

**S&P Global**  
Market Intelligence

**Southside Bancshares,  
Inc.** NYSE:SBSI

*Earnings Call*

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# Call Participants

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## EXECUTIVES

**Julie N. Shamburger**  
*Chief Financial Officer*

**Keith M. Donahoe**  
*President*

**Lee R. Gibson**  
*CEO & Director*

## ANALYSTS

**Jordan Spencer Ghent**  
*Stephens Inc., Research Division*

**Michael Edward Rose**  
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**Michael Edward Rose**  
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Inc., Research Division*

**Unknown Analyst**

**Wood Neblett Lay**  
*Keefe, Bruyette, & Woods, Inc.,  
Research Division*

# Presentation

## Operator

Good morning, everyone. And welcome to Southside Bancshares' second quarter 2025 earnings call. A transcript of today's call will be posted on southside.com under Investor Relations. During today's call and in other disclosures and presentations, I'll remind you forward-looking statements are subject to risks and uncertainties. Factors that could materially change our current forward-looking assumptions are described in our earnings release and our Form 10-K. Joining me today are Lee Gibson, CEO; Keith Donahoe, President and CFO, Julie Shamburger. First, Lee will start us off with his comments on the quarter, then Keith will discuss loans and credit and then Julie will give an overview of our financial results. I will now turn the call over to Lee.

Lee R. Gibson  
CEO & Director

Thank you, Lindsay, and welcome to today's call. I'm going to start by discussing the repositioning of our available-for-sale securities portfolio. During the quarter, as market conditions allowed, we took the opportunity to sell approximately \$325 million of lower-yielding long-duration municipal securities. And, to a lesser extent, mortgage-backed securities and booked a net loss of \$24.4 million.

These securities had a combined taxable equivalent yield of approximately 3.28%. Most of these sales occurred in September. The net proceeds from these sales partially funded loan growth during the quarter with the balance reinvested in agency mortgage-backed pools that had primarily 5.5% and 6% coupons and, to a lesser extent, Texas municipal securities with coupons ranging from 5% to 5.75%.

The sale of these securities will not only enhance future net interest income, but it also provides for additional balance sheet flexibility as we grow. We estimate the payback of this loss to be less than 4 years. As previously disclosed, we issued \$150 million of subordinated debt at 7% fixed to floating rate notes in mid-August.

Linked quarter, our net interest income increased \$1.45 million, and our net interest margin decreased 1 basis point due to the issuance of the subordinated debt during the quarter. When considering our net income, earnings per share and other financial results, excluding the onetime loss on the sale of securities, we had an excellent quarter.

Linked quarter noninterest income continued to perform well, and loans increased \$163 million, with \$81 million of that growth occurring on September 30. Keith will provide additional commentary about our loan portfolio and third quarter loan growth. The repositioning of the securities portfolio, combined with the late third quarter loan growth sets up an optimistic outlook for net interest income.

If the current favorable swap markets remain, we will look for additional opportunities to enter into swaps. Overall, the markets we serve remain healthy, and the Texas economy continues to be anticipated to grow at a faster pace than the overall U.S. growth rate. I look forward to answering your questions, and will now turn the call over to Keith Donahoe.

Keith M. Donahoe  
President

Thank you, Lee. Third quarter new loan production totaled approximately \$500 million compared to the second quarter production of \$290 million. Of the new loan production, \$281 million approximately funded during the third quarter, including the \$81 million Lee referenced, which closed on the last day of the quarter.

We expect the unfunded portion of this quarter's production to fund over the next 6 to 9 quarters, likely weighted towards the back end of those quarters given the construction nature of those opportunities. Excluding regular amortization and line of credit activity, third quarter payoffs totaled approximately \$116 million, a significant improvement from second quarter payoffs totaling approximately \$200 million. Third quarter commercial real estate payoffs included 15 -- approximately 15 loans secured by retail, multifamily, industrial, skilled nursing facilities and some commercial land.

Commercial real estate payoffs continue to be largely driven by open market property sales. However, 2 retail properties were refinanced with other bank lenders offering fixed rates using spreads below our target. After back-to-back strong production quarters, our loan pipeline dipped to approximately \$1.5 billion mid-quarter but has rebounded to \$1.8 billion today.

