

KBW Community Bank Investor Conference

July 30, 2019

 **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, 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.

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**
- **35 years with Southside**

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

- **Chief Accounting Officer of Southside Bank from 2011-2016**
- **Board Member of CASA for Kids of East Texas**
- **37 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 59 branches, 15 of which are located in grocery stores
- Approximately 39% deposit market share in Tyler, TX⁽¹⁾
- Insider ownership equal to 6.4%⁽²⁾
- 854 Full-Time Employees

(1) Deposit market share for the Tyler, TX MSA; Source: FDIC; As of 6/30/18

(2) Source: Bloomberg as of 6/30/19

(3) See Non-GAAP Reconciliation

(4) Calculated on a fully taxable-equivalent basis (FTE)

Note: Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17

Financial Highlights (\$mm)

	As of and for the Years Ended December 31,		As of and for the Six Months Ended June 30,
	2017	2018	2019
Balance Sheet			
Total Assets	\$6,498	\$6,123	\$6,373
Total Loans (Ex. HFS)	3,294	3,313	3,460
Total Deposits	4,515	4,425	4,479
Total Equity	754	731	788
Profitability			
ROAA	0.96%	1.19%	1.20%
ROATCE ⁽³⁾	12.18	14.78	14.75
Net Interest Margin (FTE) ⁽⁴⁾	3.07	3.18	3.12
Efficiency Ratio (FTE) ⁽³⁾⁽⁴⁾	50.30	49.98	52.53
Capital			
TCE / TA ⁽³⁾	8.45%	8.68%	9.28%
Common Equity Tier 1 Ratio	14.65	14.77	14.02
Tier 1 Risk-Based Ratio	16.12	16.29	15.46
Total Risk-Based Ratio	19.22	19.59	18.52
Leverage Ratio	11.16	10.64	10.48
Asset Quality			
NPAs / Loans and OREO	0.32%	1.29%	0.85%
NCOs / Average Loans	0.07	0.07	0.24
Reserve / Total Loans	0.63	0.82	0.71
Reserve / NPLs	238.72	64.79	87.32
Per Share			
Tangible Book Value ⁽³⁾	\$15.14	\$15.19	\$16.92
Diluted Earnings	1.81	2.11	1.11

SBSI – Investment Highlights

▪ Opportunities for Future Growth

- Well-positioned for a changing interest rate environment
- Texas M&A potential given the number of banks in the Texas banking landscape
- Significant opportunities for organic growth in existing markets
- Organic expansion into other Texas markets

▪ Consistent Track Record of Growth

- 12% CAGR in total assets from 2013 – Q2 2019
- 11% CAGR in total deposits from 2013 – Q2 2019
- 19% CAGR in total loans from 2013 – Q2 2019

▪ Dynamic Markets

- Austin and Dallas/Fort Worth provide attractive business climates as two of the fastest growing markets in the United States
 - 9.1% and 7.7% projected population growth in Austin and Dallas/Fort Worth, respectively, surpasses the national average of 3.6%⁽¹⁾
- Long-standing local relationships in the growing Tyler, TX market (6.0% projected population growth)⁽¹⁾ as well as other growing East Texas markets

▪ Loan Portfolio Cushioned from Oil and Gas Volatility

- Only 3.43% of total loan portfolio tied to the energy sector at 6/30/2019

▪ Conservative Lending Practices Translate into Solid Asset Quality

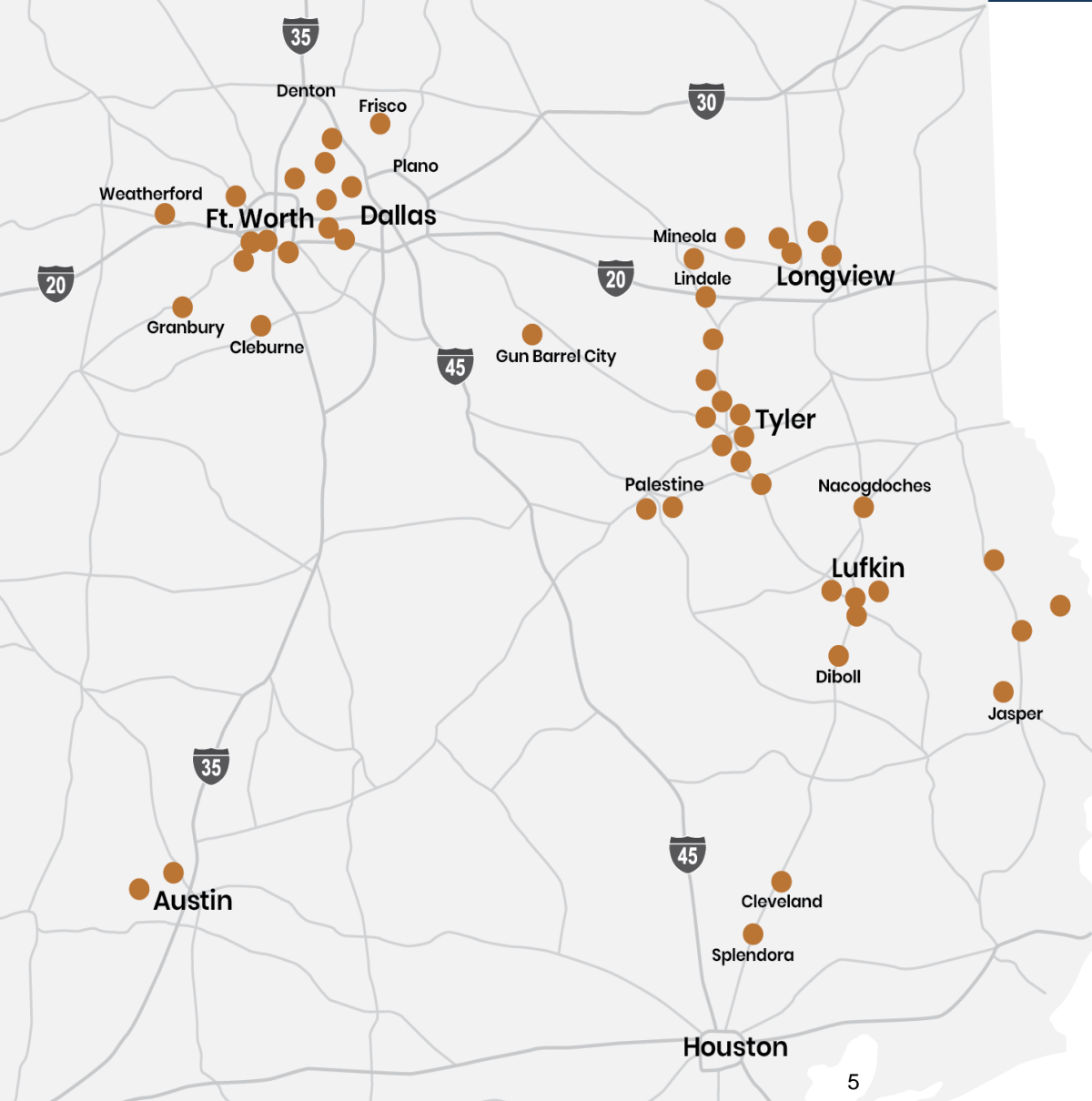
- Nonperforming assets to total assets of 0.47% as of 6/30/2019

