

Sandler O'Neill + Partners West Coast Financial Services Conference 2018



 **SOUTHSIDE**
BANCSHARES, INC.TM
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, or the 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, 2017, 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*

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

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

- Chief Accounting Officer of Southside Bank from 2011-2016
- Board Treasurer of CASA for Kids of East Texas
- 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 private banking, wealth management and trust, and brokerage services
- Diversified branch footprint consisting of 60 branches, 16 of which are located in grocery stores
- Approximately 40% deposit market share in Tyler, TX⁽¹⁾
- Insider ownership equal to 7.5%
- 855 Full-Time Employees

Financial Highlights (\$mm)

	As of and for the Years Ended December 31,	
	2016	2017
<u>Balance Sheet</u>		
Total Assets	\$5,564	\$6,498
Total Loans (Ex. HFS)	2,557	3,294
Total Deposits	3,533	4,515
Total Equity	518	754
<u>Profitability</u>		
ROAA	0.94%	0.96%
ROATCE ⁽²⁾	13.63	12.18
Net Interest Margin ⁽³⁾	3.26	3.07
Efficiency Ratio ⁽²⁾⁽³⁾	54.08	50.30
<u>Capital</u>		
TCE / TA ⁽²⁾	7.72%	8.45%
Common Equity Tier 1 Ratio	14.64	14.65
Tier 1 Risk-Based Ratio	16.37	16.12
Total Risk-Based Ratio	20.10	19.22
Leverage Ratio	9.46	11.16
<u>Asset Quality</u>		
NPAs / Loans and OREO	0.59%	0.32%
NCOs / Average Loans	0.47	0.07
Reserve / Total Loans	0.70	0.63
Reserve / NPLs	121.70	238.72
<u>Per Share</u>		
Tangible Book Value ⁽²⁾	\$14.43	\$15.14
Diluted Earnings	1.81	1.81

(1) Deposit market share for the Tyler, TX MSA; Source: FDIC; As of 6/30/2017

(2) See Non-GAAP reconciliation

(3) Calculated on a fully taxable-equivalent basis

Note: Completed acquisition of Diboll State Bancshares, Inc. on November 30, 2017

SBSI – Investment Highlights

■ Opportunities for Future Growth

- Well-positioned for a rising interest rate environment
- Texas M&A environment remains active
- Significant opportunities for organic growth

■ Consistent Track Record of Growth

- 15% CAGR in total assets from 2012 – 2017
- 14% CAGR in total deposits from 2012 – 2017
- 21% CAGR in total loans from 2012 – 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 growth)⁽¹⁾

