

# Southside Bancshares, Inc. Announces Financial Results for the Second Quarter Ended June 30, 2019

7/26/2019

- Second quarter net income was \$18.6 million and earnings per diluted common share were \$0.55
- Linked quarter loans increased \$155.0 million, or 4.7%, to \$3.46 billion from \$3.31 billion
- Linked quarter net interest margin (FTE) increased 10 basis points from 3.07% to 3.17%
- Second quarter annualized return on average shareholders' equity of 9.68% and return on average tangible common equity of 14.12% <sup>(1)</sup>
- Second quarter annualized return on average assets of 1.20%
- Linked quarter nonperforming assets as a percent of total assets decreased from 0.61% to 0.46%

TYLER, Texas, July 26, 2019 (GLOBE NEWSWIRE) -- Southside Bancshares, Inc. ("Southside" or the "Company") (NASDAQ:SBSI) today reported its financial results for the quarter ended June 30, 2019. Southside reported net income of \$18.6 million for the three months ended June 30, 2019, a decrease of \$1.6 million, or 7.9%, compared to \$20.2 million for the same period in 2018. Earnings per diluted common share decreased \$0.02, or 3.5%, to \$0.55 for the three months ended June 30, 2019, from \$0.57 for the same period in 2018. The annualized return on average shareholders' equity for the three months ended June 30, 2019 was 9.68%, compared to 10.79% for the same period in 2018. The annualized return on average assets was 1.20% for the three months ended June 30, 2019, compared to 1.30% for the same period in 2018.

"I am extremely pleased to report that Southside had an outstanding second quarter highlighted by a linked quarter increase in loans of \$155 million, increases in net interest margin and spread of ten basis points, and a 24.6% decrease in linked quarter nonperforming assets as a percentage of assets to 0.46%," stated Lee R. Gibson, President and Chief Executive Officer of Southside. "The strong loan growth resulted from a combination of closing and funding several loans that had been in our pipeline for some time and a slowdown in large prepayments."

“The ten basis point increase in the net interest margin and spread on a linked quarter basis was due to an increase in average loans as a percent of earning assets and in part to a nonrecurring loss on a fair value hedge interest rate swap of \$507,000 recorded in net interest income during the first quarter. We expect loan revenue during the third quarter will benefit from the full impact of the loan growth that we experienced during the second quarter. During the second quarter, we recorded approximately \$2.5 million in provision expense, of which approximately \$1.3 million was directly related to the second quarter loan growth. Economic conditions in our East Texas markets continue to be good while economic conditions in our DFW and Austin markets remain strong.”

“I’m also pleased to share that we are preparing to expand our footprint. On July 23, 2019, we filed for regulatory approval to open a retail in-store branch in Kingwood, Texas, located in Montgomery County. Kingwood is a community located northeast of Houston, approximately 15 miles south of our Splendora branch. We anticipate opening this new location in November 2019 pending regulatory approval.”

#### Operating Results for the Three Months Ended June 30, 2019

Net income was \$18.6 million for the three months ended June 30, 2019 compared with \$20.2 million for the same period in 2018, a decrease of \$1.6 million, or 7.9%. Net income per diluted common share was \$0.55 for the three months ended June 30, 2019 compared with \$0.57 for the same period in 2018, a decrease of 3.5%. The decrease in net income was largely driven by the increase in provision for loan losses, noninterest expense and income tax expense, partially offset by an increase in noninterest income. Annualized returns on average assets and average shareholders’ equity for the three months ended June 30, 2019 were 1.20% and 9.68%, respectively. Our efficiency ratio (FTE) was 51.44% <sup>(1)</sup> for the three months ended June 30, 2019, an improvement from 53.66% for the three months ended March 31, 2019.

Net interest income before provision for loan losses for the three months ended June 30, 2019 and 2018 was \$43.1 million. Linked quarter, net interest income before provision for loan losses increased \$2.0 million, or 4.9%, to \$43.1 million, compared with \$41.1 million during the three months ended March 31, 2019. The increase in net interest income for the linked quarter was due to the increase in interest income on our interest earning assets, primarily a result of the mix in our earning assets during the second quarter ended June 30, 2019.

Our tax equivalent net interest margin was 3.17% for the three months ended June 30, 2019 compared with 3.19% for the same period in 2018. The decrease was primarily due to the higher rates paid on interest bearing liabilities. Our tax equivalent net interest margin increased 10 basis points when compared to 3.07% for the three months ended March 31, 2019. This increase was due to an increase in average loans as a percent of earning assets and in part to a nonrecurring loss on a fair value hedge interest rate swap of \$507,000 recorded in net interest income during the first quarter.



Noninterest income was \$11.3 million for the three months ended June 30, 2019, an increase compared with \$11.0 million for the same period in 2018. The increase was primarily due to a net gain on sale of securities, an increase in deposit services income and other noninterest income, partially offset by decreases in bank owned life insurance income and trust fees. On a linked quarter basis, noninterest income increased \$1.7 million, or 18.0%, primarily due to an increase in deposit services income, an increase in net gain on sale of securities, an increase in swap fee income and a nonrecurring partial loss on fair value hedge interest rate swaps during the first quarter of 2019.

Noninterest expense was \$29.7 million for the three months ended June 30, 2019 compared with \$29.3 million for the same period in 2018, an increase of \$0.4 million, or 1.5%. The increase was primarily due to an increase in salaries and employee benefits and other noninterest expense, partially offset by the decrease in acquisition expense. On a linked quarter basis, noninterest expense increased \$0.1 million, or 0.2%, compared with the three months ended March 31, 2019.

Income tax expense increased \$0.2 million for the three months ended June 30, 2019 compared to the same period in 2018. On a linked quarter basis, income tax expense increased \$0.4 million. Our effective tax rate ("ETR") increased to 16.1% for the three months ended June 30, 2019 compared to 14.3% for the three months ended March 31, 2019 and June 30, 2018. The higher ETR for the period was primarily due to a decrease in tax-exempt income as a percentage of pre-tax income.

#### Operating Results for the Six Months Ended June 30, 2019

Net income was \$37.4 million for the six months ended June 30, 2019 compared with \$36.5 million for the same period in 2018, an increase of \$1.0 million, or 2.7%. Net income per diluted common share was \$1.11 for the six months ended June 30, 2019 compared with \$1.04 for the same period in 2018, an increase of 6.7%. The increase in net income was largely driven by the increase in interest income, as well as the decrease in provision for loan losses and noninterest expense, partially offset by an increase in interest expense and income tax expense. Annualized returns on average assets and average shareholders' equity for the six months ended June 30, 2019 were 1.20% and 10.00%, respectively. Our efficiency ratio (FTE) was 52.53% <sup>(1)</sup> for the six months ended June 30, 2019.

Net interest income before provision for loan losses for the six months ended June 30, 2019 was \$84.3 million compared with \$87.2 million during the same period in 2018, a decrease of \$3.0 million, or 3.4%. The decrease in net interest income was due to higher funding costs of our interest bearing liabilities partially offset by the increase in interest income on our interest earning assets, a result of higher rates and a shift in the mix of earning assets.

Our tax equivalent net interest margin was 3.12% for the six months ended June 30, 2019 compared with 3.19% for

the same period in 2018. The decrease was primarily due to the higher rates paid on interest bearing liabilities.

Noninterest income was \$20.8 million for the six months ended June 30, 2019, a slight increase compared with \$20.6 million for the same period in 2018. The increase was primarily due to a net gain on sale of securities and an increase in deposit services income, partially offset by decreases in bank owned life insurance, trust fees and other noninterest income.

Noninterest expense was \$59.3 million for the six months ended June 30, 2019 compared with \$60.9 million for the same period in 2018, a decrease of \$1.6 million, or 2.6%. The decrease was primarily due to a decrease in acquisition expense, net occupancy expense and amortization of intangibles, partially offset by increases in salaries and employee benefits, professional fees and software and data processing expense.

