212)	(59)
Gain on sale of subsidiary	(33,488)	—
Loss on sale of securities	3,409	—
Net gain on sales of loans	(6,446)	(13,472)
Proceeds from sales of loans held for sale	233,170	492,086
Loans originated for sale	(219,212)	(442,236)
Deferred income tax expense (benefit)	(148)	2,411
Earnings on bank-owned life insurance	(630)	(596)
Stock-based compensation	1,114	1,177
Change in valuation of mortgage servicing rights	1,550	(5,625)
Net change in:		
Accrued interest receivable and other assets	(4,759)	1,042
Accrued expenses and other liabilities	2,423	21,058
Net cash provided by operating activities	25,725	89,447
Cash flows from investing activities:		
Activity in securities available for sale:		
Purchases	—	(176,713)
Sales	52,828	—
Maturities, prepayments, and calls	20,418	48,318
Loan originations and principal collections, net	(232,692)	(143,497)
Purchases of premises and equipment	(3,452)	(1,998)
Proceeds from sales of premises and equipment	896	239
Proceeds from sale of subsidiary	35,500	—
Proceeds from sales of foreclosed assets	692	1,750
Net cash used in investing activities	(125,810)	(271,901)
Cash flows from financing activities:		
Net change in deposits	168,092	84,615
Payments to tax authorities for stock-based compensation	(342)	(195)
Cash dividends paid on common stock	(4,419)	(3,889)
Payments to repurchase common stock	(2,548)	(9,208)
Net cash provided by financing activities	160,783	71,323
Net change in cash and cash equivalents	60,698	(111,131)
Beginning cash and cash equivalents	234,883	486,821
Ending cash and cash equivalents	$ 295,581	$ 375,690
Supplemental disclosures of cash flow information:		
Interest paid on deposits and borrowed funds	$ 28,552	$ 6,619
Income taxes paid	1,082	2,776
Supplemental schedule of noncash activities:		
Loans transferred to foreclosed assets	$ 697	$ 353
Premises and equipment transferred to other real estate owned	172	—
Additions to mortgage servicing rights	734	2,180

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

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 June 30, 2023:

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") 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 $35.5 million in exchange for Windmark's common shares, representing a pre-tax gain of $33.5 million. The purchase price may be increased by the net amount of Windmark working capital as provided in the Agreement. 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 and six months ended June 30, 2023 (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, 2022. 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.

Accounting Changes – 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 2016-13 Financial Instruments - Credit Losses (Topic 326). The FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. The CECL model also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in sales type and direct financing leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Topic 326 made changes to the accounting for securities available for sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on securities available for sale management does not intend to sell or believes that it is more likely than not they will be required to sell. The Company adopted the CECL model effective January 1, 2023 using the modified retrospective approach, as a result, the Company recognized a one-time, after tax cumulative effect debit adjustment of $997 thousand to retained earnings, increased the ACL for loans by approximately $100 thousand and increased the ACL for off-balance sheet credit exposures by approximately $1.2 million. Results for reporting periods beginning after January 1, 2023 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The Company made the following policy elections related to the adoption of the CECL model. First, accrued interest will be written off against interest income when financial assets are placed into nonaccrual status. Therefore, accrued interest will be excluded from the amortized cost basis for purposes of calculating the ACL. Accrued interest receivable is presented in a separate line item in the Consolidated Balance Sheets. Second, the fair value of collateral practical expedient has been elected on certain loans in determining the ACL, for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty.

The impact on the ACL resulting from the adoption of the CECL model is shown below.

(Dollars in thousands)	January 1, 2023		
	Pre-Adoption	**Impact of Adoption**	**Post-Adoption**
Commercial real estate	$ 13,029	$ 827	$ 13,856
Commercial – specialized	3,425	33	3,458
Commercial - general	9,215	(2,574)	6,641
Consumer:			
1-4 family residential	6,194	1,700	7,894
Auto loans	3,926	(332)	3,594
Other consumer	1,376	(235)	1,141
Construction	2,123	683	2,806
Total allowance for credit losses on loans	$ 39,288	$ 102	$ 39,390
Allowance for credit losses for off-balance sheet exposures	$ 580	$ 1,160	$ 1,740

ASU 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This ASU eliminates guidance for troubled debt restructurings by creditors and enhances disclosure requirements for certain loan modifications by creditors for borrowers experiencing financial distress. This ASU defines types of modifications as principal forgiveness, interest rate reduction, other than insignificant payment delays, or a term extension. In addition, the ASU requires disclosure of current-period gross charge-offs, by year of origination, in the vintage disclosure. The Company adopted the provisions of ASU 2022-02 as of January 1, 2023 on a prospective basis. The adoption of this amendment did not have a material impact on the consolidated financial statements.

In connection with the adoption of the CECL model, the Company revised certain accounting policies and implemented certain accounting policy elections.

Securities – Investment securities may be classified into trading, held to maturity ("HTM") or available for sale ("AFS") 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 HTM and recorded at amortized cost. Securities not classified as trading or HTM are AFS and are carried at fair value with unrealized gains and losses reported as a component of other comprehensive income (loss), net of tax. 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. Gains and losses on sales are recorded on the trade date, are derived from the amortized cost of the security sold and are determined using the specific identification method. A security is placed on nonaccrual status if principal or interest has been in default for a period of 90 days or more, or if full payment of principal and interest is not expected. The Company has made a policy election to exclude accrued interest receivable from the amortized cost basis of AFS securities and report the accrued interest in accrued interest receivable in the Consolidated Balance Sheets. Interest accrued but not received for a security placed on nonaccrual status is reversed against interest income.

ACL (AFS Securities) – 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 cost 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.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their amortized cost. Amortized cost is the outstanding unpaid principal balances, net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and report accrued interest separately from the related loan balance in accrued interest receivable on the Consolidated Balance Sheets. Accrued interest receivable is excluded from the estimate of credit losses. 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 nonaccrual 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.

ACL (Loans) – The ACL is a valuation account established by management as an estimate to cover expected credit losses through a provision for credit losses charged to earnings. Credit losses on loans 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. Expected losses are 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.

The ACL is evaluated on a quarterly basis by management. 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 at January 1 and June 30, 2023. 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 credit 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 its one-year through the cycle estimate of expected credit loss to a life of loan measurement that reflects current conditions and reasonable and supportable 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 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 forecast 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 life of loan 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.

While management uses available information to recognize credit 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 credit losses on loans. Such agencies may require the bank subsidiary to recognize additional credit 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 credit 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 evaluation. When management determines that foreclosure is probable, or if certain of these loans are considered to be collateral dependent with the borrower experiencing financial difficulty, the Company elects the fair value of collateral practical expedient, whereby the allowance is calculated as the amount by which the amortized cost exceeds the fair value of collateral, less costs to sell.

ACL (Off-Balance Sheet Credit Exposures) – The Company estimates expected credit losses 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. The ACL for off-balance sheet credit exposures is included in accrued expenses and other liabilities on the Consolidated Balance Sheets.

Acquired Loans – Loans that the Company acquires in connection with business combinations are recorded at fair value with no carryover of the acquired entity's related ACL. The fair value of the acquired loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest, adjusted for estimated prepayments and credit losses. In accordance with Topic 326, the fair value adjustment is recorded as premium or discount to the unpaid principal balance of each acquired loan. In addition, the Company also records an ACL on each acquired loan.

Any acquired loans the Company determines have evidence of a more than insignificant deterioration in credit quality since origination, are considered to be purchase credit deteriorated ("PCD") loans. The Company evaluates acquired loans for deterioration in credit quality based on any of, but not limited to, the following: (i) non-accrual status; (ii) risk rating, (iii) watchlist credits; and (iv) delinquency status. An ACL is determined using the same methodology as other individually evaluated loans. The sum of the PCD loan's purchase price and ACL becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a non-credit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through provision for credit 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 on October 31 of each year or more frequently if events and circumstances exist that indicate that an impairment test should be performed. There was no goodwill impairment recorded for the six months ended June 30, 2023 and the year ended December 31, 2022.

Core deposit intangible ("CDI") is a measure of the value of checking and savings deposit relationships acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding relative to an alternative source of funding. CDI is amortized over the estimated useful lives of the existing deposit relationships acquired, but does not exceed 10 years. Substantially all CDI is amortized using the sum of the years' digits method.

Earnings per Share – Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Segment Information – The Company previously identified two operating segments: banking and insurance. The accounting policies for each of the segments were the same as those described in the summary of significant accounting policies. Effective January 1, 2023, operations and financial performance of the insurance segment were being performed and evaluated on a Company-wide basis based on not being significant to the operating results of the Company. Furthermore, the insurance segment was sold on April 1, 2023. As a result, segment reporting disclosures have been removed.

Subsequent Events – The Company has evaluated subsequent events and transactions from June 30,2023 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
June 30, 2023					
Available for sale:					
State and municipal	$ 206,835	$ 2	$ (26,442)	$ —	$ 180,395
Residential mortgage-backed securities	366,207	—	(56,020)	—	310,187
Commercial mortgage-backed securities	48,533	—	(7,315)	—	41,218
Commercial collateralized mortgage obligations	72,823	—	(5,228)	—	67,595
Asset-backed and other amortizing securities	19,529	—	(1,744)	—	17,785
Other securities	12,000	—	(1,087)	—	10,913
	$ 725,927	$ 2	$ (97,836)	$ —	$ 628,093

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Available for sale:				
State and municipal	$ 259,429	$ 27	$ (34,401)	$ 225,055
Residential mortgage-backed securities	386,783	—	(57,938)	328,845
Commercial mortgage-backed securities	49,161	—	(7,194)	41,967
Commercial collateralized mortgage obligations	76,189	—	(551)	75,638
Asset-backed and other amortizing securities	20,907	—	(1,813)	19,094
Other securities	12,000	—	(888)	11,112
	$ 804,469	$ 27	$ (102,785)	$ 701,711

The amortized cost and estimated fair value of securities at June 30, 2023 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. Other securities are shown separately since they are not due at a single maturity date.