■ Loan Portfolio Cushioned from Oil and Gas Volatility

- Only 1.50% of total loan portfolio tied to the oil and gas sector

■ Conservative Lending Practices Translate into Strong Asset Quality

- NPAs / Loans and OREO of 0.32% at 12/31/2017

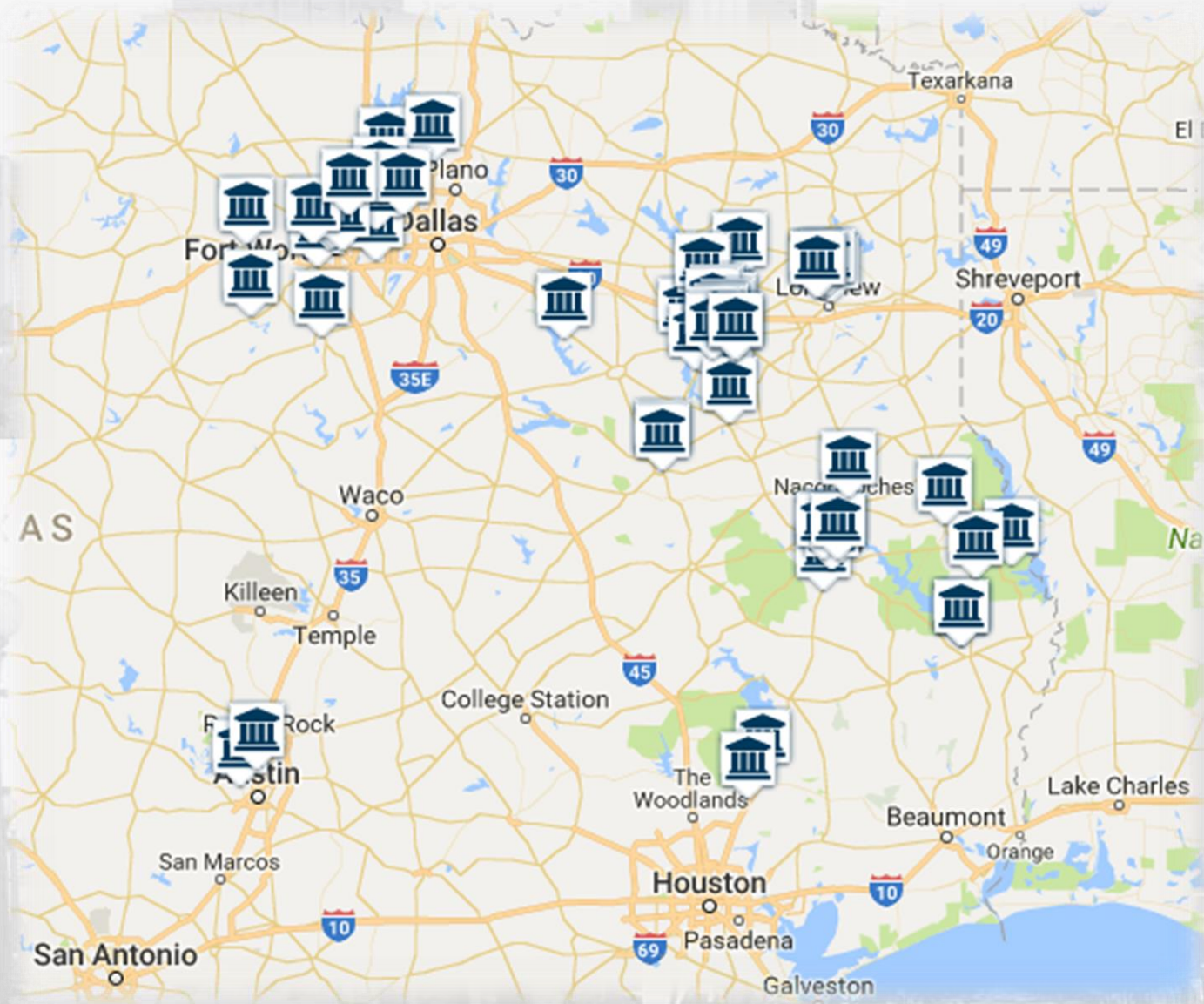
■ Veteran Management Team

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

(1) 2017 – 2022 projected growth; source: SNL Financial, Nielsen

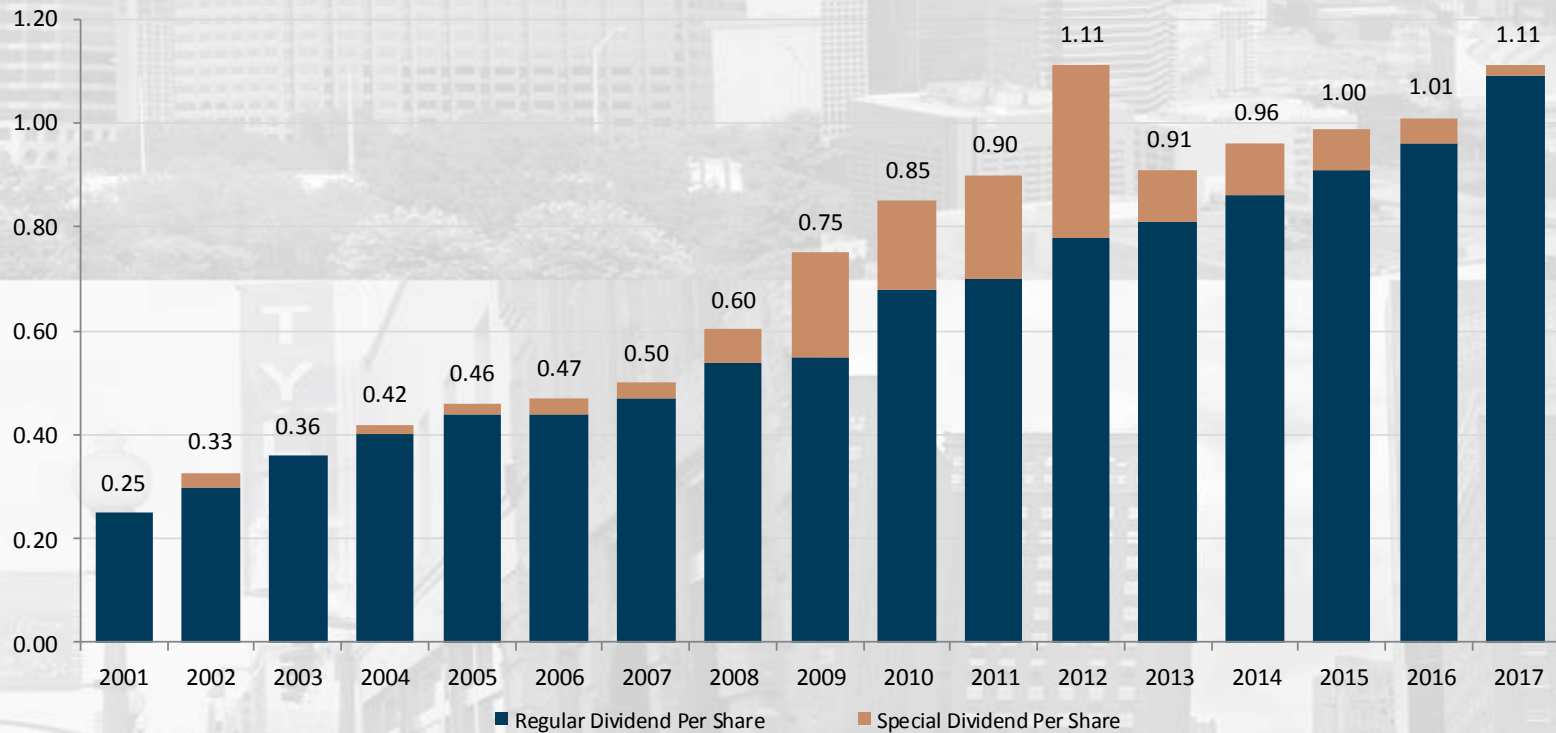
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

Expanded Footprint



Dividends

Southside has paid a cash dividend every year since 1970



Goals for 2018

- Successful Integration of Diboll State Bancshares, Inc.
- Maintain Quality Loan Growth
- Grow Core Deposits
- Increase Noninterest Income
- Navigate a Changing Yield Curve
- Capitalize on Operational Process Efficiency
- Continue Implementing Updated Branch Look and Branding
- Introduce Additional ITMs to our Customers

Three Months Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 10,331	\$ 11,573	(10.7)%
EPS (diluted)	\$ 0.33	\$ 0.42	(21.4)%
ROE	6.52%	9.56%	
ROA	0.70%	0.83%	
Efficiency Ratio (fully taxable-equivalent basis)	49.42%	52.00%	

Year Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 54,312	\$ 49,349	10.1%
EPS (diluted)	\$ 1.81	\$ 1.81	
ROE	9.65%	10.54%	
ROA	0.96%	0.94%	
Efficiency Ratio (fully taxable-equivalent basis)	50.30%	54.08%	

Shareholder Returns

Tangible Book Value Per Share⁽¹⁾ (\$)



Diluted Earnings Per Share (\$)