While lower than the prior 2 quarters, it remains elevated compared to the same period in 2024. The pipeline is well balanced with approximately 42% term loans and 58% construction and/or commercial lines of credit. C&I-related opportunities represent approximately 22% of today's total pipeline compared to approximately 30% last quarter.

This reduction is largely due to closing a new \$20 million C&I relationship which originated in our East Texas market. Credit quality remains strong. During the third quarter, nonperforming assets increased approximately \$2.7 million but remain concentrated in the previously disclosed \$27.5 million multifamily loan that was moved into the nonperforming category during the first quarter.

We continue to expect this to be -- this loan to be refinanced or rightsized before the end of the year. And overall, as a percentage of total assets, nonperforming assets is at 0.42%. With that, I will turn the meeting over to Julie.

Julie N. Shamburger  
Chief Financial Officer

Thank you, Keith. Good morning, everyone, and welcome to our third quarter call. For the third quarter, we reported net income of \$4.9 million, a decrease of \$16.9 million or 77.5%. Diluted earnings per share were \$0.16 for the third quarter, a decrease of \$0.56 per share linked quarter.

As of September 30, loans were \$4.77 billion, a linked quarter increase of \$163.4 million or 3.5%. The linked quarter increase was driven by an increase of \$82.6 million in commercial real estate loans, \$49.3 million in commercial loans and \$49.1 million in construction loans partially offset by a decrease of \$10.4 million in municipal loans and \$6 million in 1 to 4 family residential loans.

The average rate of loans funded during the third quarter was approximately 6.7%. As of September 30, our loans with oil and gas industry exposure were \$70.6 million or 1.5% of total loans compared to \$53.8 million or 1.2% linked quarter. Nonperforming assets remained low at 0.42% of total assets as of September 30.

Our allowance for credit losses increased to \$48.5 million for the linked quarter from \$48.3 million on June 30. And our allowance for loan losses as a percentage of total loans decreased to 0.95% compared to 0.97% at June 30. Our securities portfolio was \$2.56 billion at September 30, a decrease of \$174.2 million or 6.4% from \$2.73 billion last quarter due to the partial restructuring of the AFS portfolio.

The restructuring included sales of \$325 million of lower-yielding, longer-duration securities. The sales, along with maturities and principal payments more than offset the purchases of \$288 million. As of September 30, we had a net unrealized loss in the AFS securities portfolio of \$15.4 million, a decrease of \$45 million compared to \$60.4 million last quarter.

The improvement occurred primarily due to the restructuring of the AFS portfolio and, to a lesser extent, an improvement in the remaining AFS portfolio. There were no transfers of AFS securities during the third quarter. On September 30, the unrealized gain on the fair value hedges on municipal and mortgage-backed securities was approximately \$905,000 compared to \$5.2 million linked quarter.

The decrease is primarily driven by the unwinding of fair value hedges associated with the restructuring in the AFS portfolio. This unrealized gain partially offset the unrealized losses in the AFS securities portfolio. As of September 30, the duration of the total securities portfolio was 8.7 years compared with 8.4 years at June 30. And the duration of the AFS portfolio was 6.5 years compared to 6.2 years at June 30.

At quarter end, our mix of loans and securities was 65% and 35%, respectively, compared to 63% and 37%, respectively, last quarter. Deposits increased \$329.6 million or 5% on a linked quarter basis due to an increase in broker deposits of \$288.6 million and a \$137.1 million increase in commercial and retail deposits, partially offset by a decrease in public fund deposits of \$96.1 million.

On August 14, we issued \$150 million of 7% subordinated notes. Our 3.875% subordinated notes issued in 2020 with an outstanding amount of \$92.1 million will begin to adjust quarterly at a floating rate equal to the then current 3-month term SOFR plus 366 basis points in mid-November of 2025. Our capital ratios remain strong with all capital ratios well above the threshold for well capitalized.

Liquidity resources remained solid with \$2.87 billion in liquidity lines available as of September 30. We repurchased 26,692 shares of our common stock at an average price of \$30.24 during the third quarter. On October 16, 2025, our Board approved the additional 1 million shares, authorization under the current repurchase plan, bringing the shares available for repurchase to approximately \$1.1 million. There have been no purchases of our common stock since September 30.

