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Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Curtis Griffith
Name of the Holding Company Director and Official

Chariman of Trustee
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Curtis Griffith
Signature of Holding Company Director and Official

3/29/2016
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only
RSSD ID 3382332
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2015
Month / Day / Year

none
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

South Plains Financial Inc. Employee Stock Ownership Plan
Legal Title of Holding Company

PO Box 5060
(Mailing Address of the Holding Company) Street / P.O. Box

Lubbock	TX	79408
City	State	Zip Code

5219 City Bank Parkway 79407
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Steve Crockett	CFO
Name	Title

806-792-7101
Area Code / Phone Number / Extension

none
Area Code / FAX Number

scrockett@citybanktexas.com
E-mail Address

none
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

- [x] Yes Please identify the report items to which this request applies:
  Report Item 4 3(c) & 4(c)
  - [x] In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
  - [x] The information for which confidential treatment is sought is being submitted separately labeled "Confidential."
- [ ] No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

South Plains Financial, Inc.
Legal Title of Subsidiary Holding Company

PO Box 5060
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Lubbock	TX	79408

5219 City Bank Parkway 79407
Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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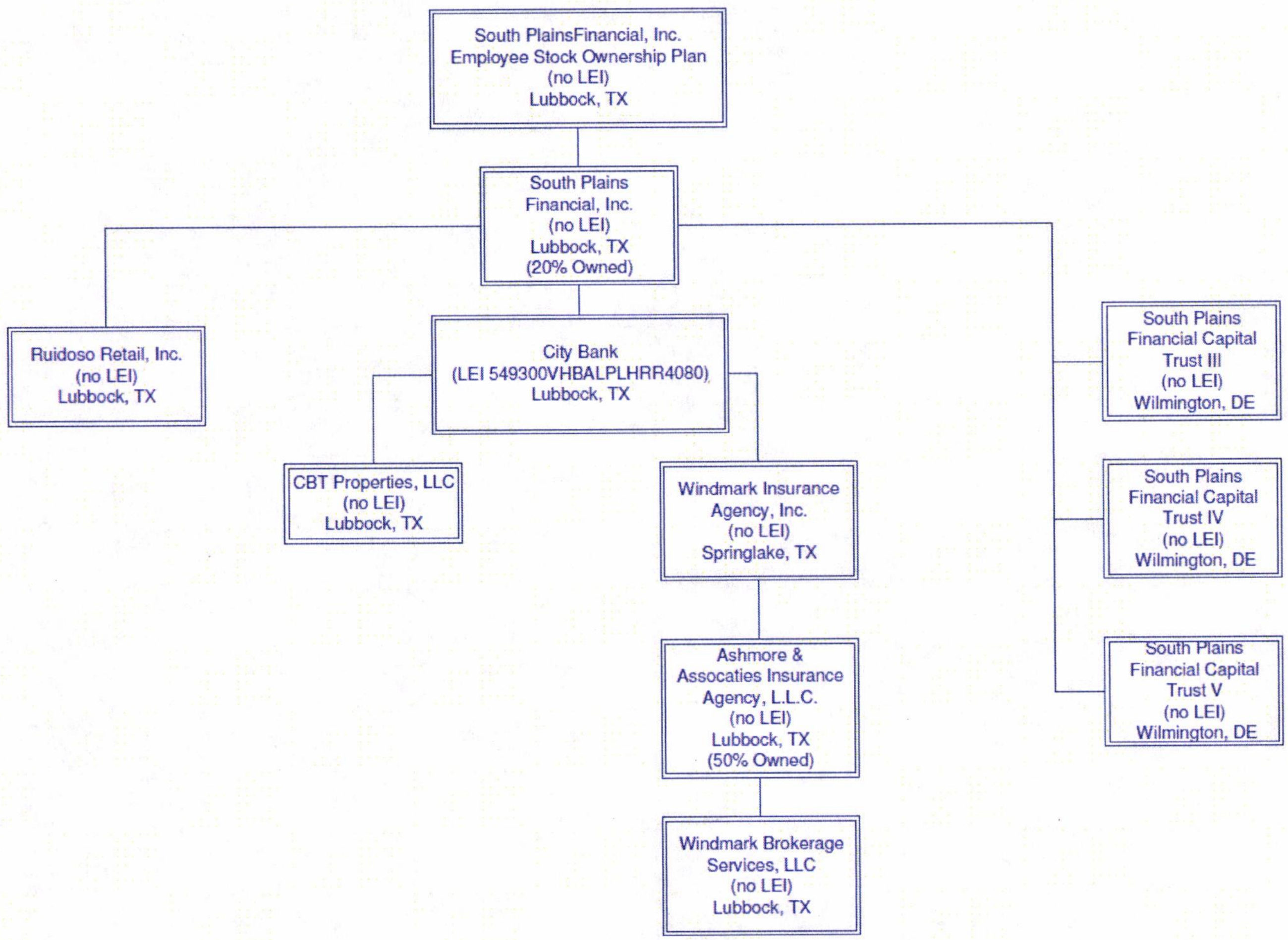
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

2a. Organization Chart

South Plains Financial, Inc.
Organizational Chart



SPFI – South Plains Financial, Inc.
ESOP – South Plains Financial, Inc. Employee Stock Ownership Plan
WIA – Windmark Insurance Agency, Inc.
CB – City Bank

All subsidiaries are 100% owned except as noted.
All LLCs are member managed by the direct holder.
All states noted herein are states of incorporation as well as physical location.