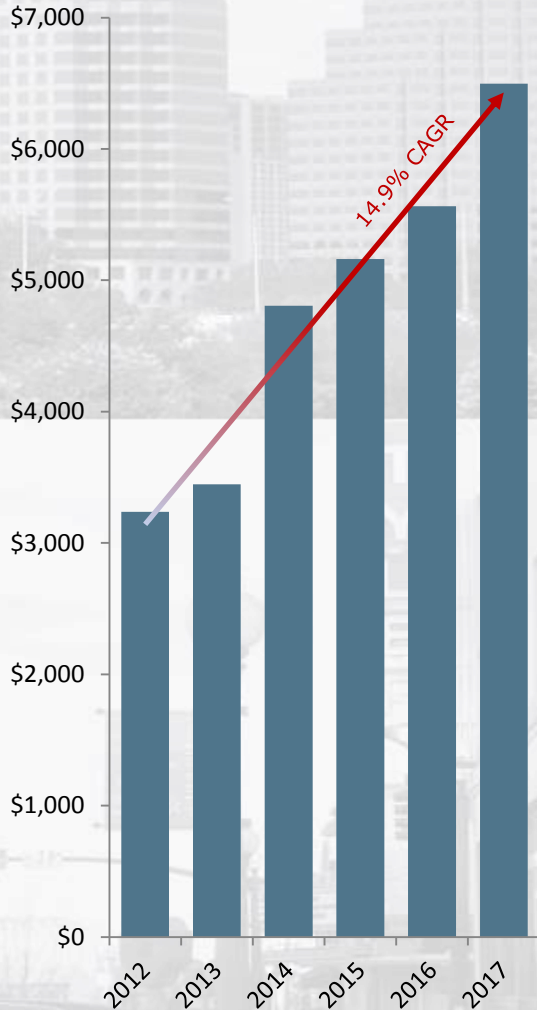


(1) See Non-GAAP reconciliation

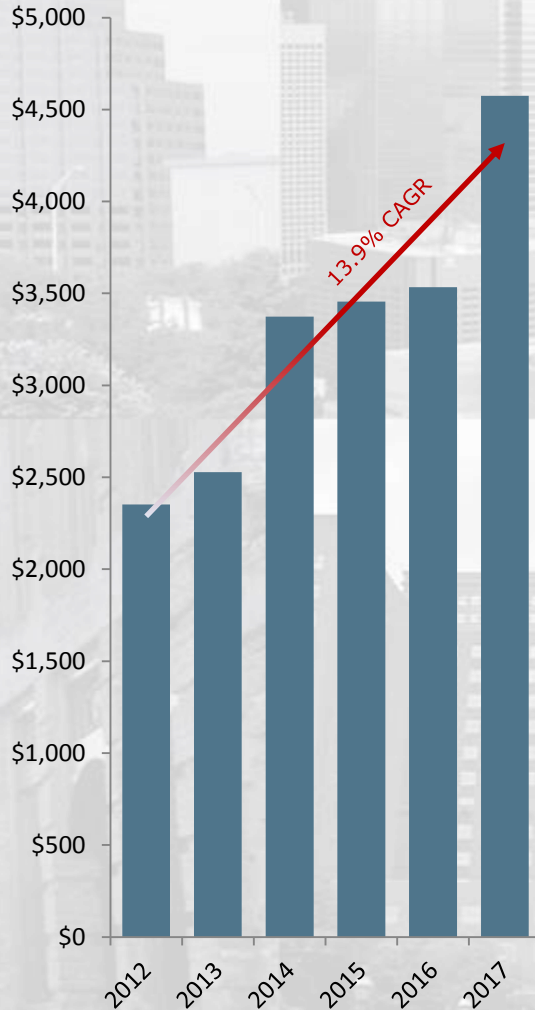
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 resulting in pre-tax merger expenses of \$15.9mm and \$5.5mm in 2014 and 2015, respectively, as well as \$2.8mm in impairment charges in 2014 relating to the exit of SFG. Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17 resulting in pre-tax merger expenses of \$4.4mm in 2017.

Financial Performance: Growth

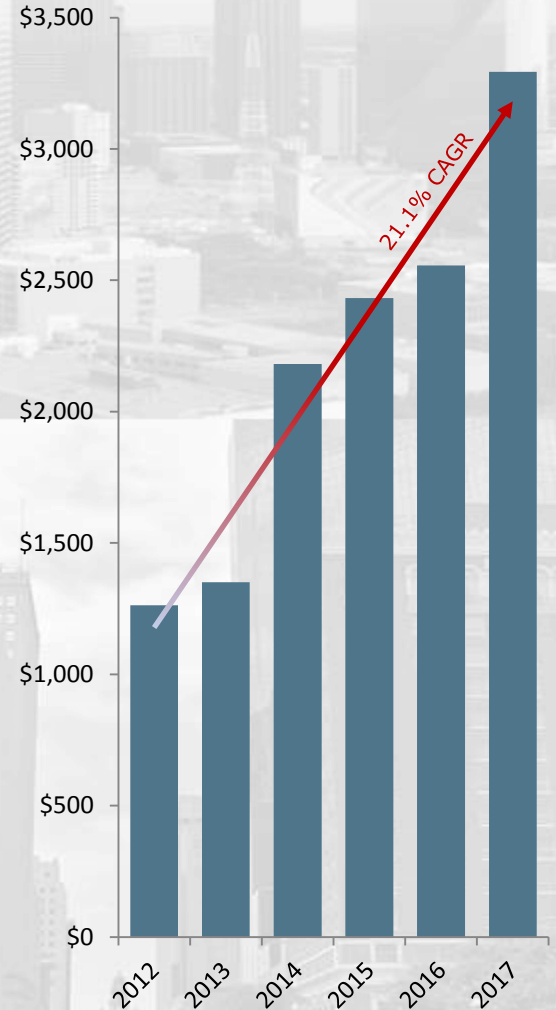
Total Assets (\$mm)



Total Deposits (\$mm)



Loans HFI (\$mm)



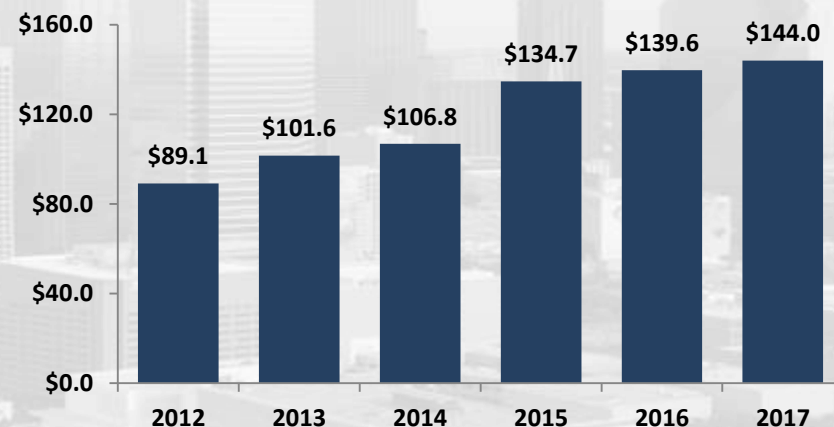
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