Income tax expense increased \$1.3 million for the six months ended June 30, 2019 compared to the same period in 2018. Our ETR was approximately 15.2% and 13.0% for the six months ended June 30, 2019 and 2018, respectively.

#### Balance Sheet Data

At June 30, 2019, we had \$6.37 billion in total assets compared with \$6.12 billion at December 31, 2018 and \$6.22 billion at March 31, 2019.

Loans at June 30, 2019 were \$3.46 billion, an increase of \$147.3 million, or 4.4%, compared with \$3.31 billion at December 31, 2018. Linked quarter loans increased \$155.0 million, or 4.7%, from \$3.31 billion at March 31, 2019. The linked quarter net increase in our loans consisted of increases of \$146.9 million of commercial real estate loans, \$21.5 million of commercial loans, \$14.0 million of municipal loans and \$0.6 million of loans to individuals, partially offset by decreases of \$23.8 million of construction loans and \$4.1 million of 1-4 family residential loans.

Securities at June 30, 2019 were \$2.24 billion, an increase of \$83.5 million, or 3.9%, compared with \$2.15 billion at December 31, 2018. Linked quarter securities increased \$212.2 million, or 10.5%, from \$2.02 billion at March 31, 2019.

Deposits at June 30, 2019 were \$4.48 billion, an increase of \$54.2 million, or 1.2%, compared with \$4.43 billion at December 31, 2018. Linked quarter deposits decreased \$88.6 million, or 1.9%, from \$4.57 billion at March 31, 2019 primarily due to a decrease in brokered and public fund deposits.

#### Asset Quality

Nonperforming assets at June 30, 2019 were \$29.4 million, or 0.46% of total assets, a decrease of \$13.5 million, or 31.6%, compared to \$42.9 million, or 0.70% of total assets, at December 31, 2018, and \$38.1 million, or 0.61% of

total assets, at March 31, 2019. During the three months ended June 30, 2019, our nonaccrual loans decreased \$1.3 million and our accruing loans past due more than 90 days decreased \$7.9 million due to one commercial real estate loan relationship that paid in full.

The allowance for loan losses at June 30, 2019 was \$24.7 million, or 0.71% of total loans, compared to \$27.0 million, or 0.82% of total loans at December 31, 2018, and \$24.2 million, or 0.73% of total loans at March 31, 2019. The increase in the allowance for the linked quarter was primarily the result of growth in the loan portfolio.

For the three months ended June 30, 2019, we recorded provision for loan losses of \$2.5 million compared with a \$1.3 million provision expense for the three months ended June 30, 2018 and a partial reversal of provision of \$0.9 million for the three months ended March 31, 2019. The provision for loan losses for the six months ended June 30, 2019 was \$1.6 million compared with \$5.0 million for the six months ended June 30, 2018.

Net charge-offs were \$2.0 million for the three months ended June 30, 2019 compared with \$0.4 million for the three months ended June 30, 2018 and \$1.9 million for the three months ended March 31, 2019. Net charge-offs for the second quarter of 2019 were primarily related to a previously reserved write-down on a large nonaccrual commercial real estate loan. Net charge-offs were \$3.9 million for the six months ended June 30, 2019 compared with \$0.7 million for the six months ended June 30, 2018.

#### Dividend

Southside Bancshares, Inc. declared a second quarter cash dividend of \$0.31 per share on May 9, 2019, which was paid on June 6, 2019, to all shareholders of record as of May 23, 2019.

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(1) Refer to the "Non-GAAP Reconciliation" at the end of the financial statement tables in this Earnings Release for a reconciliation of this non-GAAP financial measure to the nearest GAAP financial measure.

#### Conference Call

Southside's management team will host a conference call to discuss its second quarter ended June 30, 2019 financial results on Friday, July 26, 2019 at 9:00 a.m. CDT. The call can be accessed by dialing 844-775-2540 and by identifying the conference ID number 9381487 or by identifying "Southside Bancshares, Inc., Second Quarter 2019 Earnings Call." To listen to the call via webcast, register at <http://investors.southside.com>.

For those unable to listen to the conference call live, a recording will be available from approximately 12:00 p.m. CDT July 26, 2019 through August 7, 2019 by accessing the company website, <http://investors.southside.com>.

## Non-GAAP Financial Measures

Our accounting and reporting policies conform to generally accepted accounting principles (“GAAP”) in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of our performance. These include the following fully taxable-equivalent measures (“FTE”): (i) Net interest income (FTE), (ii) Net interest margin (FTE), (iii) Net interest spread (FTE), and (iv) Efficiency ratio (FTE), which include the effects of taxable-equivalent adjustments using a federal income tax rate of 21% for the six months ended June 30, 2019 and 2018 to increase tax-exempt interest income to a tax-equivalent basis. Interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments.

Net interest income (FTE), Net interest margin (FTE) and Net interest spread (FTE). Net interest income (FTE) is a non-GAAP measure that adjusts for the tax-favored status of net interest income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. The most directly comparable financial measure calculated in accordance with GAAP is our net interest income. Net interest margin (FTE) is the ratio of net interest income (FTE) to average earning assets. The most directly comparable financial measure calculated in accordance with GAAP is our net interest margin. Net interest spread (FTE) is the difference in the average yield on average earning assets on a tax-equivalent basis and the average rate paid on average interest bearing liabilities. The most directly comparable financial measure calculated in accordance with GAAP is our net interest spread.

Efficiency ratio (FTE). The efficiency ratio (FTE) is a non-GAAP measure that provides a measure of productivity in the banking industry. This ratio is calculated to measure the cost of generating one dollar of revenue. The ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. We calculate this ratio by dividing noninterest expense, excluding amortization expense on intangibles and certain nonrecurring expense by the sum of net interest income (FTE) and noninterest income, excluding net gain (loss) on sale of securities available for sale and certain nonrecurring impairments. The most directly comparable financial measure calculated in accordance with GAAP is our efficiency ratio.

These non-GAAP financial measures should not be considered alternatives to GAAP-basis financial statements and other bank holding companies may define or calculate these non-GAAP measures or similar measures differently. Whenever we present a non-GAAP financial measure in an SEC filing, we are also required to present the most directly comparable financial measure calculated and presented in accordance with GAAP and reconcile the differences between the non-GAAP financial measure and such comparable GAAP measure.

Management believes adjusting net interest income, net interest margin and net interest spread to a fully taxable-equivalent basis is a standard practice in the banking industry as these measures provide useful information to make peer comparisons. Tax-equivalent adjustments are reflected in the respective earning asset categories as listed in the "Average Balances with Average Yields and Rates" tables.

A reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures is included at the end of the financial statement tables.

About Southside Bancshares, Inc.

Southside Bancshares, Inc. is a bank holding company with approximately \$6.37 billion in assets as of June 30, 2019, that owns 100% of Southside Bank. Southside Bank currently has 59 branches in Texas and operates a network of 81 ATMs/ITMs.

To learn more about Southside Bancshares, Inc., please visit our investor relations website at **[www.southside.com/about/investor-relations](http://www.southside.com/about/investor-relations)**. Our investor relations site provides a detailed overview of our activities, financial information and historical stock price data. To receive e-mail notification of company news, events and stock activity, please register on the E-mail Notification portion of the website. Questions or comments may be directed to Lindsey Bibby at (903) 630-7965, or **[lindsey.bibby@southside.com](mailto:lindsey.bibby@southside.com)**.

