

Sandler O' Neill West Coast Financial Services Conference

March 2017

A nighttime photograph of a city skyline, likely San Francisco, featuring several illuminated skyscrapers and a bridge over a body of water. The lights from the buildings and bridge create a vibrant scene reflected in the water.

SOUTHSIDE BANCSHARES, INC.
NASDAQ: SBSI

Forward-Looking Statements

- Certain statements of other than historical fact that are contained in this document and in other written material, press releases 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, the benefits of the Share Repurchase Plan, planned operational efficiencies, earnings and certain market risk disclosures, including the impact of interest rates 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, 2016, under “Forward-Looking Information” and 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.

Key Management Team

Lee Gibson, *President & Chief Executive Officer*

- **Past Chairman, FHLB Dallas and Council of FHLBanks**
- **President of Tyler Junior College Foundation Board**
- **Tyler Economic Development Council Finance Committee**
- **32 years with Southside**

Julie Shamburger, *Executive Vice President & Chief Financial Officer*

- **Chief Accounting Officer of Southside Bank from 2011-2016**
- **34 years with Southside**

Southside Snapshot

Company Overview

- Founded in 1960 with headquarters in Tyler, TX
- Community-focused financial institution
- Offers a broad range of personal, commercial and mortgage banking services, as well as trust and investment, and brokerage services
- Diversified branch footprint consisting of 60 banking centers, 17 of which are located in grocery stores
- Approximately 40% deposit market share in Tyler, TX¹
- Insider ownership equal to 7.3%
- 679 Full-Time Employees

Financial Highlights (\$mm)

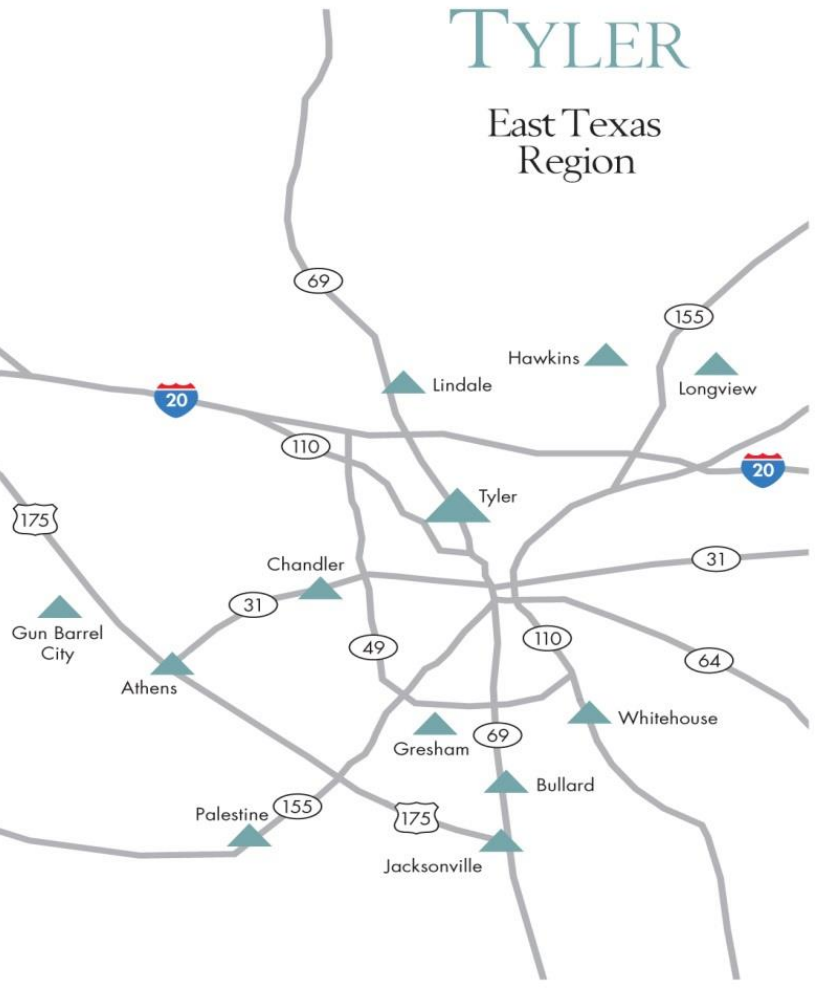
	As of and for the Years Ended December 31,	
	2015	2016
<u>Balance Sheet</u>		
Total Assets	\$5,162	\$5,564
Total Loans (Ex. HFS)	2,432	2,557
Total Deposits	3,455	3,533
Total Equity	444	518
<u>Profitability</u>		
ROAA	0.90%	0.94%
ROATCE ²	13.39	13.63
Net Interest Margin	3.40	3.26
Efficiency Ratio ²	59.32	54.08
<u>Capital</u>		
TCE / TA ²	6.83%	7.72%
Common Equity Tier 1 Ratio	12.71	14.64
Tier 1 Risk-Based Ratio	14.56	16.37
Total Risk-Based Ratio	15.27	20.10
Leverage Ratio	8.61	9.46
<u>Asset Quality</u>		
NPAs / Loans and OREO	1.34%	0.59%
NCOs / Average Loans	0.09	0.47
Reserve / Total Loans	0.81	0.70
Reserve / NPLs	62.31	121.70
<u>Per Share</u>		
Tangible Book Value ²	\$12.97	\$14.79
Diluted Earnings	1.65	1.86

1. Deposit market share for the Tyler, TX MSA; Source: SNL Financial, FDIC; As of 6/30/2016

2. See Non-GAAP reconciliation on page 22

Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014

Current Footprint



SBSI – Investment Highlights

▪ Opportunities for Future Growth

- Well-positioned for a rising interest rate environment
- Texas M&A environment appears poised for a rebound in 2017 after a dearth of activity over the last three years
- Significant opportunities for organic growth
- Completed integration of OmniAmerican Bancorp, Inc. acquisition

▪ Consistent Track Record of Growth

- 11% CAGR in total assets from 2011 – 2016
- 9% CAGR in total deposits from 2011 – 2016
- 19% CAGR in total loans from 2011 – 2016