Financial Performance: Profitability

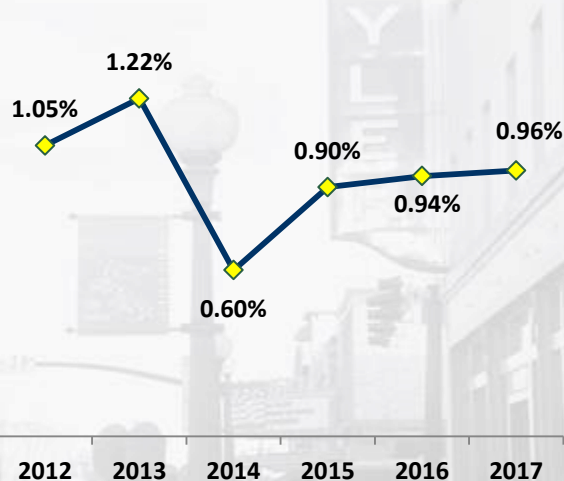
Net Income to Common Shareholders (\$mm)



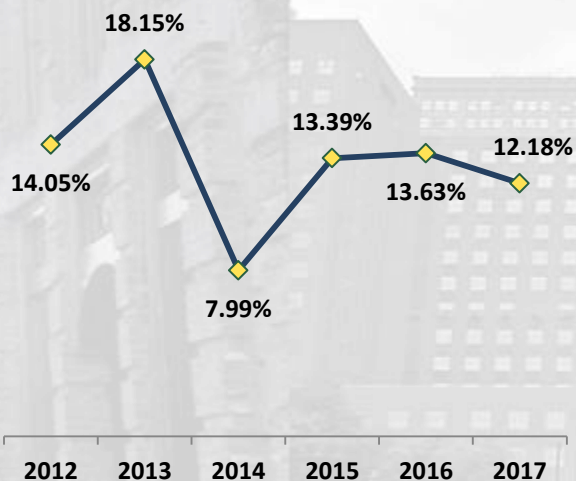
Net Interest Income (\$mm)