Forward-Looking Statements

Certain statements of other than historical fact that are contained in this press release and in other written material, documents and oral statements issued by or on behalf of the Company may be considered to be "forward-looking statements" within the meaning of and subject to the safe harbor protections of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. These statements may include words such as "expect," "estimate," "project," "anticipate," "appear," "believe," "could," "should," "may," "likely," "intend," "probability," "risk," "target," "objective," "plans," "potential," and similar expressions. Forward-looking statements are statements with respect to the Company's beliefs, plans, expectations, objectives, goals, anticipations, assumptions and estimates about the Company's future performance and are subject to significant known and unknown risks and uncertainties, which could cause the Company's actual results to differ materially from the results discussed in the forward-looking statements. For example, discussions about trends in asset quality, capital, liquidity, the pace of loan and revenue growth, the Company's ability to sell nonperforming assets, expense reductions, planned operational efficiencies, earnings, successful integration of completed acquisitions and certain market risk disclosures, including the impact of interest rates, tax reform and other economic factors, are based upon information presently available to management and are dependent on

choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future.

Additional information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, under "Part I - Item 1. Forward Looking Information" and "Part I - Item 1A. Risk Factors" and in the Company's other filings with the Securities and Exchange Commission. The Company disclaims any obligation to update any factors or to announce publicly the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

|  | As of              |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | 2019               |                    | 2018               |                    |                    |
|  | June 30,           | Mar. 31,           | Dec. 31,           | Sept. 30,          | June 30,           |
| <b>ASSETS</b>  |                    |                    |                    |                    |                    |
| Cash and due from banks                                | \$ 77,319          | \$ 81,981          | \$ 87,375          | \$ 85,103          | \$ 78,534          |
| Interest earning deposits                              | 54,642             | 184,612            | 23,884             | 70,685             | 138,685            |
| Federal funds sold                                     | 560                | 3,350              | 9,460              | 18,284             | 14,850             |
| Securities available for sale, at estimated fair value | 2,088,787          | 1,876,255          | 1,989,436          | 1,939,277          | 2,037,994          |
| Securities held to maturity, at carrying value         | 147,091            | 147,431            | 162,931            | 163,365            | 164,276            |
| <b>Total securities</b>                                | <b>2,235,878</b>   | <b>2,023,686</b>   | <b>2,152,367</b>   | <b>2,102,642</b>   | <b>2,202,270</b>   |
| Federal Home Loan Bank stock, at cost                  | 44,718             | 35,269             | 32,583             | 32,291             | 42,994             |
| Loans held for sale                                    | 1,812              | 384                | 601                | 954                | 4,566              |
| Loans  | 3,460,143          | 3,305,110          | 3,312,799          | 3,274,524          | 3,270,883          |
| Less: Allowance for loan losses                        | (24,705)           | (24,155)           | (27,019)           | (26,092)           | (25,072)           |
| Net loans  | 3,435,438          | 3,280,955          | 3,285,780          | 3,248,432          | 3,245,811          |
| Premises & equipment, net                              | 140,105            | 138,290            | 135,972            | 133,939            | 132,578            |
| Goodwill   | 201,116            | 201,116            | 201,116            | 201,116            | 201,246            |
| Other intangible assets, net                           | 15,471             | 16,600             | 17,779             | 19,009             | 20,287             |
| Bank owned life insurance                              | 99,294             | 98,704             | 98,160             | 97,611             | 97,059             |
| Other assets   | 66,517             | 152,249            | 78,417             | 95,288             | 71,293             |
| <b>Total assets</b>                                    | <b>\$6,372,870</b> | <b>\$6,217,196</b> | <b>\$6,123,494</b> | <b>\$6,105,354</b> | <b>\$6,250,173</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |                    |                    |                    |                    |                    |
| Noninterest bearing deposits                           | \$1,028,861        | \$1,038,116        | \$ 994,680         | \$1,033,572        | \$1,038,907        |
| Interest bearing deposits                              | 3,450,395          | 3,529,777          | 3,430,350          | 3,519,940          | 3,469,834          |
| <b>Total deposits</b>                                  | <b>4,479,256</b>   | <b>4,567,893</b>   | <b>4,425,030</b>   | <b>4,553,512</b>   | <b>4,508,741</b>   |
| Other borrowings and Federal Home Loan Bank borrowings | 849,821            | 628,498            | 755,875            | 570,242            | 784,754            |
| Subordinated notes, net of                             |                    |                    |                    |                    |                    |

|   |                    |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| unamortized debt<br>issuance costs  | 98,490             | 98,448             | 98,407             | 98,366             | 98,326             |
| Trust preferred subordinated<br>debentures, net of unamortized debt<br>issuance costs | 60,248             | 60,247             | 60,246             | 60,244             | 60,243             |
| Other liabilities   | 97,290             | 104,077            | 52,645             | 70,484             | 46,299             |
| Total liabilities   | 5,585,105          | 5,459,163          | 5,392,203          | 5,352,848          | 5,498,363          |
| Shareholders' equity  | 787,765            | 758,033            | 731,291            | 752,506            | 751,810            |
| Total liabilities and shareholders'<br>equity   | <u>\$6,372,870</u> | <u>\$6,217,196</u> | <u>\$6,123,494</u> | <u>\$6,105,354</u> | <u>\$6,250,173</u> |

|   | Three Months Ended |          |          |           |          |
|---|--------------------|----------|----------|-----------|----------|
|   | 2019               |          | 2018     |           |          |
|   | June 30,           | Mar. 31, | Dec. 31, | Sept. 30, | June 30, |
| Income Statement:   |                    |          |          |           |          |
| Total interest income                                       | \$ 60,672          | \$59,027 | \$58,022 | \$57,152  | \$56,797 |
| Total interest expense                                      | 17,541             | 17,902   | 15,612   | 14,742    | 13,686   |
| Net interest income   | 43,131             | 41,125   | 42,410   | 42,410    | 43,111   |
| Provision for loan losses                                   | 2,506              | (918)    | 2,446    | 975       | 1,281    |
| Net interest income after provision for loan<br>losses      | 40,625             | 42,043   | 39,964   | 41,435    | 41,830   |
| Noninterest income  |                    |          |          |           |          |
| Deposit services  | 6,652              | 5,986    | 6,325    | 6,317     | 6,261    |
| Net gain (loss) on sale of securities available<br>for sale | 416                | 256      | 61       | (741)     | (332)    |
| Gain on sale of loans                                       | 181                | 93       | 101      | 303       | 173      |
| Trust fees  | 1,520              | 1,541    | 1,573    | 1,568     | 1,931    |
| Bank owned life insurance                                   | 559                | 544      | 554      | 552       | 1,185    |
| Brokerage services  | 477                | 517      | 499      | 532       | 506      |
| Other   | 1,449              | 601      | 1,021    | 1,491     | 1,283    |
| Total noninterest income                                    | 11,254             | 9,538    | 10,134   | 10,022    | 11,007   |
| Noninterest expense   |                    |          |          |           |          |
| Salaries and employee benefits                              | 17,891             | 18,046   | 17,823   | 17,628    | 16,633   |
| Net occupancy   | 3,289              | 3,175    | 3,475    | 3,396     | 3,360    |
| Acquisition expense   | —                  | —        | 118      | 437       | 1,026    |
| Advertising, travel & entertainment                         | 733                | 847      | 786      | 648       | 775      |
| ATM expense   | 246                | 180      | 250      | 251       | 243      |
| Professional fees   | 1,069              | 1,314    | 1,189    | 824       | 952      |
| Software and data processing                                | 1,086              | 1,076    | 1,057    | 977       | 939      |
| Communications  | 489                | 487      | 477      | 354       | 478      |
| FDIC insurance  | 437                | 422      | 455      | 435       | 484      |
| Amortization of intangibles                                 | 1,129              | 1,179    | 1,228    | 1,279     | 1,328    |
| Other   | 3,331              | 2,901    | 3,338    | 2,733     | 3,056    |
| Total noninterest expense                                   | 29,700             | 29,627   | 30,196   | 28,962    | 29,274   |
| Income before income tax expense                            | 22,179             | 21,954   | 19,902   | 22,495    | 23,563   |