▪ Dynamic Markets

- Austin and Dallas/Fort Worth provide attractive business climates as two of the fastest growing markets in the United States
 - 10.0% and 8.1% projected population growth in Austin and Dallas/Fort Worth, respectively, surpass the national average of 3.8%¹
- Long-standing local relationships in the growing Tyler, TX market (6.0% projected population growth¹)

▪ Loan Portfolio Cushioned from Oil and Gas Volatility

- Only 1.09% of total loan portfolio tied to the oil and gas sector; no corporate presence in Houston, TX

▪ Conservative Lending Practices Translate into Strong Asset Quality

- NPAs / Loans and OREO of 0.59% at 12/31/2016

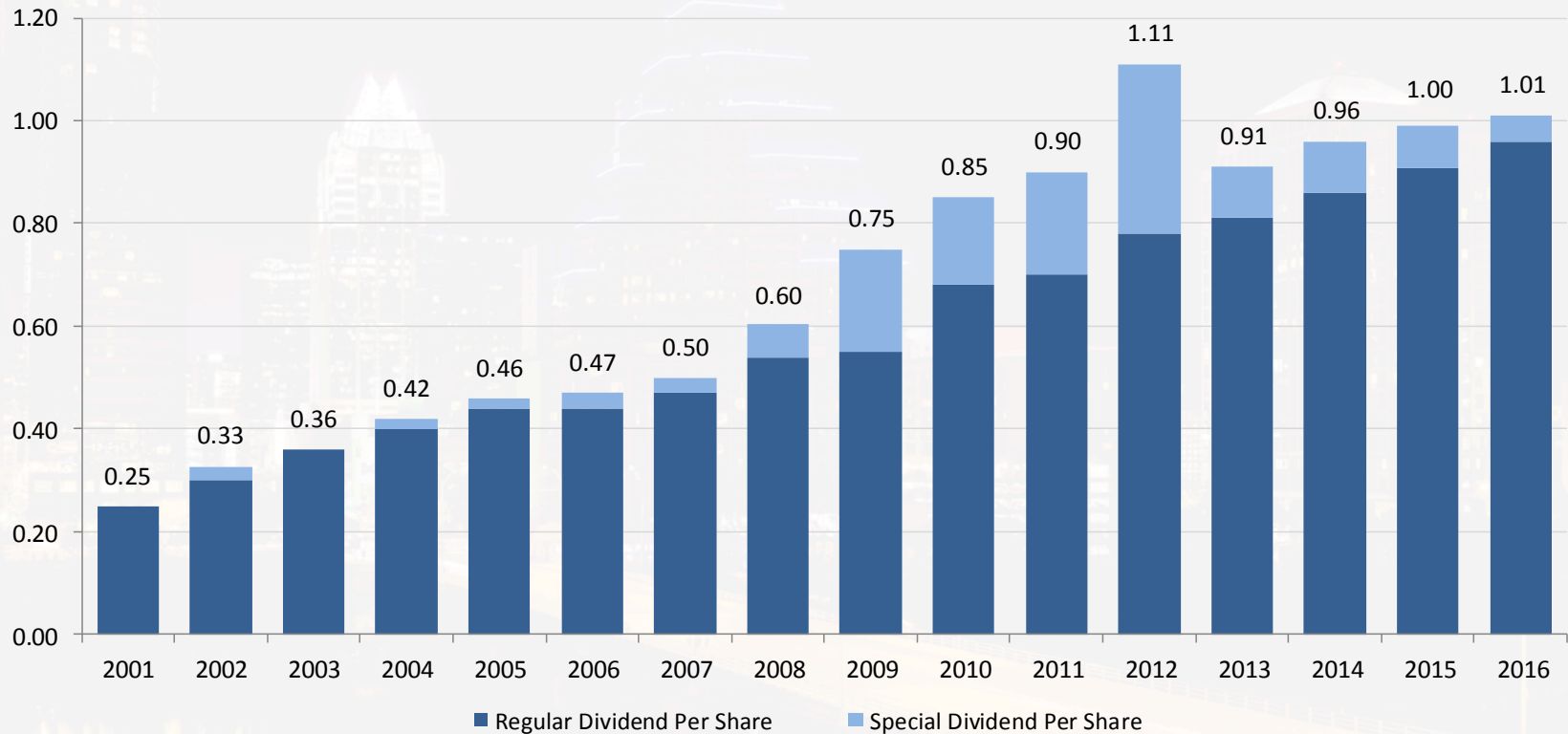
▪ Veteran Management Team

- Southside's key management individuals each have over 30 years of banking experience

1. 2017 – 2022 projected growth; source: SNL Financial, Nielsen
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014

Dividends

- **Southside has paid a cash dividend every year since 1970**
- **In addition, we have paid an annual 5% stock dividend since 1993**

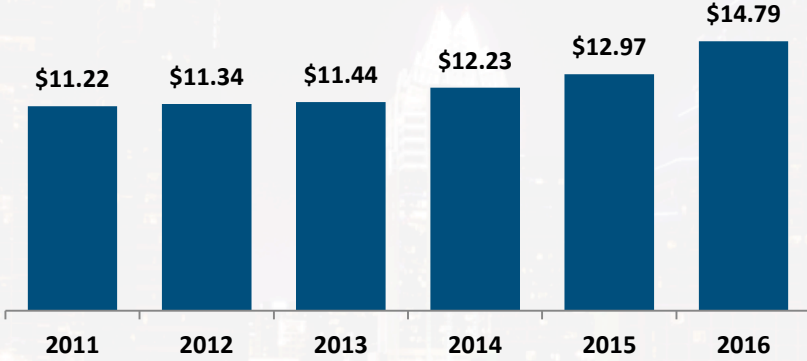


Commercial Oil & Gas Exposure

	December 31, 2016	
	Amount (\$000s)	As a Percent of Loans
Oil & Gas Extraction and Wells	\$ 15,220	0.60%
Support Activities for Oil & Gas Operations	12,737	0.49
Total Oil & Gas Industry Exposure	\$ 27,957	1.09%

Shareholder Returns

Tangible Book Value Per Share¹ (\$)