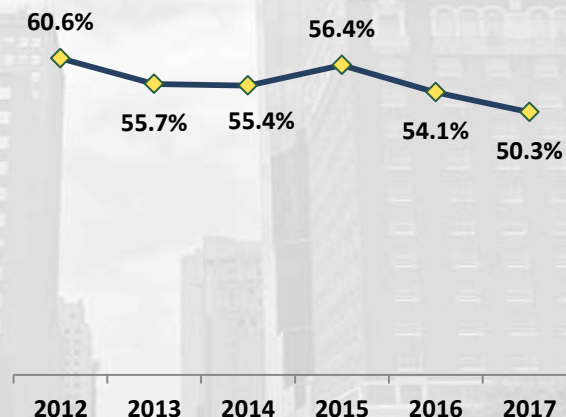
ROAA



ROATCE⁽¹⁾



Efficiency Ratio⁽¹⁾⁽²⁾

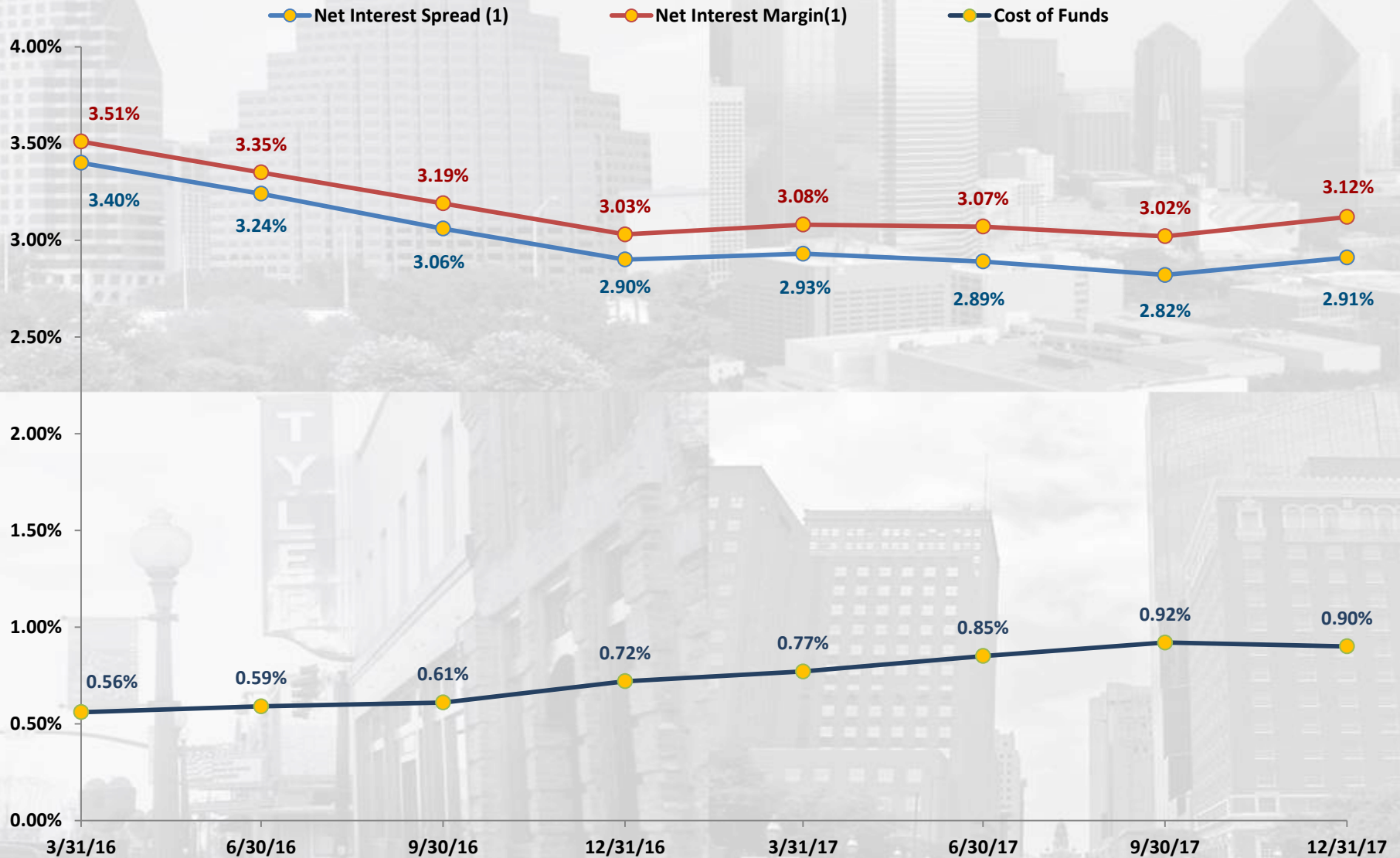


(1) See Non-GAAP reconciliation

(2) Calculated on a fully taxable-equivalent basis

Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 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. Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17, resulting in pre-tax merger expenses of \$4.4mm in 2017.

Net Interest Margin

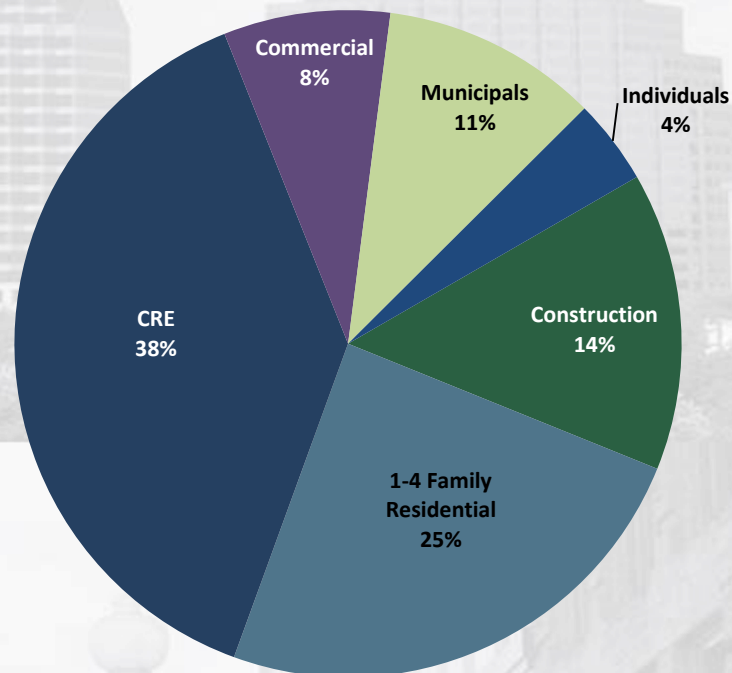


(1) Calculated on a fully taxable-equivalent basis

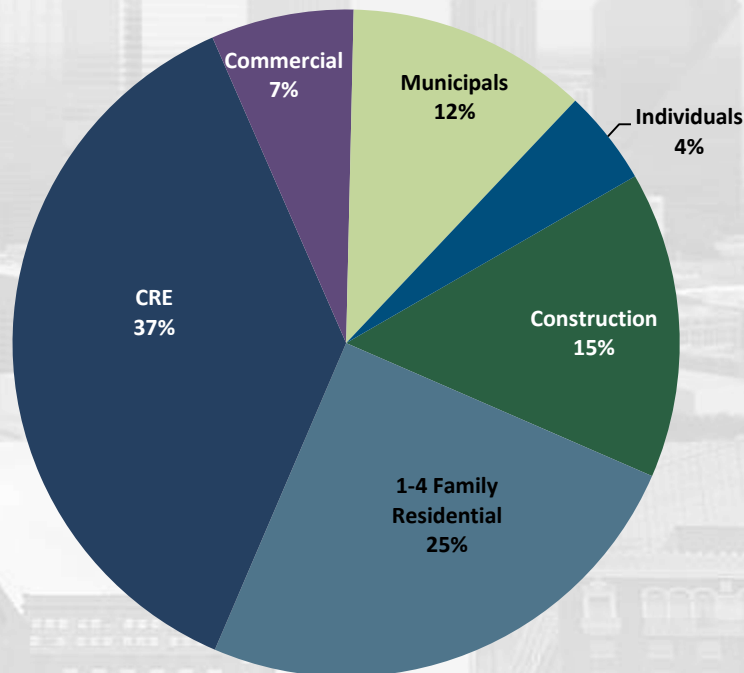
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

Loan Portfolio Composition

2017



2016

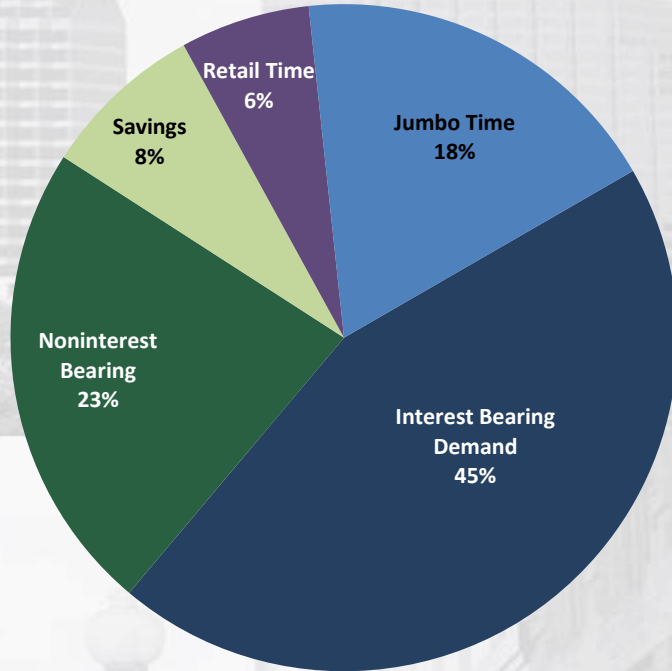


Loan Type	Amount \$mm	%
Real Estate Loans:		
Construction	\$476	14%
1-4 Family Residential	805	25%
CRE	1,265	38%
Commercial	266	8%
Municipals	346	11%
Individuals	136	4%
Total	\$3,294	100%