|  |                  |                 |                 |                 |                 |
|--|------------------|-----------------|-----------------|-----------------|-----------------|
| Income tax expense   | 3,569            | 3,137           | 2,521           | 2,192           | 3,360           |
| Net income   | <u>\$ 18,610</u> | <u>\$18,817</u> | <u>\$17,381</u> | <u>\$20,303</u> | <u>\$20,203</u> |
| Common share data:   |                  |                 |                 |                 |                 |
| Weighted-average basic shares outstanding                      | 33,726           | 33,697          | 34,611          | 35,114          | 35,062          |
| Weighted-average diluted shares outstanding                    | 33,876           | 33,846          | 34,748          | 35,288          | 35,233          |
| Common shares outstanding end of period                        | 33,749           | 33,718          | 33,725          | 35,160          | 35,084          |
| Net income per common share                                    |                  |                 |                 |                 |                 |
| Basic  | \$ 0.55          | \$ 0.56         | \$ 0.50         | \$ 0.58         | \$ 0.58         |
| Diluted  | 0.55             | 0.56            | 0.50            | 0.58            | 0.57            |
| Book value per common share                                    | 23.34            | 22.48           | 21.68           | 21.40           | 21.43           |
| Tangible book value per common share <sup>(1)</sup>            | 16.92            | 16.02           | 15.19           | 15.14           | 15.11           |
| Cash dividends paid per common share                           | 0.31             | 0.30            | 0.32            | 0.30            | 0.30            |
| Selected Performance Ratios:                                   |                  |                 |                 |                 |                 |
| Return on average assets                                       | 1.20%            | 1.21%           | 1.14%           | 1.30%           | 1.30%           |
| Return on average shareholders' equity                         | 9.68             | 10.35           | 9.30            | 10.61           | 10.79           |
| Return on average tangible common equity <sup>(1)</sup>        | 14.12            | 15.44           | 13.95           | 15.70           | 16.13           |
| Average yield on earning assets (FTE) <sup>(1)</sup>           | 4.42             | 4.33            | 4.32            | 4.18            | 4.15            |
| Average rate on interest bearing liabilities                   | 1.61             | 1.62            | 1.46            | 1.36            | 1.25            |
| Net interest spread (FTE) <sup>(1)</sup>                       | 2.81             | 2.71            | 2.86            | 2.82            | 2.90            |
| Net interest margin (FTE) <sup>(1)</sup>                       | 3.17             | 3.07            | 3.21            | 3.14            | 3.19            |
| Average earning assets to average interest bearing liabilities | 128.99           | 127.70          | 131.07          | 131.12          | 130.22          |
| Noninterest expense to average total assets                    | 1.91             | 1.91            | 1.98            | 1.86            | 1.89            |
| Efficiency ratio (FTE) <sup>(1)</sup>                          | 51.44            | 53.66           | 52.18           | 48.91           | 47.56           |

Refer to the "Non-GAAP Reconciliation" at the end of the financial statement tables in this Earnings Release for a reconciliation of this non-GAAP financial measure to the nearest GAAP financial measure.

|  | Three Months Ended |           |           |           |           |
|--|--------------------|-----------|-----------|-----------|-----------|
|  | 2019               |           | 2018      |           |           |
|  | June 30,           | Mar. 31,  | Dec. 31,  | Sept. 30, | June 30,  |
| Nonperforming assets:                                    | \$ 29,363          | \$ 38,111 | \$ 42,906 | \$ 39,638 | \$ 42,423 |
| Nonaccrual loans <sup>(1)</sup>                          | 16,376             | 17,691    | 35,770    | 32,526    | 35,351    |
| Accruing loans past due more than 90 days <sup>(1)</sup> | —                  | 7,927     | —         | —         | 7         |
| Restructured loans <sup>(2)</sup>                        | 11,918             | 11,490    | 5,930     | 5,699     | 5,860     |
| Other real estate owned                                  | 1,069              | 978       | 1,206     | 1,413     | 1,137     |
| Reposessed assets  | —                  | 25        | —         | —         | 68        |
| Asset Quality Ratios:                                    |                    |           |           |           |           |
| Nonaccruing loans to total loans                         | 0.47%              | 0.54%     | 1.08%     | 0.99%     | 1.08%     |
| Allowance for loan losses to nonaccruing loans           | 150.86             | 136.54    | 75.54     | 80.22     | 70.92     |
| Allowance for loan losses to nonperforming assets        | 84.14              | 63.38     | 62.97     | 65.83     | 59.10     |
| Allowance for loan losses to total loans                 | 0.71               | 0.73      | 0.82      | 0.80      | 0.77      |
| Nonperforming assets to total assets                     | 0.46               | 0.61      | 0.70      | 0.65      | 0.68      |
| Net charge-offs (recoveries) to average                  |                    |           |           |           |           |

|   |       |       |       |        |       |
|---|-------|-------|-------|--------|-------|
| loans   | 0.23  | 0.24  | 0.18  | (0.01) | 0.05  |
| Capital Ratios:   |       |       |       |        |       |
| Shareholders' equity to total assets                                    | 12.36 | 12.19 | 11.94 | 12.33  | 12.03 |
| Common equity tier 1 capital  | 14.02 | 14.38 | 14.77 | 15.90  | 15.49 |
| Tier 1 risk-based capital   | 15.46 | 15.88 | 16.29 | 17.43  | 17.02 |
| Total risk-based capital  | 18.52 | 19.06 | 19.59 | 20.75  | 20.31 |
| Tier 1 leverage capital   | 10.48 | 10.18 | 10.64 | 11.06  | 10.76 |
| Period end tangible equity to period end tangible assets <sup>(3)</sup> | 9.28  | 9.01  | 8.68  | 9.05   | 8.80  |
| Average shareholders' equity to average total assets                    | 12.36 | 11.70 | 12.23 | 12.28  | 12.06 |

Excludes purchased credit impaired ("PCI") loans measured at fair value at acquisition if the timing and amount of cash flows expected to be collected from those sales can be reasonably estimated.

Includes \$0.8 million, \$0.7 million, \$3.1 million, \$3.2 million and \$2.9 million in PCI loans restructured as of June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018, and June 30, 2018, respectively.

Refer to the "Non-GAAP Reconciliation" at the end of the financial statement tables in this Earnings Release for a reconciliation of this non-GAAP financial measure to the nearest GAAP financial measure.

#### Loan Portfolio Composition

The following table sets forth loan totals by category for the periods presented (in thousands):

|                        | Three Months Ended |                    |                    |                    |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                        | 2019               |                    | 2018               |                    |                    |
|                        | June 30,           | Mar. 31,           | Dec. 31,           | Sept. 30,          | June 30,           |
| Real Estate Loans:     |                    |                    |                    |                    |                    |
| Construction           | \$ 579,565         | \$ 603,411         | \$ 507,732         | \$ 484,254         | \$ 487,286         |
| 1-4 Family Residential | 782,073            | 786,198            | 794,499            | 791,274            | 791,359            |
| Commercial             | 1,251,248          | 1,104,378          | 1,194,118          | 1,218,714          | 1,245,936          |
| Commercial Loans       | 389,521            | 367,995            | 356,649            | 322,873            | 282,723            |
| Municipal Loans        | 357,028            | 343,026            | 353,370            | 344,792            | 345,595            |
| Loans to Individuals   | 100,708            | 100,102            | 106,431            | 112,617            | 117,984            |
| Total Loans            | <u>\$3,460,143</u> | <u>\$3,305,110</u> | <u>\$3,312,799</u> | <u>\$3,274,524</u> | <u>\$3,270,883</u> |

| Six Months Ended |      |
|------------------|------|
| 2019             | 2018 |

