

KBW Community Bank Investor Conference 2017



 **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, planned operational efficiencies, earnings, pending acquisitions, 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**
- **33 years with Southside**

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

- **Chief Accounting Officer of Southside Bank from 2011-2016**
- **35 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%
- 670 Full-Time Employees

Financial Highlights (\$mm)

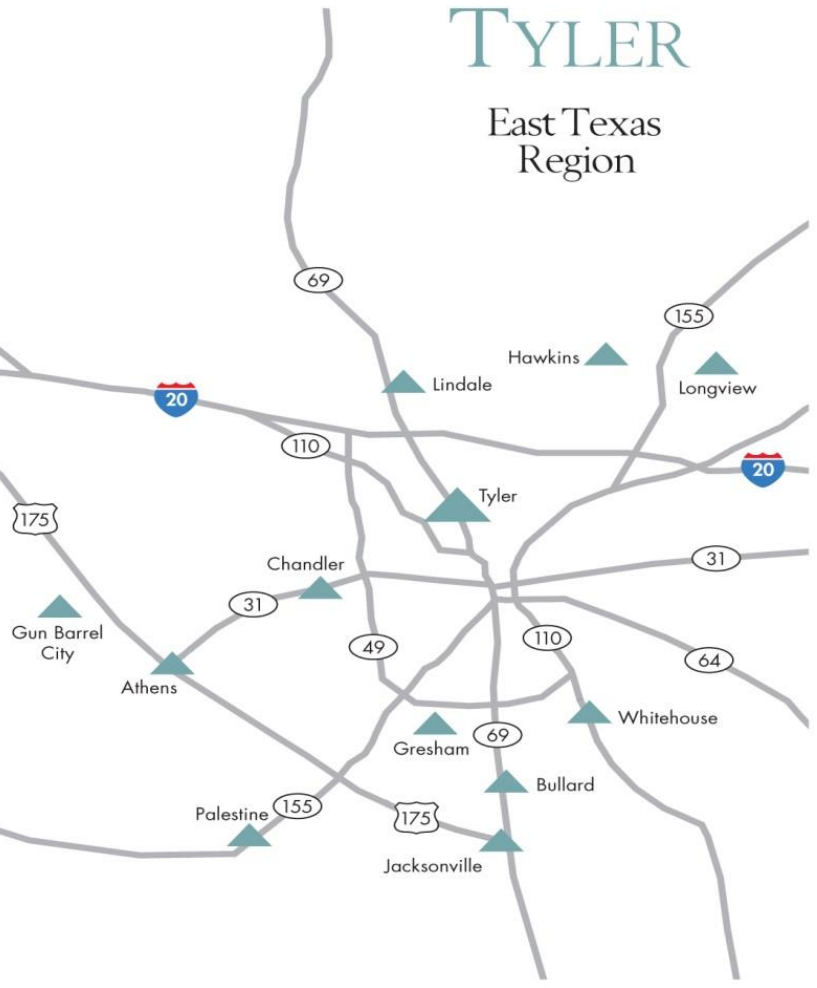
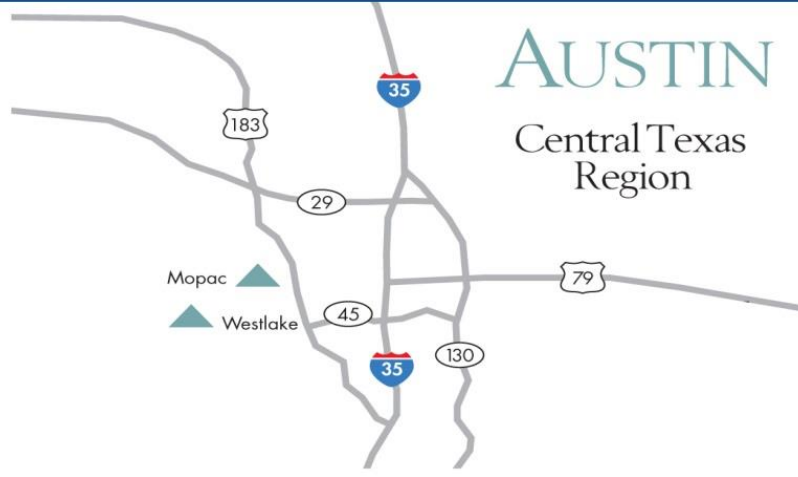
	As of and for the Years Ended December 31,		As of and for the Six Months Ended June 30,
	2015	2016	2017
Balance Sheet			
Total Assets	\$5,162	\$5,564	\$5,578
Total Loans (Ex. HFS)	2,432	2,557	2,610
Total Deposits	3,455	3,533	3,624
Total Equity	444	518	547
Profitability			
ROAA	0.90%	0.94%	1.06%
ROATCE ²	13.39	13.63	13.81
Net Interest Margin	3.40	3.26	3.07
Efficiency Ratio ²	59.32	54.08	50.93
Capital			
TCE / TA ²	6.83%	7.72%	8.24%
Common Equity Tier 1 Ratio	12.71	14.64	14.91
Tier 1 Risk-Based Ratio	14.56	16.37	16.68
Total Risk-Based Ratio	15.27	20.10	20.40
Leverage Ratio	8.61	9.46	9.73
Asset Quality			
NPAs / Loans and OREO	1.34%	0.59%	0.35%
NCOs / Average Loans	0.09	0.47	0.09
Reserve / Total Loans	0.81	0.70	0.74
Reserve / NPLs	62.31	121.70	215.75
Per Share			
Tangible Book Value ²	\$12.65	\$14.43	\$15.40
Diluted Earnings	1.61	1.81	1.00