Diluted Earnings Per Share (\$)

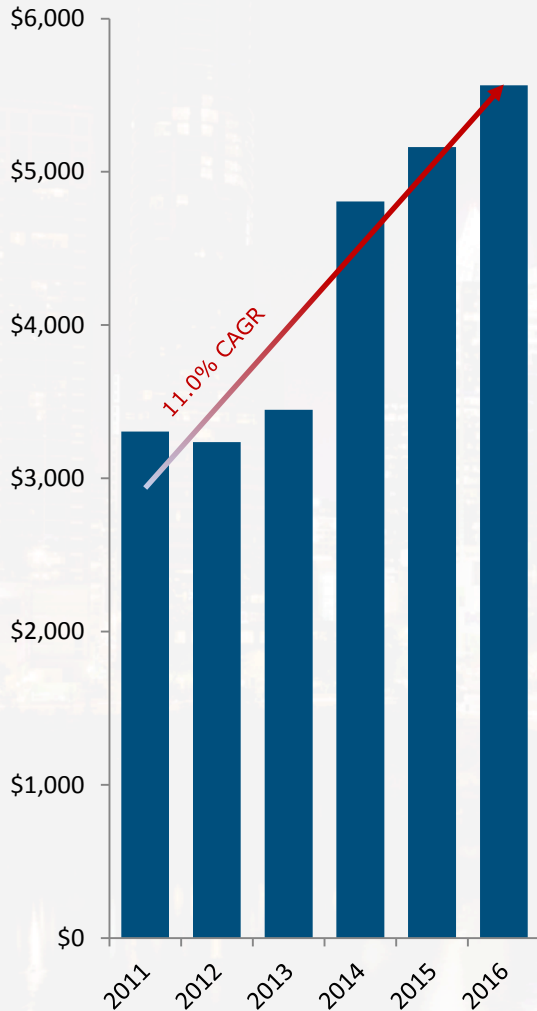


1. See Non-GAAP reconciliation on page 22

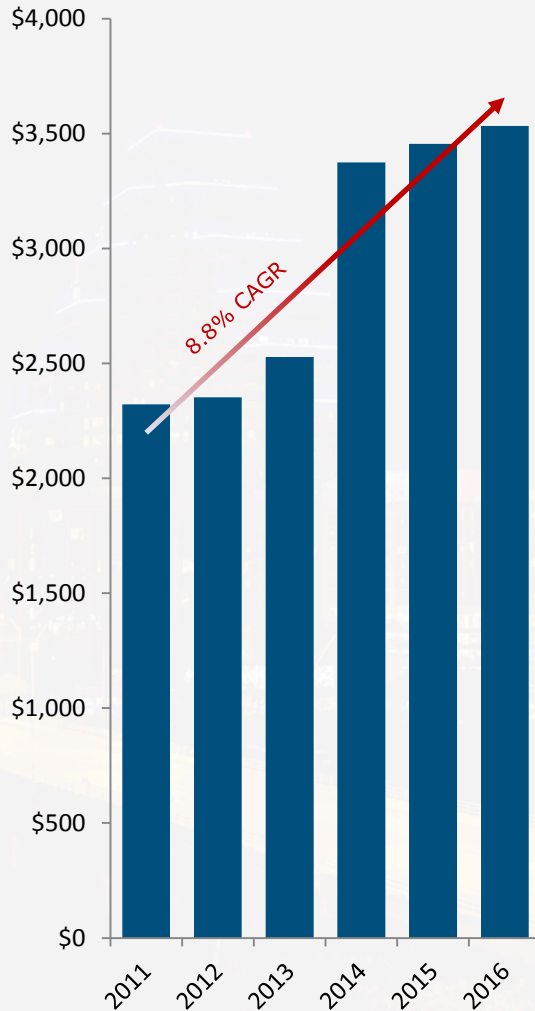
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014 resulting in pre-tax merger expenses of \$15.9mm and \$5.5mm in 2014 and 2015, respectively, as well as \$2.8mm in impairment charges in 2014 relating to the exit of SFG

Financial Performance: Growth

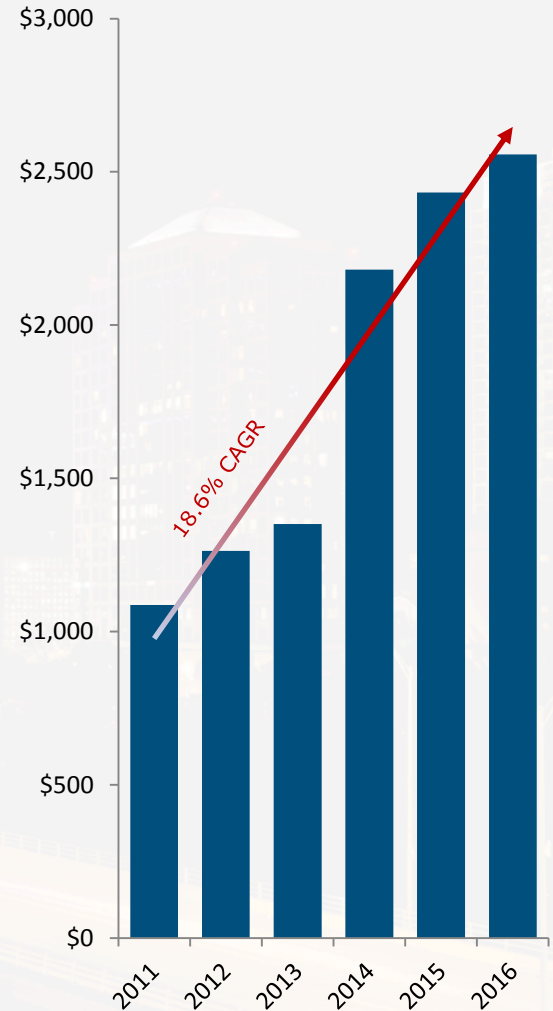
Total Assets (\$mm)



Total Deposits (\$mm)