|  | <u>June 30,</u>  | <u>June 30,</u>  |
|--|------------------|------------------|
| Income Statement:  |                  |                  |
| Total interest income  | \$ 119,699       | \$ 113,991       |
| Total interest expense   | <u>35,443</u>    | <u>26,747</u>    |
| Net interest income  | 84,256           | 87,244           |
| Provision for loan losses                                      | <u>1,588</u>     | <u>5,016</u>     |
| Net interest income after provision for loan losses            | <u>82,668</u>    | <u>82,228</u>    |
| Noninterest income   |                  |                  |
| Deposit services   | 12,638           | 12,440           |
| Net gain (loss) on sale of securities available for sale       | 672              | (1,159)          |
| Gain on sale of loans  | 274              | 288              |
| Trust fees   | 3,061            | 3,691            |
| Bank owned life insurance                                      | 1,103            | 1,817            |
| Brokerage services   | 994              | 956              |
| Other  | <u>2,050</u>     | <u>2,584</u>     |
| Total noninterest income                                       | <u>20,792</u>    | <u>20,617</u>    |
| Noninterest expense  |                  |                  |
| Salaries and employee benefits                                 | 35,937           | 35,192           |
| Net occupancy  | 6,464            | 6,943            |
| Acquisition expense  | —                | 1,858            |
| Advertising, travel & entertainment                            | 1,580            | 1,460            |
| ATM expense  | 426              | 589              |
| Professional fees  | 2,383            | 2,022            |
| Software and data processing                                   | 2,162            | 1,962            |
| Communications   | 976              | 1,016            |
| FDIC insurance   | 859              | 981              |
| Amortization of intangibles                                    | 2,308            | 2,706            |
| Other  | <u>6,232</u>     | <u>6,212</u>     |
| Total noninterest expense                                      | <u>59,327</u>    | <u>60,941</u>    |
| Income before income tax expense                               | 44,133           | 41,904           |
| Income tax expense   | <u>6,706</u>     | <u>5,450</u>     |
| Net income   | <u>\$ 37,427</u> | <u>\$ 36,454</u> |
| Common share data:   |                  |                  |
| Weighted-average basic shares outstanding                      | 33,711           | 35,042           |
| Weighted-average diluted shares outstanding                    | 33,862           | 35,217           |
| Common shares outstanding end of period                        | 33,749           | 35,084           |
| Net income per common share                                    |                  |                  |
| Basic  | \$ 1.11          | \$ 1.04          |
| Diluted  | 1.11             | 1.04             |
| Book value per common share                                    | 23.34            | 21.43            |
| Tangible book value per common share <sup>(1)</sup>            | 16.92            | 15.11            |
| Cash dividends paid per common share                           | 0.61             | 0.58             |
| Selected Performance Ratios:                                   |                  |                  |
| Return on average assets                                       | 1.20%            | 1.16%            |
| Return on average shareholders' equity                         | 10.00            | 9.77             |
| Return on average tangible common equity <sup>(1)</sup>        | 14.75            | 14.71            |
| Average yield on earning assets (FTE) <sup>(1)</sup>           | 4.37             | 4.12             |
| Average rate on interest bearing liabilities                   | 1.61             | 1.20             |
| Net interest spread (FTE) <sup>(1)</sup>                       | 2.76             | 2.92             |
| Net interest margin (FTE) <sup>(1)</sup>                       | 3.12             | 3.19             |
| Average earning assets to average interest bearing liabilities | 128.34           | 128.72           |
| Noninterest expense to average total assets                    | 1.91             | 1.94             |

|                                       |       |       |
|---------------------------------------|-------|-------|
| Efficiency ratio (FTE) <sup>(1)</sup> | 52.53 | 49.43 |
|---------------------------------------|-------|-------|

Refer to the “Non-GAAP Reconciliation” at the end of the financial statement tables in this Earnings Release for a reconciliation of this non-GAAP financial measure to the nearest GAAP financial measure.

|   | Six Months Ended |           |
|---|------------------|-----------|
|   | 2019             | 2018      |
|   | June 30,         | June 30,  |
| Nonperforming assets:   |                  |           |
| Nonaccrual loans <sup>(1)</sup>   | \$ 29,363        | \$ 42,423 |
| Accruing loans past due more than 90 days <sup>(1)</sup>                | 16,376           | 35,351    |
| Restructured loans <sup>(2)</sup>                                       | —                | 7         |
| Other real estate owned   | 11,918           | 5,860     |
| Repossessed assets  | 1,069            | 1,137     |
|   | —                | 68        |
| Asset Quality Ratios:   |                  |           |
| Nonaccruing loans to total loans  | 0.47%            | 1.08%     |
| Allowance for loan losses to nonaccruing loans                          | 150.86           | 70.92     |
| Allowance for loan losses to nonperforming assets                       | 84.14            | 59.10     |
| Allowance for loan losses to total loans                                | 0.71             | 0.77      |
| Nonperforming assets to total assets                                    | 0.46             | 0.68      |
| Net charge-offs (recoveries) to average loans                           | 0.24             | 0.04      |
| Capital Ratios:   |                  |           |
| Shareholders’ equity to total assets                                    | 12.36            | 12.03     |
| Common equity tier 1 capital  | 14.02            | 15.49     |
| Tier 1 risk-based capital   | 15.46            | 17.02     |
| Total risk-based capital  | 18.52            | 20.31     |
| Tier 1 leverage capital   | 10.48            | 10.76     |
| Period end tangible equity to period end tangible assets <sup>(3)</sup> | 9.28             | 8.80      |
| Average shareholders’ equity to average total assets                    | 12.03            | 11.88     |

Excludes PCI loans measured at fair value at acquisition if the timing and amount of cash flows expected to be collected from those sales can be reasonably estimated.

Includes \$0.8 million and \$2.9 million in PCI loans restructured as of June 30, 2019 and June 30, 2018, respectively.

Refer to the “Non-GAAP Reconciliation” at the end of the financial statement tables in this Earnings Release for a reconciliation of this non-GAAP financial measure to the nearest GAAP financial measure.

The tables that follow show average earning assets and interest bearing liabilities together with the average yield on the earning assets and the average rate of the interest bearing liabilities for the periods presented. The interest and related yields presented are on a fully taxable-equivalent basis and are therefore non-GAAP measures. See “Non-GAAP Financial Measures” and “Non-GAAP Reconciliation” for more information.