	Available for Sale	
	Amortized Cost	Fair Value
Within 1 year	$ 2,628	$ 2,629
After 1 year through 5 years	5,387	5,119
After 5 years through 10 years	17,405	16,179
After 10 years	193,415	167,381
Other	507,092	436,785
	$ 725,927	$ 628,093

At both June 30, 2023 and December 31, 2022, the Company had 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 $424.1 million and $464.1 million at June 30, 2023 and December 31, 2022, 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
June 30, 2023						
State and municipal	$ 5,903	$ 92	$ 171,217	$ 26,350	$ 177,120	$ 26,442
Residential mortgage-backed securities	—	—	310,178	56,020	310,178	56,020
Commercial mortgage-backed securities	—	—	41,218	7,315	41,218	7,315
Commercial collateralized mortgage obligations	67,595	5,228	—	—	67,595	5,228
Asset-backed and other amortizing securities	—	—	17,785	1,744	17,785	1,744
Other securities	3,405	95	7,508	992	10,913	1,087
	$ 76,903	$ 5,415	$ 547,906	$ 92,421	$ 624,809	$ 97,836
December 31, 2022						
State and municipal	$ 162,746	$ 23,538	$ 57,675	$ 10,863	$ 220,421	$ 34,401
Residential mortgage-backed securities	220,752	27,967	108,080	29,971	328,832	57,938
Commercial mortgage-backed securities	41,966	7,194	—	—	41,966	7,194
Commercial collateralized mortgage obligations	75,638	551	—	—	75,638	551
Asset-backed and other amortizing securities	19,094	1,813	—	—	19,094	1,813
Other securities	11,112	888	—	—	11,112	888
	$ 531,308	$ 61,951	$ 165,755	$ 40,834	$ 697,063	$ 102,785

The Company had 147 securities with an unrealized loss at June 30, 2023, 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 June 30, 2023, 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):

	June 30, 2023	December 31, 2022
Commercial real estate	$ 1,006,909	$ 919,358
Commercial - specialized	355,252	327,513
Commercial - general	551,096	484,783
Consumer:		
1-4 family residential	522,472	460,124
Auto loans	318,126	321,476
Other consumer	79,795	81,308
Construction	145,413	153,519
	2,979,063	2,748,081
Allowance for credit losses on loans	(43,137)	(39,288)
Loans, net	$ 2,935,926	$ 2,708,793

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 also subject to underwriting standards and processes similar to commercial real estate loans. These loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably. These 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 $43.1 million at June 30, 2023, compared to $39.3 million at December 31, 2022. The ACL for loans to loans held for investment was 1.45% at June 30, 2023 and 1.43% at December 31, 2022.

The following table details 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 June 30, 2023					
Commercial real estate	$ 13,381	$ 1,120	$ —	$ —	$ 14,501
Commercial - specialized	3,510	626	—	18	4,154
Commercial - general	6,267	1,478	(169)	61	7,637
Consumer:					
1-4 family residential	8,531	318	—	2	8,851
Auto loans	3,714	332	(157)	11	3,900
Other consumer	1,101	155	(229)	80	1,107
Construction	3,056	(69)	—	—	2,987
	$ 39,560	$ 3,960	$ (555)	$ 172	$ 43,137
For the three months ended June 30, 2022					
Commercial real estate	$ 14,621	$ (1,111)	$ —	$ 393	$ 13,903
Commercial - specialized	3,275	71	(68)	77	3,355
Commercial - general	9,940	(149)	(8)	135	9,918
Consumer:					
1-4 family residential	4,931	397	—	1	5,329
Auto loans	3,681	314	(69)	32	3,958
Other consumer	1,384	250	(242)	51	1,443
Construction	1,817	228	(166)	—	1,879
	$ 39,649	$ —	$ (553)	$ 689	$ 39,785

(1) The $3.7 million provision for credit loss on the Consolidated Statement of Comprehensive Income (Loss) includes a $4.0 million provision for credit losses on loans and a $(260) thousand provision for off-balance sheet credit exposures for the three months ended June 30, 2023.

For the six months ended June 30, 2023	Beginning Balance	Impact of CECL Adoption	Provision for Credit Losses[1]	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 13,029	$ 827	$ 645	$ —	$ —	$ 14,501
Commercial - specialized	3,425	33	616	—	80	4,154
Commercial - general	9,215	(2,574)	1,242	(369)	123	7,637
Consumer:						
1-4 family residential	6,194	1,700	954	—	3	8,851
Auto loans	3,926	(332)	630	(411)	87	3,900
Other consumer	1,376	(235)	220	(442)	188	1,107
Construction	2,123	683	453	(272)	—	2,987
	$ 39,288	$ 102	$ 4,760	$ (1,494)	$ 481	$ 43,137

(1) The $4.7 million provision for credit loss on the Consolidated Statement of Comprehensive Income (Loss) includes a $4.8 million provision for credit losses on loans and a $(50) thousand provision for off-balance sheet credit exposures for the six months ended June 30, 2023.

For the six months ended June 30, 2022	Beginning Balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 17,245	$ (3,760)	$ —	$ 418	$ 13,903
Commercial - specialized	4,363	(1,013)	(106)	111	3,355
Commercial - general	8,466	1,510	(315)	257	9,918
Consumer:					
1-4 family residential	5,268	99	(40)	2	5,329
Auto loans	3,653	382	(155)	78	3,958
Other consumer	1,357	398	(428)	116	1,443
Construction	1,746	299	(166)	—	1,879
	$ 42,098	$ (2,085)	$ (1,210)	$ 982	$ 39,785

During the three and six months ended June 30, 2023, the provision for credit losses on loans of $4.0 million and $4.8 million, respectively, reflected a build in the allowance driven primarily by organic loan growth experienced over the first six months of 2023. The changes in the ACL for these periods were also impacted by net charge-offs of $1.0 million during the first six months of 2023 and an increase of $1.3 million in the ACL for credit losses on loans individually analyzed.

The following table shows 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 date indicated (dollars in thousands).

June 30, 2023	Real Estate	Equipment	Accounts Receivable	Total Loans Individually Evaluated	Total ACL for Individually Evaluated Loans
Commercial real estate	$ 175	$ 525	$ 30	$ 730	$ —
Commercial - specialized	—	—	—	—	—
Commercial - general	8,179	9,724	162	18,065	1,362
Consumer:					
1-4 family residential	747	1	—	748	83
Auto loans	—	—	—	—	—
Other consumer	—	—	—	—	—
Construction	—	—	—	—	—
	$ 9,101	$ 10,250	$ 192	$ 19,543	$ 1,445

The following table shows the Company’s investment in loans disaggregated based on the method of evaluating impairment at the date indicated (dollars in thousands):

	Recorded Investment		ACL for Loans	
December 31, 2022	Individually Evaluated	Collectively Evaluated	Individually Evaluated	Collectively Evaluated
Commercial real estate	$ —	$ 919,358	$ —	$ 13,029
Commercial - specialized	—	327,513	—	3,425
Commercial - general	3,350	481,433	22	9,193
Consumer:				
1-4 family residential	742	459,382	18	6,176
Auto loans	—	321,476	—	3,926
Other consumer	—	81,308	—	1,376
Construction	1,014	152,505	245	1,878
	$ 5,106	$ 2,742,975	$ 285	$ 39,003

Impaired loan information at the date indicated follows (dollars in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
December 31, 2022						
Commercial real estate	$ —	$ —	$ —	$ —	$ —	$ 551
Commercial - specialized	—	—	—	—	—	—
Commercial - general	3,350	799	2,551	3,350	22	4,214
Consumer:						
1-4 family	742	486	256	742	18	1,167
Auto loans	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—
Construction	1,014	686	328	1,014	245	507
	$ 5,106	$ 1,971	$ 3,135	$ 5,106	$ 285	$ 6,439

All impaired loans $250 thousand and greater were specifically evaluated for impairment at December 31, 2022. Interest income recognized using a cash-basis method on individually analyzed loans for the three and six months ended June 30, 2023 was not significant. Additional funds committed to be advanced on individually analyzed loans are not significant.

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

	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Nonaccrual with no ACL
June 30, 2023				
Commercial real estate	$ 65	$ 91	$ —	$ —
Commercial - specialized	230	11	249	—
Commercial - general	335	3,352	14,078	—
Consumer:				
1-4 Family residential	1,829	630	1,977	261
Auto loans	971	145	—	—
Other consumer	754	249	34	—
Construction	611	—	223	—
	$ 4,795	$ 4,478	$ 16,561	$ 261

	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual
December 31, 2022			
Commercial real estate	$ 342	$ 27	$ —
Commercial - specialized	25	13	38
Commercial - general	1,451	60	3,357
Consumer:			
1-4 Family residential	1,389	1,653	1,356
Auto loans	707	85	—
Other consumer	1,487	149	37
Construction	550	—	1,014
	$ 5,951	$ 1,987	$ 5,802

The Company has elected the fair value option for recording residential mortgage loans held for sale (mandatory) in accordance with GAAP. The Company had no nonaccrual mortgage loans held for sale (mandatory) at June 30, 2023, and December 31, 2022.

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 and six months ended June 30, 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.

The following table reflects the amortized cost basis in loans by credit quality indicator and origination year at June 30, 2023, excluding loans held for sale. Loans acquired are shown in the table by origination year, not merger date. The Company had an immaterial amount of revolving loans converted to term loans at June 30, 2023.

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Commercial real estate:								
Pass	$ 176,070	$ 297,336	$ 200,707	$ 64,464	$ 51,726	$ 189,162	$ 3,176	$ 982,641
Special mention	—	—	—	—	—	—	—	—
Substandard	—	19	21,334	1,680	827	408	—	24,268
Doubtful	—	—	—	—	—	—	—	—
Total commercial real estate loans	$ 176,070	$ 297,355	$ 222,041	$ 66,144	$ 52,553	$ 189,570	$ 3,176	$ 1,006,909
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - specialized:								
Pass	$ 80,261	$ 66,731	$ 60,490	$ 21,415	$ 13,081	$ 27,015	$ 85,499	$ 354,492
Special mention	—	—	—	—	—	—	—	—
Substandard	—	76	183	427	19	55	—	760
Doubtful	—	—	—	—	—	—	—	—
Total commercial - specialized loans	$ 80,261	$ 66,807	$ 60,673	$ 21,842	$ 13,100	$ 27,070	$ 85,499	$ 355,252
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - general:								
Pass	$ 62,492	$ 150,617	$ 104,547	$ 39,728	$ 37,506	$ 74,893	$ 51,304	$ 521,087
Special mention	—	—	—	—	—	—	—	—
Substandard	279	11,511	4,656	507	6,738	5,963	355	30,009
Doubtful	—	—	—	—	—	—	—	—
Total commercial - general loans	$ 62,771	$ 162,128	$ 109,203	$ 40,235	$ 44,244	$ 80,856	$ 51,659	$ 551,096
Current period gross charge-offs	$ —	$ —	$ 25	$ 10	$ 18	$ 316	$ —	$ 369
Consumer: 1-4 family residential:								
Pass	$ 66,427	$ 165,339	$ 114,591	$ 55,850	$ 33,736	$ 65,403	$ 9,613	$ 510,959
Special mention	—	—	—	—	—	—	—	—
Substandard	—	313	941	1,732	4,321	4,193	13	11,513
Doubtful	—	—	—	—	—	—	—	—
Total consumer: 1-4 family residential loans	$ 66,427	$ 165,652	$ 115,532	$ 57,582	$ 38,057	$ 69,596	$ 9,626	$ 522,472
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer: auto loans:								
Pass	$ 62,837	$ 153,144	$ 63,162	$ 22,673	$ 11,154	$ 4,659	$ —	$ 317,629
Special mention	—	—	—	—	—	—	—	—
Substandard	—	43	265	48	83	58	—	497
Doubtful	—	—	—	—	—	—	—	—
Total consumer: auto loans	$ 62,837	$ 153,187	$ 63,427	$ 22,721	$ 11,237	$ 4,717	$ —	$ 318,126
Current period gross charge-offs	$ 21	$ 181	$ 137	$ —	$ 28	$ 44	$ —	$ 411
Consumer: other consumer:								
Pass	$ 14,830	$ 34,453	$ 13,564	$ 4,510	$ 3,316	$ 7,253	$ 1,653	$ 79,579
Special mention	—	—	—	—	—	—	—	—
Substandard	—	22	32	33	36	93	—	216
Doubtful	—	—	—	—	—	—	—	—
Total consumer: other consumer loans	$ 14,830	$ 34,475	$ 13,596	$ 4,543	$ 3,352	$ 7,346	$ 1,653	$ 79,795
Current period gross charge-offs	$ 183	$ 159	$ 23	$ 7	$ 37	$ 33	$ —	$ 442
Construction:								
Pass	$ 24,337	$ 89,551	$ 21,144	$ 289	$ —	$ —	$ 9,869	$ 145,190
Special mention	—	—	—	—	—	—	—	—
Substandard	—	223	—	—	—	—	—	223
Doubtful	—	—	—	—	—	—	—	—
Total construction loans	$ 24,337	$ 89,774	$ 21,144	$ 289	$ —	$ —	$ 9,869	$ 145,413