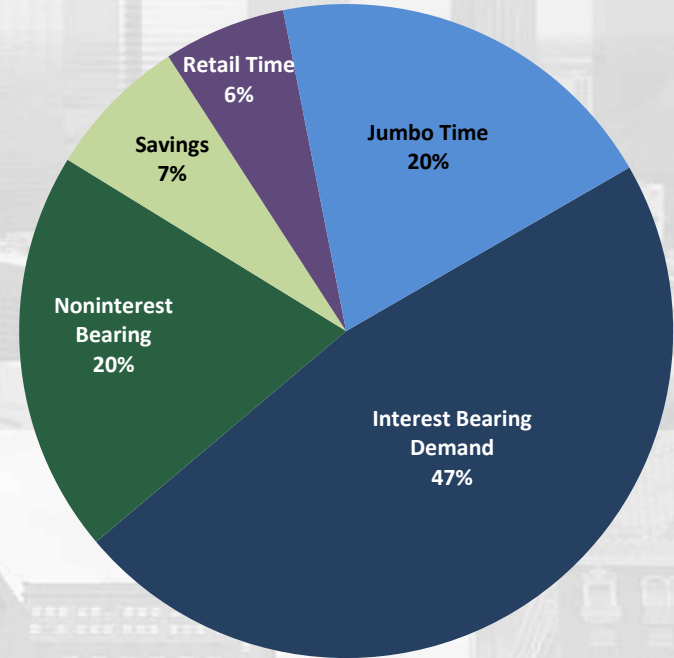
Loan Type	Amount \$mm	%
Real Estate Loans:		
Construction	\$380	15%
1-4 Family Residential	637	25%
CRE	946	37%
Commercial	177	7%
Municipals	299	12%
Individuals	118	4%
Total	\$2,557	100%

Deposit Composition

2017



2016

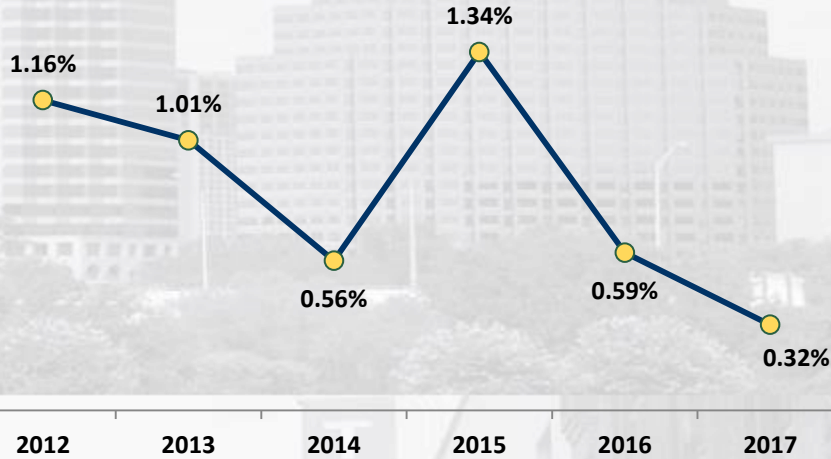


Deposit Type	Amount \$mm	%
Interest Bearing Demand	\$2,008	45%
Noninterest Bearing	1,037	23%
Savings	357	8%
Retail Time	284	6%
Jumbo Time	829	18%
Total	\$4,515	100%

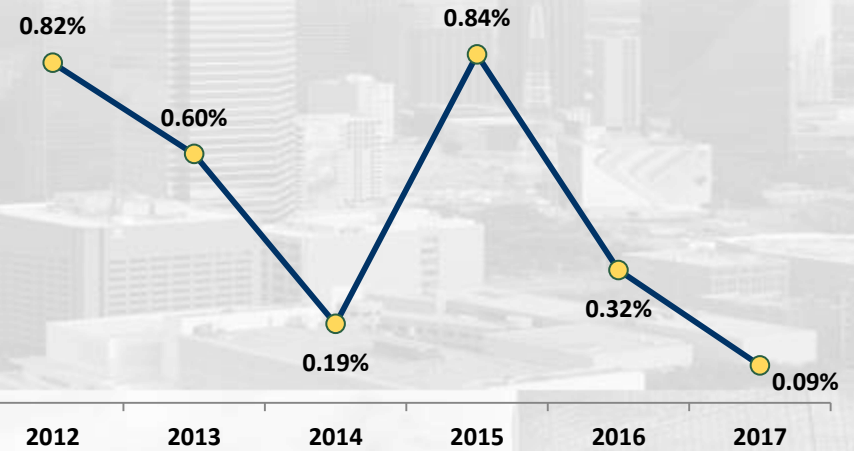
Deposit Type	Amount \$mm	%
Interest Bearing Demand	\$1,667	47%
Noninterest Bearing	704	20%
Savings	250	7%
Retail Time	214	6%
Jumbo Time	698	20%
Total	\$3,533	100%