|   | Three Months Ended |                  |                   |                    |                  |                   |
|---|--------------------|------------------|-------------------|--------------------|------------------|-------------------|
|   | June 30, 2019      |                  |                   | March 31, 2019     |                  |                   |
|   | Avg<br>Balance     | Interest         | Avg<br>Yield/Rate | Avg<br>Balance     | Interest         | Avg<br>Yield/Rate |
| <b>ASSETS</b>   |                    |                  |                   |                    |                  |                   |
| Loans <sup>(1)</sup>  | \$3,387,323        | \$ 43,559        | 5.16%             | \$3,296,665        | \$ 42,210        | 5.19%             |
| Loans held for sale   | 1,965              | 21               | 4.29%             | 611                | 7                | 4.65%             |
| Securities:   |                    |                  |                   |                    |                  |                   |
| Taxable investment securities <sup>(2)</sup>                                    | 3,000              | 27               | 3.61%             | 3,000              | 28               | 3.79%             |
| Tax-exempt investment securities  | 459,996            | 4,513            | 3.94%             | 659,187            | 5,732            | 3.53%             |
| Mortgage-backed and related securities <sup>(2)</sup>                           | 1,680,109          | 13,246           | 3.16%             | 1,647,564          | 12,474           | 3.07%             |
| Total securities  | 2,143,105          | 17,786           | 3.33%             | 2,309,751          | 18,234           | 3.20%             |
| Federal Home Loan Bank stock, at cost, and equity investments                   | 52,311             | 440              | 3.37%             | 53,764             | 355              | 2.68%             |
| Interest earning deposits   | 66,017             | 411              | 2.50%             | 64,690             | 386              | 2.42%             |
| Federal funds sold  | 3,365              | 39               | 4.65%             | 7,635              | 47               | 2.50%             |
| Total earning assets  | 5,654,086          | 62,256           | 4.42%             | 5,733,116          | 61,239           | 4.33%             |
| Cash and due from banks   | 78,757             |                  |                   | 83,147             |                  |                   |
| Accrued interest and other assets   | 534,835            |                  |                   | 513,738            |                  |                   |
| Less: Allowance for loan losses   | (24,838)           |                  |                   | (27,060)           |                  |                   |
| Total assets  | <u>\$6,242,840</u> |                  |                   | <u>\$6,302,941</u> |                  |                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                    |                  |                   |                    |                  |                   |
| Savings accounts  | \$ 365,205         | 262              | 0.29%             | \$ 360,664         | 258              | 0.29%             |
| Certificates of deposits  | 1,119,464          | 5,861            | 2.10%             | 1,154,203          | 5,697            | 2.00%             |
| Interest bearing demand accounts  | 1,969,593          | 5,334            | 1.09%             | 1,982,891          | 5,286            | 1.08%             |
| Total interest bearing deposits   | 3,454,262          | 11,457           | 1.33%             | 3,497,758          | 11,241           | 1.30%             |
| Federal Home Loan Bank borrowings   | 755,748            | 3,899            | 2.07%             | 816,389            | 4,457            | 2.21%             |
| Subordinated notes, net of unamortized debt issuance costs                      | 98,469             | 1,410            | 5.74%             | 98,428             | 1,400            | 5.77%             |
| Trust preferred subordinated debentures, net of unamortized debt issuance costs | 60,247             | 718              | 4.78%             | 60,246             | 729              | 4.91%             |
| Other borrowings  | 14,530             | 57               | 1.57%             | 16,788             | 75               | 1.81%             |
| Total interest bearing liabilities  | 4,383,256          | 17,541           | 1.61%             | 4,489,609          | 17,902           | 1.62%             |
| Noninterest bearing deposits  | 1,014,746          |                  |                   | 986,343            |                  |                   |
| Accrued expenses and other liabilities  | 73,494             |                  |                   | 89,768             |                  |                   |
| Total liabilities   | 5,471,496          |                  |                   | 5,565,720          |                  |                   |
| Shareholders' equity  | 771,344            |                  |                   | 737,221            |                  |                   |
| Total liabilities and shareholders' equity                                      | <u>\$6,242,840</u> |                  |                   | <u>\$6,302,941</u> |                  |                   |
| Net interest income (FTE)   |                    | <u>\$ 44,715</u> |                   |                    | <u>\$ 43,337</u> |                   |
| Net interest margin (FTE)   |                    |                  | <u>3.17%</u>      |                    |                  | <u>3.07%</u>      |
| Net interest spread (FTE)   |                    |                  | <u>2.81%</u>      |                    |                  | <u>2.71%</u>      |

Interest on loans includes net fees on loans that are not material in amount.

For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of June 30, 2019 and March 31, 2019, loans totaling \$16.4 million and \$17.7 million, respectively, were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

|   | Three Months Ended |           |                   |                    |           |                   |
|---|--------------------|-----------|-------------------|--------------------|-----------|-------------------|
|   | December 31, 2018  |           |                   | September 30, 2018 |           |                   |
|   | Avg<br>Balance     | Interest  | Avg<br>Yield/Rate | Avg<br>Balance     | Interest  | Avg<br>Yield/Rate |
| <b>ASSETS</b>   |                    |           |                   |                    |           |                   |
| Loans <sup>(1)</sup>  | \$3,289,840        | \$ 41,320 | 4.98%             | \$3,286,664        | \$ 40,396 | 4.88%             |
| Loans held for sale   | 633                | 8         | 5.01%             | 1,841              | 25        | 5.39%             |
| Securities:   |                    |           |                   |                    |           |                   |
| Taxable investment securities <sup>(2)</sup>                                    | 13,066             | 103       | 3.13%             | 4,285              | 36        | 3.33%             |
| Tax-exempt investment securities  | 722,162            | 7,828     | 4.30%             | 795,397            | 8,132     | 4.06%             |
| Mortgage-backed and related securities <sup>(2)</sup>                           | 1,434,982          | 10,394    | 2.87%             | 1,418,114          | 10,086    | 2.82%             |
| Total securities  | 2,170,210          | 18,325    | 3.35%             | 2,217,796          | 18,254    | 3.27%             |
| Federal Home Loan Bank stock, at cost, and equity investments                   | 44,304             | 393       | 3.52%             | 54,216             | 377       | 2.76%             |
| Interest earning deposits   | 36,098             | 411       | 4.52%             | 77,977             | 414       | 2.11%             |
| Federal funds sold  | 16,967             | 97        | 2.27%             | 16,072             | 77        | 1.90%             |
| Total earning assets  | 5,558,052          | 60,554    | 4.32%             | 5,654,566          | 59,543    | 4.18%             |
| Cash and due from banks   | 79,544             |           |                   | 78,623             |           |                   |
| Accrued interest and other assets   | 452,257            |           |                   | 477,737            |           |                   |
| Less: Allowance for loan losses   | (26,231)           |           |                   | (25,646)           |           |                   |
| Total assets  | <u>\$6,063,622</u> |           |                   | <u>\$6,185,280</u> |           |                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                    |           |                   |                    |           |                   |
| Savings accounts  | \$ 361,407         | 257       | 0.28%             | \$ 362,405         | 258       | 0.28%             |
| Certificates of deposit   | 1,123,101          | 5,170     | 1.83%             | 1,173,672          | 4,744     | 1.60%             |
| Interest bearing demand accounts  | 1,968,786          | 4,908     | 0.99%             | 1,953,904          | 4,495     | 0.91%             |
| Total interest bearing deposits   | 3,453,294          | 10,335    | 1.19%             | 3,489,981          | 9,497     | 1.08%             |
| Federal Home Loan Bank borrowings   | 612,134            | 3,066     | 1.99%             | 654,153            | 3,108     | 1.88%             |
| Subordinated notes, net of unamortized debt issuance costs                      | 98,385             | 1,431     | 5.77%             | 98,346             | 1,423     | 5.74%             |
| Trust preferred subordinated debentures, net of unamortized debt issuance costs | 60,245             | 699       | 4.60%             | 60,244             | 684       | 4.50%             |
| Other borrowings  | 16,405             | 81        | 1.96%             | 9,651              | 30        | 1.23%             |
| Total interest bearing liabilities  | 4,240,463          | 15,612    | 1.46%             | 4,312,375          | 14,742    | 1.36%             |
| Noninterest bearing deposits  | 1,034,556          |           |                   | 1,064,797          |           |                   |
| Accrued expenses and other liabilities  | 47,234             |           |                   | 48,699             |           |                   |
| Total liabilities   | 5,322,253          |           |                   | 5,425,871          |           |                   |
| Shareholders' equity  | 741,369            |           |                   | 759,409            |           |                   |
| Total liabilities and shareholders' equity                                      | <u>\$6,063,622</u> |           |                   | <u>\$6,185,280</u> |           |                   |

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Net interest income (FTE) | <u>\$ 44,942</u> | <u>\$ 44,801</u> |
| Net interest margin (FTE) | <u>3.21%</u>     | <u>3.14%</u>     |
| Net interest spread (FTE) | <u>2.86%</u>     | <u>2.82%</u>     |

Interest on loans includes net fees on loans that are not material in amount.