Current period gross charge-offs	$ —	$ —	$ 272	$ —	$ —	$ —	$ —	$ 272

The following table summarizes loans by credit quality indicator at December 31, 2022 (dollars in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$ 893,312	$ —	$ 26,046	$ —	$ 919,358
Commercial - specialized	326,987	—	526	—	327,513
Commercial - general	451,639	—	33,144	—	484,783
Consumer:					
1-4 family residential	450,034	—	10,090	—	460,124
Auto loans	321,158	—	318	—	321,476
Other consumer	81,109	—	199	—	81,308
Construction	151,995	—	1,524	—	153,519
	$ 2,676,234	$ —	$ 71,847	$ —	$ 2,748,081

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 June 30, 2023 that were both experiencing financial difficulty and modified during the periods indicated 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 bases of each class of financing receivable is also presented below (dollars in thousands):

	Payment Delay	Term Extension	Term Extension and Payment Delay	Term Extension and Interest Rate Reduction	Payment Delay and Interest Rate Reduction	Payment Delay, Term Extension, and Interest Rate Reduction	Total Class of Financing Receivable
Three Months Ended June 30, 2023							
Commercial real estate	$ —	$ —	$ 96	$ —	$ —	$ —	$ 0.01%
Commercial - specialized	118	690	82	—	—	—	0.25%
Commercial - general	—	2,744	453	70	—	39	0.60%
Consumer:							
1-4 family	7	192	—	—	—	13	0.04%
Auto loans	—	—	—	—	—	—	0.00%
Other consumer	—	—	—	—	13	—	0.02%
Construction	—	1,654	—	—	—	—	1.14%
	$ 125	$ 5,280	$ 631	$ 70	$ 13	$ 52	$ 0.20%

	Payment Delay	Term Extension	Term Extension and Payment Delay	Term Extension and Interest Rate Reduction	Payment Delay and Interest Rate Reduction	Payment Delay, Term Extension, and Interest Rate Reduction	Total Class of Financing Receivable
Six Months Ended June 30, 2023							
Commercial real estate	$ —	$ —	$ 96	$ —	$ —	$ —	$ 0.01%
Commercial - specialized	118	690	82	—	—	—	0.25%
Commercial - general	—	4,726	453	113	—	39	0.97%
Consumer:							
1-4 family	7	391	—	—	—	13	0.08%
Auto loans	—	39	—	—	—	—	0.01%
Other consumer	—	—	—	—	13	—	0.02%
Construction	—	1,654	—	—	—	—	1.14%
	$ 125	$ 7,500	$ 631	$ 113	$ 13	$ 52	$ 0.28%

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 six months ended June 30, 2023 (dollars in thousands):

June 30, 2023	30-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual
Commercial real estate	$ —	$ —	$ —
Commercial - specialized	—	—	19
Commercial - general	27	—	1,682
Consumer:			
1-4 Family residential	199	—	7
Auto loans	—	—	—
Other consumer	—	—	—
Construction	—	—	—
	$ 226	$ —	$ 1,708

The following tables present the financial effects of the loan modifications presented above to borrowers experiencing financial difficulty during the periods indicated below (dollars in thousands):

Three Months Ended June 30, 2023	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate	$ —	0.00%	72
Commercial - specialized	—	0.00%	13
Commercial - general	—	2.50%	1320
Consumer:			
1-4 Family residential	—	0.25%	16
Auto loans	—	0.00%	—
Other consumer	—	4.75%	—
Construction	—	0.00%	11
	$ —	2.50%	729

Six Months Ended June 30, 2023	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (Months)
Commercial real estate	$ —	0.00%	72
Commercial - specialized	—	0.00%	13
Commercial - general	—	1.81%	835
Consumer:			
1-4 Family residential	—	0.25%	13
Auto loans	—	0.00%	15
Other consumer	—	4.75%	—
Construction	—	0.00%	11
	$ —	1.91%	542

As of June 30, 2023, the Company did not have any loans made to borrowers experiencing financial difficulty that were modified during the three and six months ended June 30, 2023 that subsequently defaulted. Payment default is defined as movement to nonperforming status, foreclosure, or charge-off.

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 allowance for credit losses is adjusted by the same amount.

Prior-period troubled debt restructuring ("TDR") disclosures

Prior to adopting the new accounting standard on loan modifications, the Company accounted for modifications of loans to borrowers experiencing financial difficulty as TDRs, when the modification resulted in a concession and specific reserves were charged to the ACL if necessary for the amount of estimated credit loss. The following reflects loans that were considered TDRs prior to January 1, 2023. For further information on the Company's TDR accounting policies, see Note 1, "Summary of Significant Accounting Policies," to the Company's audited consolidated financial statements contained in the 2022 Annual Report on Form 10-K.

The Company had no loans modified as a TDR during the year ended December 31, 2022.

4. GOODWILL AND INTANGIBLES

The Company had goodwill of $19.3 and $19.5 million at June 30, 2023 and December 31, 2022.

Other intangible assets, which consist of CDI, customer lists, and employment agreements at the dates indicated are summarized below (dollars in thousands):

	June 30, 2023	December 31, 2022
Amortized intangible assets		
Core deposit intangible	$ 6,679	$ 6,679
Less: Accumulated amortization	(3,845)	(3,420)
	2,834	3,259
Other intangibles	—	2,972
Less: Accumulated amortization	—	(1,882)
	—	1,090
Other intangible assets, net	$ 2,834	$ 4,349

On April 1, 2023, the sale of Windmark was completed, resulting in the removal of goodwill and other intangible assets, net of accumulated amortization, of $193 thousand and $942 thousand, respectively.

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Beginning balance	$ 25,795	$ 25,425	$ 27,474	$ 19,700
Additions	463	930	734	2,180
Valuation adjustment	400	1,150	(1,550)	5,625
Ending balance	$ 26,658	$ 27,505	$ 26,658	$ 27,505

	June 30, 2023	December 31, 2022
Mortgage loans serviced for others	$ 2,025,210	$ 2,046,490
Mortgage servicing rights assets as a percentage of serviced mortgage loans	1.32%	1.34%

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:

	June 30, 2023	December 31, 2022
Weighted average constant prepayment rate	7.29%	7.47%
Weighted average discount rate	9.65%	9.15%
Weighted average life in years	7.97	7.91

6. BORROWING ARRANGEMENTS

Subordinated Debt

In December 2018, the Company issued $26.5 million in subordinated debt notes. Notes totaling $12.4 million have a maturity date of December 2028 and a weighted average fixed rate of 5.74% for the first five years. The remaining $14.1 million of notes 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, all 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, 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 June 30, 2023, the total amount of subordinated notes outstanding was $76.5 million less approximately $418 thousand of remaining debt issuance costs for a total balance of $76.1 million. As of December 31, 2022, the total amount of subordinated notes outstanding was $76.5 million less approximately $511 thousand of remaining debt issuance costs for a total balance of $76.0 million.

Notes Payable and Other Borrowings

As of June 30, 2023 and December 31, 2022, 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. This 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 is 2,300,000. 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 into 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
Six Months Ended June 30, 2023				
Outstanding at beginning of year:	1,354,189	$ 16.11		$ 8,973
Granted	47,816	27.46		—
Exercised	(37,720)	15.17		(277)
Forfeited	(1,125)	20.19		(14)
Expired	(2,730)	17.47		(3)
Balance, June 30, 2023	1,360,430	$ 16.57	5.59	$ 8,679
Exercisable at end of period	1,144,131	$ 15.32	4.83	$ 8,329
Vested at end of period	1,144,131	$ 15.32	4.83	$ 8,329

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Expected volatility	39.13% to 39.68%	40.20% to 40.29%
Expected dividend yield	1.74% to 1.90%	1.30%
Expected term (years)	6.1 to 6.3	6.1 to 6.3
Risk-free interest rate	3.91% to 3.98%	1.56% to 1.95%
Weighted average grant date fair value	$ 10.26	$ 10.54

The total intrinsic value of options exercised during the six months ended June 30, 2023 and June 30, 2022 was $313 thousand and $74 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
Six Months Ended June 30, 2023		
Outstanding at beginning of year:	84,342	$ 26.76
Granted	85,127	25.33
Vested	(38,141)	24.40
Forfeited	(4,050)	25.04
Balance, June 30, 2023	127,278	$ 26.56

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 unrecognized compensation cost for the awards outstanding under the Plan at June 30, 2023 was $4.0 million and will be recognized over a weighted average remaining period of 1.73 years. The total fair value of restricted stock units vested during each of the six months ended June 30, 2023 and June 30, 2022 was $930 thousand and $488 thousand, respectively.

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 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):

	June 30, 2023	December 31, 2022
Commitments to grant loans and unfunded commitments under lines of credit	$ 637,400	$ 682,296
Standby letters of credit	12,779	13,864

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. The Company had no FHLB letters of credit outstanding at June 30, 2023 or December 31, 2022.

9. LEASES

The Company leases space, primarily for branch facilities and small equipment under operating leases. The Company’s leases often include one or more options to renew at the Company’s discretion, and some of the Company’s leases include options to terminate within one year. When it is reasonably certain that the Company will exercise the option to renew or extend the lease term, that option is included in estimating the value of the ROU asset and lease liability. The Company’s leases contain customary restrictions and covenants and do not contain any residual value guarantees. The Company has certain intercompany leases and subleases between its subsidiaries, and these transactions and balances have been eliminated in consolidation and are not reflected in the tables and information presented below. As of June 30, 2023 and December 31, 2022, the Company had no finance leases.