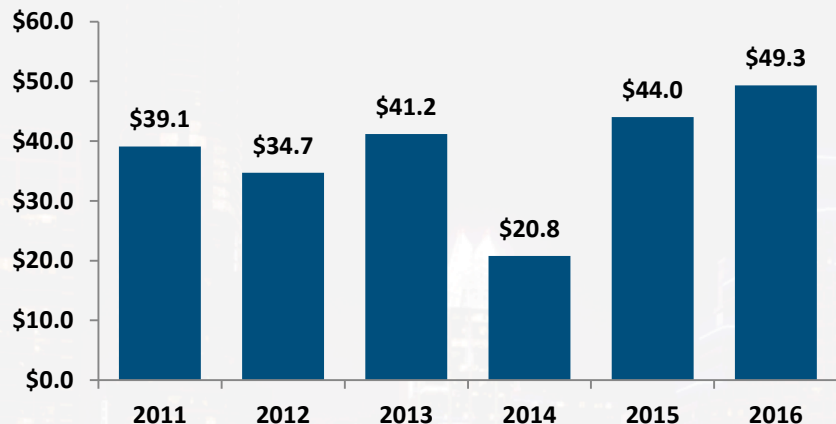
Loans HFI (\$mm)



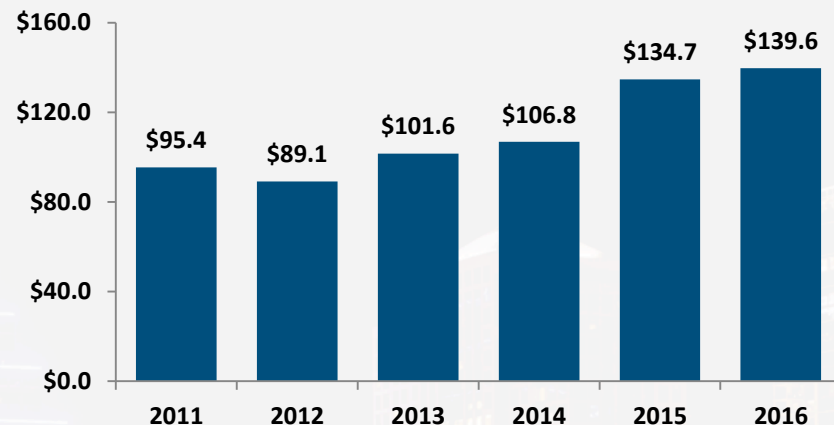
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014

Financial Performance: Profitability

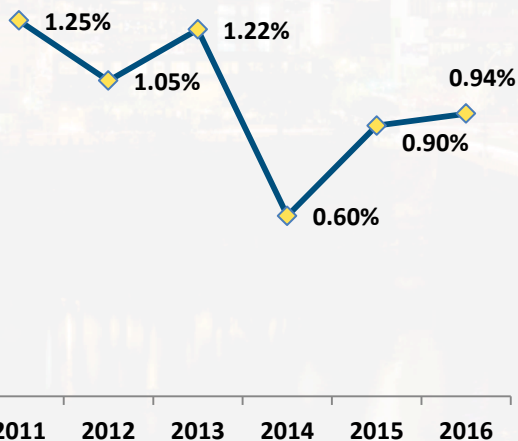
Net Income to Common Shareholders (\$mm)



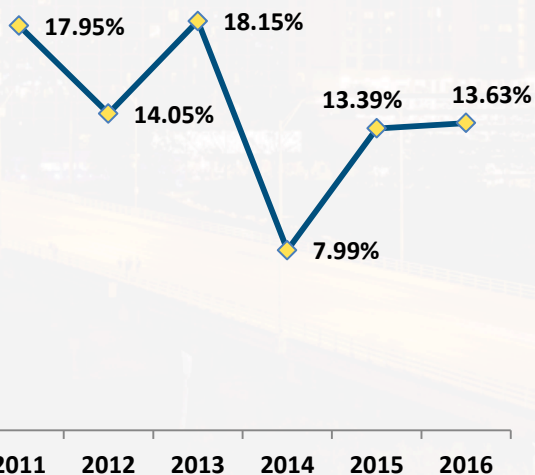
Net Interest Income (\$mm)