2.b. Domestic Branch Listing

Branch report has been submitted

Results: A list of branches for your depository institution: CITY BANK (ID_RSSD: 575254).
This depository institution is held by SOUTH PLAINS FINANCIAL, INC. EMPLOYEE STOCK OWNERSHIP PLAN (3382332) of LUBBOCK, TX
The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	575254	CITY BANK	5219 CITY BANK PARKWAY	LUBBOCK	TX	79407-350	LUBBOCK	UNITED STATES	17373	0	CITY BANK	575254	
OK		Full Service	3665174	GATEWAY BRANCH	143A EL PASO ROAD	RUIDOSO	NM	88345	LINCOLN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3058619	LINCOLN TOWER BRANCH	1096 MECHEM DRIVE	RUIDOSO	NM	88345	LINCOLN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3635757	MIDTOWN BRANCH	1850 SUDDERTH DRIVE	RUIDOSO	NM	88345	LINCOLN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3624845	COLLEGE STATION BRANCH	1409 UNIVERSITY DRIVE EAST	COLLEGE STATION	TX	77840	BRAZOS	UNITED STATES	478969	29	CITY BANK	575254	
OK		Full Service	3657759	DALLAS BRANCH	9788 WALNUT STREET	DALLAS	TX	75243	DALLAS	UNITED STATES	359732	14	CITY BANK	575254	
OK		Full Service	4804224	UPTOWN DALLAS BRANCH	2525 MCKINNON STREET SUITE 100	DALLAS	TX	75201	DALLAS	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3400197	EL PASO GEORGE DIETER BRANCH	1418 GEORGE DIETER DR	EL PASO	TX	79936-760	EL PASO	UNITED STATES	446848	21	CITY BANK	575254	
OK		Full Service	3260430	EL PASO MESA BRANCH	7901 N MESA	EL PASO	TX	79932-162	EL PASO	UNITED STATES	430182	18	CITY BANK	575254	
OK		Full Service	3709658	FORNEY HIGHWAY 80 BRANCH	771 EAST HIGHWAY 80	FORNEY	TX	75126	KAUFMAN	UNITED STATES	473497	28	CITY BANK	575254	
OK		Full Service	3656275	GRAND PRAIRIE BRANCH	2615 W PIONEER PARKWAY, SUITE 101	GRAND PRAIRIE	TX	75051	TARRANT	UNITED STATES	469461	26	CITY BANK	575254	
OK		Full Service	3607053	HOUSTON BRANCH	10080 BELLAIRE BLVD., SUITE 101	HOUSTON	TX	77072	HARRIS	UNITED STATES	467629	25	CITY BANK	575254	
OK		Full Service	3680047	IDALOU BRANCH	304 WEST 1ST STREET	IDALOU	TX	79329	LUBBOCK	UNITED STATES	469777	27	CITY BANK	575254	
OK		Full Service	941859	LEVELLAND BRANCH	600 COLLEGE AVE.	LEVELLAND	TX	79336	HOCKLEY	UNITED STATES	16634	7	CITY BANK	575254	
OK		Full Service	1451131	50TH STREET BRANCH	3251 50TH STREET	LUBBOCK	TX	79413	LUBBOCK	UNITED STATES	257854	1	CITY BANK	575254	
OK		Limited Service	4804215	HOCKLEY/COCHRAN COUNTY COURIER	5219 CITY BANK PARKWAY	LUBBOCK	TX	79407	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3598339	LUBBOCK 4TH STREET BRANCH	5506 4TH STREET	LUBBOCK	TX	79416-422	LUBBOCK	UNITED STATES	466221	24	CITY BANK	575254	
OK		Full Service	3657795	LUBBOCK QUAKER BRANCH	8201 QUAKER AVENUE	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	257857	6	CITY BANK	575254	
OK		Full Service	3838165	MILWAUKEE & 82ND STREET BRANCH	6524 82ND STREET	LUBBOCK	TX	79424-701	LUBBOCK	UNITED STATES	482375	30	CITY BANK	575254	
OK		Full Service	3657807	MORTGAGE CENTER BRANCH	5815 82ND STREET, SUITE 120	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	366138	17	CITY BANK	575254	
OK		Full Service	3367898	OVERTON BRANCH	611 UNIVERSITY AVENUE	LUBBOCK	TX	79401-220	LUBBOCK	UNITED STATES	443021	19	CITY BANK	575254	
OK		Full Service	2317850	SUPERCENTER BRANCH	6501 UNIVERSITY	LUBBOCK	TX	79413	LUBBOCK	UNITED STATES	257855	2	CITY BANK	575254	
OK		Full Service	3657777	UNIVERSITY BRANCH	8009 UNIVERSITY AVENUE	LUBBOCK	TX	79423	LUBBOCK	UNITED STATES	365209	16	CITY BANK	575254	
OK		Full Service	2719379	MORTON BRANCH	107 WEST TAYLOR	MORTON	TX	79346	COCHRAN	UNITED STATES	235613	5	CITY BANK	575254	
OK		Full Service	3453803	PRESTON ROAD BRANCH	7800 PRESTON RD, STE 201	PLANO	TX	75024	COLLIN	UNITED STATES	453030	23	CITY BANK	575254	
OK		Full Service	2798664	SPRINGLAKE BRANCH	118 HIGHWAY 70	SPRINGLAKE	TX	79082	LAMB	UNITED STATES	257856	3	CITY BANK	575254	

Form FR Y-6

South Plains Financial, Inc. Employee Stock Ownership Plan
Lubbock, TX
Fiscal Year Ending December 31, 2015

Report Item 3: Shareholders
(1)(a)(b)(c) (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/15			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/15		
(1)(a) Name & Address (City, State, County)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, County)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
N/A			N/A		

AMENDED
SEP 13 2016

Form FR Y-6

South Plains Financial, Inc. Employee Stock Ownership Plan
Lubbock, TX
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names & Address (City, State, County)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Curtis Griffith Lubbock, TX	Investor	Chairman of ESOP Committee	Chairman & CEO (SPFI) Chairman (CB, WIA)	**	0%	SPFI – 40%	**
Rob Dean Lubbock, TX	N/A	ESOP Committee Member	SVP (CB)	**	0%	SPFI – 3%	**
Cory Newsom Lubbock, TX	N/A	ESOP Committee Member	EVP & COO (SPFI) President & CEO (CB)	**	0%	SPFI – 0%	**
Larry Beseda Kingsland, TX	N/A	ESOP Committee Member	Director (SPFI, CB)	**	0%	SPFI – 2%	**
Steve Crockett Lubbock, TX	N/A	ESOP Committee Member	SVP & CFO (CB)	**	0%	SPFI – 0%	**
Paul Ehlers Lubbock, TX	N/A	ESOP Committee Member	SVP & COO (CB)	**	0%	SPFI – 0%	**
Kendra Lane Lubbock, TX	N/A	ESOP Committee Member	VP (CB)	**	0%	None	**

**The responsive data may be found in the confidential volume.

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2015

Report Item 3: Shareholders
(1)(a)(b)(c) (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/15			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/15		
(1)(a) Name & Address (City, State, County)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, County)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
		Common Stock			
ESOP Lubbock, TX	USA	99,949 – Owned 20% *	N/A		
Curtis Griffith Lubbock, TX	USA	80,505 – Owned 16% 121,579 – Voted 24% Total 202,084 – 40%			
James Henry Midland, TX	USA	40,290 – Owned 8% 38,710 – Voted 8% Total 79,000 – 16% * - voted by Curtis Griffith on behalf of the ESOP Committee			

AMENDED
SEP 13 2016

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names & Address (City, State, County)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Curtis Griffith Lubbock, TX	Investor	Chairman & CEO	Chairman (CB, WIA)	**	40%	None	**
Bobby Neal Whiteface, TX	Farmer	Director	Director (CB)	**	1%	None	**
ESOP Lubbock, TX	N/A	N/A	N/A	N/A	20%	N/A	N/A
Larry Beseda Kingsland, TX	Farmer	Director	Director (CB)	**	2%	None	**
Jodie Riley Dimmitt, TX	Farmer	Director	Director (CB)	**	1%	None	**
Mikella Newsom Lubbock, TX	N/A	SVP & Secretary	SVP & CRO (CB)	**	0%	None	**
Steve Crockett Lubbock, TX	N/A	SVP & CFO Treasurer	SVP & CFO (CB)	**	0%	None	**

**The responsive data may be found in the confidential volume.

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2015

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names & Address (City, State, County)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Lonnie Hollingsworth Lubbock, TX	Investor	Director	Director (CB)	**	1%	None	**
Cory Newsom Lubbock, TX	N/A	EVP & COO	President & CEO (CB) CEO & Director (WIA)	**	0%	None	**
Kevin Bass Lubbock, TX	N/A	EVP	SEVP & Director (CB)	**	0%	None	**
Danny Campbell Midland, TX	Executive	Director	Director (CB)	**	0%	None	**
James Henry Midland, TX	Investor	N/A	N/A	**	16%	None	**

**The responsive data may be found in the confidential volume.

SOUTH PLAINS FINANCIAL, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2015 AND 2014

South Plains Financial, Inc.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

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LAM & COMPANY
Audit Focused CPAs

Independent Auditors' Report

To Senior Management, Directors, & Stockholders
South Plains Financial, Inc. & Subsidiaries
Lubbock, Texas

Report on Consolidated Financial Statements

Lam & Company PC ("**LCPC**") has audited the accompanying *Consolidated Financial Statements* ("**CFS**") of *South Plains Financial, Inc. & Subsidiaries* (the "**Company**"), which comprise the consolidated balance sheets as of December 31, 2015 & 2014, the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the CFS.

Management's Responsibility for the CFS

It is management's responsibility to prepare and fairly present the accompanying CFS in accordance with *accounting principles generally accepted in the United States of America* ("**GAAP**"); which includes responsibility to design, implement, and maintain internal control relevant to prepare and fairly present CFS that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

LCPC's responsibility is to express an opinion on the accompanying CFS based on our audits. We conducted our audits in accordance with *auditing standards generally accepted in the United States of America* ("**GAAS**"). Under GAAS, LCPC is required to plan and perform our audits to obtain reasonable assurance about whether the CFS are free from material misstatement.