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

2. See Non-GAAP reconciliation

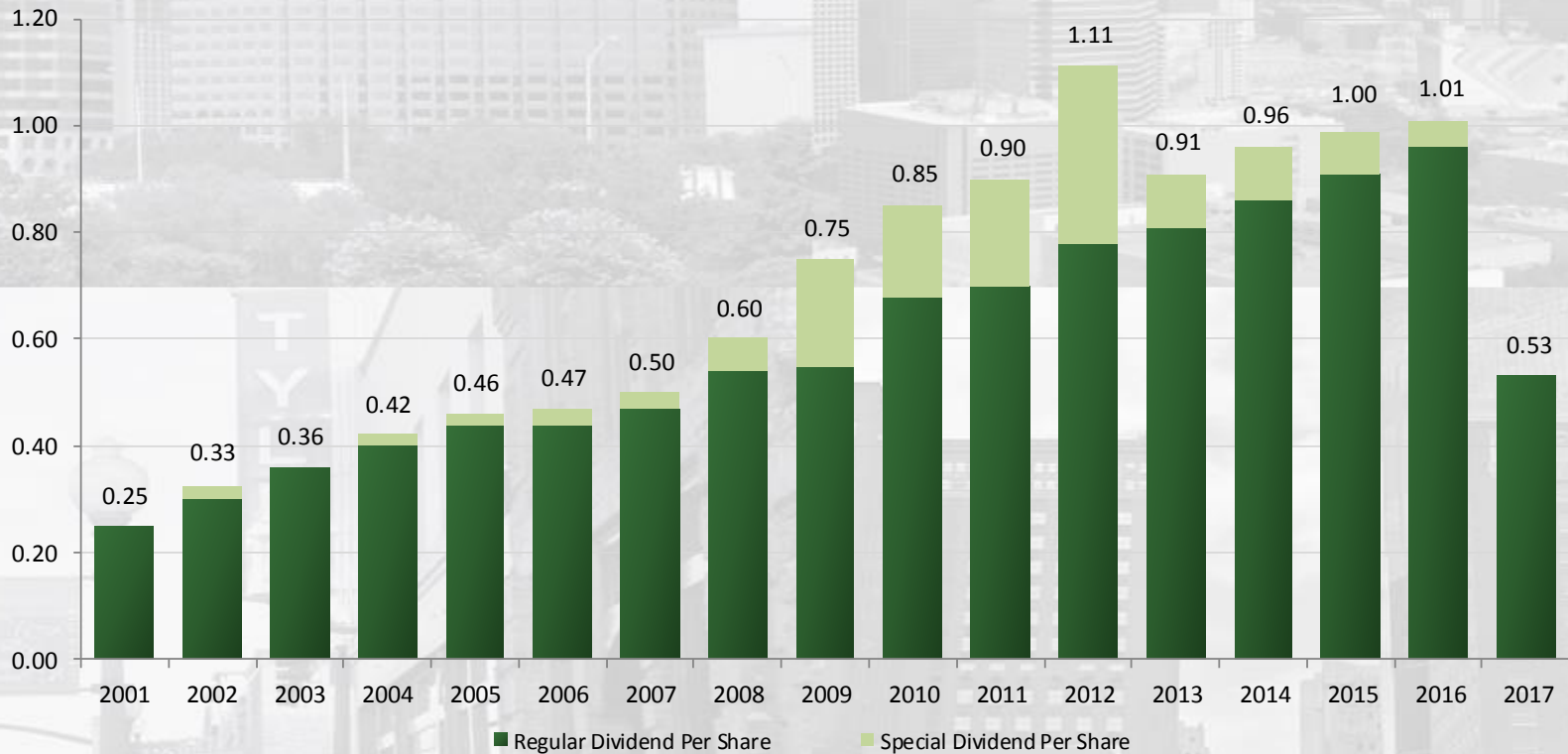
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014

Current Footprint



Dividends

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



Southside Bancshares, Inc.

Merger with

Diboll State Bancshares, Inc.

June 12, 2017



Strategic Rationale

- Southside Bancshares, Inc. will merge with Diboll State Bancshares, Inc., the holding company for First Bank & Trust East Texas ⁽¹⁾
 - \$1.0 billion total assets
 - 1.20% LTM ROAA
 - 35% noninterest-bearing deposits
 - 0.12% LTM cost of funds
- Creates a Texas-based bank with nearly \$6.7 billion in assets and \$4.6 billion in deposits
- Add significant trust assets under management
- Strong cultural fit
 - Similar business model and lending culture
 - First Bank & Trust East Texas was established in 1953 and has a long track record of solid performance
 - Strong insider ownership
 - Management teams are very familiar with one another
 - Contiguous markets that complement and expand Southside's East Texas footprint
- Financially attractive
 - Full run-rate earnings per share accretion of more than 7%
 - Minimal tangible book value per share dilution is earned back in less than 4 years
 - 16%+ internal rate of return

(1) Based on call report data for First Bank & Trust East Texas as of or for the period ended 3/31/2017. LTM = last twelve months.

Overview of Diboll

Franchise Overview

- Established in 1953
- Locally owned and operated
- 17 locations throughout East Texas
- 35% of deposits are noninterest-bearing
- Well-run, profitable company with solid asset quality and an exceptional deposit base
- As of March 31, 2017, Diboll's trust department had approximately \$860 million in total assets under management (AUM)

Key Financial Highlights ⁽¹⁾

(Dollars in millions)

Total Assets	\$1,011
Gross Loans Held for Investment	659
Total Deposits	908
Tangible Common Equity	93
TCE Ratio	9.24%
Tier 1 RBC Ratio	12.91
Total RBC Ratio	13.99
Return on Average Assets ⁽²⁾	1.20
Net Interest Margin ⁽²⁾	3.95
Efficiency Ratio ⁽²⁾	58.93
Cost of Funds ⁽²⁾	0.12
NPAs / Assets	0.86
NCOs / Average Loans ⁽²⁾	0.31

Gross Loans HFI (\$mm)



Net Income (\$mm)



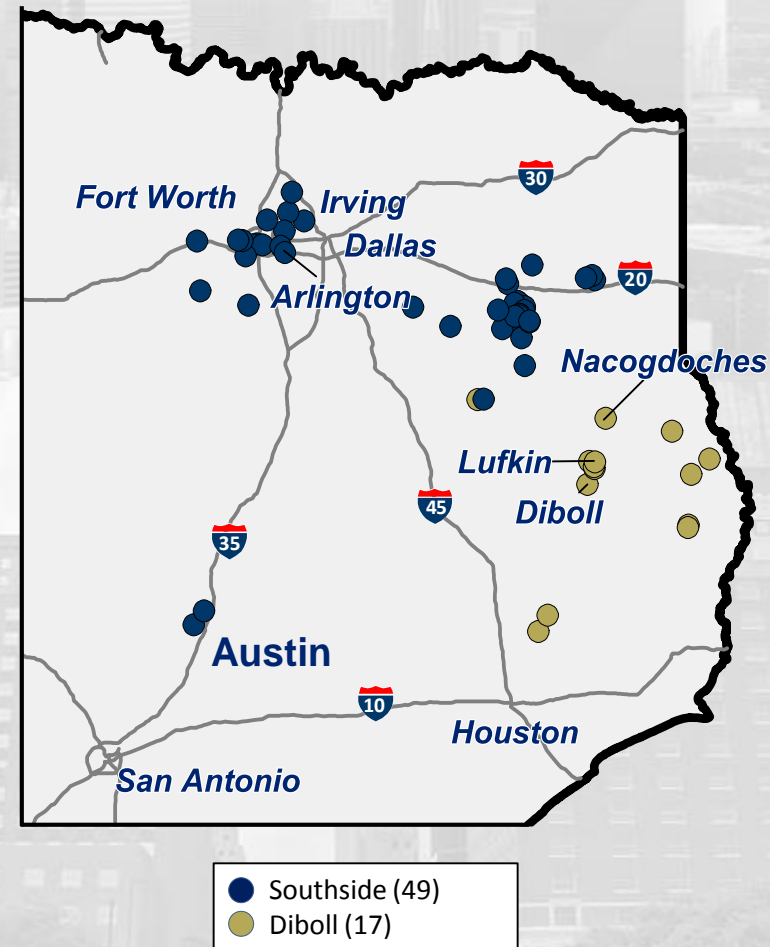
(1) Based on call report data for First Bank & Trust East Texas as of the period ended 3/31/2017.

(2) For the last twelve month period ended 3/31/2017.

Combined Franchise

<i>(Dollars in millions)</i>	Southside Bancshares, Inc.		Diboll State Bancshares, Inc.		Combined ⁽¹⁾
Total Assets	\$	5,656	\$	1,011	\$ 6,667
Total Loans HFI		2,539		659	3,198
Total Deposits		3,705		908	4,613
LTM Earnings		50.8		11.8	62.6

- **Significant scale throughout East Texas provides stable source of low-cost core deposits**
- **Strong presence in Dallas / Fort Worth provides robust loan growth opportunities**



Sources: SNL Financial and SEC filings of Southside Bancshares, Inc.