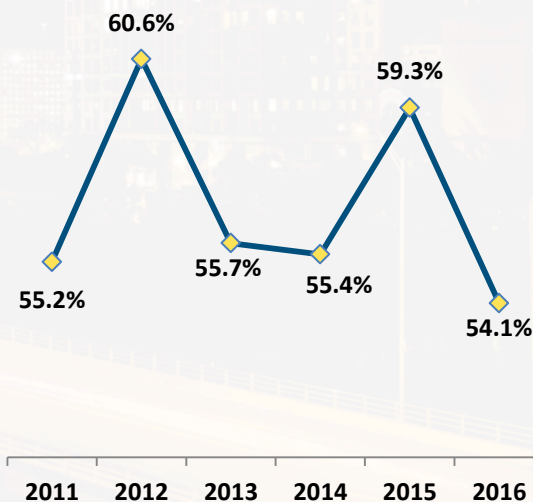
ROAA



ROATCE¹



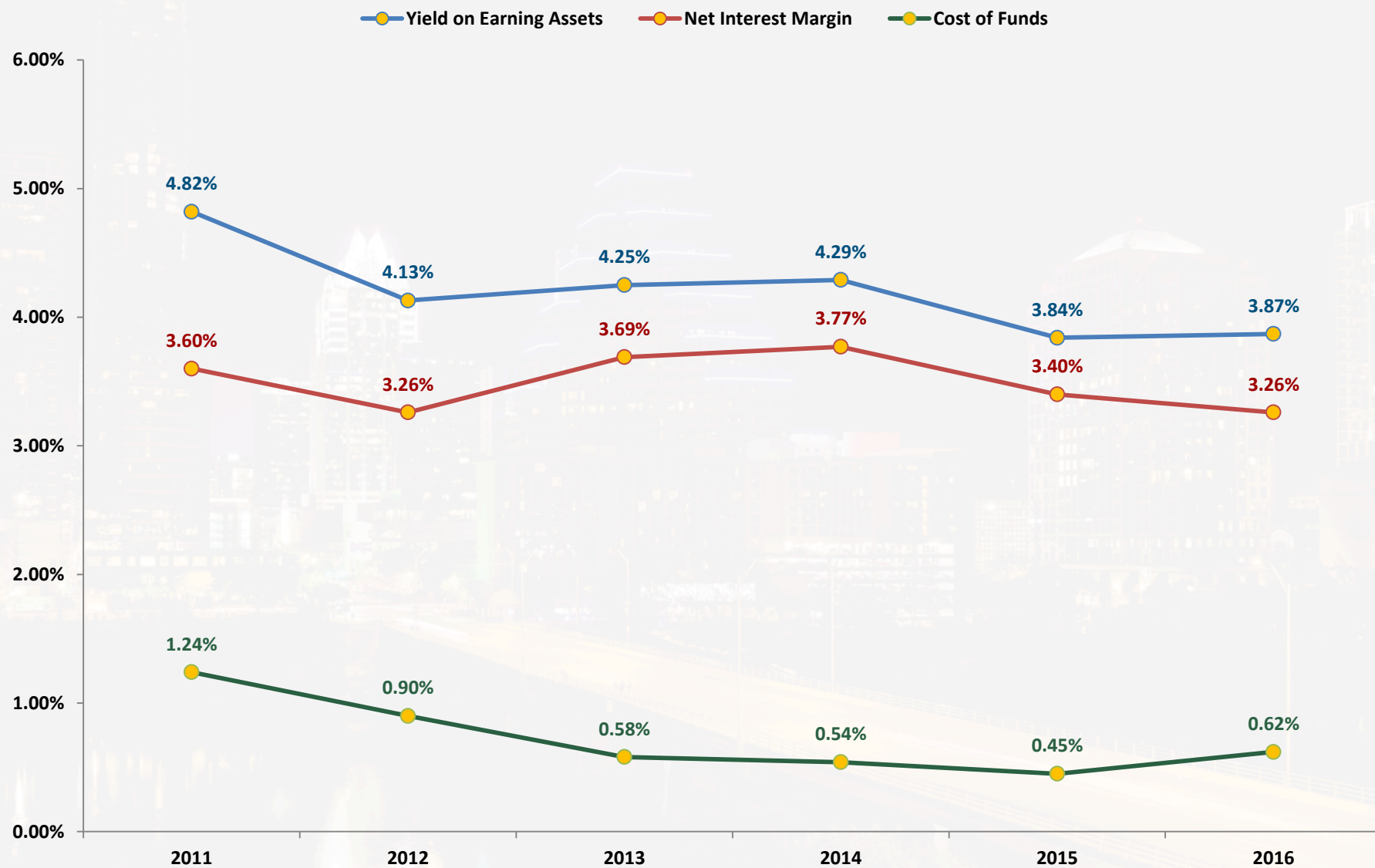
Efficiency Ratio¹



1. See Non-GAAP reconciliation on page 22

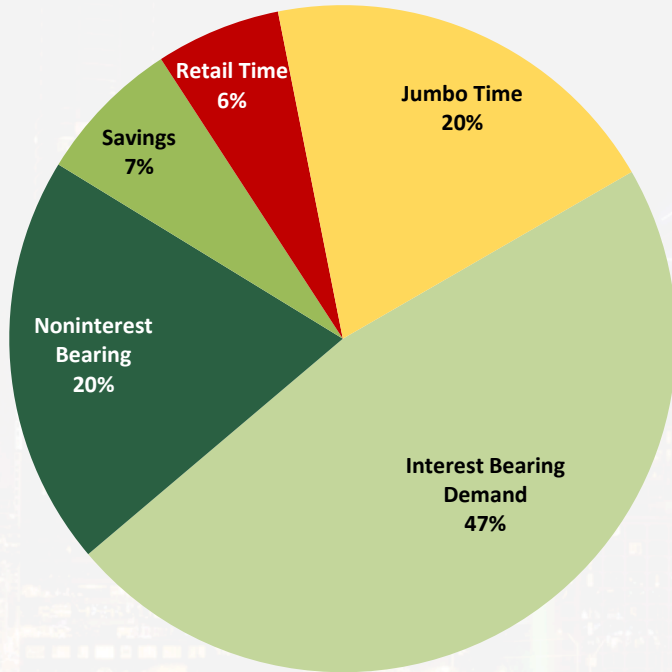
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Net Interest Margin



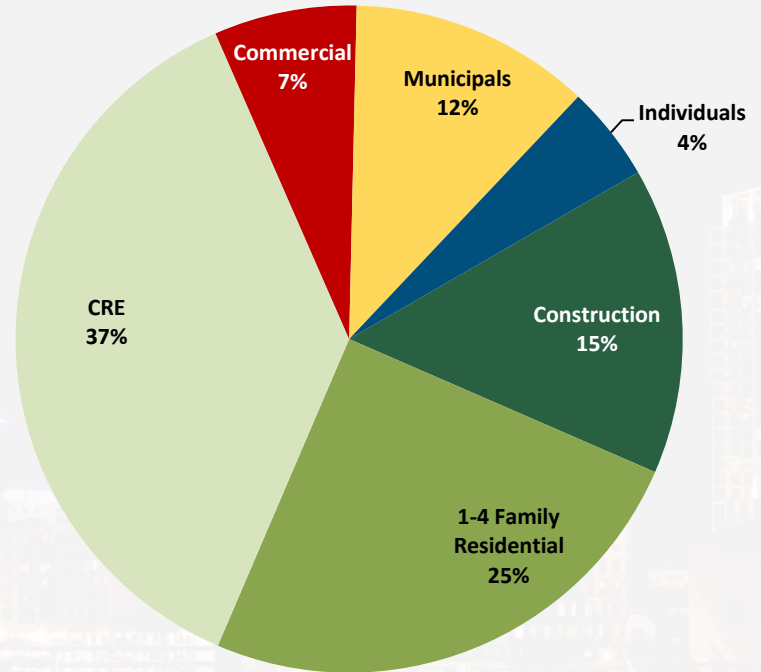
Loan and Deposit Composition

Deposit Composition as of 12/31/2016



Deposit Type	Amount \$mm	%
Interest Bearing Demand	\$1,667	47%
Noninterest Bearing	704	20%
Savings	250	7%
Retail Time	214	6%
Jumbo Time	698	20%
Total	\$3,533	100%