For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of December 31, 2018 and September 30, 2018, loans totaling \$35.8 million and \$32.5 million, respectively, were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

|   | Three Months Ended |           |                   |
|---|--------------------|-----------|-------------------|
|   | June 30, 2018      |           |                   |
|   | Avg<br>Balance     | Interest  | Avg<br>Yield/Rate |
| ASSETS  |                    |           |                   |
| Loans <sup>(1)</sup>  | \$3,285,756        | \$ 39,865 | 4.87%             |
| Loans held for sale   | 1,794              | 19        | 4.25%             |
| Securities:   |                    |           |                   |
| Taxable investment securities <sup>(2)</sup>                                    | 6,891              | 51        | 2.97%             |
| Tax-exempt investment securities <sup>(2)</sup>                                 | 802,611            | 8,004     | 4.00%             |
| Mortgage-backed and related securities <sup>(2)</sup>                           | 1,439,810          | 10,210    | 2.84%             |
| Total securities  | 2,249,312          | 18,265    | 3.26%             |
| Federal Home Loan Bank stock, at cost, and equity investments                   | 54,729             | 411       | 3.01%             |
| Interest earning deposits   | 92,291             | 400       | 1.74%             |
| Federal funds sold  | 16,251             | 71        | 1.75%             |
| Total earning assets  | 5,700,133          | 59,031    | 4.15%             |
| Cash and due from banks   | 75,560             |           |                   |
| Accrued interest and other assets   | 473,142            |           |                   |
| Less: Allowance for loan losses   | (24,558)           |           |                   |
| Total assets  | <u>\$6,224,277</u> |           |                   |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                    |           |                   |
| Savings accounts  | \$ 360,340         | 208       | 0.23%             |
| Certificates of deposit   | 1,175,230          | 4,303     | 1.47%             |
| Interest bearing demand accounts  | 1,981,427          | 4,070     | 0.82%             |
| Total interest bearing deposits   | 3,516,997          | 8,581     | 0.98%             |
| Federal Home Loan Bank borrowings   | 692,386            | 3,007     | 1.74%             |
| Subordinated notes, net of unamortized debt issuance costs                      | 98,306             | 1,407     | 5.74%             |
| Trust preferred subordinated debentures, net of unamortized debt issuance costs | 60,243             | 658       | 4.38%             |
| Other borrowings  | 9,283              | 33        | 1.43%             |
| Total interest bearing liabilities  | 4,377,215          | 13,686    | 1.25%             |
| Noninterest bearing deposits  | 1,045,298          |           |                   |
| Accrued expenses and other liabilities  | 50,843             |           |                   |
| Total liabilities   | 5,473,356          |           |                   |
| Shareholders' equity  | 750,921            |           |                   |
| Total liabilities and shareholders' equity                                      | <u>\$6,224,277</u> |           |                   |

|                           |                  |              |
|---------------------------|------------------|--------------|
| Net interest income (FTE) | <u>\$ 45,345</u> |              |
| Net interest margin (FTE) |                  | <u>3.19%</u> |
| Net interest spread (FTE) |                  | <u>2.90%</u> |

Interest on loans includes net fees on loans that are not material in amount.

For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of June 30, 2018, loans totaling \$35.4 million were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

|   | Six Months Ended   |               |                   |                    |               |                   |
|---|--------------------|---------------|-------------------|--------------------|---------------|-------------------|
|   | June 30, 2019      |               |                   | June 30, 2018      |               |                   |
|   | Avg<br>Balance     | Interest      | Avg<br>Yield/Rate | Avg<br>Balance     | Interest      | Avg<br>Yield/Rate |
| <b>ASSETS</b>   |                    |               |                   |                    |               |                   |
| Loans <sup>(1)</sup>  | \$3,342,244        | \$ 85,769     | 5.17%             | \$3,293,090        | \$ 79,266     | 4.85%             |
| Loans held for sale   | 1,292              | 28            | 4.37%             | 1,669              | 30            | 3.62%             |
| Securities:   |                    |               |                   |                    |               |                   |
| Investment securities (taxable) <sup>(2)</sup>                                  | 3,000              | 55            | 3.70%             | 23,022             | 278           | 2.44%             |
| Investment securities (tax-exempt) <sup>(2)</sup>                               | 559,041            | 10,245        | 3.70%             | 803,844            | 16,004        | 4.01%             |
| Mortgage-backed and related securities <sup>(2)</sup>                           | <u>1,663,926</u>   | <u>25,720</u> | 3.12%             | <u>1,498,151</u>   | <u>21,104</u> | 2.84%             |
| Total securities  | 2,225,967          | 36,020        | 3.26%             | 2,325,017          | 37,386        | 3.24%             |
| Federal Home Loan Bank stock, at cost, and other investments                    | 53,034             | 795           | 3.02%             | 60,831             | 825           | 2.73%             |
| Interest earning deposits   | 65,357             | 797           | 2.46%             | 99,848             | 799           | 1.61%             |
| Federal funds sold  | 5,489              | 86            | 3.16%             | 14,759             | 120           | 1.64%             |
| Total earning assets  | 5,693,383          | 123,495       | 4.37%             | 5,795,214          | 118,426       | 4.12%             |
| Cash and due from banks   | 80,940             |               |                   | 76,789             |               |                   |
| Accrued interest and other assets   | 523,926            |               |                   | 483,086            |               |                   |
| Less: Allowance for loan losses   | (25,943)           |               |                   | (22,791)           |               |                   |
| Total assets  | <u>\$6,272,306</u> |               |                   | <u>\$6,332,298</u> |               |                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                    |               |                   |                    |               |                   |
| Savings deposits  | \$ 362,947         | 520           | 0.29%             | \$ 357,073         | 392           | 0.22%             |
| Time deposits   | 1,136,738          | 11,558        | 2.05%             | 1,172,658          | 8,198         | 1.41%             |
| Interest bearing demand deposits  | <u>1,976,205</u>   | <u>10,620</u> | 1.08%             | <u>1,995,214</u>   | <u>7,442</u>  | 0.75%             |
| Total interest bearing deposits   | 3,475,890          | 22,698        | 1.32%             | 3,524,945          | 16,032        | 0.92%             |
| Federal Home Loan Bank borrowings   | 785,901            | 8,356         | 2.14%             | 809,879            | 6,639         | 1.65%             |
| Subordinated notes, net of unamortized debt issuance costs                      | 98,448             | 2,810         | 5.76%             | 98,287             | 2,805         | 5.76%             |
| Trust preferred subordinated debentures, net of unamortized debt issuance costs | 60,247             | 1,447         | 4.84%             | 60,242             | 1,227         | 4.11%             |

|   |                    |                  |              |                    |                  |              |
|---|--------------------|------------------|--------------|--------------------|------------------|--------------|
| Other borrowings                                    | <u>15,653</u>      | <u>132</u>       | 1.70%        | <u>8,696</u>       | <u>44</u>        | 1.02%        |
| Total interest bearing liabilities                  | 4,436,139          | 35,443           | 1.61%        | 4,502,049          | 26,747           | 1.20%        |
| Noninterest bearing deposits                        | 1,000,623          |                  |              | 1,031,065          |                  |              |
| Accrued expenses and other liabilities              | <u>81,167</u>      |                  |              | <u>47,034</u>      |                  |              |
| Total liabilities                                   | 5,517,929          |                  |              | 5,580,148          |                  |              |
| Shareholders' equity                                | <u>754,377</u>     |                  |              | <u>752,150</u>     |                  |              |
| Total liabilities and shareholders' equity          | <u>\$6,272,306</u> |                  |              | <u>\$6,332,298</u> |                  |              |
| Net interest income (FTE)                           |                    | <u>\$ 88,052</u> |              |                    | <u>\$ 91,679</u> |              |
| Net interest margin on average earning assets (FTE) |                    |                  | <u>3.12%</u> |                    |                  | <u>3.19%</u> |
| Net interest spread (FTE)                           |                    |                  | <u>2.76%</u> |                    |                  | <u>2.92%</u> |

Interest on loans includes net fees on loans that are not material in amount.