A GAAS audit involves procedures to obtain audit evidence about the amounts and disclosures in the CFS. The procedures performed depend on auditor judgments, which include assessment of risks of material misstatement of the CFS, whether due to fraud or error. The auditor considers the Company's internal control, relevant to prepare and fairly present the CFS, to assess the risks of material misstatement of the CFS and then to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control. Accordingly, LCPC is not expressing an opinion on the effectiveness of the Company's internal control. In a GAAS audit, the auditor also evaluates whether the Company's accounting policies were appropriate, whether management's significant accounting estimates were reasonable, and the overall presentation of the CFS.

LCPC believes that the audit evidence obtained is sufficient and appropriate to provide a basis for this audit opinion.

Opinion

In LCPC's opinion, the CFS fairly present, in all material respects, the Company's financial position as of December 31, 2015 & 2014, and the results of operations and cash flows for the years then ended in accordance with GAAP.

LAM & COMPANY PC 7602 UNIVERSITY AVENUE, SUITE 201
LUBBOCK, TEXAS 79423 WWW.CPAAUDITORS.COM
OFFICE: 806.412.4007 FAX: 806.412.4007

Other Reporting Required by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")

City Bank is a Texas chartered bank subsidiary of South Plains Financial, Inc. In accordance with FDIC Reg §363.2(b), City Bank's management prepared and included their *Report of Management* on "Management's Responsibility and Assessment of Internal Control Over Financial Reporting" and "Management's Responsibility and Assessment of Compliance With Designated Laws and Regulations" at City Bank as of December 31, 2015 & 2014, hereinafter referred to as "**Reports of Management**," in the Company's 2015 & 2014 annual reports required by FDIC Reg §363.4(a). In their Reports of Management, City Bank management asserted that, based on the framework set forth by COSO in *Internal Control— Integrated Framework* as modified for the express purpose of meeting the regulatory requirements of §112 of FDICIA, City Bank's internal control over financial reporting was effective in all material respects as of December 31, 2015 & 2014; these assertions are referred to hereinafter as "**Management's Assertions**." LCPC integrated the GAAS audit of the CFS with the audit of Management's Assertions performed in accordance with *Attestation Standards* established by the American Institute of Certified Public Accountants ("**Attestation Standards**"), which are generally accepted in the United States of America. LCPC's *Independent Auditors' Report on City Bank Internal Control Over Financial Reporting* for 2015 & 2014, dated March 24, 2016, is included in the Company's 2015 annual report referenced above (which is available for public inspection in accordance with FDIC Reg §363.4(b)) and expresses an unqualified opinion on Management's Assertions.

Lam & Company PC

March 24, 2016

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(In thousands)	
ASSETS		
Cash and due from banks	$ 66,502	$ 63,796
Interest-bearing deposits in banks	294,001	229,525
Federal funds sold	-	2,615
Cash and cash equivalents	360,503	295,936
Securities available for sale	221,790	247,596
Securities held to maturity	109,532	114,460
Loans held for sale	43,428	14,898
Loans, net	1,655,094	1,522,093
Accrued interest receivable	14,123	13,153
Premises and equipment, net	58,622	55,828
Bank-owned life insurance	53,624	52,434
Foreclosed assets, net	7,681	7,461
Other assets	12,468	11,524
Total assets	$ 2,536,865	$ 2,335,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 413,777	$ 352,207
Interest-bearing	1,713,476	1,680,441
Total deposits	2,127,253	2,032,648
Short-term borrowings	42,785	25,715
Accrued expenses and other liabilities	17,955	15,267
Notes payable & other borrowings	96,353	24,155
Subordinated debt securities	20,887	20,887
Junior subordinated deferrable interest debentures	46,393	46,393
Total liabilities	2,351,626	2,165,065
Stockholders' equity:		
Common stock, $1 par value, 1,000,000 shares authorized; 505,117 issued in 2015 and 2014	505	505
Additional paid-in capital	99,935	99,836
Retained earnings	85,786	70,148
Accumulated other comprehensive income	1,892	1,859
Treasury stock, at cost - 4,165 shares in 2015	(1,526)	-
Unearned ESOP shares	(1,353)	(2,030)
Total stockholders' equity	185,239	170,318
Total liabilities and stockholders' equity	$ 2,536,865	$ 2,335,383

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

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2015	Years Ended December 31, 2014
	(In thousands)	
Interest income:		
Loans, including fees	$ 85,783	$ 78,891
Securities	8,597	9,070
Federal funds sold and interest-bearing deposits in banks	653	792
Total interest income	95,033	88,753
Interest expense:		
Deposits	11,186	11,787
Short-term borrowings	63	39
Notes payable & other borrowings	374	543
Subordinated debt securities	980	1,024
Junior subordinated deferrable interest debentures	940	911
Total interest expense	13,543	14,304
Net interest income	81,490	74,449
Provision for loan losses	781	649
Net interest income, after provision for loan losses	80,709	73,800
Noninterest income:		
Service charges on deposit accounts	7,898	7,939
Income from insurance activities	4,872	3,836
Net gain on sales of loans	12,913	7,785
Other	13,947	12,303
Total noninterest income	39,630	31,863
Noninterest expense:		
Salaries and employee benefits	57,798	50,867
Occupancy and equipment, net	11,912	10,886
Professional services	5,312	4,449
Marketing and development	3,147	3,192
Foreclosed assets, net	298	(272)
Other	18,826	16,850
Total noninterest expense	97,293	85,972
Income before income taxes	23,046	19,691
Income tax expense	114	131
Net income	22,932	19,560
Other comprehensive income:		
Change in net unrealized gain on securities available for sale	43	5,170
Reclassification adjustment for gains included in net income	(10)	-
Other comprehensive income	33	5,170
Comprehensive income	$ 22,965	$ 24,730

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

Years Ended December 31, 2015 and 2014

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Treasury Stock	Total
	Shares	Amount						
				(In thousands, except share data)				
Balance at December 31, 2013	505,117	$ 505	$ 99,819	$ 54,578	$ (3,311)	$ (2,707)	$ -	$ 148,884
Net income	-	-	-	19,560	-	-	-	19,560
Cash dividends on common stock	-	-	-	(3,973)	-	-	-	(3,973)
Other comprehensive income	-	-	-	-	5,170	-	-	5,170
Earned ESOP shares	-	-	17	(17)	-	677	-	677
Balance at December 31, 2014	505,117	505	99,836	70,148	1,859	(2,030)	-	170,318
Net income	-	-	-	22,932	-	-	-	22,932
Cash dividends on common stock	-	-	-	(7,195)	-	-	-	(7,195)
Other comprehensive income	-	-	-	-	33	-	-	33
Earned ESOP shares	-	-	99	(99)	-	677	-	677
Purchase of treasury stock	-	-	-	-	-	-	(1,526)	(1,526)
Balance at December 31, 2015	505,117	$ 505	$ 99,935	$ 85,786	$ 1,892	$ (1,353)	$ (1,526)	$ 185,239

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

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 22,932	$ 19,560
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	781	649
Provision for foreclosed asset losses	250	1,696
Depreciation and amortization	4,442	3,522
Other gains, net	(562)	(2,392)
Net gain on sales of loans	(12,913)	(7,785)
Proceeds from sales of loans held for sale	447,786	272,792
Loans originated for sale	(463,403)	(270,239)
Earned ESOP shares	677	677
Earnings on bank-owned life insurance	(1,190)	(1,055)
Net change in:		
Accrued interest receivable and other assets	(1,988)	(1,215)
Accrued expenses and other liabilities	2,688	1,777
Net cash from operating activities	(500)	17,987
Cash flows from investing activities:		
Activity in securities available for sale:		
Purchases	(375,245)	(489,592)
Sales	10,788	-
Maturities, prepayments, and calls	390,306	437,472
Activity in securities held to maturity:		
Purchases	-	(11,557)
Sales	-	5,162
Maturities, prepayments, and calls	4,928	2,674
Loan originations and principal collections, net	(136,261)	(166,925)
Purchases of premises and equipment, net	(9,105)	(5,603)
Proceeds from sales of premises and equipment	2,181	-
Proceeds from sales of foreclosed assets	2,323	13,828
Purchases of bank-owned life insurance	-	(10,000)
Net cash from investing activities	(110,085)	(224,541)
Cash flows from financing activities:		
Net change in deposits	94,605	35,996
Net change in short-term borrowings	17,070	7,435
Proceeds from notes payable and other borrowings	75,000	7,500
Payments made on notes payable and other borrowings	(2,802)	(6,052)
Payments made on subordinated debt securities	-	(7,379)
Cash dividends on common stock	(7,195)	(3,973)
Purchases of treasury stock	(1,526)	-
Net cash from financing activities	175,152	33,527