▪ Veteran Management Team

- Southside's Key Management Team each have over 30 years of banking experience

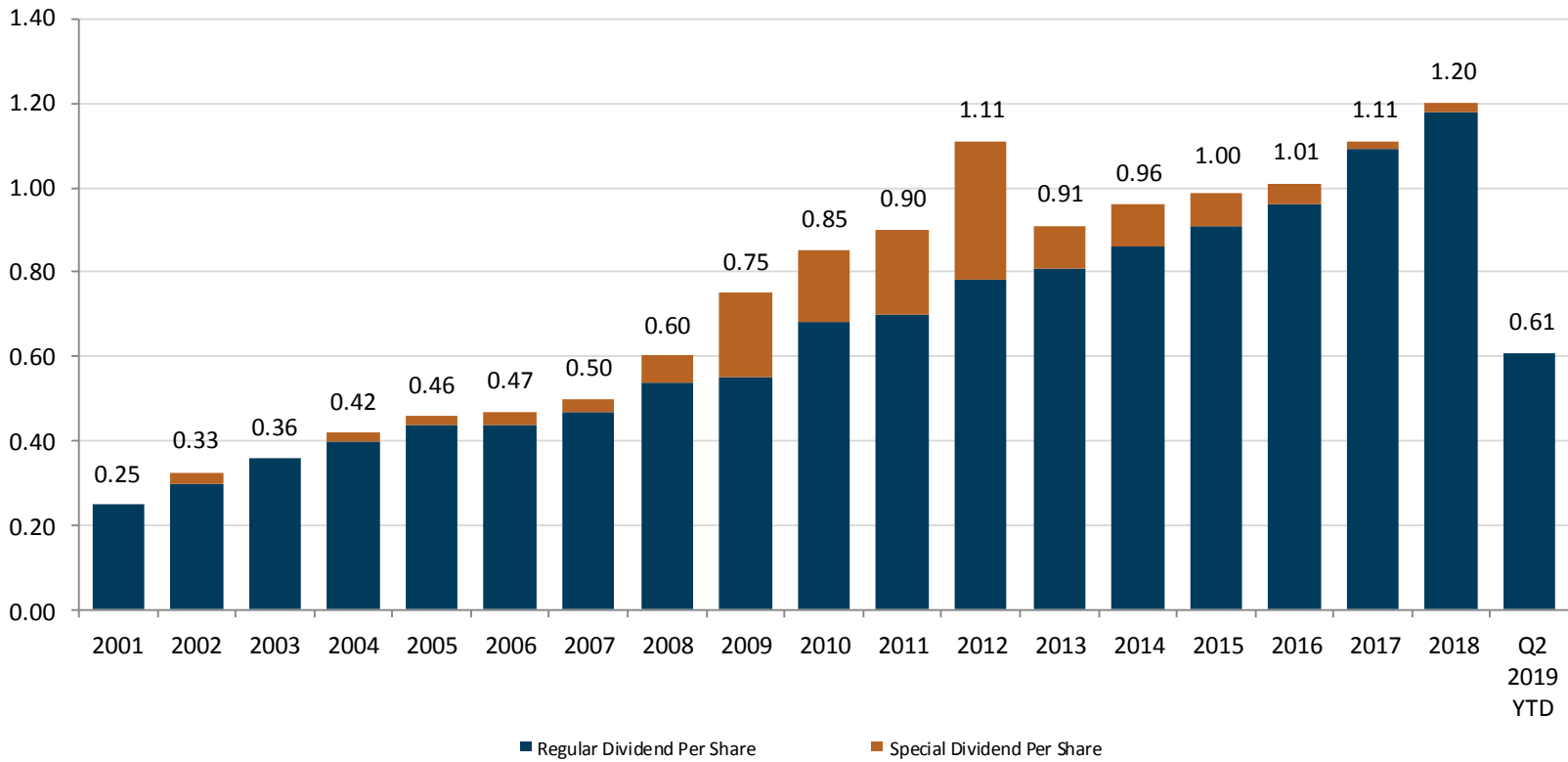
(1) 2019 – 2024 projected growth; source: S&P Global Market Intelligence

Geographic Footprint



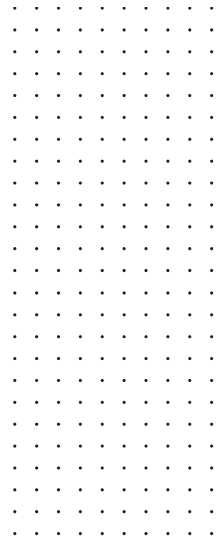
Dividends

- Cash dividend paid every year since 1970
- Consistent record of dividend increases
- Dividend payout ratio of 54.95% as of Q2 2019 YTD



Goals for 2019

- Quality Loan Growth
- Grow Non-Maturity Deposits
- Increase Noninterest Income
- Navigate a Changing Yield Curve
- Capitalize on Operational Process Efficiency
- Enhance Digital/Technology Strategies



Three Months Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 18,610	\$ 20,203	(7.9)%
EPS (diluted)	\$ 0.55	\$ 0.57	(3.5)%
ROAE	9.68%	10.79%	
ROAA	1.20%	1.30%	
Efficiency Ratio (FTE) ⁽¹⁾	51.44%	47.56%	

(1) Calculated on a fully taxable-equivalent basis (FTE). See Non-GAAP Reconciliation.