For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of June 30, 2019 and 2018, loans totaling \$16.4 million and \$35.4 million, respectively, were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

The following tables set forth the reconciliation of return on average common equity to return on average tangible common equity, book value per share to tangible book value per share, net interest income to net interest income adjusted to a fully taxable-equivalent basis assuming a 21% marginal tax rate for interest earned on tax-exempt assets such as municipal loans and investment securities, along with the calculation of total revenue, adjusted noninterest expense, efficiency ratio (FTE), net interest margin (FTE) and net interest spread (FTE) for the applicable periods presented.

|  | Three Months Ended |           |           |           | Six Months Ended |           |
|--|--------------------|-----------|-----------|-----------|------------------|-----------|
|  | 2019               |           | 2018      |           | 2019             | 2018      |
|  | June 30,           | Mar. 31,  | Dec. 31,  | Sept. 30, | June 30,         | June 30,  |
| Reconciliation of return on average common equity to return on average tangible common equity: |                    |           |           |           |                  |           |
| Net income   | \$ 18,610          | \$ 18,817 | \$ 17,381 | \$ 20,303 | \$ 20,203        | \$ 37,427 |
| After-tax amortization   |                    |           |           |           |                  | \$ 36,454 |

|  |             |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| expense  | 892         | 931         | 970         | 1,010       | 1,049       | 1,823       | 2,138       |
| Adjusted net income available to common shareholders                     | \$ 19,502   | \$ 19,748   | \$ 18,351   | \$ 21,313   | \$ 21,252   | \$ 39,250   | \$ 38,592   |
| Average shareholders' equity   | \$ 771,344  | \$ 737,221  | \$ 741,369  | \$ 759,409  | \$ 750,921  | \$ 754,377  | \$ 752,150  |
| Less: Average intangibles for the period                                 | (217,266)   | (218,438)   | (219,645)   | (220,956)   | (222,342)   | (217,849)   | (223,021)   |
| Average tangible shareholders' equity                                    | \$ 554,078  | \$ 518,783  | \$ 521,724  | \$ 538,453  | \$ 528,579  | \$ 536,528  | \$ 529,129  |
| Return on average tangible common equity                                 | 14.12%      | 15.44%      | 13.95%      | 15.70%      | 16.13%      | 14.75%      | 14.71%      |
| Reconciliation of book value per share to tangible book value per share: |             |             |             |             |             |             |             |
| Common equity at end of period   | \$ 787,765  | \$ 758,033  | \$ 731,291  | \$ 752,506  | \$ 751,810  | \$ 787,765  | \$ 751,810  |
| Less: Intangible assets at end of period                                 | (216,587)   | (217,716)   | (218,895)   | (220,125)   | (221,533)   | (216,587)   | (221,533)   |
| Tangible common shareholders' equity at end of period                    | \$ 571,178  | \$ 540,317  | \$ 512,396  | \$ 532,381  | \$ 530,277  | \$ 571,178  | \$ 530,277  |
| Total assets at end of period  | \$6,372,870 | \$6,217,196 | \$6,123,494 | \$6,105,354 | \$6,250,173 | \$6,372,870 | \$6,250,173 |
| Less: Intangible assets at end of period                                 | (216,587)   | (217,716)   | (218,895)   | (220,125)   | (221,533)   | (216,587)   | (221,533)   |
| Tangible assets at end of period   | \$6,156,283 | \$5,999,480 | \$5,904,599 | \$5,885,229 | \$6,028,640 | \$6,156,283 | \$6,028,640 |
| Period end tangible equity to period end tangible assets                 | 9.28%       | 9.01%       | 8.68%       | 9.05%       | 8.80%       | 9.28%       | 8.80%       |
| Common   |             |             |             |             |             |             |             |

|  |           |           |           |           |           |            |            |
|--|-----------|-----------|-----------|-----------|-----------|------------|------------|
| shares outstanding end of period   | 33,749    | 33,718    | 33,725    | 35,160    | 35,084    | 33,749     | 35,084     |
| Tangible book value per common share   | \$ 16.92  | \$ 16.02  | \$ 15.19  | \$ 15.14  | \$ 15.11  | \$ 16.92   | \$ 15.11   |
| Reconciliation of efficiency ratio to efficiency ratio (FTE), net interest margin to net interest margin (FTE) and net interest spread to net interest spread (FTE): |           |           |           |           |           |            |            |
| Net interest income (GAAP)   | \$ 43,131 | \$ 41,125 | \$ 42,410 | \$ 42,410 | \$ 43,111 | \$ 84,256  | \$ 87,244  |
| Tax equivalent adjustments:  |           |           |           |           |           |            |            |
| Loans  | 598       | 598       | 599       | 590       | 583       | 1,196      | 1,165      |
| Investment securities (tax-exempt)   | 986       | 1,614     | 1,933     | 1,801     | 1,651     | 2,600      | 3,270      |
| Net interest income (FTE)  | 44,715    | 43,337    | 44,942    | 44,801    | 45,345    | 88,052     | 91,679     |
| Noninterest income   | 11,254    | 9,538     | 10,134    | 10,022    | 11,007    | 20,792     | 20,617     |
| Nonrecurring income <sup>(2)</sup>   | (557)     | 171       | (66)      | 741       | (304)     | (386)      | 523        |
| Total revenue  | \$ 55,412 | \$ 53,046 | \$ 55,010 | \$ 55,564 | \$ 56,048 | \$ 108,458 | \$ 112,819 |
| Noninterest expense  | \$ 29,700 | \$ 29,627 | \$ 30,196 | \$ 28,962 | \$ 29,274 | \$ 59,327  | \$ 60,941  |
| Pre-tax amortization expense   | (1,129)   | (1,179)   | (1,228)   | (1,279)   | (1,328)   | (2,308)    | (2,706)    |
| Nonrecurring expense <sup>(3)</sup>  | (67)      | 18        | (264)     | (507)     | (1,287)   | (49)       | (2,465)    |
| Adjusted noninterest expense   | \$ 28,504 | \$ 28,466 | \$ 28,704 | \$ 27,176 | \$ 26,659 | \$ 56,970  | \$ 55,770  |
| Efficiency ratio   | 52.95%    | 56.00%    | 54.70%    | 51.11%    | 49.54%    | 54.43%     | 51.46%     |
| Efficiency ratio (FTE)   | 51.44%    | 53.66%    | 52.18%    | 48.91%    | 47.56%    | 52.53%     | 49.43%     |
| Average  |           |           |           |           |           |            |            |

|  |             |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| earning assets                           | \$5,654,086 | \$5,733,116 | \$5,558,052 | \$5,654,566 | \$5,700,133 | \$5,693,383 | \$5,795,214 |
| Net interest margin                      | 3.06%       | 2.91%       | 3.03%       | 2.98%       | 3.03%       | 2.98%       | 3.04%       |
| Net interest margin (FTE) <sup>(1)</sup> | 3.17%       | 3.07%       | 3.21%       | 3.14%       | 3.19%       | 3.12%       | 3.19%       |
| Net interest spread                      | 2.69%       | 2.56%       | 2.68%       | 2.65%       | 2.75%       | 2.63%       | 2.77%       |
| Net interest spread (FTE) <sup>(1)</sup> | 2.81%       | 2.71%       | 2.86%       | 2.82%       | 2.90%       | 2.76%       | 2.92%       |

These amounts are presented on a fully taxable-equivalent basis and are non-GAAP measures.

These adjustments may include net gain and loss on sale of securities available for sale, loss on fair value hedge, other-than-temporary impairment charges and additional bank owned life insurance income realized as a result of the death benefits for a retired covered officer, in the periods where applicable.

These adjustments may include acquisition expenses, foreclosure expenses and branch closure expenses, in the periods where applicable.

Source: Southside Bancshares, Inc.