The balance sheet components of the Company’s leases are as follows (in thousands):

	June 30, 2023	December 31, 2022
Operating lease right of use assets (included in Other assets)	$ 8,926	$ 7,938
Operating lease liabilities (included in Accrued expenses and other liabilities)	9,863	8,897

The Company does not generally enter into leases which contain variable payments, other than due to the passage of time. Operating lease costs, including short-term lease costs were $954 thousand and $1.7 million, respectively, for the three and six months ended June 30, 2023. Operating lease costs, including short-term lease costs were $747 thousand and $1,411 million, respectively, for the three and six months ended June 30, 2022.

Supplemental cash flow information related to leases is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows used in operating leases	$ 546	$ 492	$ 1,030	$ 971
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	$ 1,215	$ —	$ 2,032	$ —

For operating leases the Company’s weighted average remaining lease terms in years and weighted average discount rate was 10.22 and 5.38%, respectively, as of June 30, 2023, and 9.83 and 4.65%, respectively, as of December 31, 2022.

Future undiscounted lease payments at June 30, 2023, under operating lease agreements, are presented below (in thousands).

2023	$ 955
2024	1,656
2025	1,321
2026	1,259
2027	1,209
Thereafter	6,642
Total minimum lease payments	13,042
Less: Amount representing interest	(3,179)
Lease liabilities	$ 9,863

As of June 30, 2023, the Company had no additional operating leases that have not yet commenced.

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10. 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 June 30, 2023 and December 31, 2022, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of June 30, 2023 and December 31, 2022, 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 June 30, 2023 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 Framework	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
June 30, 2023						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 597,335	16.75%	$ 374,384	10.50%	N/A	N/A
City Bank	492,582	13.73%	376,681	10.50%	$ 358,744	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	476,708	13.37%	303,073	8.50%	N/A	N/A
City Bank	447,754	12.48%	304,932	8.50%	286,995	8.00%
Common Equity Tier 1 to Risk Weighted Assets:						
Consolidated	431,708	12.11%	249,589	7.00%	N/A	N/A
City Bank	447,754	12.48%	251,121	7.00%	233,183	6.50%
Tier I Capital to Average Assets:						
Consolidated	476,706	11.67%	164,207	4.00%	N/A	N/A
City Bank	447,754	10.97%	164,207	4.00%	204,152	5.00%
December 31, 2022						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 559,094	16.58%	$ 354,045	10.50%	N/A	N/A
City Bank	454,427	13.48%	353,967	10.50%	$ 337,112	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	443,265	13.15%	286,608	8.50%	N/A	N/A
City Bank	414,559	12.30%	286,545	8.50%	269,689	8.00%
Common Equity Tier 1 to Risk Weighted Assets:						
Consolidated	398,265	11.81%	236,030	7.00%	N/A	N/A
City Bank	414,559	12.30%	235,978	7.00%	219,122	6.50%
Tier I Capital to Average Assets:						
Consolidated	443,265	11.03%	161,662	4.00%	N/A	N/A
City Bank	414,559	10.32%	161,574	4.00%	200,774	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 June 30, 2023.

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.

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11. 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 June 30,	
Interest Rate Contracts	**Location**	**2023**	**2022**
Change in fair value of interest rate swaps hedging investment securities	Other noninterest expense	$ 1,844	$ 3,429
Change in fair value of hedged investment securities	Other noninterest expense	(1,866)	(3,450)
Change in fair value of interest rate swaps hedging fixed rate loans	Interest income - Loans	$ 26	$ 167
Change in fair value of hedged fixed rate loans	Interest income - Loans	(25)	(170)

		Six Months Ended June 30,	
Interest Rate Contracts	**Location**	**2023**	**2022**
Change in fair value of interest rate swaps hedging investment securities	Other noninterest expense	$ (810)	$ 10,178
Change in fair value of hedged investment securities	Other noninterest expense	771	(10,349)
Change in fair value of interest rate swaps hedging fixed rate loans	Interest income - Loans	$ 26	$ 625
Change in fair value of hedged fixed rate loans	Interest income - Loans	(25)	(633)

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

	June 30, 2023		December 31, 2022	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Included in other liabilities:				
Interest rate swaps related to fixed rate loans	$ —	$ —	$ —	$ —
Interest rate swaps related to state and municipal securities	—	—	—	—
Included in other assets:				
Interest rate swaps related to fixed rate loans	$ 11,803	$ 508	$ 9,493	$ 482
Interest rate swaps related to state and municipal securities	123,760	19,315	123,760	20,125

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):

	Location	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Forward contracts related to mortgage loans held for sale	Net gain (loss) on sales of loans	$ 375	$ 166
Interest rate lock commitments	Net gain (loss) on sales of loans	$ (428)	$ (940)

	Location	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Forward contracts related to mortgage loans held for sale	Net gain (loss) on sales of loans	$ 94	$ (926)
Interest rate lock commitments	Net gain (loss) on sales of loans	$ (5)	$ 117

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):

	June 30, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to mortgage loans held for sale	$ 21,000	$ 78	$ 23,500	$ 186
Interest rate lock commitments	32,816	472	27,348,000.00	369
Total included in other assets	$ 53,816	$ 550	$ 50,848	$ 555
Included in other liabilities:				
Forward contracts related to mortgage loans held for sale	$ 6,296	$ 34	$ 5,615	$ 128
Interest rate lock commitments	—	—	—	—
Total included in other liabilities	$ 6,296	$ 34	$ 5,615	$ 128

The Company had received cash collateral of $17.3 million to offset asset derivative positions on its interest rate swaps at June 30, 2023. 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 June 30, 2023. Additionally, the Company had advanced $440 thousand on its mortgage forward contracts at June 30, 2023. The advanced cash collateral amounts are reported in cash and due from banks in the Consolidated Balance Sheets.

12. 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 June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net income	$ 29,683	$ 15,883	$ 38,927	$ 30,161
Weighted average common shares outstanding - basic	17,048,432	17,490,706	17,047,578	17,602,798
Effect of dilutive securities:				
Stock-based compensation awards	338,083	529,842	390,779	609,638
Weighted average common shares outstanding - diluted	17,386,515	18,020,548	17,438,357	18,212,436
Basic earnings per share	$ 1.74	$ 0.91	$ 2.28	$ 1.71
Diluted earnings per share	$ 1.71	$ 0.88	$ 2.23	$ 1.66

13. 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 at the dates indicated (dollars in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2023				
Assets (liabilities) measured at fair value on a recurring basis:				
Securities available for sale:				
State and municipal	$ —	$ 180,395	$ —	$ 180,395
Residential mortgage-backed securities	—	310,187	—	310,187
Commercial mortgage-backed securities	—	41,218	—	41,218
Collateralized mortgage obligations	—	67,595	—	67,595
Asset-backed and other amortizing securities	—	17,785	—	17,785
Other securities	—	10,913	—	10,913
Loans held for sale (mandatory)	—	15,516	—	15,516
Mortgage servicing rights	—	—	26,658	26,658
Asset derivatives	—	20,373	—	20,373
Liability derivatives	—	(34)	—	(34)
Assets measured at fair value on a non-recurring basis:				
Loans held for investment	—	—	18,098	18,098
December 31, 2022				
Assets (liabilities) measured at fair value on a recurring basis:				
Securities available for sale:				
State and municipal	$ —	$ 225,055	$ —	$ 225,055
Residential mortgage-backed securities	—	328,845	—	328,845
Commercial mortgage-backed securities	—	41,967	—	41,967
Collateralized mortgage obligations	—	75,638	—	75,638
Asset-backed and other amortizing securities	—	19,094	—	19,094
Other securities	—	11,112	—	11,112
Loans held for sale (mandatory)	—	10,038	—	10,038
Mortgage servicing rights	—	—	27,474	27,474
Asset derivatives	—	21,162	—	21,162
Liability derivatives	—	(128)	—	(128)
Assets measured at fair value on a non-recurring basis:				
Loans held for investment	—	—	4,821	4,821

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 and six months ended June 30, 2023 and 2022.

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 the 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 June 30, 2023, and December 31, 2022, the Company had 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 June 30, 2023 and December 31, 2022 the aggregate fair value of loans held for sale for mandatory delivery was $15.5 million and $10.0 million, respectively. The aggregate unpaid principal balance as of the same dates was $15.1 million and $9.9 million, respectively, representing differences between fair value and unpaid principal balance of $372 thousand and $163 thousand, respectively. The Company had no loans held for sale for mandatory delivery designated as nonaccrual or 90 days or more past due at June 30, 2023 and December 31, 2022.

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 June 30, 2023 and 2022 the net (gain) loss amount totaled $9 thousand and $(471) thousand, respectively. For the six months ended June 30, 2023 and 2022 the net (gain) loss amount totaled $(252) thousand and $1.7 million, 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
June 30, 2023				
Non-recurring:				
Loans held for investment	$ 18,098	Third party appraisals or inspections	Collateral discounts and selling costs	20%-100%
Recurring:				
Mortgage servicing rights	26,658	Discounted cash flows	Conditional prepayment rate	7.29%
			Discount rate	9.65%
December 31, 2022				
Non-recurring:				
Loans held for investment	$ 4,821	Third party appraisals or inspections	Collateral discounts and selling costs	20%-100%
Recurring:				
Mortgage servicing rights	27,474	Discounted cash flows	Conditional prepayment rate	7.47%
			Discount rate	9.15%

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

	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
June 30, 2023					
Financial assets:					
Cash and cash equivalents	$ 295,581	$ 295,581	$ —	$ —	$ 295,581
Loans held for investment, net	2,935,926	—	—	2,868,428	2,868,428
Loans held for sale (best efforts)	6,642	—	6,770	—	6,770
Accrued interest receivable	15,917	—	15,917	—	15,917
Financial liabilities:					
Deposits	$ 3,574,522	$ —	$ 3,573,886	$ —	$ 3,573,886
Accrued interest payable	3,657	—	3,657	—	3,657
Junior subordinated deferrable interest debentures	46,393	—	33,042	—	33,042
Subordinated debt securities	76,054	—	66,910	—	66,910

	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 234,883	$ 234,883	$ —	$ —	$ 234,883
Loans held for investment, net	2,708,793	—	—	2,662,609	2,662,609
Loans held for sale (best efforts)	20,365	—	20,745	—	20,745
Accrued interest receivable	16,432	—	16,432	—	16,432
Financial liabilities:					
Deposits	$ 3,406,430	$ —	$ 3,405,222	$ —	$ 3,405,222
Accrued interest payable	2,836	—	2,836	—	2,836
Junior subordinated deferrable interest debentures	46,393	—	34,606	—	34,606
Subordinated debt securities	75,961	—	70,835	—	70,835

14. SUBSEQUENT EVENTS

Dividend Declaration

On July 20, 2023, the Company's board of directors declared a cash dividend of $0.13 per share of common stock to be paid on August 14, 2023 to all shareholders of record as of July 31, 2023.