Six Months Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>%Chg.</u>
Net Income (in thousands)	\$ 37,427	\$ 36,454	2.7%
EPS (diluted)	\$ 1.11	\$ 1.04	6.7%
ROAE	10.00%	9.77%	
ROAA	1.20%	1.16%	
Efficiency Ratio (FTE) ⁽¹⁾	52.53%	49.43%	

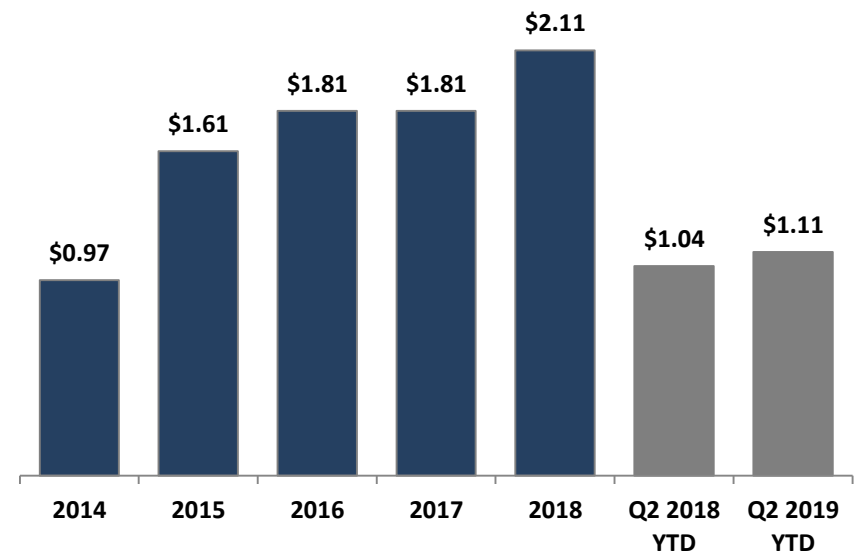
(1) Calculated on a fully taxable-equivalent basis (FTE). See Non-GAAP Reconciliation.

Shareholder Returns

Tangible Book Value Per Share⁽¹⁾ (\$)



Diluted Earnings Per Share (\$)

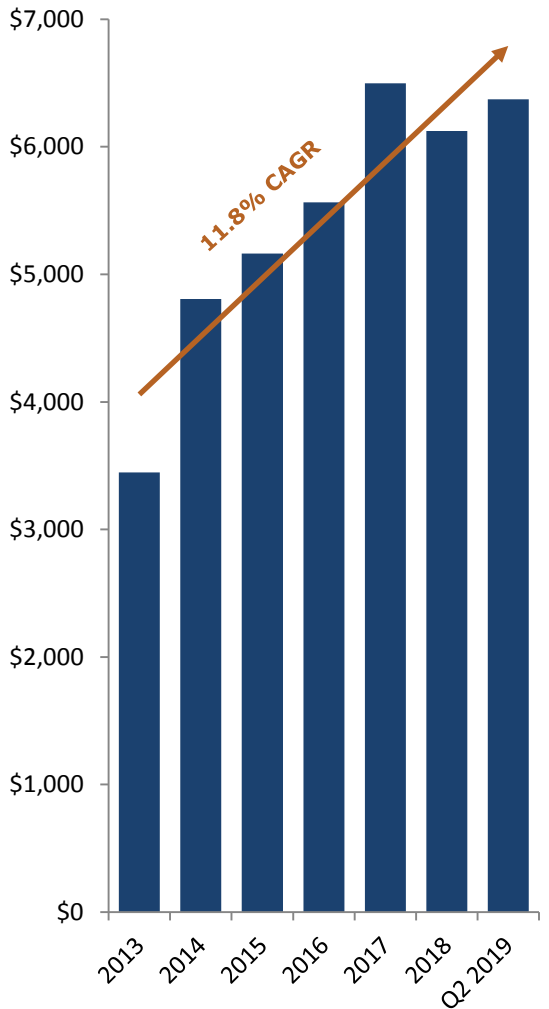


(1) See Non-GAAP Reconciliation.

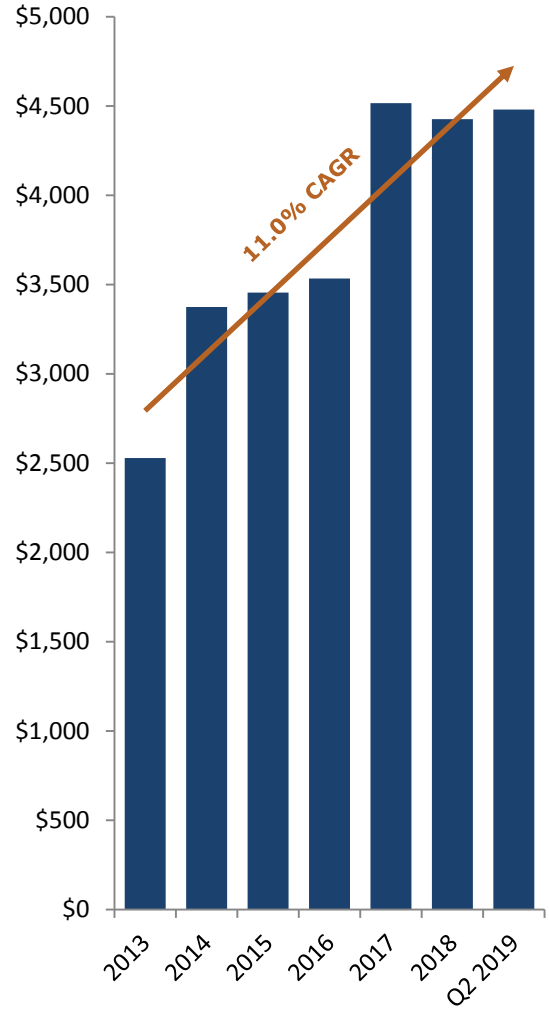
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 resulting in pre-tax merger expenses of \$15.9mm and \$5.5mm in 2014 and 2015, respectively, as well as \$2.8mm in impairment charges in 2014 relating to the exit of SFG. Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17 resulting in pre-tax merger expenses of \$4.4mm and \$2.4mm in 2017 and 2018, respectively.

Balance Sheet Growth

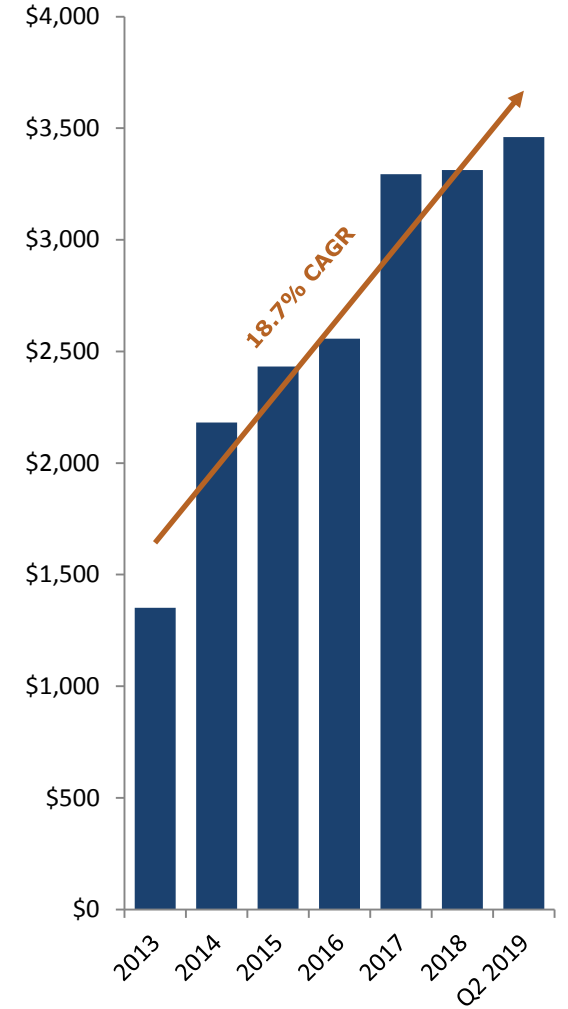
Total Assets (\$mm)