Note: Based on call report data for First Bank & Trust East Texas and SEC filings for Southside Bancshares, Inc. as of or for the last twelve month (LTM) period ended 3/31/2017.

(1) Excludes purchase accounting adjustments and synergies.

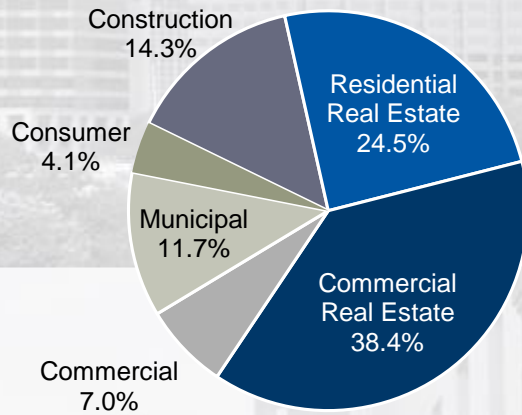
Top Ten Texas-Based Banks

Deposit Market Share of Texas-Based Institutions

Rank	Institution Name	No. of Branches	Deposits (\$mm)	Market Share (%)
1	Cullen/Frost Bankers Inc.	146	24,337.6	9.8%
2	Texas Capital Bancshares Inc.	12	16,757.6	6.7
3	Prosperity Bancshares Inc.	250	15,419.9	6.2
4	Comerica Inc.	122	9,802.2	3.9
5	International Bancshares Corp.	150	7,272.0	2.9
6	Hilltop Holdings Inc.	63	6,731.7	2.7
7	LegacyTexas Finl Group Inc.	45	5,655.1	2.3
8	Independent Bank Group Inc.	66	5,556.3	2.2
9	First Financial Bankshares	74	5,134.0	2.1
10	Southside / First Bank & Trust	66	4,441.8	2.0
10	Southside Bancshares Inc.	49	3,574.5	1.7
50	First Bank & Trust East Texas	17	867.3	0.3
Total For all Texas Institutions		3,717	\$249,611.1	

Loan Portfolios

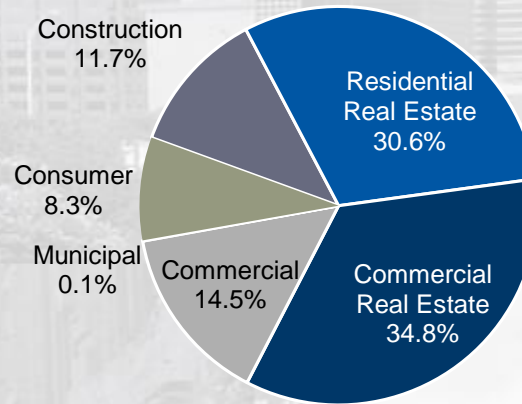
Southside Bancshares, Inc. (1)



Loan Portfolio (\$000)	Amount	% of Total
Construction	\$362,367	14.3%
Residential Real Estate	622,881	24.5%
Commercial Real Estate	974,307	38.4%
Commercial	176,908	7.0%
Municipal	297,417	11.7%
Consumer	105,038	4.1%
Gross Loans HFI	\$2,538,918	100.0%

Yield on Loans: 4.49%

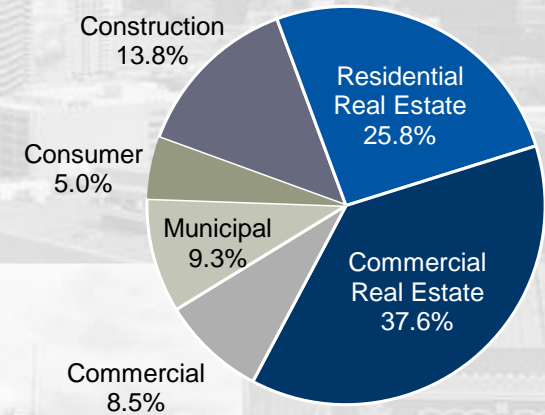
Diboll State Bancshares, Inc. (2)



Loan Portfolio (\$000)	Amount	% of Total
Construction	\$77,340	11.7%
Residential Real Estate	201,443	30.6%
Commercial Real Estate	229,165	34.8%
Commercial	95,903	14.5%
Municipal	408	0.1%
Consumer	54,996	8.3%
Gross Loans HFI	\$659,255	100.0%

Yield on Loans: 5.07%

Combined (3)

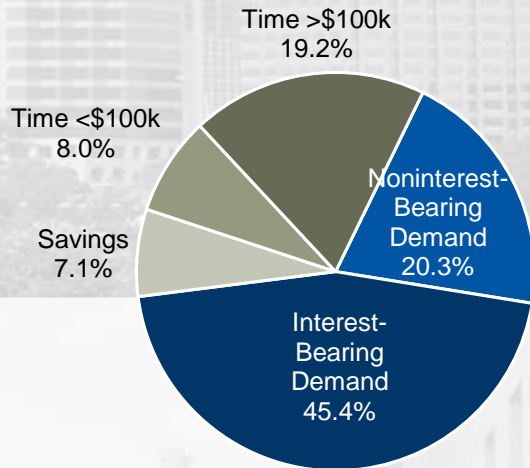


Loan Portfolio (\$000)	Amount	% of Total
Construction	\$439,707	13.8%
Residential Real Estate	824,324	25.8%
Commercial Real Estate	1,203,472	37.6%
Commercial	272,811	8.5%
Municipal	297,825	9.3%
Consumer	160,034	5.0%
Gross Loans HFI	\$3,198,173	100.0%

(1) Southside data per SEC Form 10-Q for the period ended 03/31/2017.
 (2) Based on call report data for First Bank & Trust East Texas as of or for the period ended 3/31/2017.
 (3) Excludes potential purchase accounting adjustments.

Deposit Composition

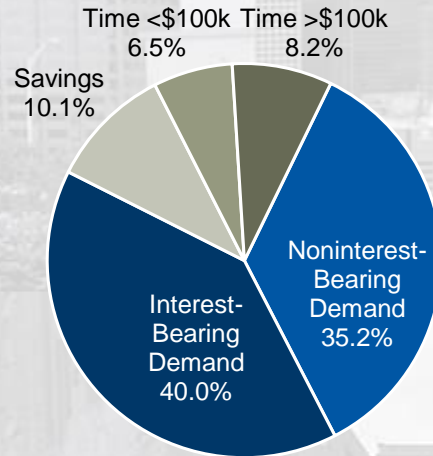
Southside Bancshares, Inc. (1)



Deposit Portfolio (\$000)	Amount	% of Total
Noninterest-Bearing Demand	\$753,224	20.3%
Interest-Bearing Demand	1,683,683	45.4%
Savings	262,116	7.1%
Time <\$100k	296,503	8.0%
Time >\$100k	709,770	19.2%
Total Deposits	\$3,705,296	100.0%