Continued

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

	Years Ended December 31, 2015	Years Ended December 31, 2014
	(In thousands)	
Net change in cash and cash equivalents	$ 64,567	$ (173,027)
Beginning cash and cash equivalents	295,936	468,963
Ending cash and cash equivalents	$ 360,503	$ 295,936
Supplemental disclosures of cash flow information:		
Interest paid on deposits and borrowed funds	$ 13,655	$ 14,589
Income taxes paid	114	131
Supplemental schedule of noncash investing and financing activities:		
Loans transferred to foreclosed assets	2,585	7,712
Financed foreclosed asset sales	106	1,215
Securities reclassification	-	21,294

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 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 insurance, investment, trust, and mortgage services. Subsidiaries of SPFI follow:

Wholly-Owned, Consolidated Subsidiaries:	
City Bank	Bank subsidiary
Windmark Insurance Agency, Inc.	Non-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
CBNM Properties, LLC	Non-bank subsidiary
Wholly-Owned, Equity Method Subsidiaries:	
South Plains Financial Capital Trusts (SPFCT) III-V	Non-bank subsidiaries

City Bank New Mexico, a bank subsidiary, was merged into City Bank during 2014. Additionally, Zia Financial Corporation, a subsidiary bank holding company, was merged into SPFI during 2014.

Basis of Presentation and Consolidation – The consolidated financial statements (CFS) 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 Company's CFS are prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Subsequent Events – The Company evaluated subsequent events for potential recognition and/or disclosure through March 24, 2016, the date the CFS were available to be issued.

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 loan losses is a material estimate that is particularly susceptible to significant change in the near term; the valuation of foreclosed assets and fair values of financial instruments can also involve significant management estimates.

Concentration of Credit Risk – The bank subsidiary is primarily involved in real estate, commercial, agricultural, and consumer lending activities with customers throughout Texas and Eastern New Mexico. Although the bank subsidiary has a diversified portfolio, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the region which consist primarily of agribusiness, wholesale/retail, oil and gas and related business, healthcare industries, and institutions of higher education.

Continued

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

<u>Comprehensive Income</u> – Comprehensive income is comprised of net income or loss and other comprehensive income or loss (OCI). Relevant examples of OCI items are unrealized holding gains and losses on securities available for sale, and subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of securities available for sale previously written down as impaired.

<u>Cash and Cash Equivalents</u> – The Company includes all cash on hand, balances due from other banks, and Federal funds sold, all of which have original maturities within three months, as cash and cash equivalents in the accompanying CFS. Federal regulations require the bank subsidiary to set aside specified amounts of cash as reserves against transaction and time deposits, which fluctuate daily. These reserves may be held as cash on hand or on deposit with a district Federal Reserve Bank. Management believes that the bank subsidiary complies with these requirements.

<u>Securities</u> – 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 reported at fair value with unrealized gains and losses excluded from earnings, but included in the determination of OCI. 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. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

When the fair value of a security is below its amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. The analysis considers (i) whether there is intent to sell securities prior to recovery and/or maturity, (ii) whether it is more likely than not that securities will have to be sold prior to recovery and/or maturity, and (iii) whether there is a credit loss component to the impairment. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of a security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

<u>Nonmarketable Equity Securities</u> – Securities with limited marketability, such as stock in the Federal Home Loan Bank of Dallas (FHLB), are carried at cost and are reported in other assets. Windmark Insurance Agency, Inc. owns 50% of Ashmore & Associates, LLC and accounts for its ownership using the equity method of accounting.

<u>Loans</u> – 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.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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 allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and general valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends, judgmentally adjusted for general economic conditions and other qualitative risk factors internal and external to the Company.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's review of the collectibility 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 allowance for loan losses 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 subsidiary'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 subsidiary 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company will 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 $250,000 are specifically reviewed to determine if they are impaired. Factors considered by management in determining whether a loan is impaired include payment status and the sources, amounts, and probabilities of estimated cash flow available to service debt in relation to amounts due according to contractual terms. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans that are determined to be impaired are then evaluated to determine estimated impairment, if any. GAAP allows impairment to be 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 is collateral dependent. Loans that are not individually determined to be impaired or are not subject to the specific review of impaired status are subject to the general valuation allowance portion of the allowance for loan loss.

The Company may modify its loan agreement with a borrower. The modification will be considered a troubled debt restructuring if the following criteria are met: (1) the borrower is experiencing a financial difficulty and (2) the Company makes a concession that it would not otherwise make. Concessions may include debt forgiveness, interest rate change, or maturity extension. Each of these loans is impaired and is evaluated for impairment, with a specific reserve recorded as necessary based on probable losses related to collateral and cash flow. A loan will no longer be required to be reported as restructured in calendar years following the restructure if the interest rate at the time of restructure is greater than or equal to the rate the Company was willing to accept for a new extension of credit with similar risk and the loan is in compliance with its modified terms.

<u>*Loans Held for Sale*</u> – Loans held for sale are comprised of residential mortgage loans and are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Loans sold are typically subject to certain indemnification provisions with the investor; management does not believe these provisions will have any significant consequences.

<u>*Premises and Equipment*</u> – Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements.

<u>*Foreclosed Assets*</u> – Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the cost basis or fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

<u>*Bank-Owned Life Insurance*</u> – The bank subsidiary has purchased life insurance policies on various officers and also is the beneficiary. These policies are issued by third party insurance companies. Assets are carried at the cash surrender value and changes in the cash surrender values are recognized in other noninterest income in the accompanying CFS.

<u>*Mortgage Banking Derivatives*</u> – Mortgage loan commitments are referred to as derivative loan commitments (DLC) if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value in the CFS in other assets or other liabilities with changes in their fair values recorded in net gain on sale of loans. These amounts are not significant.

The Company records a zero value for the loan commitment at inception (at the time the commitment is issued to a borrower ("the time of rate lock")). Subsequent to inception, changes in the fair value of the

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

loan commitment are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in probability the DLC will be exercised, and the passage of time. In estimating fair value, the Company assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

The Company evaluates all loan sales agreements to determine whether they meet the definition of a derivative as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in DLC's, the Company can utilize both "mandatory delivery" and "best efforts" forward loan sales commitments (FLSC) to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the DLC's. Mandatory delivery contracts are accounted for as derivative instruments. Generally, the Company's best efforts contracts also meet the definition of a derivative instrument. Accordingly, FLSC's that economically hedge DLC's are recognized at fair value in the CFS in other assets and other liabilities with changes in their fair values recorded in net gain on sale of loans. These amounts are not significant. The Company estimates fair value of its FLSC's using a methodology similar to that for DLC's.

Derivatives – At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Advertising – Advertising costs are recognized when incurred. Advertising costs during 2015 and 2014 were approximately $2.8 million and $2.8 million, respectively.

Income Taxes – The Company elected to be taxed as an S corporation beginning January 1, 1998. Accordingly, Federal income taxes are not reflected in the CFS. The Company files a consolidated Federal income tax return.

In 2006, the State of Texas modified the franchise tax structure. The change was effective for franchise tax reports filed on or after January 1, 2008. The modified tax is an income tax for financial reporting purposes under GAAP and the Company and its subsidiaries are subject to the modified tax as a combined group.

Trust Assets – Custodial assets of City Bank's trust department, other than cash on deposit at City Bank, if any, are not included in the accompanying CFS because they are not assets of City Bank. Trust fees are recognized on the accrual basis.