Total Deposits (\$mm)



Loans HFI (\$mm)

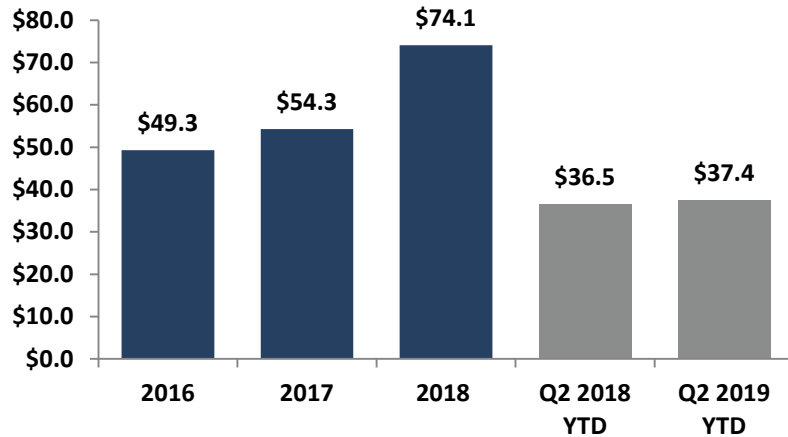


Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

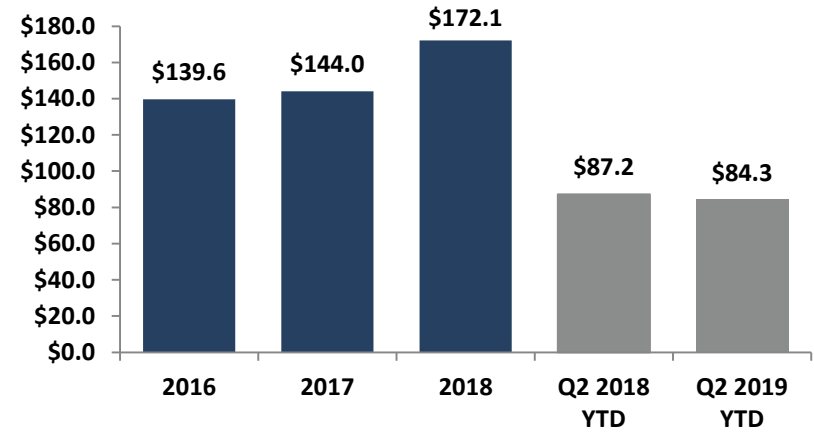


Profitability

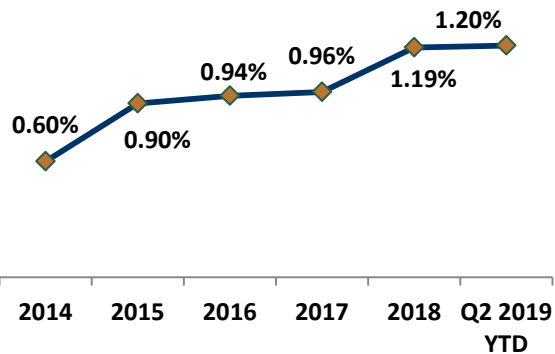
Net Income (\$mm)



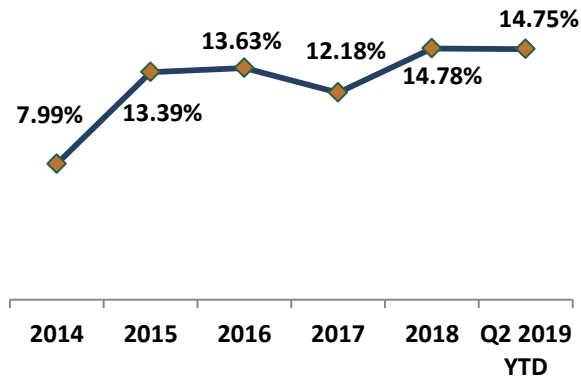
Net Interest Income (\$mm)