Cost of Deposits: 0.48%

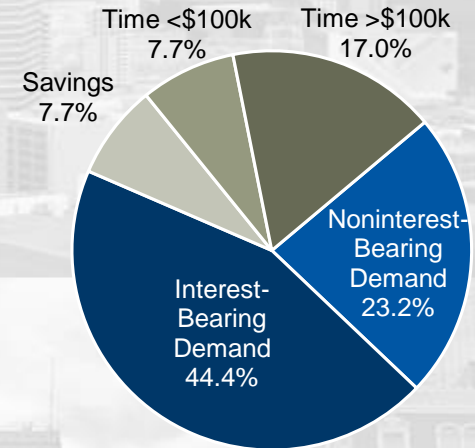
Diboll State Bancshares, Inc. (2)



Deposit Portfolio (\$000)	Amount	% of Total
Noninterest-Bearing Demand	\$319,501	35.2%
Interest-Bearing Demand	363,426	40.0%
Savings	91,526	10.1%
Time <\$100k	59,095	6.5%
Time >\$100k	74,561	8.2%
Total Deposits	\$908,109	100.0%

Cost of Deposits: 0.12%

Combined (3)



Deposit Portfolio (\$000)	Amount	% of Total
Noninterest-Bearing Demand	\$1,072,725	23.2%
Interest-Bearing Demand	2,047,109	44.4%
Savings	353,642	7.7%
Time <\$100k	355,598	7.7%
Time >\$100k	784,331	17.0%
Total Deposits	\$4,613,405	100.0%

(1) Southside data per Schedule FR Y-9C and call report data for the period ended 03/31/2017.
 (2) Based on call report data for First Bank & Trust East Texas as of or for the period ended 3/31/2017.
 (3) Excludes potential purchase accounting adjustments.

Transaction Summary

Aggregate Consideration

- 5,535,000 shares of Southside common stock and up to \$25,000,000 in cash
- 88.6% stock / 11.4% cash ⁽¹⁾

Aggregate Transaction Value ⁽¹⁾

- \$218.8 million

Termination Fee

- \$9.0 million payable by Diboll under certain circumstances

Board Seats

- Two Diboll board members will join Southside's board; pro forma board of 17 members

Pro Forma Ownership

- 84.1% Southside / 15.9% Diboll

Required Approvals

- Customary regulatory approvals and Diboll shareholder approval

Expected Closing

- Fourth Quarter of 2017

Due Diligence

- Completed

(1) Based on Southside common stock price of \$35.01 as of 6/12/2017.

Transaction Multiples and Pro Forma Impact

Transaction Multiples⁽¹⁾

Price / TBV

2.28x

Price / LTM Earnings

18.8x

Core Deposit Premium⁽²⁾

14.6%

Transaction Metrics

2018e EPS Accretion⁽³⁾

~5.4%

2019e EPS Accretion⁽³⁾

~7.3%

TBV Earnback Period

Less than 4.0 years

Internal Rate of Return

17%

Estimated Pro Forma Capital Ratios At Closing

TCE / TA

7.7%

Leverage Ratio

9.1%

Total Capital Ratio

18.0%

(1) Based on Southside common stock price of \$35.01 as of 6/12/2017.

(2) Core deposits equal to total deposits less time deposits greater than \$100,000.

(3) Includes 75% 2018 phase-in of cost savings and 100% thereafter.

Three Months Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 14,481	\$11,395	27.1%
EPS (diluted)	\$ 0.49	\$ 0.42	16.7%
ROE	10.70%	9.91%	
ROA	1.04%	0.90%	
Efficiency Ratio	50.26%	52.85%	

Six Months Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 29,470	\$ 24,911	18.3%
EPS (diluted)	\$ 1.00	\$ 0.92	8.7%
ROE	11.13%	10.93%	
ROA	1.06%	0.99%	
Efficiency Ratio	50.93%	55.22%	

Shareholder Returns

Tangible Book Value Per Share¹ (\$)



Diluted Earnings Per Share (\$)

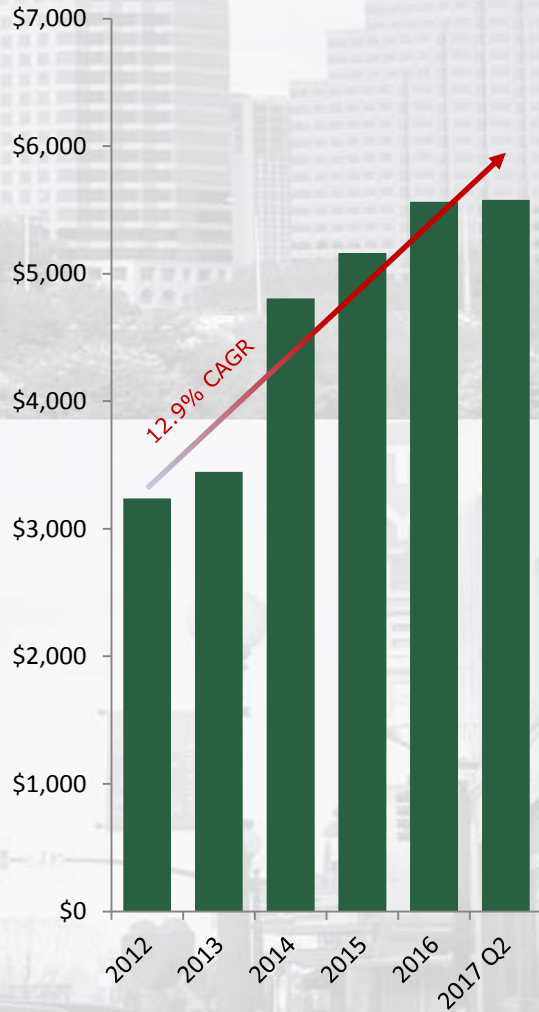


1. See Non-GAAP reconciliation

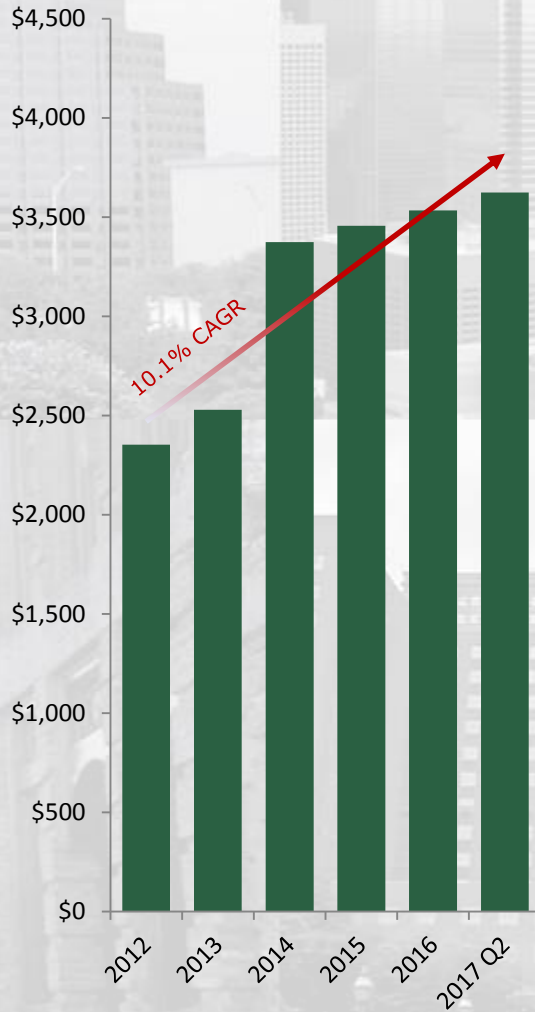
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on December 17, 2014 resulting in pre-tax merger expenses of \$15.9mm and \$5.5mm in 2014 and 2015, respectively, as well as \$2.8mm in impairment charges in 2014 relating to the exit of SFG