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

The following discussion and analysis is intended to assist readers in understanding our financial condition as of and results of operations for the period 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, 2022 (the "2022 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 13, 2023. 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 environment 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 associated with the sale of our insurance subsidiary, Windmark Insurance Agency, Inc. d/b/a Windmark Corp Division ("Windmark") to Alliant Insurance Services, Inc., a California corporation ("Alliant") and certain post-closing obligations related to such sale;
- 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 system failures, 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 2022 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 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

Economic Conditions

Our financial condition at June 30, 2023, as well as the results of operations for the three and six months ended June 30, 2023, have been impacted by significant increases in market interest rates due to the increases in the prime lending rate since March 2022 by the Federal Reserve in response to the persistent inflationary environment in the United States. In addition, recent events in other parts of the banking industry have brought additional focus on investment securities portfolios, interest rate risk, liquidity management and capital. As a result, we are providing additional information on our deposits and liquidity position at June 30, 2023 to help illustrate the more traditional and stable nature of our banking model compared to other financial institutions who have recently experienced liquidity and capital challenges.

Deposits

Total deposits were $3.57 billion at June 30, 2023, an increase of $168.1 million during the six months ended June 30, 2023. Total deposits were comprised of 31% of noninterest-bearing deposits, 9% of time deposits and 60% of interest-bearing nonmaturity deposits. Retail customers accounted for approximately 45% of total deposits, with commercial and public funds accounting for approximately 45% and 10%, respectively. Our average deposit account size was approximately $36 thousand. An estimated 16% of total deposits were uninsured or uncollateralized at June 30, 2023.

Liquidity

We had available borrowing capacity of $1.82 billion through the FHLB, the FRB’s Discount Window, and access to the FRB’s Term Funding Program (“BTFP”) at June 30, 2023. The unused line with the FHLB was $1.01 billion and the unused line with the FRB was $612 thousand at June 30, 2023. No advances were made on these lines during the first two quarters of 2023. We have not pledged any securities for the BTFP but have approximately $200 million of available securities that can be used as collateral. Additionally, we have uncollateralized lines with multiple banks totaling $140 million at June 30, 2023. These lines are not guaranteed and we are not placing reliance on them.

Divestiture

As previously announced, the Company sold City Bank’s wholly-owned subsidiary, Windmark, to Alliant in an all cash transaction on April 1, 2023. The Company received an aggregate purchase price of $35.5 million in exchange for Windmark’s shares, representing a pre-tax gain of $33.5 million, before approximately $4.5 million in transaction and related incentive-based compensation expenses.

Results of Operations

We had net income of $29.7 million, or $1.71 per diluted common share, for the three months ended June 30, 2023, compared to net income of $15.9 million, or $0.88 per diluted common share for the three months ended June 30, 2022. Return on average equity (annualized) was 31.33% and return on average assets (annualized) was 2.97% for the three months ended June 30, 2023, compared to 16.96% and 1.60%, respectively, for the three months ended June 30, 2022.

We had net income of $38.9 million, or $2.23 per diluted common share for the six months ended June 30, 2023, compared to net income of $30.2 million, or $1.66 per diluted common share for the six months ended June 30, 2022. Return on average equity (annualized) was 21.14% and return on average assets (annualized) was 1.98% for the six months ended June 30, 2023, compared to 15.74% and 1.54%, respectively, for the six months ended June 30, 2022.

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 tables present, 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 June 30,					
	2023			2022		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans[1]	$ 2,894,087	$ 42,872	5.94%	$ 2,549,264	$ 35,420	5.57%
Investment securities – taxable	575,983	5,365	3.74	637,814	3,538	2.22
Investment securities – non-taxable	210,709	1,403	2.67	217,023	1,439	2.66
Other interest-earning assets[2]	149,996	1,484	3.97	329,869	658	0.80
Total interest-earning assets	3,830,775	51,124	5.35	3,733,970	41,055	4.41
Noninterest-earning assets	182,752			238,575		
Total assets	$ 4,013,527			$ 3,972,545		
Liabilities and Stockholders’ Equity:						
Interest-bearing liabilities:						
NOW, savings and money market deposits	$ 2,059,182	$ 12,484	2.43%	$ 1,903,452	$ 1,357	0.29%
Time deposits	299,358	1,949	2.61	334,819	960	1.15
Short-term borrowings	325	5	6.17	4	—	0.00
Notes payable & other longer-term borrowings	—	—	0.00	—	—	0.00
Subordinated debt securities	76,031	1,013	5.34	75,845	1,013	5.36
Junior subordinated deferrable interest debentures	46,393	789	6.82	46,393	317	2.74
Total interest-bearing liabilities	$ 2,481,289	$ 16,240	2.63%	$ 2,360,513	$ 3,647	0.62%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 1,075,514			$ 1,171,454		
Other liabilities	76,727			64,933		
Total noninterest-bearing liabilities	1,152,241			1,236,387		
Stockholders’ equity	379,997			375,645		
Total liabilities and stockholders’ equity	$ 4,013,527			$ 3,972,545		
Net interest income		$ 34,884			$ 37,408	
Net interest spread			2.73%			3.79%
Net interest margin[3]			3.65%			4.02%

	Six Months Ended June 30,					
	2023			2022		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans[1]	$ 2,836,482	$ 82,474	5.86%	$ 2,515,934	$ 64,799	5.19%
Investment securities – taxable	580,705	10,605	3.68	579,243	5,892	2.05
Investment securities – non-taxable	211,950	2,815	2.68	217,672	2,887	2.67
Other interest-earning assets[2]	155,976	2,979	3.85	398,670	862	0.44
Total interest-earning assets	3,785,113	98,873	5.27	3,711,519	74,440	4.04
Noninterest-earning assets	186,114			250,376		
Total assets	$ 3,971,227			$ 3,961,895		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
NOW, savings and money market deposits	$ 2,023,869	$ 22,468	2.24%	$ 1,920,609	$ 2,268	0.24%
Time deposits	291,677	3,335	2.31	336,962	1,939	1.16
Short-term borrowings	165	5	6.11	4	—	0.00
Notes payable & other longer-term borrowings	—	—	0.00	—	—	0.00
Subordinated debt securities	76,008	2,025	5.37	75,822	2,025	5.39
Junior subordinated deferrable interest debentures	46,393	1,540	6.69	46,393	548	2.38
Total interest-bearing liabilities	$ 2,438,112	$ 29,373	2.43%	$ 2,379,790	$ 6,780	0.57%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 1,092,429			$ 1,137,771		
Other liabilities	69,443			57,887		
Total noninterest-bearing liabilities	1,161,872			1,195,658		
Shareholders' equity	371,243			386,447		
Total liabilities and shareholders' equity	$ 3,971,227			$ 3,961,895		
Net interest income		$ 69,500			$ 67,660	
Net interest spread			2.84%			3.47%
Net interest margin[3]			3.70%			3.68%

(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, 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 tables set 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 June 30,		
	2023 over 2022		
	Change due to:		Total Variance
	Volume	Rate	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ 4,791	$ 2,661	$ 7,452
Investment securities – taxable	(343)	2,170	1,827
Investment securities – non-taxable	(42)	6	(36)
Other interest-earning assets	(359)	1,185	826
Total increase (decrease) in interest income	4,047	6,022	10,069
Interest-bearing liabilities:			
NOW, Savings, MMDAs	111	11,016	11,127
Time deposits	(102)	1,091	989
Short-term borrowings	—	5	5
Notes payable & other borrowings	—	—	—
Subordinated debt securities	2	(2)	—
Junior subordinated deferrable interest debentures	—	472	472
Total increase (decrease) interest expense:	11	12,582	12,593
Increase (decrease) in net interest income	$ 4,036	$ (6,560)	$ (2,524)

	Six Months Ended June 30, 2023 over 2022		
	Change due to:		Total
	Volume	Rate	Variance
	(Dollars in thousands)		
Interest-earning assets:			
Loan	$ 8,256	$ 9,419	$ 17,675
Investment securities – taxable	15	4,698	4,713
Investment securities – non-taxable	(76)	4	(72)
Other interest-earning assets	(525)	2,642	2,117
Total increase (decrease) in interest income	7,670	16,763	24,433
Interest-bearing liabilities:			
NOW, Savings, MMDAs	122	20,078	20,200
Time deposits	(261)	1,657	1,396
Short-term borrowings	—	5	5
Notes payable & other borrowings	—	—	—
Subordinated debt securities	5	(5)	—
Junior subordinated deferrable interest debentures	—	992	992
Total increase (decrease) interest expense:	(134)	22,727	22,593
Increase (decrease) in net interest income	$ 7,804	$ (5,964)	$ 1,840

Net interest income for the three months ended June 30, 2023 was $34.6 million, compared to $37.1 million for the three months ended June 30, 2022, a decrease of $2.5 million, or 6.8%. The decrease in net interest income was primarily due to $4.4 million of interest income received related to four credits for the recovery of interest on previously charged-off credits, purchase discount principal recovery, and prepayment penalties during the second quarter of 2022. The decrease was partially offset by increased income on interest-earning assets, primarily loans and securities, net of increased funding costs on deposits, as market interest rates continued to rise during the period. This rise in rates is attributed to the Federal Open Market Committee (“FOMC”) of the Federal Reserve repeatedly raising their target benchmark interest rate since March 2022 in response to the ongoing inflationary environment in the United States. Average interest-earning assets increased $96.8 million, or 2.6%, to $3.83 billion for the three months ended June 30, 2023 compared to $3.73 billion for the three months ended June 30, 2022. The increase is primarily due to growth in average loans outstanding of $344.8 million, partially offset by a decrease in average interest-bearing cash balances of $179.9 million. The yield on average interest-earning assets, excluding the $4.4 million recoveries noted above, increased 141 basis points from 3.94% for the three months ended June 30, 2022 to 5.35% for the three months ended June 30, 2023. The increase in asset yield from the prior year is primarily a result of increased market interest rates and from deploying excess liquidity from lower yielding interest-earning cash to higher yielding loans. Average interest-bearing liabilities increased $120.8 million, or 5.1%, to $2.48 billion for the three months ended June 30, 2023 compared to $2.36 billion for the three months ended June 30, 2022. The increase is primarily growth in average interest-bearing deposits of $120.3 million due to increased focus on deposits and liquidity. The average cost of interest-bearing liabilities increased 201 basis points to 2.63% for the three months ended June 30, 2023 compared to 0.62% for the three months ended June 30, 2022. The increase is primarily a result of higher deposit funding costs as market interest rates have risen significantly since the start of the second quarter of 2022. These changes caused net interest margin to decline 37 basis points to 3.65% for the three months ended June 30, 2023 from 4.02% for the same three-month period in 2022.