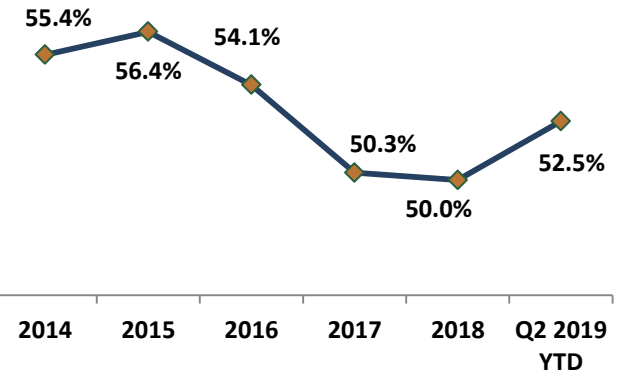
ROAA



ROATCE⁽¹⁾



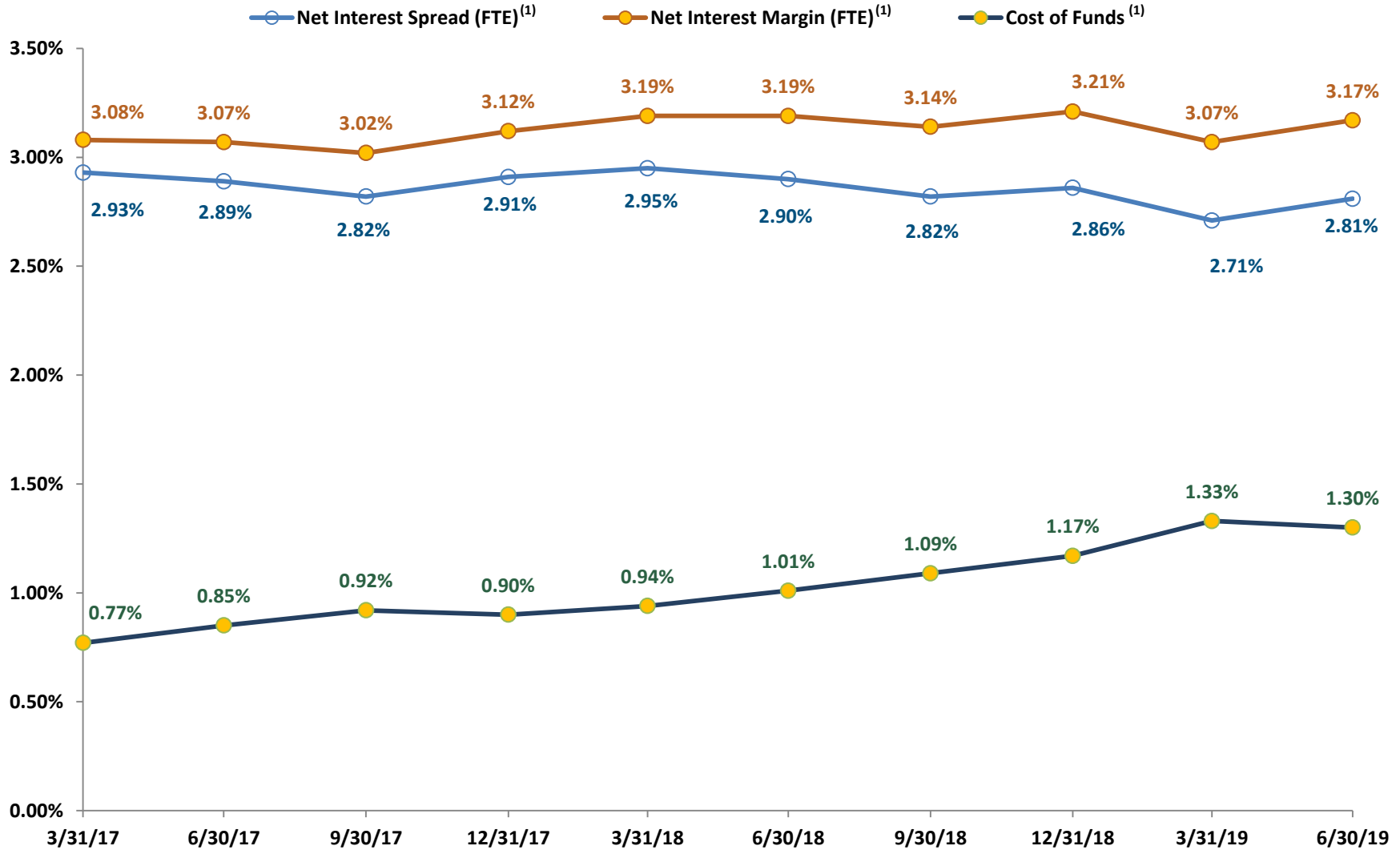
Efficiency Ratio (FTE)⁽¹⁾



(1) Calculated on a fully taxable-equivalent basis (FTE.) See Non-GAAP reconciliation.

Note: Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17 resulting in pre-tax merger expenses of \$4.4mm and \$2.4mm in 2017 and 2018, respectively.

Selected Performance Measures



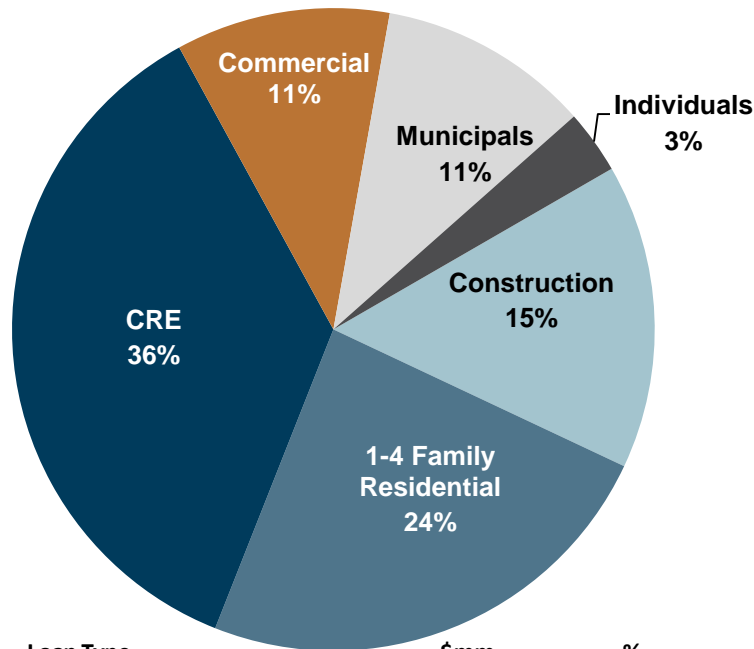
(1) Annualized

Note: Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.



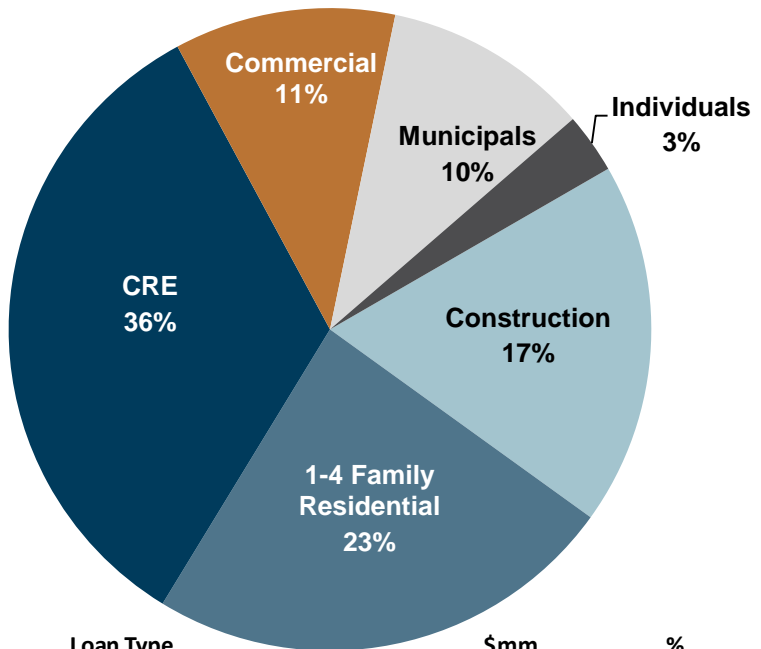
Loan Portfolio Composition

12/31/2018



Loan Type	\$mm	%
Real Estate Loans:		
Construction	\$508	15%
1-4 Family Residential	795	24%
CRE	1,194	36%
Commercial	357	11%
Municipals	353	11%
Individuals	106	3%
Total	\$3,313	100%