Our tax equivalent net interest margin was 2.94%, a decrease of 1 basis point on a linked-quarter basis, down from 2.95%. And our tax equivalent net interest spread for the same period was 2.26%, also a decrease of 1 basis point from 2.27%.

For the 3 months ending September 30, we had an increase in net interest income of \$1.45 million or 2.7% compared to the linked quarter. Noninterest income, excluding the net loss on the sales of AFS securities increased \$260,000 or 2.1% for the linked quarter,

primarily due to an increase in trust fees. Noninterest expense was \$37.5 million for the third quarter, a decrease of \$1.7 million or 4.4% on a linked-quarter basis, primarily driven by a \$1.2 million write-off on the demolition of an existing branch recorded last quarter and a decrease in software and data processing expense.

Our fully taxable equivalent efficiency ratio decreased to 52.99% as of September 30 from 53.70% as of June 30, primarily due to an increase in total revenue. At this time, we expect noninterest expense to be in the \$38 million range for the fourth quarter. We recorded income tax expense of \$189,000 compared to \$4.7 million in the prior quarter, a decrease of \$4.5 million, driven by the loss on sales on AFS securities.

Our effective tax rate was 3.7% for the third quarter, a decrease compared to 17.8% last quarter. We are currently estimating an annual effective tax rate of 16.6% for 2025. Thank you for joining us today. This concludes our comments, and we will open the line for your questions.

# Question and Answer

Operator

[Operator Instructions] Your first question comes from Michael Rose with Raymond James.

Michael Edward Rose  
Raymond James & Associates, Inc., Research Division

Sorry if I missed this, but I wanted to go back to the restructuring. I know there's obviously going to be some moving parts here just given that the loan growth happened kind of on the last day of the quarter, half of it, roughly, you did the restructuring. Just wanted to get kind of a level set of if I normalize all that, what's a good kind of starting margin that we should be contemplating for the fourth quarter just given, again, the late quarter growth, the benefits of the securities restructuring as we go forward. Just looking for a little color there. And then what your rate expectations are?

Lee R. Gibson  
CEO & Director

The NIM in the fourth quarter, I expect to be up slightly. We have the sub debt costs in the third quarter that will have the full impact in the fourth quarter. But with -- if loans don't grow at all in the fourth quarter, which we're not anticipating, the average loans will increase \$125 million during the quarter.

And then we'll have the full impact of the \$325 million of security sales restructuring that will take an effect, along with repricing of over \$600 million of CDs that we anticipate will have an average savings of around 34 basis points on. The only headwind to the NIM in the fourth quarter is, I mentioned, the full impact of the 7%.

And then we also have the repricing of the \$92 million that Julie mentioned which today would be a rate of 7.52% compared to the current rate of 3.875%. So overall, I expect the NIM to be up slightly. I expect net interest income to improve nicely. And I think we're set up for a lot of positive things in the future when it comes to net interest income and the NIM. I don't know if that gives you a flavor for what we're looking at.

Michael Edward Rose  
Raymond James & Associates, Inc., Research Division

Yes, it's helpful. There's just obviously, a good amount of moving parts here.

Lee R. Gibson  
CEO & Director

There's a bunch.

Michael Edward Rose  
Raymond James & Associates, Inc., Research Division

Maybe just moving on, we've seen some deal activity here in Texas over the past couple of months. I know you guys have kind of previously stated wanting to potentially do a deal yourselves.

Just wanted to see if there's any kind of update there in terms of what you may be looking for? And then maybe separately, if there's some opportunities for hiring in light of those recent deals or maybe market share gain from clients.

Lee R. Gibson  
CEO & Director

What we're looking at really hasn't changed. There are a few institutions that we have some interest in that potentially might be for sale. And in terms of hires, that is something we're looking at, and we've made a few hires. But yes, with some of the disruption that's occurring, especially with some of the larger out-of-state banks buying, some of the less than \$10 billion banks here in Texas.

There's definitely been some disruption, and we hope to jump on that opportunity and make some additional hires there.

Michael Edward Rose  
Raymond James & Associates, Inc., Research Division

Okay. Great. I'll step back. Lee, congratulations on the announcement.

Operator

Your next question comes from the line of Wood Lay with KBW.

Wood Neblett Lay  
Keefe, Bruyette, & Woods, Inc., Research Division

I wanted to start on loan growth, obviously, a really strong quarter, and it sounds like a lot of that growth actually came on the final day of the quarter. So I was just curious on the pipeline entering the fourth quarter, how it's looking and if there was any pull-through of the pipeline in this quarter?