Fair Values of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully described in Note 12. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect estimates.

Reclassification – Certain amounts in the 2014 CFS have been reclassified to conform to the 2015 presentation.

Recent Accounting Pronouncements – *Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)* constitutes U.S. GAAP for nongovernmental entities. Updates to ASC are prescribed in Accounting Standards Updates (ASU), which are not authoritative until incorporated into ASC.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. In January 2014, the FASB amended existing guidance to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. These amendments were effective beginning on January 1, 2015. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure. In August 2014, the FASB amended existing guidance related to the classification of certain government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA, upon foreclosure. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure; 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. These amendments are effective beginning on January 1, 2016. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. In August 2014, the FASB amended existing guidance related to the disclosures about an entity's ability to continue as a going concern. These amendments are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. These amendments provide guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. These amendments are effective beginning on January 1, 2017. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

ASU 2015-01 "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01") In January 2015, FASB eliminated from U.S. GAAP the concept of extraordinary items, which required separate classification, presentation and disclosure in the income statement. This amendment is effective beginning January 1, 2016 and is not expected to have a material effect on the Company's operating results or financial condition.

Continued

2. *SECURITIES*

The amortized cost and fair value of securities, with gross unrealized gains and losses, at year-end follow (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2015				
Available for sale:				
U.S. government and agencies	$ 62,207	$ 459	$ (177)	$ 62,489
State and municipal	74,149	1,650	(131)	75,668
Mortgage-backed securities	66,337	262	(329)	66,270
Asset-backed and other amortizing securities	17,205	191	(33)	17,363
	$ 219,898	$ 2,562	$ (670)	$ 221,790
Held to maturity:				
State and municipal	$ 109,532	$ 5,745	$ (18)	$ 115,259
2014				
Available for sale:				
U.S. government and agencies	$ 78,665	$ 446	$ (405)	$ 78,706
State and municipal	55,832	1,417	(154)	57,095
Mortgage-backed securities	92,059	686	(346)	92,399
Asset-backed and other amortizing securities	19,181	266	(51)	19,396
	$ 245,737	$ 2,815	$ (956)	$ 247,596
Held to maturity:				
State and municipal	$ 114,460	$ 6,646	$ (221)	$ 120,885

The amortized cost and fair value of debt securities at December 31, 2015 are presented below by contractual maturity. 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		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 2,000	$ 2,002	$ -	$ -
After 1 year through 5 years	41,035	41,278	3,538	3,564
After 5 years through 10 years	45,655	45,870	7,374	7,554
After 10 years	47,666	49,007	98,620	104,141
Other	83,542	83,633	-	-
	$ 219,898	$ 221,790	$ 109,532	$ 115,259

Continued

2. *SECURITIES (Continued)*

Securities with a carrying value of approximately $228.4 million and $209.2 million at December 31, 2015 and 2014, 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 year-end, by the period they have been in a loss position (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2015						
U.S. government and agencies	$ 14,518	$ 12	$ 14,835	$ 165	$ 29,353	$ 177
State and municipal	17,510	120	8,363	29	25,873	149
Mortgage-backed securities	17,277	139	11,108	190	28,385	329
Asset-backed and other amortizing securities	6,367	33	-	-	6,367	33
	$ 55,672	$ 304	$ 34,306	$ 384	$ 89,978	$ 688
2014						
U.S. government and agencies	$ 13,943	$ 29	$ 24,624	$ 376	$ 38,567	$ 405
State and municipal	22,835	193	7,071	182	29,906	375
Mortgage-backed securities	-	-	31,568	346	31,568	346
Asset-backed and other amortizing securities	-	-	5,147	51	5,147	51
	$ 36,778	$ 222	$ 68,410	$ 955	$ 105,188	$ 1,177

There were 65 securities with an unrealized loss at December 31, 2015. Management does not believe that these losses are other than temporary as there is no intent to sell any of these securities before recovery and it is not probable that we will be required to sell any of these securities before recovery, and credit loss, if any, is not material. Any unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2015, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's CFS.

Continued

2. *SECURITIES (Continued)*

During 2014, the Company sold HTM state and municipal securities that had a carrying value of $5.0 million for a gain of approximately $130,000. This decision was made because these securities' ratings were downgraded multiple times in 2014 due to credit quality issues. Additionally, the Company transferred $21.3 million in HTM state and municipal securities to its AFS portfolio during 2014. This was done as a result of the merger of the Company's subsidiary banks in order to maintain City Bank's existing interest rate risk position and not negatively affect its liquidity ratios. Management believes that these changes in its intent to hold these securities to maturity does not call into question its intent to hold other securities to maturity in the future.

3. *LOANS*

Loans are summarized by category at year-end as follows (in thousands):

	2015	2014
Commercial real estate	$ 490,938	$ 548,755
Commercial - specialized	329,561	297,215
Commercial - general	395,938	308,506
Consumer	421,866	369,829
Construction	41,011	25,728
	1,679,314	1,550,033
Allowance for loan losses	(24,220)	(27,940)
Loans, net	$ 1,655,094	$ 1,522,093

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 – Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations, as agreed and ensure appropriate collateral is obtained to secure the loan. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and 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 property.

Continued

3. *LOANS (Continued)*

Commercial Real Estate – Commercial real estate loans are also subject to underwriting standards and processes similar to commercial loans. These loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for nonincome-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.

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.

Consumer – 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 minimize the Company's risk. Residential real estate loans are included in consumer loans. The Company generally requires mortgage title insurance and hazard insurance on these loans.

The following table details the activity in the allowance for loan losses during 2015 and 2014 (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.

	Commercial Real Estate	Commercial - Specialized	Commercial - General	Consumer	Construction	Total
2015						
Beginning balance	$ 15,483	$ 1,120	$ 7,676	$ 3,638	$ 23	$ 27,940
Provision for loan losses	(5,935)	2,742	2,293	1,556	125	781
Charge-offs	(3,554)	(493)	(1,685)	(2,461)	-	(8,193)
Recoveries	2,463	42	833	353	1	3,692
Ending balance	$ 8,457	$ 3,411	$ 9,117	$ 3,086	$ 149	$ 24,220
2014						
Beginning balance	$ 15,483	$ 1,219	$ 7,917	$ 4,440	$ 23	$ 29,082
Provision for loan losses	-	56	137	456	-	649
Charge-offs	(192)	(325)	(1,255)	(1,583)	-	(3,355)
Recoveries	192	170	877	325	-	1,564
Ending balance	$ 15,483	$ 1,120	$ 7,676	$ 3,638	$ 23	$ 27,940

Continued

3. *LOANS (Continued)*

Impaired loan information at December 31, 2015 and 2014 follows (in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
2015						
Commercial Real Estate	$ 20,102	$ 9,942	$ 5,233	$ 15,175	$ 334	$ 26,642
Commercial - Specialized	2,741	1,429	993	2,422	274	2,826
Commercial - General	3,230	1,033	1,642	2,675	138	3,816
Consumer	3,532	1,438	1,675	3,113	74	8,269
Construction	77	77	-	77	-	39
Total	$ 29,682	$ 13,919	$ 9,543	$ 23,462	$ 820	$ 41,592
2014						
Commercial Real Estate	$ 45,229	$ 23,274	$ 14,834	$ 38,108	$ 3,094	$ 37,079
Commercial - Specialized	3,229	1,914	1,315	3,229	52	5,248
Commercial - General	5,656	2,657	2,300	4,957	590	7,805
Consumer	13,843	1,126	12,298	13,424	2,188	13,040
Construction	-	-	-	-	-	-
Total	$ 67,957	$ 28,971	$ 30,747	$ 59,718	$ 5,924	$ 63,172

All impaired loans $250,000 and greater were specifically evaluated for impairment. Interest income recognized using a cash-basis method on impaired loans for 2015 and 2014 was not significant, respectively. Additional funds committed to be advanced on impaired loans are not significant.