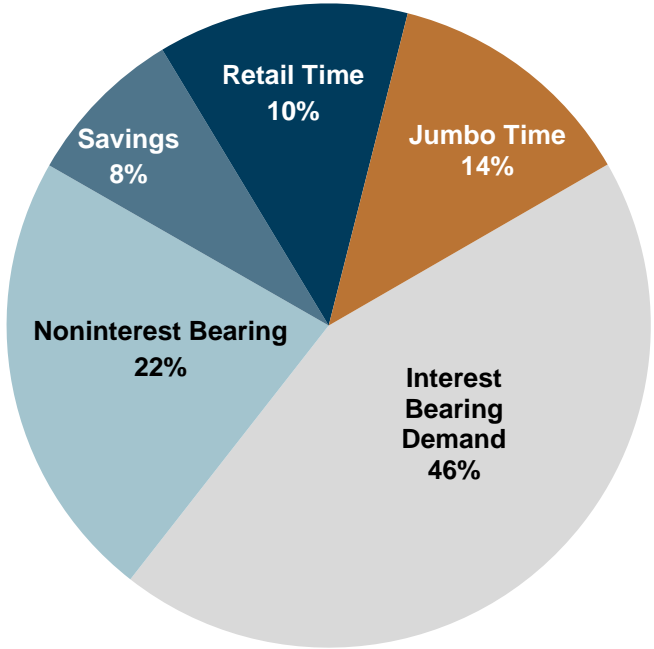
6/30/2019



Loan Type	\$mm	%
Real Estate Loans:		
Construction	\$580	17%
1-4 Family Residential	782	23%
CRE	1,251	36%
Commercial	389	11%
Municipals	357	10%
Individuals	101	3%
Total	\$3,460	100%

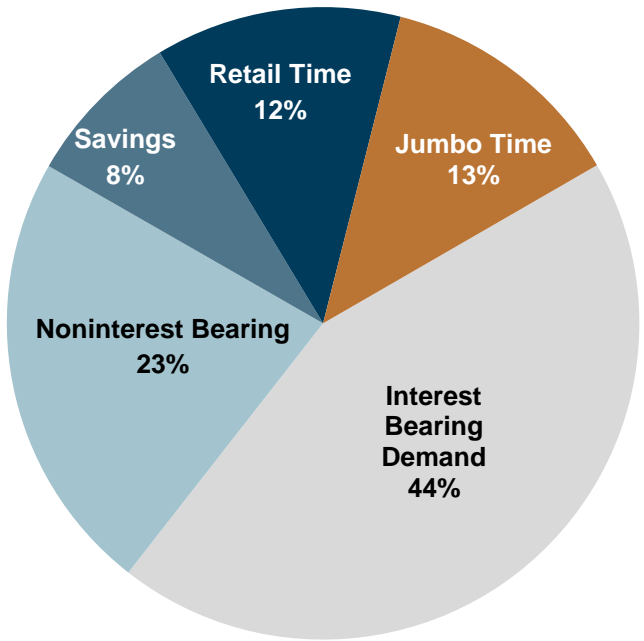
Deposit Composition

12/31/2018



Deposit Type	\$mm	%
Interest Bearing Demand	\$2,014	46%
Noninterest Bearing	995	22%
Savings	360	8%
Retail Time	449	10%
Jumbo Time	607	14%
Total	\$4,425	100%

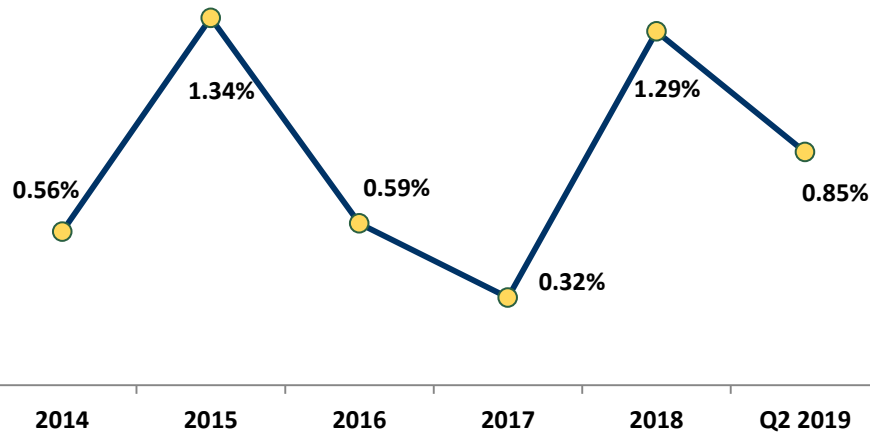
6/30/2019



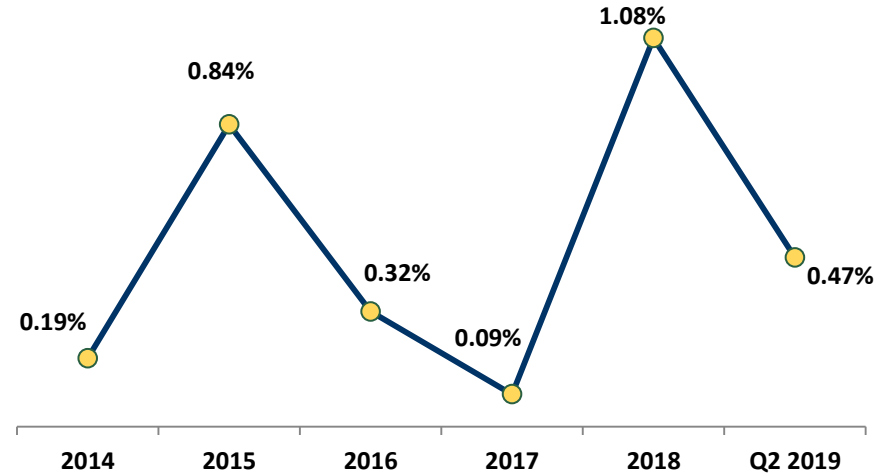
Deposit Type	\$mm	%
Interest Bearing Demand	\$1,955	44%
Noninterest Bearing	1,029	23%
Savings	365	8%
Retail Time	543	12%
Jumbo Time	587	13%
Total	\$4,479	100%