Financial Performance: Growth

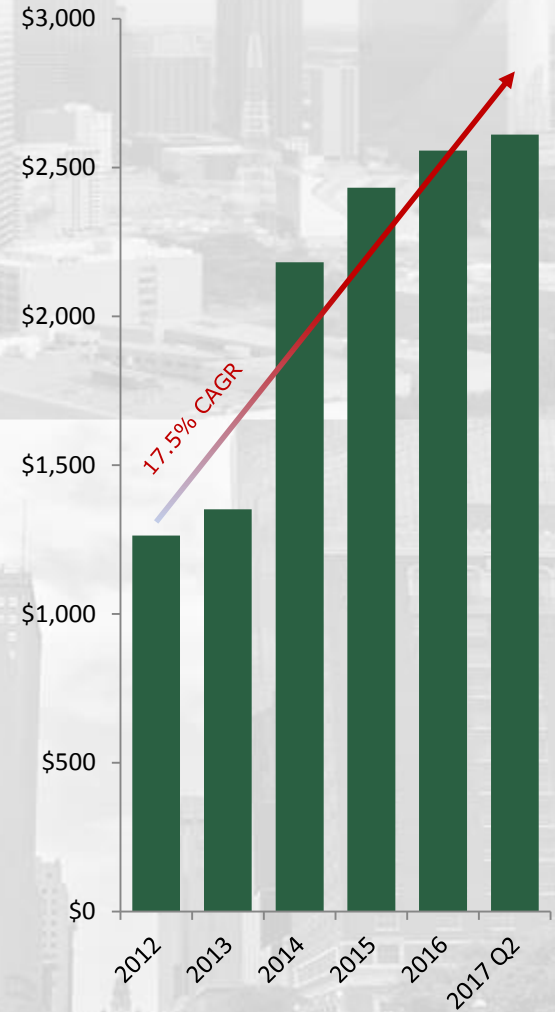
Total Assets (\$mm)



Total Deposits (\$mm)

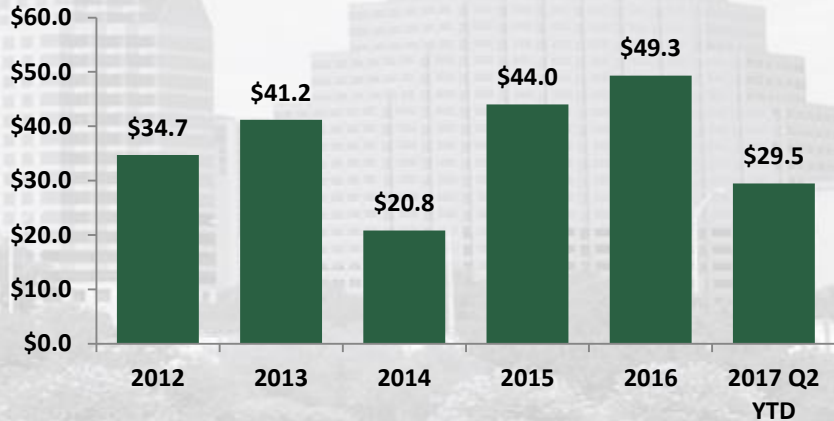


Loans HFI (\$mm)



Financial Performance: Profitability

Net Income to Common Shareholders (\$mm)



Net Interest Income (\$mm)