Continued

3. *LOANS (Continued)*

The table below provides an age analysis on accruing past-due loans and nonaccrual loans at year-end (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual
2015			
Commercial real estate	$ 2,560	$ 25	$ 4,858
Commercial - specialized	1,632	23	1,110
Commercial - general	1,249	52	553
Consumer	7,969	564	1,525
Construction	656	95	-
Total	$ 14,066	$ 759	$ 8,046
2014			
Commercial real estate	$ 4,085	$ 678	$ 13,301
Commercial - specialized	357	608	291
Commercial - general	2,520	-	2,154
Consumer	3,531	210	3,427
Construction	-	-	-
Total	$ 10,493	$ 1,496	$ 19,173

The Company classifies its loans in one of the following categories: (i) pass, (ii) special mention, (iii) substandard, or (iv) doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default associated with the loan. The Company reviews the classifications on loans as part of our on-going monitoring of the credit quality of our loan portfolio.

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.

Continued

3. *LOANS (Continued)*

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 placed on nonaccrual.

The following table summarizes the internal classifications of loans at year-end (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
2015					
Commercial real estate	$ 463,152	$ 7,460	$ 20,326	$ -	$ 490,938
Commercial - specialized	324,792	73	4,696	-	329,561
Commercial - general	387,306	-	8,632	-	395,938
Consumer	417,761	-	4,105	-	421,866
Construction	40,839	-	172	-	41,011
Total	$ 1,633,850	$ 7,533	$ 37,931	$ -	$ 1,679,314
2014					
Commercial real estate	$ 519,240	$ 2,384	$ 27,131	$ -	$ 548,755
Commercial - specialized	293,895	90	3,230	-	297,215
Commercial - general	299,109	50	9,347	-	308,506
Consumer	356,901	-	12,928	-	369,829
Construction	25,728	-	-	-	25,728
Total	$ 1,494,873	$ 2,524	$ 52,636	$ -	$ 1,550,033

Trouble debt restructurings during 2015 and 2014 are summarized in the table below (in thousands):

	2015			2014		
	Number of Contracts	Balance at Restructure Date	Balance at December 31	Number of Contracts	Balance at Restructure Date	Balance at December 31
Commercial real estate	-	$ -	$ -	-	$ -	$ -
Commercial - specialized	1	363	363	1	1,039	988
Commercial - general	2	153	68	3	89	89
Consumer	1	126	126	1	1,719	1,277
Construction	-	-	-	-	-	-
Total	4	$ 642	$ 557	5	$ 2,847	$ 2,354

Continued

3. *LOANS (Continued)*

The following table summarizes how loans were restructured during 2015 and 2014 (in thousands):

	Extended Maturity	Adjusted Payment and/or Interest Rate	Principal Forgiveness	Combination of Payment/Rate Adjustment and Maturity Extension	Total
2015					
Commercial real estate	$ -	$ -	$ -	$ -	$ -
Commercial - specialized	-	363	-	-	363
Commercial - general	68	85	-	-	153
Consumer	-	126	-	-	126
Construction	-	-	-	-	-
	$ 68	$ 574	$ -	$ -	$ 642
2014					
Commercial real estate	$ -	$ -	$ -	$ -	$ -
Commercial - specialized	1,039	-	-	-	1,039
Commercial - general	-	89	-	-	89
Consumer	-	-	-	1,719	1,719
Construction	-	-	-	-	-
	$ 1,039	$ 89	$ -	$ 1,719	$ 2,847

As of December 31, 2015, there were no defaults on loans restructured during 2015.

4. *FORECLOSED ASSETS*

Foreclosed assets activity was as follows (in thousands):

	2015	2014
Beginning balance	$ 7,461	$ 14,224
Additions	2,585	7,712
Sales	(2,115)	(12,779)
Current year valuation write-down	(250)	(1,696)
Ending balance	$ 7,681	$ 7,461

4. *FORECLOSED ASSETS (Continued)*

Activity in the valuation allowance was as follows (in thousands):

	2015	2014
Beginning balance	$ 8,221	$ 10,915
Current year valuation write-down	250	1,696
Reductions from sales	(642)	(4,390)
Ending balance	$ 7,829	$ 8,221

Net expenses related to foreclosed assets include (in thousands):

	2015	2014
Net gain on sales	$ (314)	$ (2,264)
Current year valuation write-down	250	1,696
Operating expenses, net of rental income	362	296
Foreclosed assets expense, net	$ 298	$ (272)

5. *PREMISES AND EQUIPMENT*

Detail of premises and equipment at year-end follows (in thousands):

	2015	2014
Land	$ 10,230	$ 11,886
Buildings and improvements	52,829	47,100
Furniture and equipment	34,012	30,866
Construction in process	1,744	3,022
	98,815	92,874
Less accumulated depreciation	(40,193)	(37,046)
Premises and equipment, net	$ 58,622	$ 55,828

Depreciation expense was approximately $4.4 million in 2015 and $3.4 million in 2014.

6. *DEPOSITS*

Time deposits that met or exceeded the FDIC Insurance limit of $250,000 were $132.6 million and $176.8 million at December 31, 2015 and 2014, respectively.

Continued

6. *DEPOSITS (Continued)*

At December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

2016	$ 199,542
2017	83,731
2018	55,297
2019	2,621
2020	4,732
Thereafter	-
	$ 345,923

7. *BORROWING ARRANGEMENTS*

Short-term borrowings
The following table summarizes our short-term borrowings at year-end (in thousands):

	2015	2014
Federal funds purchased	$ 42,785	$ 25,715
FHLB advances - short-term	-	-
Total	$ 42,785	$ 25,715

Federal funds purchased are short-term borrowings that generally have one-day maturities.

Lines of credit
The bank subsidiary has a line of credit with FHLB. The amount of the line is determined by FHLB on a quarterly basis. The line can be used to purchase Federal funds or to secure letters of credit to pledge as collateral against certain public deposits. Use and availability of the line at year-end follows (in thousands):

	2015	2014
Federal funds purchased and short-term advances	$ -	$ -
Long-term advances	95,000	20,000
Letters of credit	125,000	125,000
Available funds	392,921	375,094
Total	$ 612,921	$ 520,094

The line is collateralized by a blanket floating lien on all first mortgage loans and commercial real estate loans as well as all FHLB stock.

The bank subsidiary also has a line of credit with the Federal Reserve Bank of Dallas (FRB). The amount of the line is determined on a monthly basis by FRB. The line is collateralized by a blanket floating lien on all agriculture, commercial, and consumer loans. The amount of the line was $405.0 million and $404.7 million at December 31, 2015 and 2014, respectively. This line was not used at December 31, 2015 or 2014.

Continued

7. *BORROWING ARRANGEMENTS (Continued)*

The bank subsidiary also has uncollateralized lines of credit with multiple banks. The total amount of the lines was $135.0 and $135.0 million as of December 31, 2015 and 2014, respectively. These lines were not used at December 31, 2015 or 2014.

Notes payable and other borrowings
There is a note for the Company's ESOP to a bank, dated May 2007, payable in ten equal annual principal payments of $0.7 million, beginning January 2008. The note bears interest at *Wall Street Journal* (*WSJ*) prime minus 0.5% (3.00% at December 31, 2015) payable quarterly, and is secured by unallocated shares of SPFI stock and guaranteed by the Company. The outstanding balance of this note was $1.4 million and $2.0 million at December 31, 2015 and 2014, respectively.

The Company obtained a term loan, in the amount of $7.5 million, from a bank in January 2014. The loan was secured by 8,069 shares of City Bank common stock. The notes bore interest at *WSJ* prime minus .15%. The scheduled maturity of the loan was January 2019 and monthly principal payments of $125,000 plus interest were required. The Company repaid the entire December 31, 2014 outstanding balance of $2.1 million in 2015.

The Company also has a line of credit from the same bank where the term loan was obtained. The line of credit is secured by 8,069 shares of City Bank common stock. The line of credit bears interest at *WSJ* prime minus .15% (3.35% at December 31, 2015). The line of credit matures in July 2016. The Company did not fund on this line in 2015 or 2014.