Net interest income for the six months ended June 30, 2023 was $68.9 million, compared to $67.1 million for the six months ended June 30, 2022, an increase of $1.8 million, or 2.8%. The increase in net interest income was primarily due to increased income on interest-earning assets, primarily loans and securities, net of increased funding costs on deposits, as market interest rates continued to rise during the period, which is attributed to the FOMC repeatedly raising their target benchmark interest rate since March 2022. The increase was partially offset by the $4.4 million of interest income received related to four credits for the recovery of interest on previously charged-off credits, purchase discount principal recovery, and prepayment penalties during the second quarter of 2022. Average interest-earning assets increased $73.6 million or 2.0%, to $3.79 billion for the six months ended June 30, 2023 compared to $3.71 billion for the six months ended June 30, 2022. The increase is primarily due to growth in average loans outstanding of $320.5 million, partially offset by a decrease in average interest-bearing cash balances of $242.7 million. The yield on average interest-earning assets, excluding the $4.4 million recoveries noted above, increased 146 basis points from 3.81% for the six months ended June 30, 2022 to 5.27% for the six months ended June 30, 2023. The increase in asset yield from the prior year is a primarily a result of increased market interest rates and from deploying excess liquidity from lower yielding interest-earning cash to higher yielding loans. Average interest-bearing liabilities increased $58.3 million, or 2.5%, to $2.44 billion for the six months ended June 30, 2023 compared to $2.38 billion for the six months ended June 30, 2022. The increase is primarily growth in average interest-bearing deposits of $58.0 million due to increased focus on deposits and liquidity, given recent events in the banking industry. The average cost of interest-bearing liabilities increased 186 basis points to 2.43% for the six months ended June 30, 2023 compared to 0.57% for the six months ended June 30, 2022. The increase is primarily a result of higher deposit funding costs as market rates have risen significantly since the start of the second quarter of 2022. These changes caused net interest margin to increase 2 basis points to 3.70% for the six months ended June 30, 2023 from 3.68% for the same six-month period in 2022.

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 ACL 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 Company recorded provision for credit losses of $3.7 million for the three months ended June 30, 2023, compared to no provision being recorded for the three months ended June 30, 2022. The provision during the second quarter of 2023 was largely attributable to growth of $190.4 million in loans held for investment and an increase of $1.3 million in specific reserves. The change in specific reserves was primarily related to a previously-classified relationship totaling $13.3 million that was placed on nonaccrual in May 2023. No provision for credit losses were recorded in the second quarter of 2022 based on improved credit metrics in the loan portfolio, specifically in the hotel segment, offset by the organic loan growth experienced during the period.

The Company recorded a provision for credit losses for the six months ended June 30, 2023 of $4.7 million, compared to a negative provision of $2.1 million for the six months ended June 30, 2022. The provision during the six months ended June 30, 2023 was largely attributable to growth of $231.0 million in loans held for investment and the increase of $1.3 million in specific reserves noted above. The negative provision for credit losses in the same period of 2022 was based on improved credit metrics in the loan portfolio, specifically in the hotel segment, direct energy segment, and other Permian Basin-related credits during the period, as well as a decline in the amount of loans that were actively under a pandemic-related modification experienced during the period.

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 June 30,			Six Months Ended June 30,		
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
			(Dollars in thousands)			
Noninterest income:						
Service charges on deposit accounts	$ 1,745	$ 1,612	$ 133	$ 3,446	$ 3,385	$ 61
Income from insurance activities	37	1,577	(1,540)	1,448	3,147	(1,699)
Bank card services and interchange fees	4,043	3,478	565	6,999	6,700	299
Mortgage banking activities	5,258	8,669	(3,411)	7,544	22,306	(14,762)
Investment commissions	420	466	(46)	809	1,012	(203)
Fiduciary income	597	635	(38)	1,197	1,247	(50)
Gain on sale of subsidiary	33,488	—	33,488	33,488	—	33,488
Other income and fees[(1)]	1,524	2,398	(874)	2,872	4,735	(1,863)
Total noninterest income	$ 47,112	$ 18,835	$ 28,277	$ 57,803	$ 42,532	$ 15,271

(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, wire transfer, Small Business Investment Company ("SBIC") investments, and other miscellaneous services.

Noninterest income for the three months ended June 30, 2023 was $47.1 million, compared to $18.8 million for the three months ended June 30, 2022, an increase of $28.3 million, or 150.1%. Significant changes in the components of noninterest income are detailed below.

Gain on sale of subsidiary - A $33.5 million gain from the sale of Windmark was recorded in the second quarter of 2023.

Mortgage banking activities - Income from mortgage banking activities decreased $3.4 million, or 39.3%, to $5.3 million for the three months ended June 30, 2023 from $8.7 million for the three months ended June 30, 2022. This decrease was mainly the result of mortgage loan originations declining $74.5 million, or 36.0%, in the current year period as compared to the prior year period as mortgage interest rates have risen and refinance activity, which was still occurring in the second quarter of 2022, has subsided.

Income from insurance activities - Due to the sale of Windmark, there was a decline of $1.5 million in income from insurance activities for the three months ended June 30, 2023 as compared to the same period in 2022.

Other income and fees - Other noninterest income and fees were increased for the three months ended June 30, 2022 from earnings on an SBIC investment of $940 thousand.

Noninterest income for the six months ended June 30, 2023 was $57.8 million, compared to $42.5 million for the six months ended June 30, 2022, an increase of $15.3 million, or 35.9%. Significant changes in the components of noninterest income are detailed below.

Gain on sale of subsidiary - A $33.5 million gain from the sale of Windmark was recorded in the second quarter of 2023.

Mortgage banking activities - Income from mortgage banking activities decreased $14.8 million, or 66.2%, to $7.5 million for the six months ended June 30, 2023 from $22.3 million for the six months ended June 30, 2022. This decrease was primarily a result of a decrease of $223.0 million, or 50.4%, in mortgage loan originations in the current year period as compared to the prior year period as mortgage interest rates have risen and refinance activity, which was still occurring in the first and second quarters of 2022, has subsided. There was also a $1.6 million decrease in the fair value of the Company's mortgage servicing rights portfolio for the six months ended June 30, 2023 as compared to a $5.6 million increase for the same period in 2022, given the increase in market interest rates during the period.

Income from insurance activities - Due to the sale of Windmark, there was a decline of $1.7 million in income from insurance activities for the six months ended June 30, 2023 as compared to the same period in 2022.

Other income and fees - Other noninterest income and fees were increased in the six months ended June 30, 2022 from earnings on SBIC investments of $1.8 million.

Noninterest Expense

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
	(Dollars in thousands)					
Noninterest expense:						
Salaries and employee benefits	$ 23,437	$ 21,990	$ 1,447	$ 42,691	$ 44,693	$ (2,002)
Occupancy expense, net	4,303	4,033	270	8,135	7,770	365
Professional services	1,716	2,647	(931)	3,364	5,272	(1,908)
Marketing and development	784	758	26	1,720	1,478	242
IT and data services	888	941	(53)	1,752	1,994	(242)
Bankcard expenses	1,316	1,328	(12)	2,668	2,651	17
Appraisal expenses	301	508	(207)	579	1,073	(494)
Loss on sale of securities	3,409	—	3,409	3,409	—	3,409
Other expenses(1)	4,345	3,851	494	8,542	9,049	(507)
Total noninterest expense	$ 40,499	$ 36,056	$ 4,443	$ 72,860	$ 73,980	$ (1,120)

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

Noninterest expense for the three months ended June 30, 2023 was $40.5 million compared to $36.1 million for the three months ended June 30, 2022, an increase of $4.4 million, or 12.3%. Significant changes in the components of noninterest expense are detailed below.

Salaries and employee benefits - Salaries and employee benefits increased $1.4 million, or 6.6%, from $22.0 million for the three months ended June 30, 2022 to $23.4 million for the three months ended June 30, 2023. This increase was primarily driven by $4.3 million of Windmark transaction and related incentive-based compensation expenses incurred in the second quarter of 2023. The increase was offset to an extent by approximately $1.1 million in lower mortgage personnel costs, due to the reduction in mortgage loan originations and operations, and also lower core Windmark personnel costs of $876 thousand due to the sale.

Professional services - Professional services decreased $931 thousand during the three months ended June 30, 2023, as compared to the same period in 2022, primarily from a reduction of approximately $800 thousand in legal fees incurred largely as a result of a vendor dispute, which was resolved and accounted for by the end of 2022. This decrease was partially offset by $188 thousand in Windmark transaction expenses.

Loss on sale of securities - The Company sold approximately $56.2 million of available for sale securities in the second quarter of 2023. This resulted in a loss on sale of $3.4 million.

Other expenses - The FDIC assessment increased $414 thousand for the three months ended June 30, 2023 compared to the same period in 2022. The increase was due to an increase in assessment rates charged by the FDIC and growth in the Company's assessment base.

Noninterest expense for the six months ended June 30, 2023 was $72.9 million, compared to $74.0 million for the six months ended June 30, 2022, a decrease of $1.1 million, or 1.5%. Significant changes in the components of noninterest expense are detailed below.

Salaries and employee benefits - Salaries and employee benefits decreased $2.0 million, or 4.5%, from $44.7 million for the six months ended June 30, 2022 to $42.7 million for the six months ended June 30, 2023. This was primarily driven by approximately $4.1 million in lower mortgage personnel costs, due to the reduction in mortgage loan originations and operations, and also lower core Windmark personnel costs of $876 thousand due to the sale. This decrease was offset to an extent by $4.3 million of Windmark transaction and related incentive-based compensation expenses incurred in the second quarter of 2023.

Professional services - Professional services decreased $1.9 million during the six months ended June 30, 2023, as compared to the same period in 2022, primarily from a reduction of $1.5 million in legal fees incurred largely as a result of a vendor dispute, which was resolved and accounted for by the end of 2022. This decrease was partially offset by $200 thousand in Windmark transaction expenses.

Loss on sale of securities - The Company sold approximately $56.2 million of available for sale securities in the second quarter of 2023. This resulted in a loss on sale of $3.4 million.

Other expenses - Other variable mortgage-based expenses also declined during the six months ended June 30, 2023, as compared to the same period in 2022, as mortgage originations declined. Additionally, the FDIC assessment increased $527 thousand as the assessment rates charged by the FDIC were increased and growth in the assessment base for the six months ended June 30, 2023 as compared to the same period in 2022.

Financial Condition

Our total assets increased $206.1 million, or 5.2%, to $4.15 billion at June 30, 2023, compared to $3.94 billion at December 31, 2022. Our gross loans held for investment increased $231.0 million, or 8.4%, to $2.98 billion at June 30, 2023, compared to $2.75 billion at December 31, 2022. Our securities portfolio decreased $73.6 million, or 10.5%, to $628.1 million at June 30, 2023, compared to $701.7 million at December 31, 2022. Total deposits increased $168.1 million, or 4.9%, to $3.57 billion at June 30, 2023, compared to $3.41 billion at December 31, 2022.