Asset Quality Trends

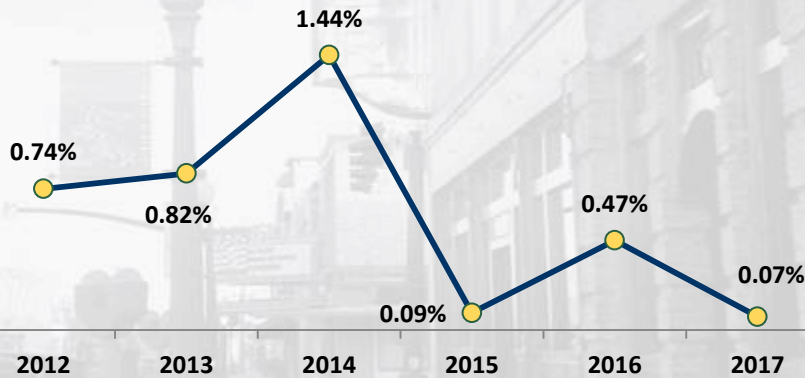
NPAs / Loans and OREO⁽¹⁾



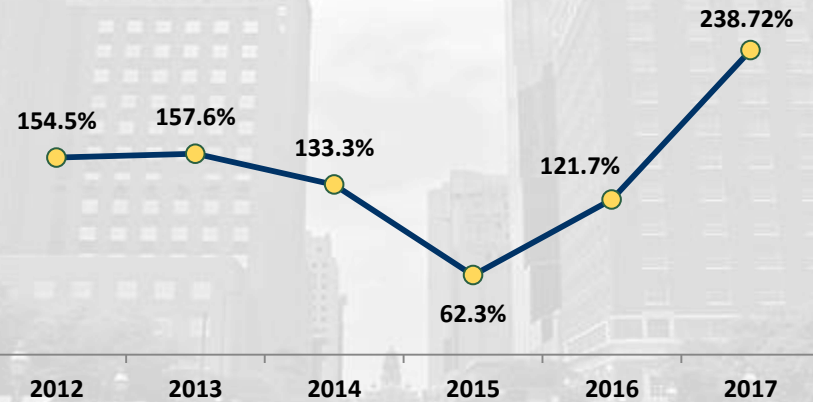
Nonaccrual Loans / Loans⁽¹⁾



NCOs / Average Loans



Reserves / NPLs



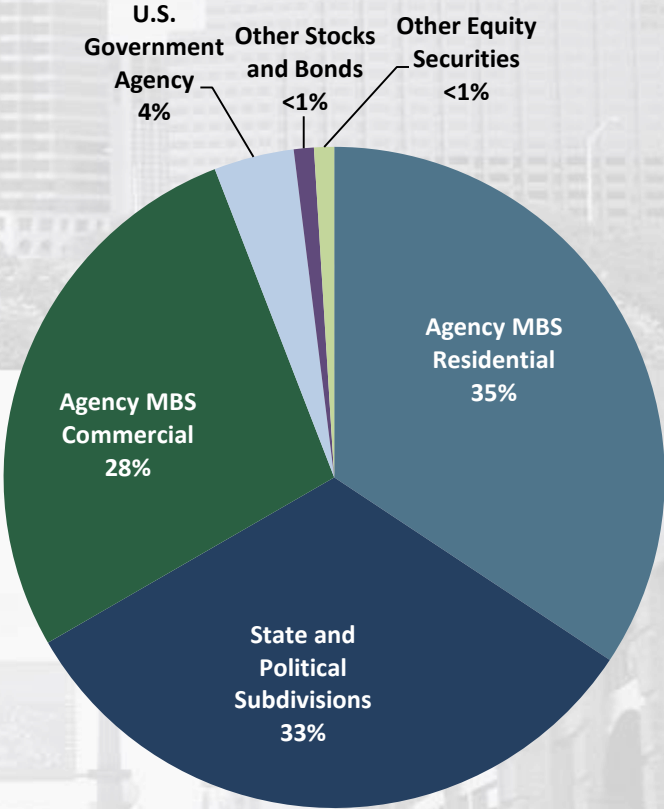
(1) 2014 excludes purchased credit impaired loans measured at fair value at acquisition of OmniAmerican Bancorp, Inc.

Commercial Oil & Gas Exposure

	<u>December 31, 2017</u>	
	<u>Amount</u>	<u>As a Percent</u>
	<u>(\$mm)</u>	<u>of Loans</u>
Oil & Gas Extraction and Wells	\$ 23,251	0.71%
Support Activities for Oil & Gas Operations	26,054	0.79%
Total Oil & Gas Industry Exposure	<u>\$ 49,305</u>	<u>1.50%</u>