At December 31, 2015, aggregate annual scheduled maturities of notes payable are approximately $0.7 million and $0.7 million in 2016 and 2017, respectively.

City Bank has multiple advances from FHLB. The advances are collateralized through the line of credit with FHLB with interest payable monthly and principal due at maturity. The following table is a detail of the advances as of December 31 (in thousands):

Issue Date	Original Amount of Advance	2015 Balance	2014 Balance	Maturity Date	Interest Rate at December 31, 2015
2013	$ 20,000	$ 20,000	$ 20,000	2020	Fixed; 1.50%
2015	25,000	25,000	-	2025	Variable; 0.38%
2015	25,000	25,000	-	2025	Variable; 0.38%
2015	25,000	25,000	-	2025	Variable; 0.33%
	$ 95,000	$ 95,000	$ 20,000		

Junior subordinated deferrable interest debentures and Trust preferred securities
The Company established grantor trusts (trusts) that issued obligated mandatorily redeemable preferred securities (TPS); the Company issued junior subordinated deferrable interest debentures (debentures) to the trusts. The trusts are not consolidated and the debentures issued by the Company to the trusts are reflected in the Company's consolidated balance sheets. The Company records interest expense on the debentures in its CFS.

Continued

7. *BORROWING ARRANGEMENTS (Continued)*

The common capital securities issued by the trusts ($1.4 million) are included in other assets in the Company's consolidated balance sheets under the equity method of accounting. The amount of the capital securities represents the Company's maximum exposure to loss.

The Company is required by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) to maintain certain levels of capital for bank regulatory purposes. The debentures issued by the trusts to the Company, less the common capital securities of the trusts, continue to qualify as Tier 1 capital, subject to limitation to 25% of Tier 1 capital, under guidance issued by the Federal Reserve Board.

Although the trusts are not consolidated in these CFS, the TPS remain outstanding with terms substantially the same as the debentures. The Company's interest payments on its debentures are the sole source of repayment for the TPS. Additionally, the Company guarantees payment of interest and principal on the TPS.

The terms of the debentures and TPS allow for interest to be deferred for up to five years consecutively. During this time, shareholder dividends are not allowed to be paid.

The following table is a detail of the debentures and TPS at December 31, 2015 (in thousands):

	Issue Date	Amount of TPS	Amount of Debentures	Stated Maturity Date of TPS and Debentures (1)	Interest Rate of TPS and Debentures (2)(3)
South Plains Financial Capital Trust III	2004	$ 10,000	$ 10,310	2034	3-mo. LIBOR + 265bps; 2.97%
South Plains Financial Capital Trust IV	2005	20,000	20,619	2035	3-mo. LIBOR + 139bps; 1.90%
South Plains Financial Capital Trust V	2007	15,000	15,464	2037	3-mo. LIBOR + 150bps; 2.01%
Total		$ 45,000	$ 46,393		

(1) May be redeemed five years from the issue date, the Company has no current plans to redeem; (2) Interest payable quarterly with principal due at maturity; (3) Rate as of last reset date.

<u>Subordinated debt securities</u>
In January 2014, the Company issued $20.9 million in subordinated debt securities. These securities pay interest quarterly and mature January 2024. There was $6.5 million issued at a current rate of 4% and $14.4 million at a current rate of 5%. These rates are fixed for five years and then floating at *WSJ* prime, with a floor of 4% and a ceiling of 7.5%. These securities are unsecured and may be called by the Company at any time after January 2019. These securities qualify for Tier 2 capital, subject to regulatory limitations.

8. *EMPLOYEE BENEFITS*

The Company sponsors an employee stock ownership and 401(k) plan (ESOP) that covers all employees who have completed one month of service. Under the 401(k) provisions of the ESOP, participants may elect to contribute pre-tax salary deferrals and direct investment of those salary deferrals among investments offered in the ESOP (excluding SPFI stock). Although the ESOP provides for Company contributions under the 401(k) provisions, the Company has not made any contributions of this type and has no plans to do so in the foreseeable future. All Company contributions to date have been allocated to service debt related to employee stock ownership.

The ESOP is leveraged to purchase shares of SPFI stock. Shares are released from collateral and allocated to active employees, in proportion to annual debt service. The Company recognizes the debt of the ESOP as notes payable and the shares pledged as collateral are deducted from the stockholders' equity as unearned ESOP shares in the accompanying consolidated balance sheets.

The Company makes contributions to the ESOP as approved by the Board of Directors on an annual basis. These contributions, plus dividends received, are used to service any ESOP debt and repurchase allocated shares from participants and terminating vested participants. Contributions to the ESOP were $1.5 million and $1.4 million in 2015 and 2014, respectively.

The ESOP participants have a mandatory put option to the Company, which may be assumed by the ESOP (but ESOP assumption cannot be required), whereby the Company must settle any SPFI stock benefits under the ESOP by providing cash to the participant in exchange for SPFI stock that would otherwise be distributed. Therefore, the Company is obligated to repurchase allocated shares, at fair value as determined by independent appraisal, from participants that (a) elect to diversify their holdings as they approach retirement, (b) retire or (c) are vested in all or a portion of their SPFI stock in the ESOP and terminate employment.

SPFI stock held by the ESOP at year-end follows:

	2015	2014
Allocated shares	95,720	93,605
Unearned (unreleased) shares	4,229	6,344
Total shares	99,949	99,949
Fair value of unearned (unreleased) shares	$ 1,553,000	$ 2,079,000

Employee Health Benefits – The Company has a self-insured welfare benefit plan which provides health and dental benefits. For officers of the Company, there is no waiting period to be eligible, while there is a 60-day waiting period for all other employees. In addition, to be eligible, an employee must be scheduled to work on a full-time basis (at least 30 hours per week). The Company periodically evaluates the costs of the plan and determines the amount to be contributed by the Company and the amount, if any, to be contributed by the employee. Welfare benefit expense was approximately $3.4 million and $3.5 million for the years ending December 31, 2015 and 2014, respectively. In addition, benefit obligations have been accrued and include reported claims payable and claims incurred but not reported, for approximately $337,000 and

Continued

8. *EMPLOYEE BENEFITS (Continued)*

$522,000 as of December 31, 2015 and 2014, respectively. The Company has limited its risk exposure for these benefits through a stop-loss policy with an independent third party insurer which reimburses benefits paid that exceed $75,000 per participant per year.

Non-Qualified Plans - Certain Company executives, as determined by the Company's Board from time-to-time, are granted stock appreciation rights based on grant date values. The rights have 5-year graded vesting. Rights issued prior to 2005 can be exercised at any time within 15 years of the grant date. Rights issued subsequent to 2004 are payable based upon termination or 15 years from the grant date. The Company accrues the liabilities for these rights under the intrinsic value method; approximately $3.2 million and $2.1 million was accrued at December 31, 2015 and 2014, respectively.

Certain Company executives, as determined by the Company's Board from time-to-time, have post-retirement salary continuation agreements under an Executive Salary Continuation Plan. Retirement ages and retirement salary amounts are specified in each agreement. The Company accrues actuarial estimates of the costs of these benefits over the respective service periods; approximately $8.7 million and $7.5 million was accrued at December 31, 2015 and 2014, respectively.

Both of these plans are nonqualified, noncontributory, and unfunded. The charges to income for the plans during 2015 and 2014 were approximately $3.0 million and $2.7 million, respectively.

9. *RELATED-PARTY TRANSACTIONS*

Direct and indirect loans to executive officers, directors, significant stockholders and their related affiliates as of December 31, 2015 and 2014 aggregated approximately $6.3 million and $5.3 million, respectively. There were no charge-offs related to these loans in 2015 or 2014 and advance and repayment activity was routine. Deposits from these related parties in the CFS were not significant.

10. *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 CFS.