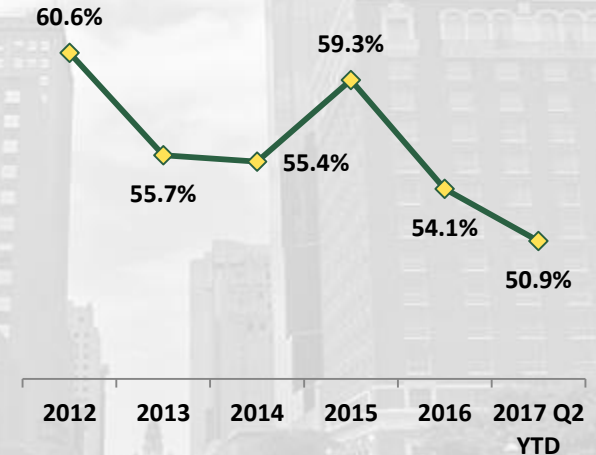
ROAA



ROATCE¹



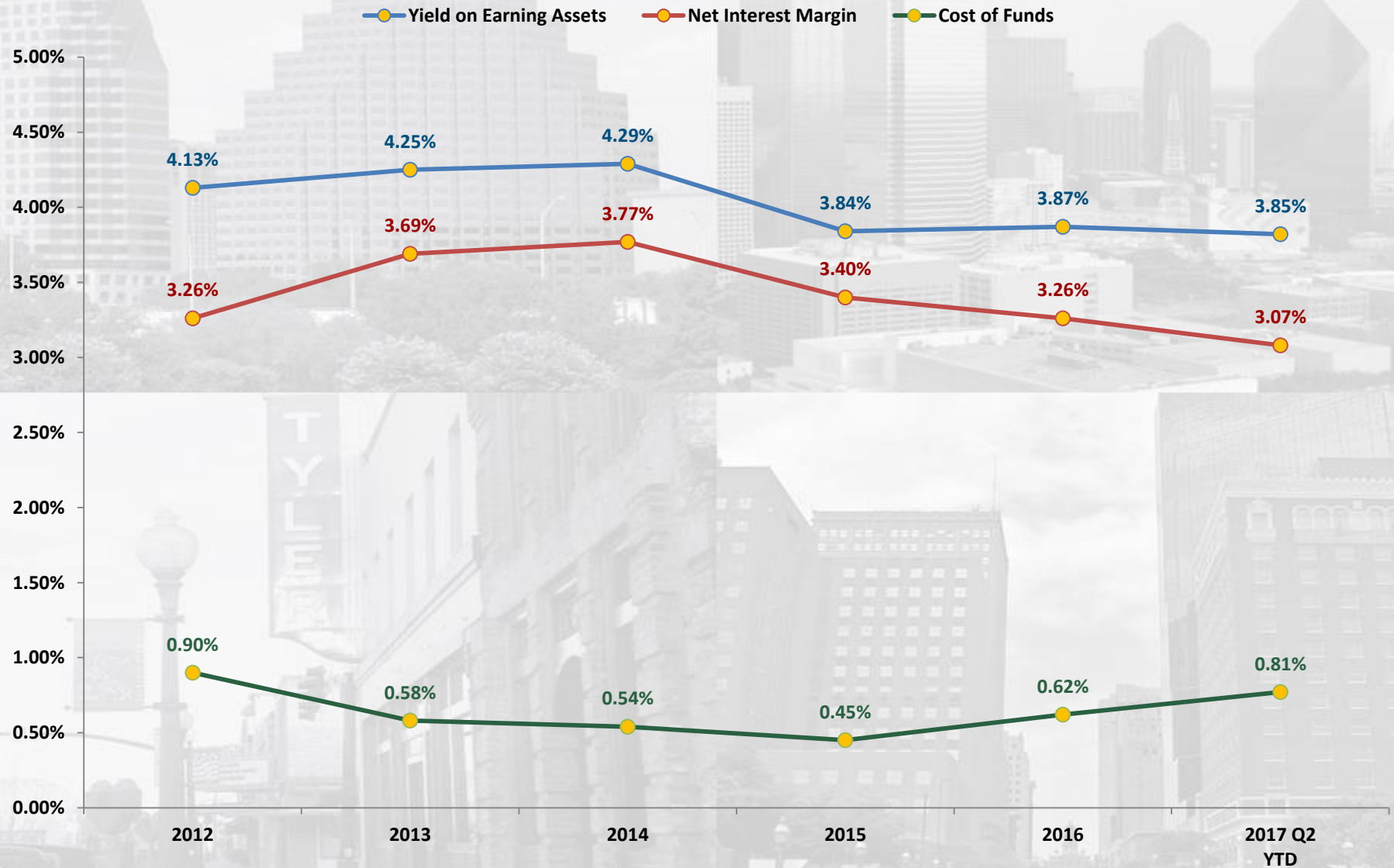
Efficiency Ratio¹



1. See Non-GAAP reconciliation

2. 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

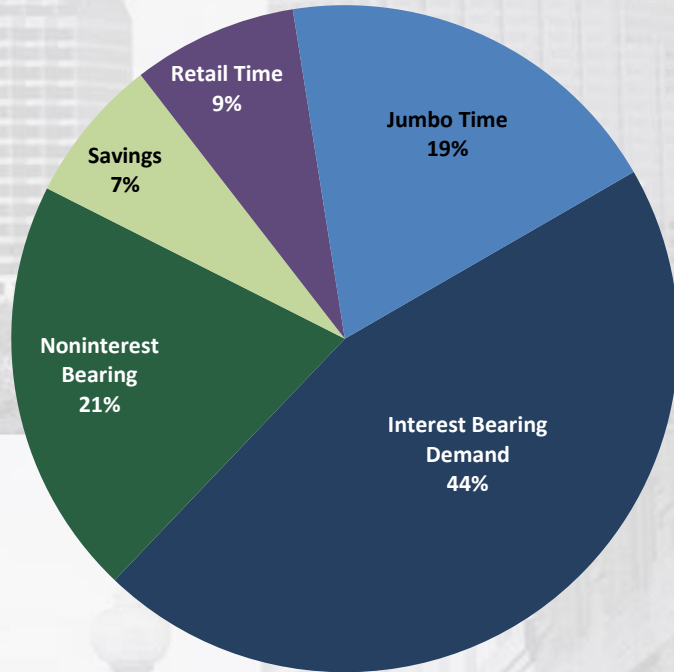
Net Interest Margin



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

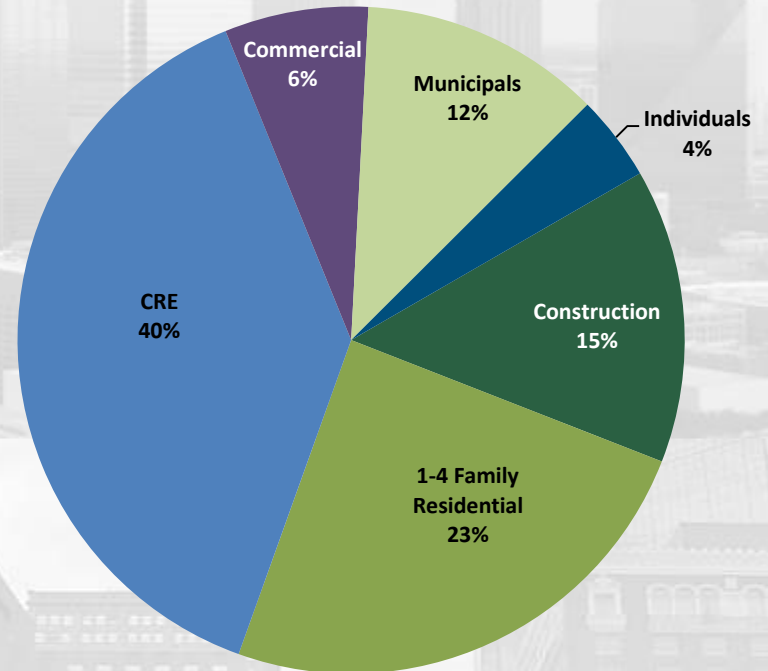
Deposit Composition and Loan Portfolio

Deposit Composition as of 6/30/2017



Deposit Type	Amount \$mm	%
Interest Bearing Demand	\$1,602	44%
Noninterest Bearing	757	21%
Savings	262	7%
Retail Time	309	9%
Jumbo Time	694	19%
Total	\$3,624	100%

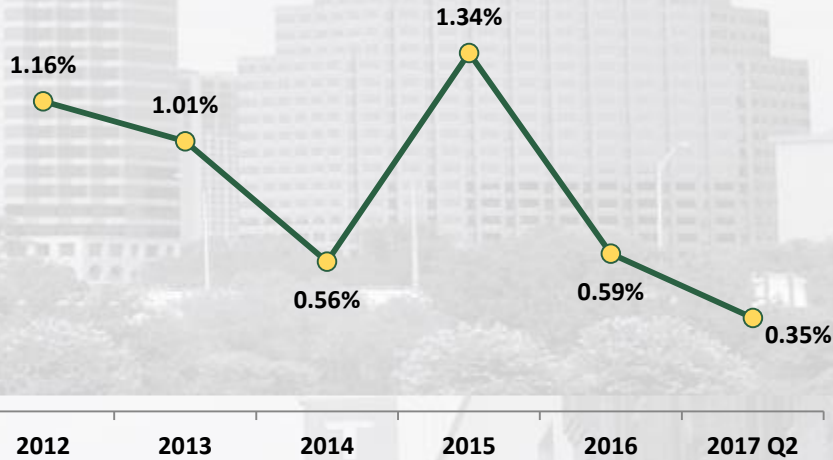
Loan Portfolio by Type as of 6/30/2017



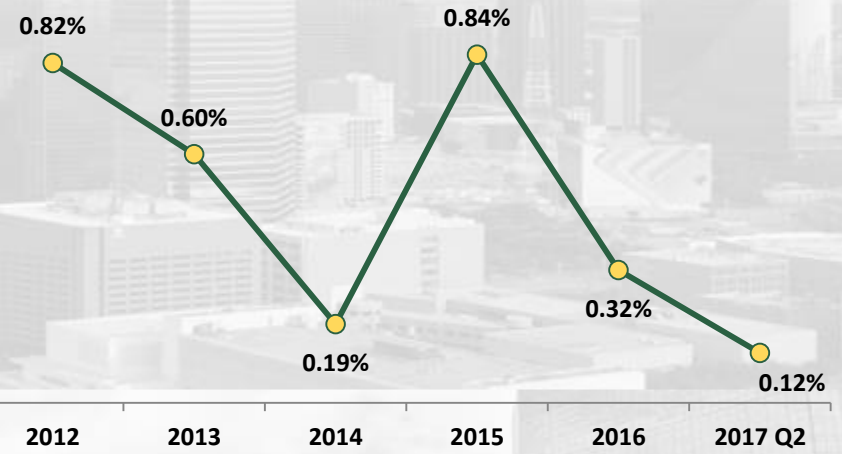
Loan Type	Amount \$mm	%
Real Estate Loans:		
Construction	\$387	15%
1-4 Family Residential	615	23%
CRE	1034	40%
Commercial	172	6%
Municipals	305	12%
Individuals	97	4%
Total	\$2,610	100%