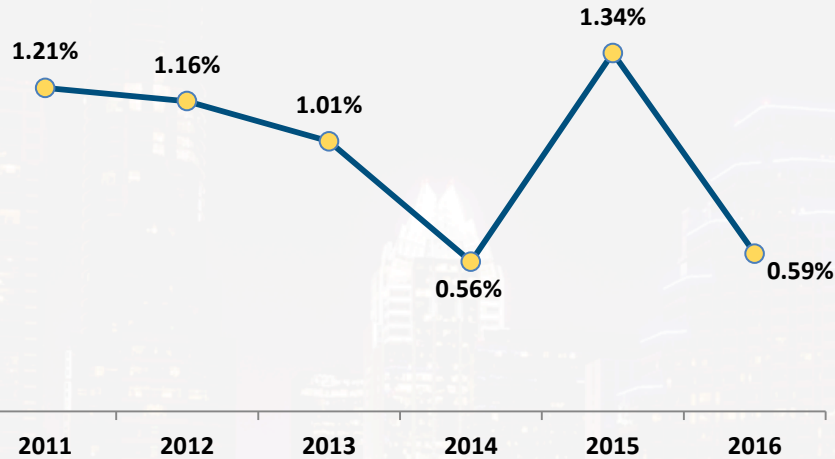
Loan Portfolio by Type as of 12/31/2016



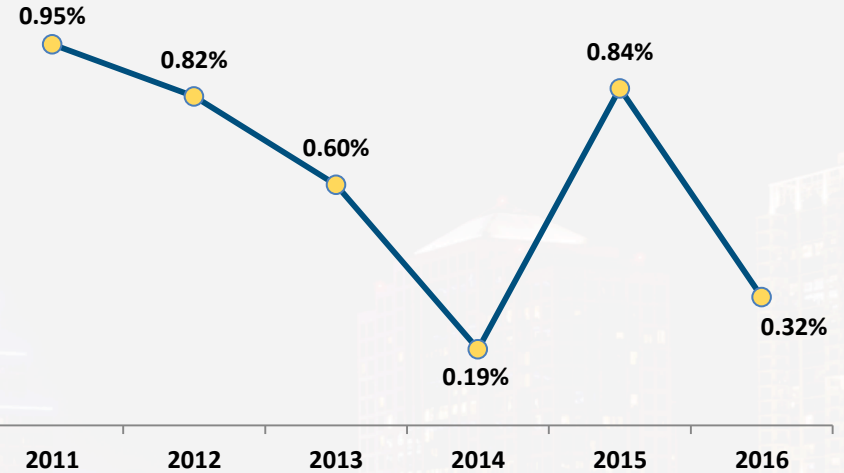
Loan Type	Amount \$mm	%
Real Estate Loans:		
Construction	\$380	15%
1-4 Family Residential	637	25%
CRE	946	37%
Commercial	177	7%
Municipals	299	12%
Individuals	118	4%
Total	\$2,557	100%