Asset Quality Trends

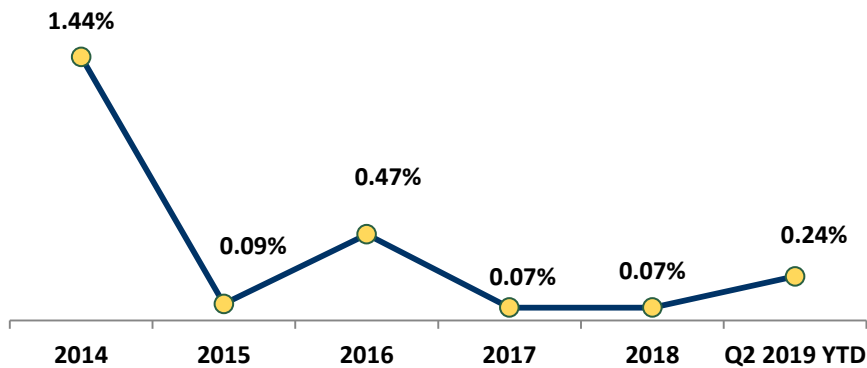
NPAs / Loans and OREO⁽¹⁾



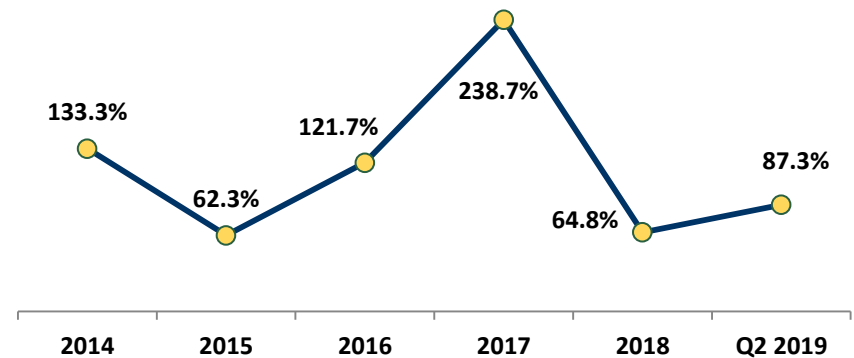
Nonaccrual Loans / Loans⁽¹⁾



NCOs / Average Loans



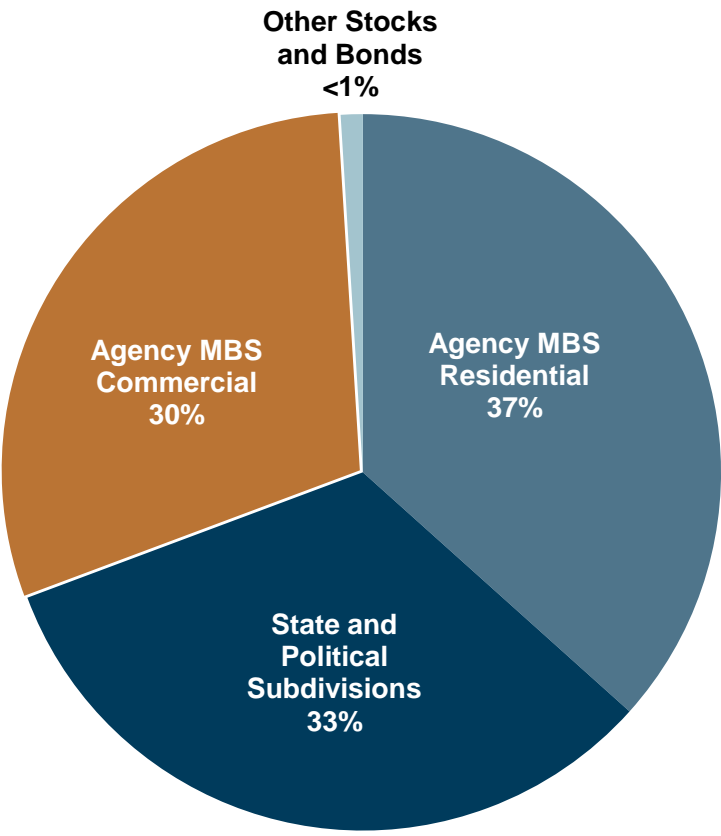
Reserves / NPLs



(1) Excludes purchased credit impaired loans, which were initially measured at fair value at acquisition of OmniAmerican Bancorp, Inc. and Diboll State Bancshares, Inc. in 2014 and 2017, respectively.