Asset Quality Trends

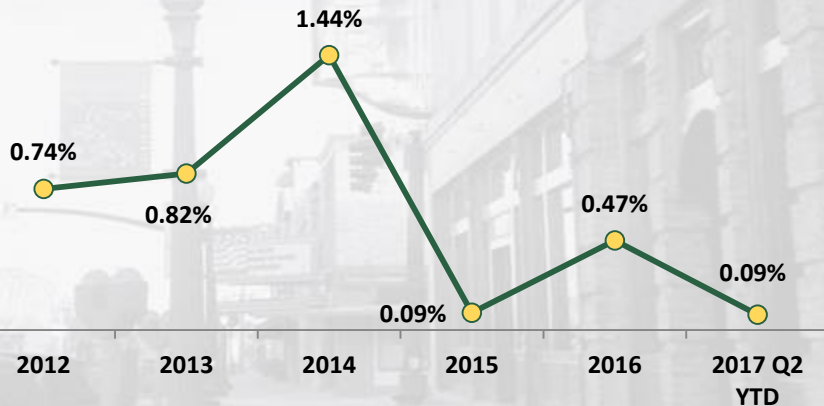
NPAs / Loans and OREO¹



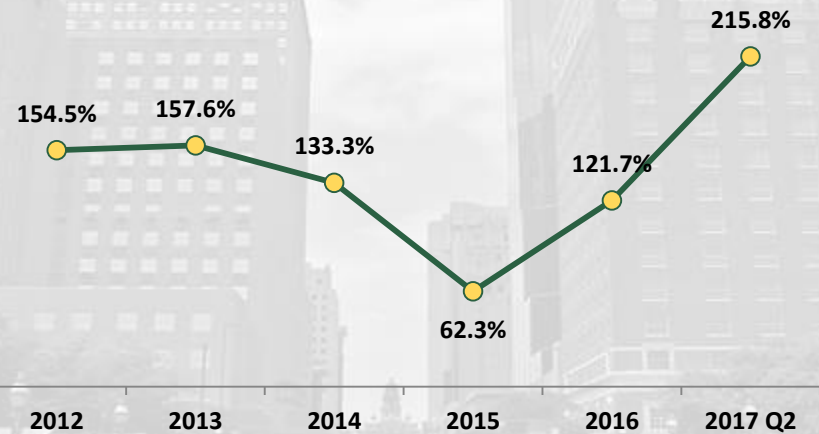
Nonaccrual Loans / Loans¹



NCOs / Average Loans



Reserves / NPLs



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

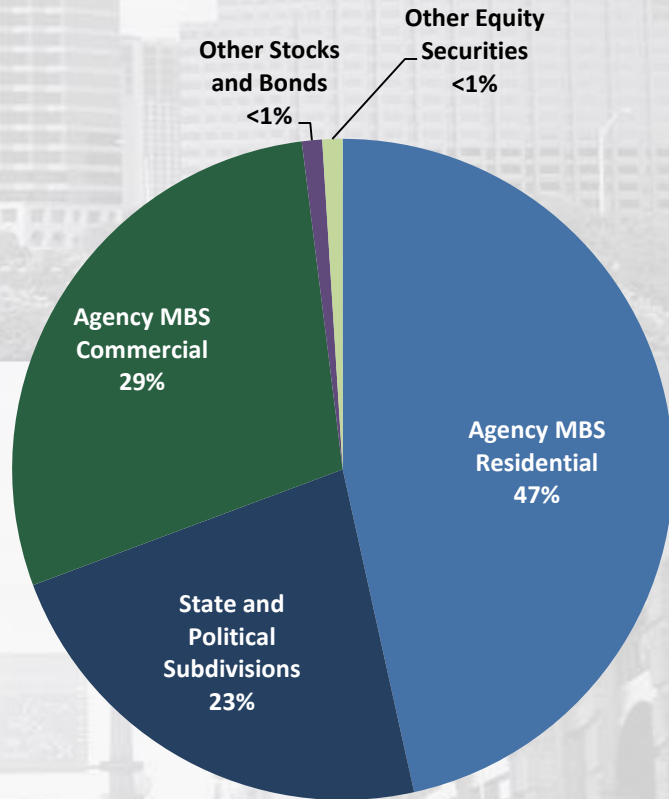
Commercial Oil & Gas Exposure

June 30, 2017

	<u>Amount</u> <u>(\$000s)</u>	<u>As a Percent</u> <u>of Loans</u>
Oil & Gas Extraction and Wells	\$ 17,563	0.68%
Support Activities for Oil & Gas Operations	12,140	0.46
Total Oil & Gas Industry Exposure	<u>\$ 29,703</u>	<u>1.14%</u>

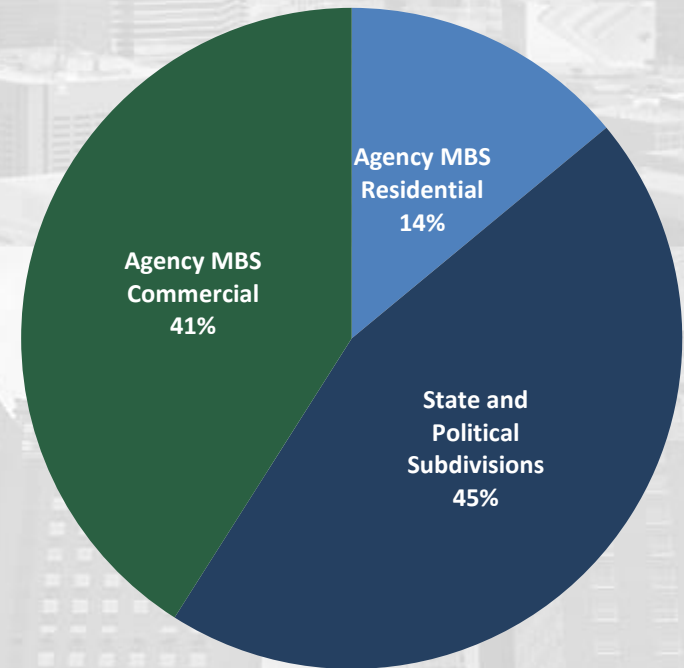
Securities Composition

Available for Sale as of 6/30/2017 (Fair Value)



\$1.4 billion

Held To Maturity as of 6/30/2017 (Carrying Value)