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 $231.0 million, or 8.4%, to $2.98 billion at June 30, 2023, compared to $2.75 billion at December 31, 2022. This increase in our loans was primarily the result of organic net loan growth based on strong loan demand. The organic loan growth remained relationship-focused and occurred primarily in commercial real estate loans, residential mortgage loans, and commercial loans.

The following table shows the contractual maturities of our loans held for investment portfolio at June 30, 2023:

	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	$ 80,751	$ 551,463	$ 289,930	$ 84,765	$ 1,006,909
Commercial - specialized	100,047	136,385	65,755	53,065	355,252
Commercial - general	101,110	170,772	151,505	127,709	551,096
Consumer:					
1-4 family residential	38,427	100,289	74,985	308,771	522,472
Auto loans	2,975	185,380	129,771	—	318,126
Other consumer	7,940	48,656	23,199	—	79,795
Construction	133,744	3,178	477	8,014	145,413
Total loans	$ 464,994	$ 1,196,123	$ 735,622	$ 582,324	$ 2,979,063

The following table shows the distribution between fixed and adjustable interest rate loans for maturities greater than one year as of June 30, 2023:

	Fixed Rate	Adjustable Rate
	(Dollars in thousands)	
Commercial real estate	$ 436,571	$ 489,587
Commercial - specialized	82,419	172,786
Commercial - general	168,989	280,997
Consumer:		
1-4 family residential	293,950	190,095
Auto loans	315,151	—
Other consumer	71,855	—
Construction	1,141	10,528
Total loans	$ 1,370,076	$ 1,143,993

At June 30, 2023, there was $1.42 billion in adjustable rate loans, with $669.5 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, $466.6 million will reprice immediately upon changes in the underlying index rate, with the remaining $202.9 million being subject to rate floors above the current index or a future repricing date. The *Wall Street Journal* prime rate is the predominate index used by the Bank.

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 64.4% of our loans were secured by real property as of June 30, 2023, compared to 69.8% as of December 31, 2022. 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 38.7% of loans held for investment as of June 30, 2023 and represented 38.7% of loans held for investment as of December 31, 2022. 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 $87.6 million, or 9.5%, to $1.0 billion as of June 30, 2023 from $919.4 million as of December 31, 2022. The increase was primarily driven by an increase of $52.4 million in multifamily property loans and a growth of $49.8 million in other income-producing commercial real estate 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 $66.3 million, or 13.7%, to $551.1 million as of June 30, 2023 from $484.8 million as of December 31, 2022. The increase in commercial general loans was primarily due to organic loan growth in service-based commercial loans and more broadly throughout general commercial loans.

Commercial specialized loans increased $27.7 million, or 8.5%, to $355.3 million as of June 30, 2023 from $327.5 million as of December 31, 2022. This increase was primarily due to the funding of $18.1 million in seasonal agricultural production loans and growth of $15.6 million in direct energy loans, partially offset by a net reduction of $$9.4 million in finance, investment, and insurance loans.

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 increased $57.5 million, or 6.7%, to $920.4 million as of June 30, 2023, from $862.9 million as of December 31, 2022. The increase in these loans was primarily a result of a $62.3 million increase in residential mortgage loans, partially offset by a $3.4 million decrease in consumer auto loans. As of June 30, 2023, our consumer loan portfolio was comprised of $522.5 million in 1-4 family residential loans, $318.1 million in auto loans, and $79.8 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 $8.1 million, or 5.3%, to $145.4 million as of June 30, 2023 from $153.5 million as of December 31, 2022. The decrease resulted from contraction after higher demand for residential construction as a result of home shortages in many of our markets peaked in the first quarter of 2023.

Non-owner occupied office real estate loans are included in commercial real estate loans and totaled $129.2 million at June 30, 2023. Owner occupied office real estate loans are included in commercial loans and totaled $53.0 million at June 30, 2023.

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.

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Commitments to grant loans and unfunded commitments under lines of credit	$ 637,400	$ 682,296
Standby letters of credit	12,779	13,864
Total	$ 650,179	$ 696,160

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 ACL 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.

Effective January 1, 2023, we adopted the CECL model and recognized a cumulative effect adjustment to the ACL for loans and off-balance sheet credit exposures of $1.3 million. The CECL model requires recording life-of-loan projected losses in the loan portfolio based on future economic events and related loan portfolio credit performance. The prior accounting standard recorded reserves based on incurred losses at the balance sheet date.

The ACL for loans was $43.1 million at June 30, 2023, compared to $39.3 million at December 31, 2022, an increase of $3.8 million, or 9.8%. The increase is primarily a result of a provision for loan losses of $4.7 million being recorded during the six months ended June 30, 2023 largely attributable to growth of $231.0 million in loans held for investment and the increase of $1.3 million in specific reserves noted previously. Nevertheless, concerns regarding forecasted economic conditions continue to worsen due to the rising interest rate environment and persistent high inflation levels in the United States, and provisions for loan losses may be necessary in future periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Average loans outstanding during the periods				
Commercial real estate	$ 942,296	$ 797,490	$ 929,207	$ 774,253
Commercial – specialized	342,519	345,980	330,903	350,050
Commercial – general	537,015	477,286	514,729	474,892
Consumer:				
1-4 family residential	506,630	384,846	491,399	386,417
Auto loans	319,875	279,113	320,978	261,605
Other consumer	80,760	85,421	80,474	82,233
Construction	143,832	146,713	146,074	145,820
Loans held for sale	21,160	32,415	22,718	40,664
Total average loans outstanding during the periods	$ 2,894,087	$ 2,549,264	$ 2,836,482	$ 2,515,934
Net charge-offs (recoveries) during the periods				
Commercial real estate	$ —	$ (393)	$ —	$ (418)
Commercial – specialized	(18)	(9)	(80)	(5)
Commercial – general	108	(127)	246	58
Consumer:				
1-4 family residential	(2)	(1)	(3)	38
Auto loans	146	37	324	77
Other consumer	149	191	254	312
Construction	—	166	272	166
Total net charge-offs (recoveries) during the periods	$ 383	$ (136)	$ 1,013	$ 228
Ratio of net charge-offs (recoveries) to average loans during the periods				
Commercial real estate	0.00%	(0.05)%	0.00%	(0.05)%
Commercial – specialized	(0.01)%	0.00%	(0.02)%	0.00%
Commercial – general	0.02%	(0.03)%	0.05%	0.01%
Consumer:				
1-4 family residential	0.00%	0.00%	0.00%	0.01%
Auto loans	0.05%	0.01%	0.10%	0.03%
Other consumer	0.18%	0.22%	0.32%	0.38%
Construction	0.00%	0.11%	0.19%	0.11%
Total ratio of net charge-offs (recoveries) to average loans during the periods	0.01%	(0.01)%	0.04%	0.01%

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

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Total loans held for investment outstanding	$ 2,979,063	$ 2,748,081
Nonaccrual loans	$ 16,561	$ 5,802
Allowance for credit losses	$ 43,137	$ 39,288
Ratio of allowance to total loans held for investment	1.45%	1.43%
Ratio of allowance to nonaccrual loans	260.47%	677.15%
Ratio of nonaccrual loans to total loans held for investment	0.56%	0.21%

Net charge-offs (recoveries) totaled $383 thousand and were 0.05% (annualized) of average loans outstanding for the three months ended June 30, 2023, compared to $(136) thousand and (0.02)% (annualized) for the three months ended June 30, 2022. Net charge-offs totaled $1.0 million and were 0.07% (annualized) of average loans outstanding for the six months ended June 30, 2023, compared to $228 thousand and 0.02% (annualized) for the six months ended June 30, 2022. There was a $400 thousand recovery on a commercial tenant relationship in the second quarter of 2022 that affected both of the period comparisons. The allowance for loan losses as a percentage of loans held for investment was 1.45% at June 30, 2023 and 1.43% at December 31, 2022.

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 ACL for loans for the periods presented and the percentage of allowance in each classification to total allowance:

	June 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial real estate	$ 14,501	33.6%	$ 13,029	33.1%
Commercial – specialized	4,154	9.7	3,425	8.7
Commercial – general	7,637	17.7	9,215	23.5
Consumer:				
1-4 family residential	8,851	20.5	6,194	15.8
Auto loans	3,900	9.0	3,926	10.0
Other consumer	1,107	2.6	1,376	3.5
Construction	2,987	6.9	2,123	5.4
Total allowance for credit losses	$ 43,137	100.0%	$ 39,288	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.

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

At June 30, 2023, our total nonaccrual loans were $16.6 million, or 0.56% of total loans held for investment, as compared to $5.8 million, or 0.21% of total loans held for investment, at December 31, 2022. 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 June 30, 2023 to cover any probable loss. One relationship totaling $13.3 million was placed on nonaccrual during the second quarter of 2023 with a specific reserve of $1.3 million based on the borrower beginning asset liquidation. The borrower has continued with payment performance and we expect material reductions of principal in the third quarter 2023. Additionally, the Company had two credits totaling $2.9 million that were removed from nonaccrual status during the second quarter of 2023 as a result of principal paydowns, improved cash flow, and continued sustained payment performance.

Nonperforming loans were $21.0 million at June 30, 2023 and $7.8 million at December 31, 2022.

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.

Our securities portfolio decreased $73.6 million, or 10.5%, to $628.1 million at June 30, 2023, compared to $701.7 million at December 31, 2022. The decrease was primarily due to $76.6 million in sales, maturities, prepayments, and calls at June 30, 2023 as compared to December 31, 2022. The Company sold approximately $56.2 million of available for sale securities in the second quarter of 2023. This resulted in a loss on sale of $3.4 million. The average book yield of these securities was approximately 2.71%. The proceeds from the sale were used to help fund loan growth during the quarter.

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. During the three months ended June 30, 2023, the fair value of the Company's available for sale securities declined by $3.7 million. At June 30, 2023, 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 losses have been recognized in the consolidated financial statements for securities in the portfolio.

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 June 30, 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	$ 2,628	3.49%	$ 5,387	1.93%	$ 5,405	2.10%	$ 193,415	2.29%
Residential mortgage-backed securities	34	1.29%	2,311	2.01	2,368	2.43	361,494	2.20
Commercial mortgage-backed securities	—	—	—	—	48,533	2.22	—	—
Commercial collateralized mortgage obligations	—	—	—	—	72,823	5.71	—	—
Asset-backed and other amortizing securities	—	—	—	—	1,539	2.94	17,990	2.81
Other securities	—	—	—	—	12,000	4.47	—	—
Total available-for-sale	$ 2,662	3.47%	$ 7,698	1.95%	$ 142,668	4.20%	$ 572,899	2.25%

	As of December 31, 2022							
	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	$ 1,898	3.43%	$ 8,663	2.17%	$ 7,508	2.22%	$ 241,360	2.24%
Residential mortgage-backed securities	3	1.90%	3,037	1.88	3,993	2.37	379,750	2.22
Commercial mortgage-backed securities	—	—	—	—	49,161	2.21	—	—
Commercial collateralized mortgage obligations	—	—	—	—	76,189	4.89	—	—
Asset-backed and other amortizing securities	—	—	—	—	1,689	2.93	19,218	2.81
Other securities	—	—	—	—	12,000	4.47	—	—
Total available-for-sale	$ 1,901	3.43%	$ 11,700	2.09%	$ 150,540	3.76%	$ 640,328	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 June 30, 2023 were $3.57 billion, representing an increase of $168.1 million, or 4.9%, compared to $3.41 billion at December 31, 2022. The increase in total deposits since December 31, 2022 is primarily due to organic growth. The growth was largely in brokered deposits, which grew $81 million, and in public fund deposits, which grew approximately $45 million. As of June 30, 2023, 30.8% of total deposits were comprised of noninterest-bearing demand accounts, 60.2% of interest-bearing non-maturity accounts and 9.0% of time deposits.