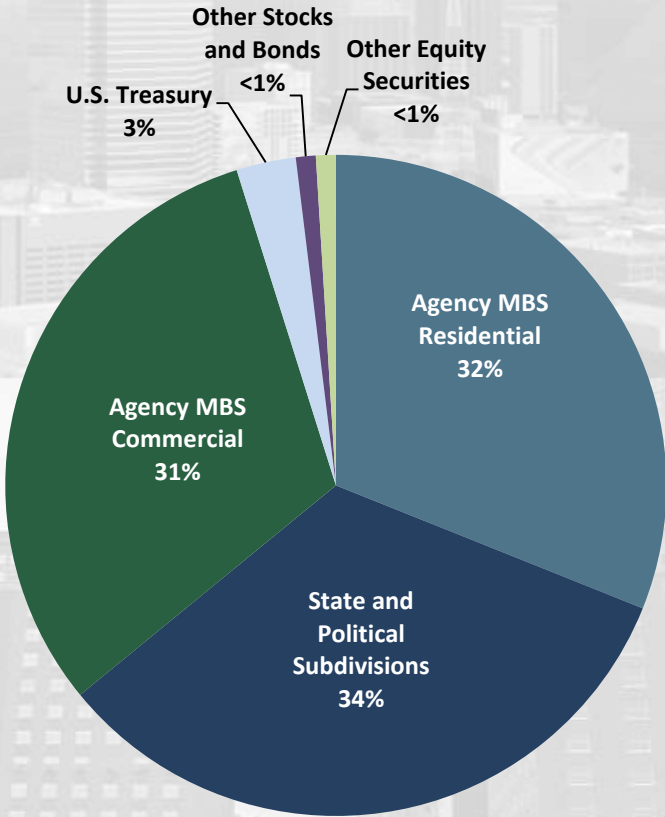
Securities Portfolio

2017



\$2.4 billion

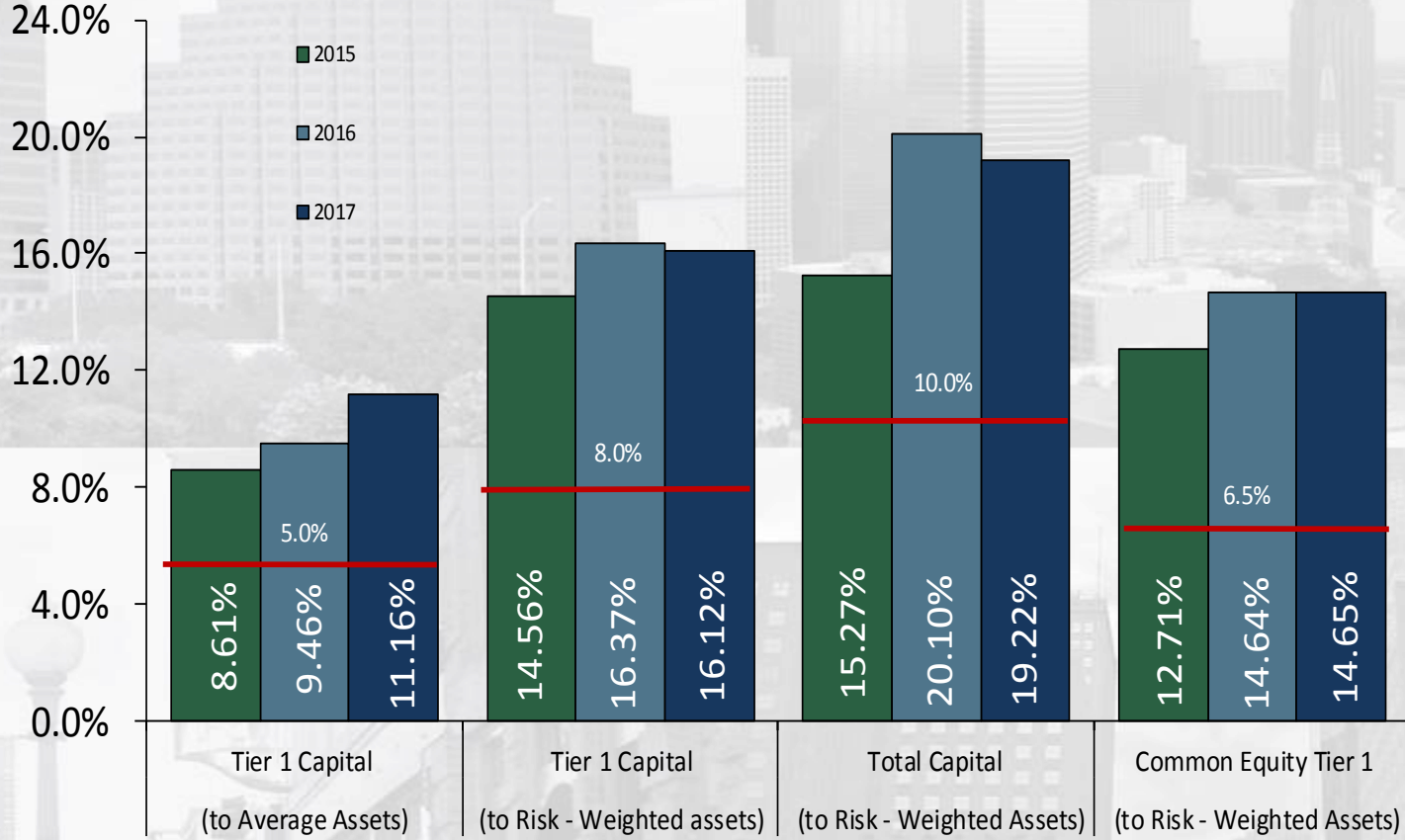
2016



\$2.4 billion

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

Capital Levels



Well Capitalized



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 fully taxable-equivalent 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, calculated on a fully taxable-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 fully taxable-equivalent basis and noninterest income, excluding net gains (losses) on sales of available for sale investment securities and certain non-recurring impairments.

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,					
	2012	2013	2014	2015	2016	2017
Net income available to common	\$34,695	\$41,190	\$20,833	\$43,997	\$49,349	\$54,312
Plus: After-tax amortization expense (35% tax rate)	133	98	133	1,496	1,261	1,271
Adjusted net income available to common	(a) \$34,828	\$41,288	\$20,966	\$45,493	\$50,610	\$55,583
Average common equity	\$270,358	\$249,709	\$287,768	\$438,427	\$468,424	\$563,023
Less: Average intangible assets	22,460	22,287	25,377	98,702	97,123	106,747
Average tangible common equity	(b) \$247,898	\$227,422	\$262,391	\$339,725	\$371,301	\$456,276
Return on average tangible common equity (ROATCE)	(a) / (b) 14.05%	18.15%	7.99%	13.39%	13.63%	12.18%
Common equity at period end	\$257,763	\$259,518	\$425,243	\$444,062	\$518,274	\$754,140
Less: Intangible assets at period end	22,358	22,212	100,216	98,068	96,128	224,239
Tangible common equity at period end	(c) \$235,405	\$237,306	\$325,027	\$345,994	\$422,146	\$529,901
Total assets at period end	\$3,237,309	\$3,445,574	\$4,807,176	\$5,161,996	\$5,563,767	\$6,498,097 [A]
Less: Intangible assets at period end	22,358	22,212	100,216	98,068	96,128	224,239
Tangible assets at period end	(d) \$3,214,951	\$3,423,362	\$4,706,960	\$5,063,928	\$5,467,639	\$6,273,858
Tangible common equity/tangible assets (TCE/TA)	(c) / (d) 7.32%	6.93%	6.91%	6.83%	7.72%	8.45%
Common shares outstanding at period end	(e) 21,278	21,271	27,256	27,341	29,261	35,000 [B]
Tangible book value per share	(c) / (e) \$11.06	\$11.16	\$11.92	\$12.65	\$14.43	\$15.14
Noninterest expense	\$76,107	\$81,713	\$97,704	\$112,954	\$109,522	\$106,335
Less: Pre-tax amortization expense	204	151	204	2,301	1,940	1,955
Less: Non-recurring expense	228	1,268	15,838	6000	2,375	4,394
Adjusted noninterest expense	(f) \$75,675	\$80,294	\$81,662	\$104,653	\$105,207	\$99,986
Net interest income (fully taxable-equivalent basis)	\$100,128	\$117,317	\$122,946	\$151,400	\$157,555	\$161,480
Plus: Noninterest income	40,021	35,245	24,489	37,895	39,411	37,473
Less: Non-recurring income	15,256	8,430	75	3,660	2,426	191
Total Revenue	(g) \$124,893	\$144,132	\$147,360	\$185,635	\$194,540	\$198,762
Efficiency Ratio (fully taxable-equivalent basis)	(f) / (g) 60.59%	55.71%	55.42%	56.38%	54.08%	50.30%

(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

Note: Completed acquisition of OmniAmerican Bancorp, Inc., on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

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