\$0.9 billion

Investment Portfolio Performance

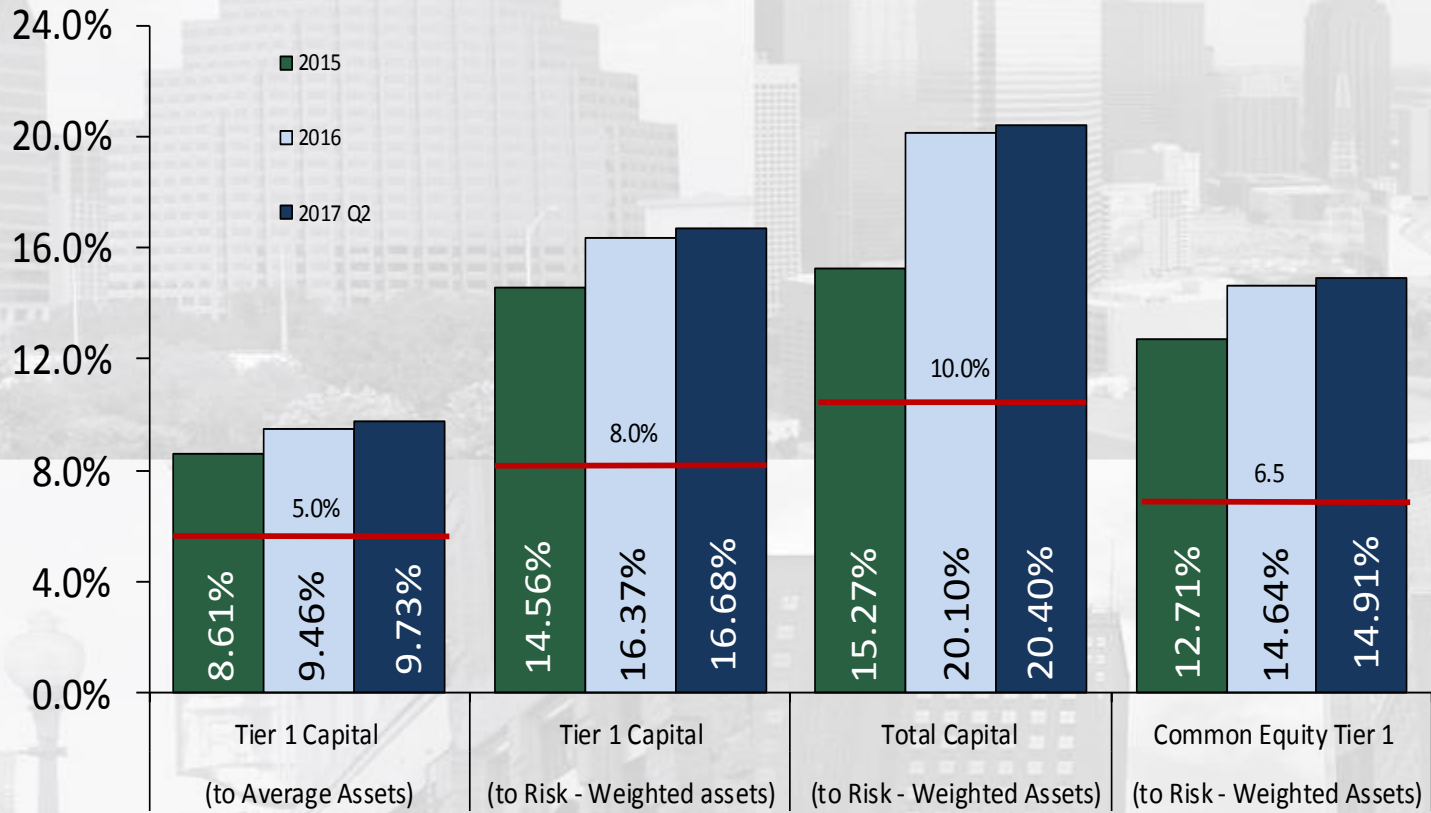
Southside Bank Performance

One Year	95 th Percentile
Three Year	93 rd Percentile
Five Year	91 st Percentile
Overall Rank	94 th Percentile

Distributions by percentile of 5,639 banks in the U.S. based on total return; all investments marked-to-market.

Source: IDC Report Period 12/31/2016

Capital Levels



Well Capitalized

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

- 13% CAGR in total assets from 2012 – 2Q 2017
- 10% CAGR in total deposits from 2012 – 2Q 2017
- 18% CAGR in total loans from 2012 – 2Q 2017

▪ 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 1.14% in 2Q 2017 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 0.35% in 2Q 2017

▪ 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



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) subtracts 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 expenses, 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					As of and for the
	December 31,					Six Months
	2012	2013	2014	2015	2016	Ended June 30,
						2017
Net income available to common	\$34,695	\$41,190	\$20,833	\$43,997	\$49,349	\$29,470
Plus: After-tax amortization expense (35% tax rate)	133	98	133	1,496	1,261	547
Adjusted net income available to common	(a) \$34,828	\$41,288	\$20,966	\$45,493	\$50,610	\$30,017
Average common equity	\$270,358	\$249,709	\$287,768	\$438,427	\$468,424	\$534,069
Less: Average intangible assets	22,460	22,287	25,377	98,702	97,123	95,750
Average tangible common equity	(b) \$247,898	\$227,422	\$262,391	\$339,725	\$371,301	\$438,319
Return on average tangible common equity (ROATCE)	(a) / (b) 14.05%	18.15%	7.99%	13.39%	13.63%	13.81% [A]
Common equity at period end	\$257,763	\$259,518	\$425,243	\$444,062	\$518,274	\$547,065
Less: Intangible assets at period end	22,358	22,212	100,216	98,068	96,128	95,287
Tangible common equity at period end	(c) \$235,405	\$237,306	\$325,027	\$345,994	\$422,146	\$451,778
Total assets at period end	\$3,237,309	\$3,445,574	\$4,807,176	\$5,161,996	\$5,563,767	\$5,578,482 [B]
Less: Intangible assets at period end	22,358	22,212	100,216	98,068	96,128	95,287
Tangible assets at period end	(d) \$3,214,951	\$3,423,362	\$4,706,960	\$5,063,928	\$5,467,639	\$5,483,195
Tangible common equity/tangible assets (TCE/TA)	(c) / (d) 7.32%	6.93%	6.91%	6.83%	7.72%	8.24%
Common shares outstanding at period end	(e) 21,278	21,271	27,256	27,341	29,261	29,344 [C]
Tangible book value per share	(c) / (e) \$11.06	\$11.16	\$11.92	\$12.65	\$14.43	\$15.40
Noninterest expense	\$76,107	\$81,713	\$97,704	\$112,954	\$109,522	\$51,395
Less: Pre-tax amortization expense	204	151	204	2,301	1,940	841
Less: Non-recurring expense	228	1,268	15,838	527	2,375	483
Adjusted noninterest expense	(f) \$75,675	\$80,294	\$81,662	\$110,126	\$105,207	\$50,071
Net interest income (Taxable Equivalent)	\$100,128	\$117,317	\$122,946	\$151,400	\$157,555	\$79,393
Plus: Noninterest income	40,021	35,245	24,489	37,895	39,411	18,966
Less: Non-recurring income	15,256	8,430	75	3,660	2,426	47
Total Revenue	(g) \$124,893	\$144,132	\$147,360	\$185,635	\$194,540	\$98,312
Efficiency Ratio	(f) / (g) 60.59%	55.71%	55.42%	59.32%	54.08%	50.93%

- (A) Annualized
(B) 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."
(C) Prior period shares adjusted for stock dividends

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