Keith Donahoe  
President

Yes. The pipeline is strong. It did take a dip. That's somewhat to be expected given the strong production quarters we've had. As we talk about internally, we have folks that are running hard to catch something when they catch it, they run hard to get it closed. And during that period of time, they get in what we sometimes refer to as bunker mentality, so they're closing the transaction and not looking for the next one.

But I was really excited to see that after we took a dip in the pipeline that it bounced back up to \$1.8 billion, which I feel is a really strong number. If you go back 12 months ago, I think we were running about \$1 billion typically on a on a pipeline. So we're strong. We feel good about pull-through.

Generally speaking, we're still seeing 25% to 30% of the pipeline moving through to a success rate. Sometimes that gets a little bit skewed by time because some of these have taken a while. They've been in the pipeline a while. So -- but we feel good. The one thing that's always out there is, especially as you get towards the year-end, there may be some unknown payoffs that occur, but we still feel pretty good about our guidance number today.

Wood Neblett Lay  
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. That's helpful. And then based on the current pipeline, are there segments that you're seeing a particular strength in? And just what's the overall pricing competition dynamic like? I feel like most banks this quarter just talking about how intense competition is. So are you seeing that from you all's perspective?

Keith Donahoe  
President

Yes. There's a lot of competition out there, both from the CRE standpoint and C&I. So we're not immune to it. We are being disciplined in our pricing approach. And generally speaking, since the second quarter, pricing hasn't changed a lot. We're still looking at term -- if it's a fully funded transaction, those are -- and it's a high quality. You're getting down to a 2% spread over SOFR. We have seen some banks willing to go below -- we slightly dipped below 2 on one transaction, but we are also selling a swap as part of the deal that helped get us back to what we would consider kind of the floor for us. On the construction side, we're still seeing construction debt that is going or moving -- lending at somewhere between as low as 2.50%, but generally speaking, somewhere around 2.65% to 2.75%.

Wood Neblett Lay  
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then lastly, as it pertains to the securities restructure, a part of those proceeds going to loan growth. To the extent that loan growth remains strong in the future, should we expect additional restructures to sort of help fund that growth?

Lee R. Gibson  
CEO & Director

Well, 2 things. I spoke to the fact that this restructuring provided us even more flexibility as we have a lot of securities now that are at gains. And so we're in a position now that we can fund loan growth, increase spreads and actually sell securities near our book or above it. If the market allows and conditions are such that it makes sense to do some additional restructuring in the available-for-sale portfolio, we're certainly going to take a look at it.

As Julie mentioned, the markets improved quite a bit. Spreads have also tightened there quite a bit, especially in the muni market. So we're going to continue to look at that carefully. But I would say most of the heavy lifting in the AFS portfolio has been done, but there is still some that we will take a look at and make decisions on as appropriate.

Wood Neblett Lay  
Keefe, Bruyette, & Woods, Inc., Research Division

Lee, congrats on the upcoming retirement. And Keith, congrats on stepping into the role.

Operator

Your next question comes from the line of Jordan Ghent with Stephens.

Jordan Spencer Ghent  
Stephens Inc., Research Division

I just had a question on the buyback. So you recently increased the authorization. And just kind of what should we expect with buyback activity going forward?

Julie N. Shamburger  
Chief Financial Officer

Yes. So we did increase, as you mentioned, the last time we increased was back in July of '23. And since that date, we've purchased 868,000 shares, give or take a few. And so I think we're going to approach it the same way that we historically have. When we see the price dip and it's opportunistic, we will be out there actively purchasing shares.

We've historically purchased open market shares and then done several 10b5-1 plans at the quarter end. So we did not do that this last quarter. But that's pretty much our strategy. We just try to -- we want to have it in place when it's opportunistic to purchase. So no strategy just to be terribly active at any one point, but just to watch the market.

Jordan Spencer Ghent  
Stephens Inc., Research Division

Okay. And then just kind of going into the fee income. So it looks like trust fees have just had a steady climb over the last year. Kind of where do you guys see that going over maybe the next year or so and as a portion of fee income?