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 year-end follow (in thousands):

	2015	2014
Commitments to grant loans and unfunded commitments under lines of credit	$ 262,672	$ 237,358
Standby letters-of-credit	11,511	14,703

Continued

10. OFF-BALANCE-SHEET ACTIVITIES, COMMITMENTS AND CONTINGENCIES (Continued)

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. 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.

Litigation - The Company is a defendant in legal actions arising from time to time in the normal course of business. Management believes that the ultimate liability, if any, arising from these matters will not materially affect the CFS.

Other Commitments - During 1996 and 2000, the Company entered into an agreement with Texas Tech University. The combined agreements call for the Company to make annual payments of $150,000 through 2015, subject to annual approval by its Board of Directors. The 2015 and 2014 payments were approved and paid.

During 2006, City Bank entered into an agreement with University Medical Center. The agreement called for City Bank to make annual payments of $133,300 through 2017, subject to annual approval by its Board of Directors. The 2013 payment was approved and paid. During 2014, this agreement was modified. The result of the modification is that the Company receives marketing recognition over future years in exchange for a discounted lump sum payment. This payment was made in 2014 and the Company treats it as a prepaid asset, which is being amortized over the remaining estimated useful life of the marketing period.

Lease Commitments - The Company leases certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled approximately $2.3 million in 2015 and $2.1 million in 2014. Occupancy expense was reduced by approximately $900,000 and $800,000 for rental income during 2015 and 2014, respectively. Future minimum lease payments due under non-cancelable operating leases as of December 31, 2015 are as follows (in thousands):

2016	$ 1,995
2017	1,750
2018	1,527
2019	967
2020	600
Thereafter	5,395
	$ 12,234

Continued

11. 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.

In July 2013, the Federal Reserve Board published final rules for the adoption of the Basel III regulatory capital framework (Basel III). Basel III, among other things, (i) introduces a new capital measure called Common Equity Tier 1 (CET1), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) defines Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the deductions/adjustments as compared to existing regulations. Basel III became effective for the Company and its bank subsidiary on January 1, 2015 with certain transition provisions fully phased-in on January 1, 2019. Management does not anticipate a material impact on the Company or our bank subsidiary when the fully phased-in provisions are applicable. Actual capital amounts and ratios for December 31, 2014 are calculated using the Basel I regulatory capital framework.

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 December 31, 2015 and 2014, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the bank subsidiary was well capitalized under the regulatory framework for prompt corrective action. 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 December 31, 2015 that management believes have changed the bank subsidiary's category.

Continued

11. *CAPITAL AND REGULATORY MATTERS (Continued)*

The Company and its bank subsidiary's actual capital amounts and ratios follow:

	Actual		*For Capital Adqequacy Purposes*		*To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(Dollars in thousands)			
December 31, 2015:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 272,257	14.8%	$ 147,248	8.0%	N/A	N/A
City Bank	255,595	13.9%	146,990	8.0%	$ 183,738	10.0%
Tier I Capital to Risk Weighted Assets:						
Consolidated	228,346	12.4%	110,436	6.0%	N/A	N/A
City Bank	232,612	12.7%	110,243	6.0%	146,990	8.0%
Common Tier 1 (CET1)						
Consolidated	183,346	10.0%	82,827	4.5%	N/A	N/A
City Bank	232,612	12.7%	82,682	4.5%	119,430	6.5%
Tier I Capital to Average Assets:						
Consolidated	228,346	9.3%	97,837	4.0%	N/A	N/A
City Bank	232,612	9.5%	97,686	4.0%	122,108	5.0%
December 31, 2014:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 254,851	15.6%	$ 130,618	8.0%	N/A	N/A
City Bank	243,571	14.9%	130,487	8.0%	$ 163,109	10.0%
Tier I Capital to Risk Weighted Assets:						
Consolidated	213,459	13.1%	102,677	6.0%	N/A	N/A
City Bank	223,087	13.7%	102,946	6.0%	137,261	8.0%
Common Tier 1 (CET1)						
Consolidated	168,459	10.3%	73,473	4.5%	N/A	N/A
City Bank	223,087	13.7%	73,399	4.5%	106,021	6.5%
Tier I Capital to Average Assets:						
Consolidated	213,459	9.2%	93,209	4.0%	N/A	N/A
City Bank	223,087	9.6%	93,086	4.0%	116,357	5.0%

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.

Continued

12. *DERIVATIVES*

The Company utilizes interest rate swap agreements as part of its asset-liability management strategy to help manage its interest-rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Company had $9.15 million in notional amount of fair value hedges at December 31, 2015. The change in fair value of the hedge and hedged item are recorded in interest income in the CFS. The fair value of the hedge is recorded as an other asset in the CFS. These amounts are not significant. Additionally, there were no hedges at December 31, 2014.

12. *FAIR VALUE DISCLOSURES*

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

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

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Continued

12. *FAIR VALUE DISCLOSURES (Continued)*

- *Level 3 Inputs* - 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.

Assets measured at fair value on a recurring basis at December 31, 2015 follow (in thousands):

	Level 1	Level 2	Level 3	Total
Securities available for sale:				
U.S. government and agencies	$ -	$ 62,489	$ -	$ 62,489
State and municipal	-	75,668	-	75,668
Mortgage-backed securities	-	66,270	-	66,270
Asset-backed and other amortizing securities	-	17,363	-	17,363
Total	$ -	$ 221,790	$ -	$ 221,790

Securities – Fair value is based on quoted market prices for the same or similar securities.

Assets and liabilities measured using fair value at December 31, 2015 include the following:

Impaired loans – Impaired loans are reported at the fair value 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. At December 31, 2015, impaired loans with a recorded investment of $23.5 million were reduced by a specific valuation allowance of $0.8 million resulting in fair value of $22.7 million, based on Level 3 inputs.

Foreclosed assets – Foreclosed assets are transferred from loans at the lower of cost or fair value, less estimated costs to sell. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2015, foreclosed assets with a carrying value of $15.5 million were reduced by a specific valuation allowance of $7.8 million resulting in fair value, less costs to sell, of $7.7 million, based on Level 3 inputs.

Loans held for sale – Loans held for sale are reported at fair value if, on an aggregate basis, the fair value for the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments or discounted cash flow analyses with market assumptions. Such fair values are classified within either Level 2 or Level 3 of the fair value hierarchy. At December 31, 2015, the aggregate fair value of loans held for sale exceeded their cost and accordingly, there was no mark down from cost to fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and cash equivalents – The carrying amount of cash and short-term instruments approximates fair value.

Continued

12. *FAIR VALUE DISCLOSURES (Continued)*

Loans – The fair value of loans is estimated by discounting the contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and subtracting the allowance for loan losses.

Accrued interest – The carrying amounts of accrued interest approximate fair value.

Bank-owned life insurance – Bank-owned life insurance is carried at its cash surrender value.

Deposit liabilities – The fair value of demand deposits, savings accounts, NOW and money market accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term borrowings – The carrying amount of Federal funds purchased and other short-term borrowings maturing within ninety days approximate their fair values.

Notes payable and other borrowings – Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Junior subordinated deferrable interest debentures and subordinated debt securities – Fair value is estimated using a discounted cash flow calculation that applies interest rates being offered on similar borrowings.

Off-balance sheet instruments – The deferred income amounts arising from unrecognized financial instruments are not significant. Also, these financial instruments have contractual interest rates at or above current market rates. Therefore, no fair value disclosure is provided for these items.

The estimated fair values, and related carrying amounts, of the Company's financial instruments at year-end are as follows (in thousands):

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Loans held for sale	$ 43,428	$ 44,555	$ 14,898	$ 15,315
Loans, net	1,655,094	1,647,951	1,522,093	1,526,278
Financial liabilities:				
Deposits	2,127,253	2,128,759	2,032,648	2,035,327
Notes payable & other borrowings	96,353	96,349	24,155	24,151
Junior subordinated deferrable interest debentures	46,393	45,568	46,393	45,568
Subordinated debt securities	20,887	20,887	20,887	20,887