Asset Quality Trends

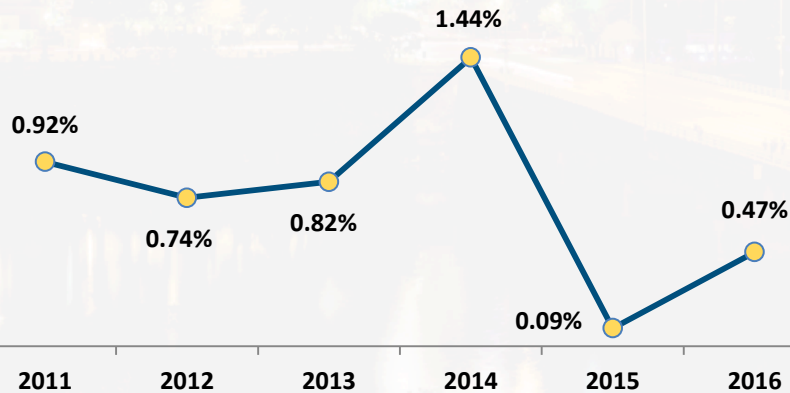
NPAs / Loans and OREO¹



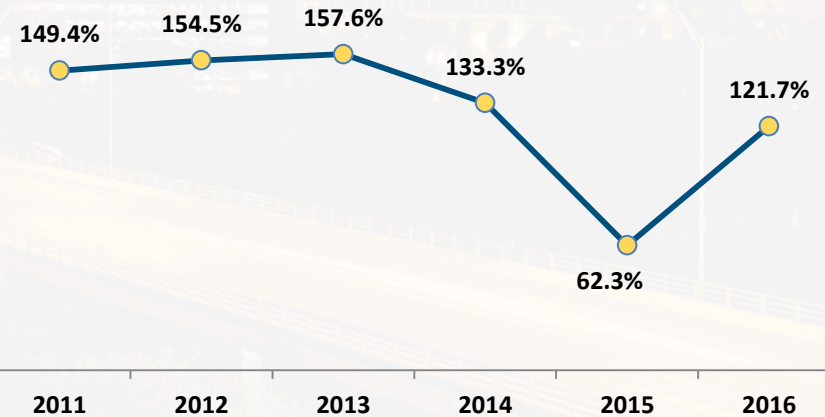
Nonaccrual Loans / Loans¹



NCOs / Average Loans



Reserves / NPLs

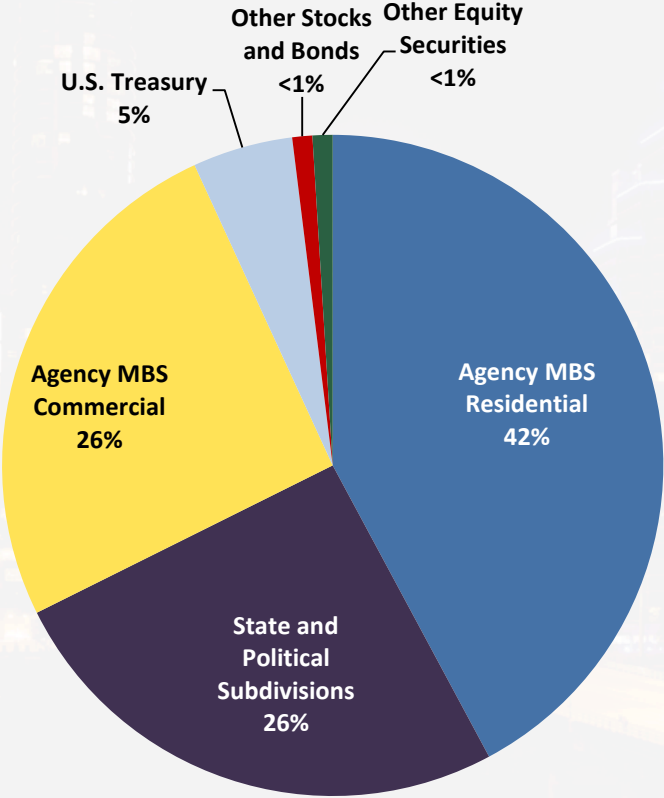


1. 2014 excludes purchased credit impaired loans measured at fair value at acquisition of OmniAmerican Bancorp, Inc.

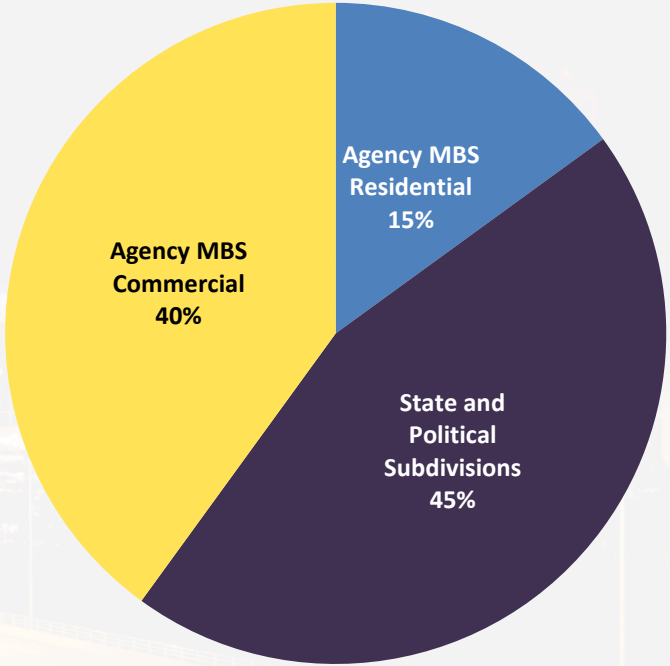
Securities Composition

Available for Sale as of 12/31/2016 (Fair Value)

Held To Maturity as of 12/31/2016 (Carrying Value)



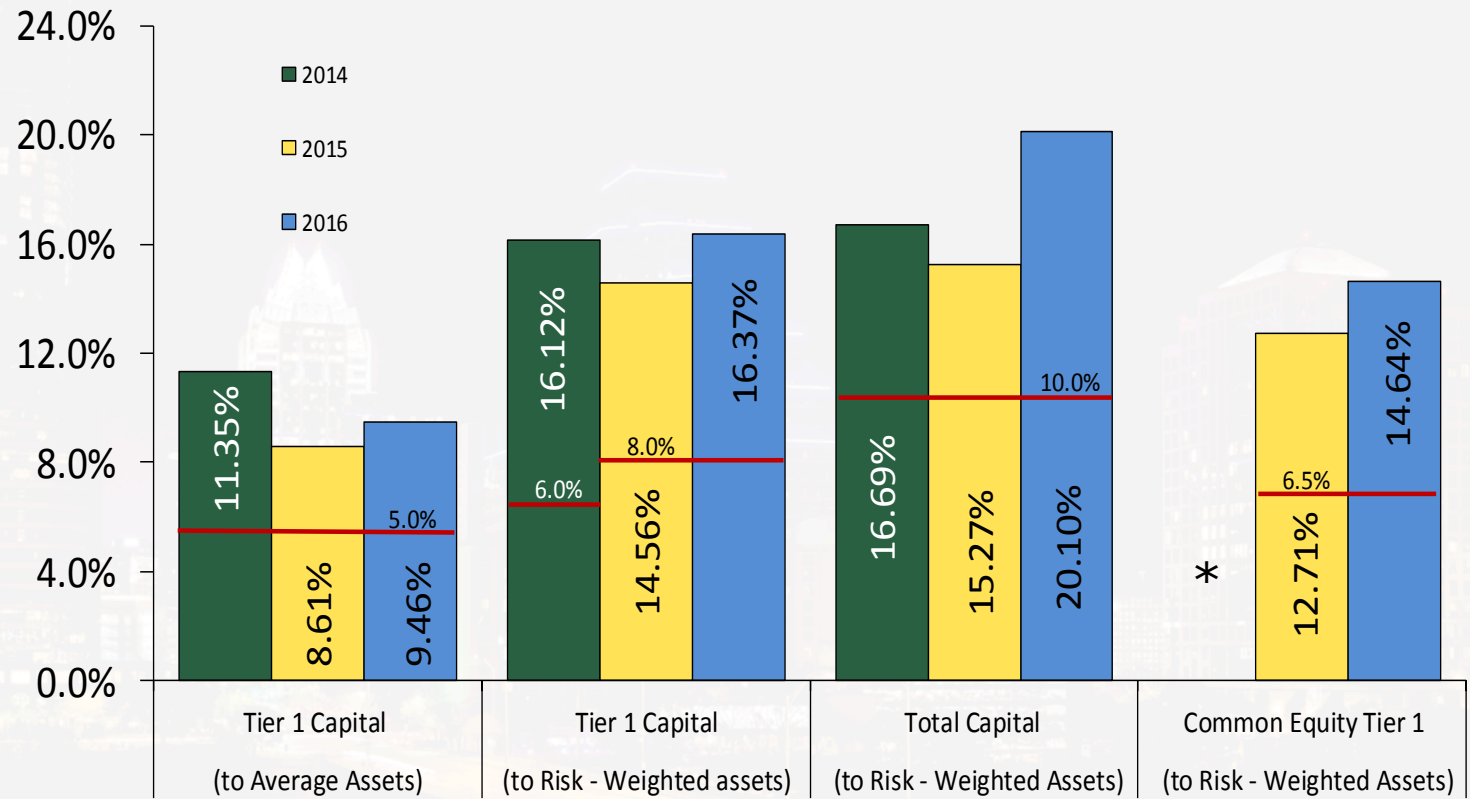
\$1.5bn



\$0.9bn

Note: All mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government sponsored enterprises

Capital Levels



Well Capitalized —

* As of 01/01/2015, New Capital Requirements, Common Equity Tier 1, became applicable under the Updated Capital Rules.