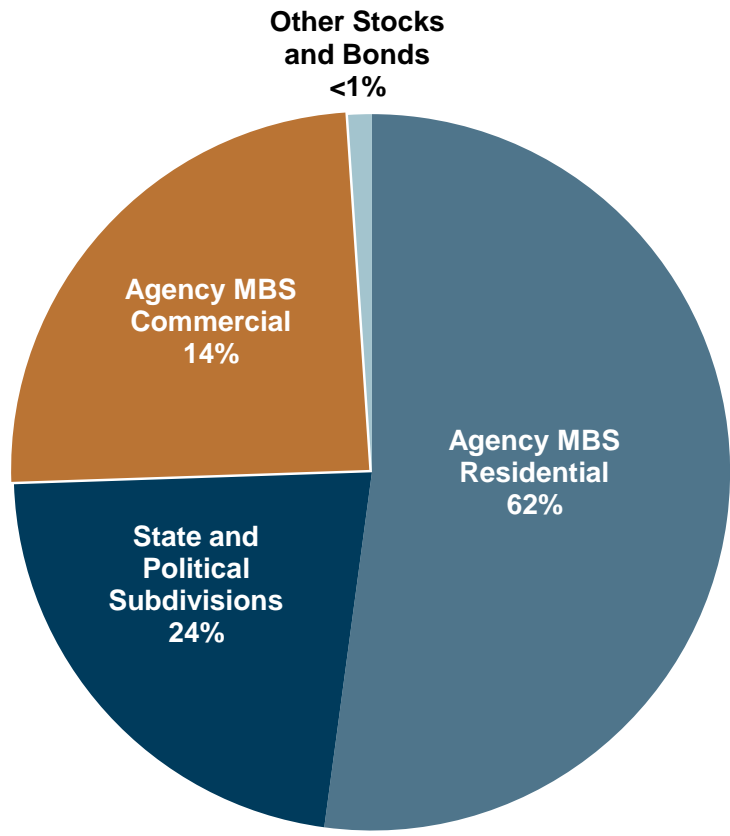
Securities Portfolio

12/31/2018



\$2.15 billion

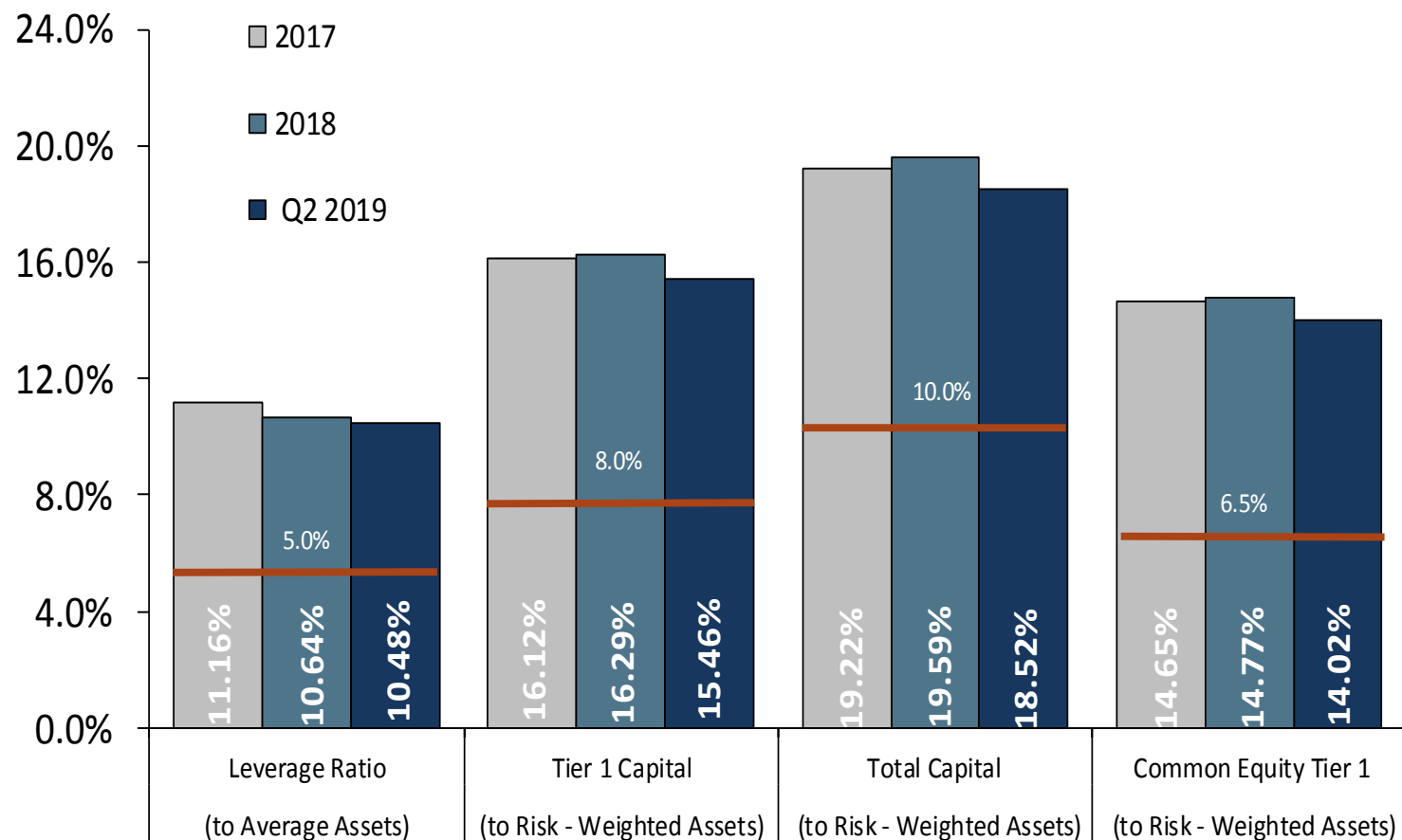
6/30/2019



\$2.24 billion

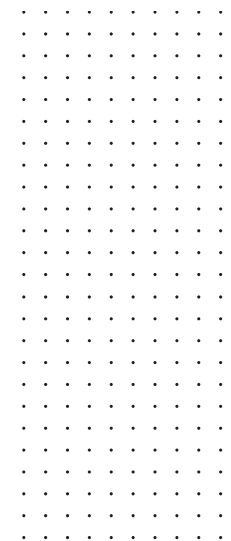
Note: All mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government sponsored enterprises.

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 common share, tangible common equity to tangible assets, and efficiency ratio on a fully taxable-equivalent (FTE) basis.

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 for the period from average shareholders' equity. In calculating tangible book value per common share, Southside subtracts intangible assets for the period from shareholders' equity. In calculating the ratio of tangible common equity to tangible assets, Southside subtracts intangible assets both from shareholders' equity and total assets at the end of the period. 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 (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 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 financial measures, this presentation may not be comparable to other similarly titled measures as calculated by other companies.

Non-GAAP Reconciliation (cont'd)

(dollars in thousands, except per share data)	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,
	2014	2015	2016	2017	2018	2019
Net income available to common shareholders	\$20,833	\$43,997	\$49,349	\$54,312	\$74,138	\$37,427
Plus: After-tax amortization expense (35% tax rate for 2013-2017, 21% tax rate for 2018-Q2 2019)	133	1,496	1,261	1,271	4,118	1,823
Adjusted net income available to common shareholders [a]	\$20,966	\$45,493	\$50,610	\$55,583	\$78,256	\$39,250
Average shareholders' equity	\$287,768	\$438,427	\$468,424	\$563,023	\$751,262	\$754,377
Less: Average intangible assets for the period	25,377	98,702	97,123	106,747	221,650	217,849
Average tangible shareholders' equity [b]	\$262,391	\$339,725	\$371,301	\$456,276	\$529,612	\$536,528
Return on average tangible common equity (ROATCE) [a] / [b]	7.99%	13.39%	13.63%	12.18%	14.78%	14.75%
Common equity at end of period	\$425,243	\$444,062	\$518,274	\$754,140	\$731,291	\$787,765
Less: Intangible assets at end of period	100,216	98,068	96,128	224,239	218,895	216,587
Tangible common shareholders' equity at end of period [c]	\$325,027	\$345,994	\$422,146	\$529,901	\$512,396	\$571,178
Total assets at end of period	\$4,807,176	\$5,161,996	\$5,563,767	\$6,498,097	\$6,123,494	\$6,372,870
Less: Intangible assets at end of period	100,216	98,068	96,128	224,239	218,895	216,587
Tangible assets at end of period [d]	\$4,706,960	\$5,063,928	\$5,467,639	\$6,273,858	\$5,904,599	\$6,156,283
Tangible common equity/tangible assets (TCE/TA) [c] / [d]	6.91%	6.83%	7.72%	8.45%	8.68%	9.28%
Common shares outstanding at end of period	[e] 27,256	27,341	29,261	35,000	33,725	33,749 (A)
Tangible book value per common share [c] / [e]	\$11.92	\$12.65	\$14.43	\$15.14	\$15.19	\$16.92
Noninterest expense	\$97,704	\$112,954	\$109,522	\$106,335	\$120,099	\$59,327 (B)
Less: Pre-tax amortization expense	204	2,301	1,940	1,955	5,213	2,308
Less: Nonrecurring expense	15,838	6,000	2,375	4,394	3,236	49
Adjusted noninterest expense [f]	\$81,662	\$104,653	\$105,207	\$99,986	\$111,650	\$56,970
Net interest income (FTE)	\$122,946	\$151,400	\$157,555	\$161,480	\$181,422	\$88,052
Plus: Noninterest income	24,489	37,895	39,411	37,473	40,773	20,792 (B)
Less: Nonrecurring income (loss)	75	3,660	2,426	191	(1,198)	386
Total Revenue [g]	\$147,360	\$185,635	\$194,540	\$198,762	\$223,393	\$108,458
Efficiency Ratio (FTE) [f] / [g]	55.42%	56.38%	54.08%	50.30%	49.98%	52.53%

Note: Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

(A) Prior period shares adjusted for stock dividends, where applicable.

(B) In connection with the adoption of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" in 2018, noninterest income for 2018 and thereafter is presented net of the related noninterest expense. Prior periods have not been adjusted.

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