Lee R. Gibson  
CEO & Director

We have a really good team in place that we've put in place over the last 2 years. and they're having a lot of impact, especially here in East Texas. And so we anticipate seeing double-digit revenue growth in that area next year as well. So we have -- we were expecting continued success. They're extremely busy, and they're taking on new clients all the time. So that's an area of noninterest income that we're really encouraged about and excited about.

Keith Donahoe  
President

Yes. And to add to that, Lee, we are -- one of the missing things for us right now is to really go into the metro markets with the wealth management. So we are exploring that, and we think we're going to make some good headway in 2026 on that. We may not attack each metro market with the same vigor, but we've got a pretty good footprint in Fort Worth that I think could be a good support and starting point for wealth management in the metro market. So we're -- I'm really excited about that in the future.

Jordan Spencer Ghent  
Stephens Inc., Research Division

Perfect. And then maybe just one more question. How many rate cuts are you guys assuming through year-end and maybe even into '26?

Lee R. Gibson  
CEO & Director

I'm pretty certain that next week, we'll see movement, potential that there's another move, the last Fed meeting this year. Next year, I'm anticipating probably at least 2 cuts. It really just depends -- what the Fed determines. And of course, we're going to have new leadership mid next year. And my guess is that the new leadership is going to be more on the side of cutting additionally based on what the executive branch is saying. So it could be more than 2 cuts next year.

A lot of it is probably going to depend on inflation and the employment. And the inflation numbers came in nice this morning, lower than expectation. but it's still above their 2% target. Now whether they change that with new Fed leadership, that's up in the air.

Operator

[Operator Instructions] Your next question comes from the line of Anja Pelshaw with Hovde Group.

Unknown Analyst

I'm asking questions on behalf of Brett today. I was hoping you could talk about the growth in DDA if it was somewhat seasonal or if you think it was sticky.

Keith Donahoe  
President

Yes. I guess the answer is it's not necessarily seasonal what we were just talking internally. So through some Intrafile business, we have picked up some large depositors through that process. So we're -- we do think that's going to moderate probably in the fourth quarter.

Some of that came in through one particular customer that is ramping up sales right now and getting deposits. So we do think that will moderate some through the end of the fourth quarter.

Unknown Analyst

Okay. And you've talked about the loan pipeline, but I guess I was talking -- I was hoping you could expand on the growth so far from the new lenders.

Keith Donahoe  
President

So out of the Houston market, is that what you're referring to? So we're seeing good positive traction. One thing that -- just to keep clear, we've had 4 new hires in that market that are specific kind of to C&I business. And one of them came in, I think, December 30 of this past year. We had another one add in the first quarter, right towards the end of the first quarter, and then we've had one added at the end of the second quarter, and then we had another one added right in end of July, early August. So we haven't been able to see truly a full year of production yet, but it's been positive. They are gathering deposits. as well as loan growth right now. The C&I uptick, one thing we've talked about is really pushing our mix on C&I. Right now, we are -- at the beginning of the year, we were about 15% of our book is C&I. We have seen a slight uptick. We're about 16% today. And that -- some of that growth is actually coming out of our existing East Texas market. So we're excited about what's happening in Houston, but we've long been doing C&I in the East Texas and Southeast Texas markets, and we're seeing some good traction with that.

Lee R. Gibson  
CEO & Director

Overall, in Houston, we've seen really positive loan growth probably in the 15% range this year.

Keith Donahoe  
President

And some of that's coming on the back of CRE lending.

Operator

This completes our question-and-answer session. I will now turn the call back to Lee Gibson, CEO, for closing remarks.

Lee R. Gibson  
CEO & Director

Thank you. As alluded to earlier, this is going to be my final earnings call as I'm going to be retiring at the end of the year. So I wanted to take this opportunity to thank the analysts that cover Southside for your thoughtful questions, keen insight and your overall excellent coverage. I also want to thank our shareholders for your continued support and encouragement.

And I want to let you know how excited I am about Southside's future as Keith Donahoe takes the helm, assisted by CFO, Julie Shamburger, and an extremely capable senior management team. Thank you, everyone, for joining us today. We appreciate your interest in Southside Bancshares, along with the opportunity to answer your questions. We look forward to reporting fourth quarter results to you during our next earnings call in January. This concludes the call. Thank you.

**Operator**

Ladies and gentlemen, thank you all for joining. You may now disconnect.

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