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

	June 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 1,100,767	30.8%	$ 1,150,488	33.8%
NOW and other transaction accounts	400,779	11.2	350,910	10.3
Money market and other savings	1,751,029	49.0	1,618,833	47.5
Time deposits	321,947	9.0	286,199	8.4
Total deposits	$ 3,574,522	100.0%	$ 3,406,430	100.0%

Average deposit balances and weighted average rates paid on deposits, on an annualized basis, for the periods indicated are shown below.

	Three Months Ended June 30,			
	2023		2022	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 1,075,514	0.00%	$ 1,171,454	0.00%
Interest-bearing deposits:				
NOW and interest-bearing demand accounts	307,171	2.24%	352,350	0.25%
Savings accounts	147,533	0.59%	147,535	0.11%
Money market accounts	1,604,478	2.64%	1,403,567	0.31%
Time deposits	299,358	2.61%	334,819	1.15%
Total interest-bearing deposits	2,358,540	2.45%	2,238,271	0.39%
Total deposits	$ 3,434,054	1.69%	$ 3,409,725	0.27%

	Six Months Ended June 30,			
	2023		2022	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 1,092,429	0.00%	$ 1,137,771	0.00%
Interest-bearing deposits:				
NOW and interest-bearing demand accounts	321,199	1.95%	363,796	0.17%
Savings accounts	149,743	0.83%	148,276	0.10%
Money market accounts	1,552,927	2.44%	1,408,536	0.27%
Time deposits	291,677	2.31%	336,962	1.16%
Total interest-bearing deposits	2,315,546	2.25%	2,257,570	0.38%
Total deposits	$ 3,407,975	1.53%	$ 3,395,341	0.25%

The scheduled maturities of time deposits as of June 30, 2023 follows:

(Dollars in thousands)	Three Months	Three to Six Months	Six to 12 Months	After 12 Months	Total
	$ 3,610	$ 8,927	$ 36,665	$ 19,974	$ 69,176

The estimated amount of uninsured and uncollateralized deposits as of June 30, 2023 was $576.9 million. This represented approximately 16% of total deposits and excludes collateralized public fund deposits.

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. Time deposits in amounts of more than $250 thousand totaled $130.4 million at June 30, 2023.

Borrowed Funds

In addition to deposits, we may 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 June 30, 2023 and December 31, 2022, we had total remaining borrowing capacity from the FHLB of $1.01 billion and $920.2 million, respectively.

We had no FHLB borrowings during the six months ended June 30, 2023 or 2022.

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 $611.7 million and $648.3 million at June 30, 2023 and December 31, 2022, respectively.

We had no long-term FRB borrowings during the six months ended June 30, 2023 or 2022.

In addition, we have access to the FRB's BTFP. As of June 30, 2023, the Company has not pledged any securities for the BTFP but has approximately $200 million of available securities that can be used as collateral for additional borrowings through the program.

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 160.0 million as of June 30, 2023 and December 31, 2022, respectively. The lines of credit were not used, other than testing, during the three or six months ended June 30, 2023 or the three or six months ended June 30, 2022.

Subordinated Debt. In December 2018, the Company issued $26.5 million in subordinated notes. Notes totaling $12.4 million have a maturity date of December 2028 and an average fixed rate of 5.74% for the first five years. The remaining $14.1 million of notes 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, all 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 June 30, 2023, the total amount of subordinated debt outstanding was $76.5 million less approximately $418 thousand of remaining debt issuance costs for a total balance of $76.1 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 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 June 30, 2023 and December 31, 2022. 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 June 30, 2023, 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. LIBOR + 265 bps; 7.47%
South Plains Financial Capital Trust IV	2005	20,000	20,619	2035	3-mo. LIBOR + 139 bps; 6.26%
South Plains Financial Capital Trust V	2007	15,000	15,464	2037	3-mo. LIBOR + 150 bps; 6.37%
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 June 30, 2023.

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 June 30, 2023, the Bank had the capacity to borrow additional funds from the FHLB and Federal Reserve discount window of up to approximately $1.01 billion and $611.7 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 $392.0 million as of June 30, 2023, compared to $357.0 million as of December 31, 2022, an increase of $35.0 million, or 9.8%. The increase from December 31, 2022 was primarily the result of $38.9 million in net earnings for the six months ended June 30, 2023 and an increase in accumulated other comprehensive income (“AOCI”) of $3.3 million, net of tax, partially offset by repurchases of common stock of $2.5 million and $4.4 million of dividends paid. The increase in AOCI was attributed to the increase in fair value of our available for sale securities and fair value hedges, net of tax, as a result of some moderation in the rising interest rate environment during the period.

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.

At June 30, 2023 and December 31, 2022, 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 was “well capitalized” under the FDIC’s regulatory framework for prompt corrective action and the Basel III capital guidelines. Management believes that no conditions or events have occurred since June 30, 2023 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 following table presents our and the Bank's regulatory capital ratios as of the dates indicated.

	June 30, 2023		December 31, 2022	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
South Plains Financial, Inc.:				
Total capital (to risk-weighted assets)	$ 597,335	16.75%	$ 559,094	16.58%
Tier 1 capital (to risk-weighted assets)	476,708	13.37	443,265	13.15
CET 1 capital (to risk-weighted assets)	431,708	12.11	398,265	11.81
Tier 1 capital (to average assets)	476,706	11.67	443,265	11.03
City Bank:				
Total capital (to risk-weighted assets)	$ 492,582	13.73%	$ 454,427	13.48%
Tier 1 capital (to risk-weighted assets)	447,754	12.48	414,559	12.30
CET 1 capital (to risk-weighted assets)	447,754	12.48	414,559	12.30
Tier 1 capital (to average assets)	447,754	10.97	414,559	10.32

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 and six months ended June 30, 2023 and 2022. For the three and six months ended June 30, 2023, we repurchased 112,954 shares of common stock for a total of $2.5 million. 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:

	June 30, 2023	**December 31, 2022**
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Net Interest Income**
+300	(4.23)%	(1.50)%
+200	(2.76)%	(0.96)%
+100	(1.31)%	(0.61)%
-100	1.41%	(1.50)%
-200	2.83%	(2.81)%

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Form 10-Q have been prepared in accordance with U.S. generally accepted accounting principles ("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 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:

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Total stockholders' equity	$ 392,029	$ 357,014
Less: Goodwill and other intangibles	(22,149)	(23,857)
Tangible common equity	$ 369,880	$ 333,157
Total assets	$ 4,150,129	$ 3,944,063
Less: Goodwill and other intangibles	(22,149)	(23,857)
Tangible assets	$ 4,127,980	$ 3,920,206
Shares outstanding	16,952,072	17,027,197
Total stockholders' equity to total assets	9.45%	9.05%
Tangible common equity to tangible assets	8.96%	8.50%
Book value per share	$ 23.13	$ 20.97
Tangible book value per share	$ 21.82	$ 19.57

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 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. Additional information about these policies can be found in Note 1 of the 2022 Annual Report on Form 10-K or the Company's consolidated financial statements as of June 30, 2023.

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.

Prior to the adoption of the CECL model, the ACL for loans was established through a provision for loan losses charged to expense, which represented management's best estimate of inherent losses that had been incurred within the existing portfolio of loans. In addition, a loan was considered impaired when, based on current information and events, it was probable that the Company would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All loans rated substandard or worse and greater than $250 thousand were specifically reviewed to determine if they were impaired. Loans that were determined to be impaired were then evaluated to determine estimated impairment, if any. Impairment was measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan was collateral dependent. Loans that were not individually determined to be impaired or were not subject to the specific review of impaired status were subject to the general valuation allowance portion of the 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 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 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 which we have adopted.

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 June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting, except as noted below. Beginning January 1, 2023, the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. The Company implemented changes to the policies, processes, and controls over the estimation of the allowance for credit losses to support the adoption of ASU 2016-13. Many controls under this new standard mirror controls under the prior GAAP methodology. New controls were established over the review of the reasonable and supportable assumptions used for the economic forecast and qualitative adjustment risks. In addition, controls were modified to require final approval of the allowance for credit losses estimate to a chartered committee within the Company. Finally, there were new controls established over the Company’s loan scorecard process.

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, 2022 (the "2022 Annual Report on Form 10-K") filed with the SEC on March 13, 2023. Except as described above or in our 2022 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 2022 Annual Report on Form 10-K. Management believes there have been no material changes in the risk factors disclosed by the Company in the 2022 Annual Report on Form 10-K.

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

Issuer Purchases of Equity Securities

On May 5, 2023, the Company's board of directors approved a stock repurchase program pursuant to which the Company may, from time to time, purchase up to $15.0 million of its outstanding shares of common stock (the "Program"). The shares may 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 Program and the timing and exact amount of any repurchases will depend on various factors including, the performance of the Company's stock price, general market and other conditions, applicable legal requirements and other factors. The Program may be terminated or amended by the Company's board of directors at any time prior to the expiration date of May 5, 2024.

The following table summarizes the Company's share repurchase activity for the three months ended June 30, 2023.

	Total Shares Repurchased	Average Price Paid Per Share	Total Dollar Amount Purchased Pursuant to Publicly-Announced Plan	Maximum Dollar Amount Remaining Available for Repurchase Pursuant to Publicly-Announced Plan
May 2023	41,971	$ 21.37	$ 896,788	$ 14,103,212
June 2023	70,983	23.26	1,651,332	12,451,880
Total	112,954			

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended June 30, 2023, no 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
2.1	Securities Purchase Agreement, dated April 1, 2023, by and among South Plains Financial, Inc., City Bank and Alliant Insurance Services, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2023) (File No. 001-38895).
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 June 30, 2023, 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

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: August 7, 2023	By:	/s/ Curtis C. Griffith
		Curtis C. Griffith Chairman and Chief Executive Officer
Date: August 7, 2023	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 June 30, 2023 (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: August 7, 2023

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 June 30, 2023 (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: August 7, 2023

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 June 30, 2023 (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: August 7, 2023

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 June 30, 2023 (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: August 7, 2023

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