Three Months Ended December 31,

	<u>2016</u>	<u>2015</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 11,573	\$ 11,692	(1.0)%
EPS (diluted)	\$ 0.43	\$ 0.44	(2.3)%
ROE	9.56%	10.35%	
ROA	0.83%	0.92%	
Efficiency Ratio	52.00%	58.45%	

Year Ended December 31,

	<u>2016</u>	<u>2015</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 49,349	\$ 43,997	12.2%
EPS (diluted)	\$ 1.86	\$ 1.65	12.7%
ROE	10.54%	10.04%	
ROA	0.94%	0.90%	
Efficiency Ratio	54.08%	59.32%	



Appendix

Non-GAAP Reconciliation

This presentation contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures include return on average tangible common equity, tangible book value per share, tangible common equity to tangible assets, and efficiency ratio.

In calculating return on average tangible common equity, Southside (i) adds back the after tax amortization expense to net income available to common shareholders and (ii) subtract average intangible assets from average common equity. In calculating tangible book value per share, Southside subtracts intangible assets from common equity. In calculating the ratio of tangible common equity to tangible assets, Southside subtracts intangible assets both from common equity and total assets. Management believes that the presentation of these measures excluding the impact of intangible assets provides useful supplemental information that is helpful in understanding Southside’s financial condition and results of operations, as they provide a method to assess management’s success in utilizing Southside’s tangible capital as well as its capital strength. Management also believes that providing measures that exclude balances of intangible assets, which are subjective components of valuation, facilitates the comparison of Southside’s performance with the performance of its peers. In addition, management believes that these are standard financial measures used in the banking industry to evaluate performance.

The efficiency ratio on a tax-equivalent basis 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. Southside calculates this ratio by dividing noninterest expense, excluding amortization of intangibles and certain non-recurring expense by the sum of net interest income on a tax-equivalent basis and noninterest income, excluding net gains (losses) on sales of available for sale investment securities and certain non-recurring income.

These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Because not all companies use the same calculation of non-GAAP measures, this presentation may not be comparable to other similarly titled measures as calculated by other companies.

Non-GAAP Reconciliation (cont'd)

(in thousands)	As of and for the Year Ended December 31,					
	2011	2012	2013	2014	2015	2016
Net income available to common	\$39,133	\$34,695	\$41,190	\$20,833	\$43,997	\$49,349
Plus: After-tax amortization expense (35% tax rate)	170	133	98	133	1,496	1,261
Adjusted net income available to common	(a) \$39,303	\$34,828	\$41,288	\$20,966	\$45,493	\$50,610
Average common equity	\$241,560	\$270,358	\$249,709	\$287,768	\$438,427	\$468,424
Less: Average intangible assets	22,574	22,460	22,287	25,377	98,702	97,123
Average tangible common equity	(b) \$218,986	\$247,898	\$227,422	\$262,391	\$339,725	\$371,301
Return on average tangible common equity (ROATCE)	(a) / (b) 17.95%	14.05%	18.15%	7.99%	13.39%	13.63%
Common equity at period end	\$258,927	\$257,763	\$259,518	\$425,243	\$444,062	\$518,274
Less: Intangible assets at period end	22,556	22,358	22,212	100,216	98,068	96,128
Tangible common equity at period end	(c) \$236,371	\$235,405	\$237,306	\$325,027	\$345,994	\$422,146
Total assets at period end	\$3,303,717	\$3,237,309	\$3,445,574	\$4,807,176	\$5,161,996	\$5,563,767 (A)
Less: Intangible assets at period end	22,556	22,358	22,212	100,216	98,068	96,128
Tangible assets at period end	(d) \$3,281,161	\$3,214,951	\$3,423,362	\$4,706,960	\$5,063,928	\$5,467,639
Tangible common equity/tangible assets (TCE/TA)	{c} / (d) 7.20%	7.32%	6.93%	6.91%	6.83%	7.72%
Common shares outstanding at period end	(e) 21,063	20,756	20,749	26,587	26,670	28,543 (B)
Tangible book value per share	{c} / (e) \$11.22	\$11.34	\$11.44	\$12.23	\$12.97	\$14.79
Noninterest expense	\$72,348	\$76,107	\$81,713	\$97,704	\$112,954	\$109,522
Less: Pre-tax amortization expense	262	204	151	204	2,301	1,940
Less: Non-recurring expense	84	228	1,268	15,838	527	2,375
Adjusted noninterest expense	(f) \$72,002	\$75,675	\$80,294	\$81,662	\$110,126	\$105,207
Net interest income (Taxable Equivalent)	\$105,593	\$100,128	\$117,317	\$122,946	\$151,400	\$157,555
Plus: Noninterest income	35,322	40,021	35,245	24,489	37,895	39,411
Less: Non-recurring income	10,502	15,256	8,430	75	3,660	2,426
Total Revenue	(g) \$130,413	\$124,893	\$144,132	\$147,360	\$185,635	\$194,540
Efficiency Ratio	(f) / (g) 55.21%	60.59%	55.71%	55.42%	59.32%	54.08%

(A) Prior period amounts have been reclassified to conform to current year presentation in connection with the adoption of ASU 2015-03 "Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs".

(B) Prior period shares adjusted for stock dividends

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