

# KBW Financial Services Symposium

## February 13, 2020

 **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*

- Board member of Tyler Junior College Foundation
- Finance Committee member of Tyler Economic Development Council
- 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

## **Tim Alexander**, *Chief Lending Officer*

- Trustee Board member of The Great Commission Foundation of Episcopal Diocese of Texas
- 14 years with Southside and over 36 years of experience in commercial lending

## **TL Arnold**, *Senior Executive Vice President and Chief Credit Officer*

- Board member of William Mann Community Development Corporation
- Served as Chief Credit Officer of OmniAmerican Bank from 2008 until the merger in 2014
- 5 years with Southside and 30 years of experience in the banking and financial services industry

## **Brian McCabe**, *Senior Executive Vice President and Chief Operations Officer*

- Board member of East Texas Lighthouse for the Blind and CHRISTUS Trinity Mother Frances Foundation
- 36 years with Southside

## **Suni Davis**, *Senior Vice President and Chief Risk Officer*

- Financial Managers Society Audit and Risk Council Member
- 20 years with Southside

# Southside Snapshot

## Company Overview

- Founded in 1960 with headquarters in Tyler, TX
- Community-focused financial institution
- Offers a broad range of consumer, commercial and mortgage banking services, as well as private banking, wealth management and trust services, and brokerage services
- Diversified branch footprint consisting of 60 branches, 16 of which are located in grocery stores.
- Opened new in-store branch in Kingwood, TX during fourth quarter 2019.
- Leading deposit market share of approximately 40%<sup>(1)</sup> and 29%<sup>(1)</sup> in Smith County (East Texas) and Angelina County (Southeast Texas), respectively.
- Insider ownership equal to 5.6%<sup>(2)</sup>
- 845 Full-Time Employees

(1) Source: FDIC; As of 6/30/19

(2) Source: Bloomberg as of 2/2/20

(3) See Non-GAAP Reconciliation

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

## Financial Highlights (\$mm)

	As of and for the Years Ended December 31,	
	2018	2019
<b>Balance Sheet</b>		
Total Assets	\$6,123	\$6,749
Total Loans (Ex. HFS)	3,313	3,568
Total Deposits	4,425	4,703
Total Equity	731	805
<b>Profitability</b>		
ROAA	1.19%	1.17%
ROATCE <sup>(3)</sup>	14.78	13.80
Net Interest Margin (FTE) <sup>(4)</sup>	3.18	3.06
Efficiency Ratio (FTE) <sup>(3)(4)</sup>	49.98	52.36
<b>Capital</b>		
TCE / TA <sup>(3)</sup>	8.68%	9.03%
Common Equity Tier 1 Ratio	14.77	14.07
Tier 1 Risk-Based Ratio	16.29	15.46
Total Risk-Based Ratio	19.59	18.43
Leverage Ratio	10.64	10.18
<b>Asset Quality</b>		
NPAs / Loans and OREO	1.29%	0.49%
NCOs / Average Loans	0.07	0.21
Reserve / Total Loans	0.82	0.69
Reserve / NPLs	64.79	146.06
<b>Per Common Share</b>		
Tangible Book Value <sup>(3)</sup>	\$15.19	\$17.45
Diluted Earnings	2.11	2.20

# 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 – 2019
- 11% CAGR in total deposits from 2013 – 2019
- 18% CAGR in total loans from 2013 – 2019

## ▪ Dynamic Markets

- Austin and Dallas/Fort Worth provide attractive business climates as two of the fastest growing markets in the United States
  - 8.5% and 7.4% projected population growth in Austin and Dallas/Fort Worth, respectively, surpasses the national average of 3.3%<sup>(1)</sup>
- Long-standing local relationships in the growing Tyler, TX market (5.9% projected population growth)<sup>(1)</sup> as well as other growing East Texas markets

## ▪ Loan Portfolio Cushioned from Oil and Gas Volatility

- Only 3.49% of total loan portfolio tied to the energy sector at 12/31/2019

## ▪ Conservative Lending Practices Translate into Solid Asset Quality

- Nonperforming assets to total assets of 0.26% as of 12/31/2019

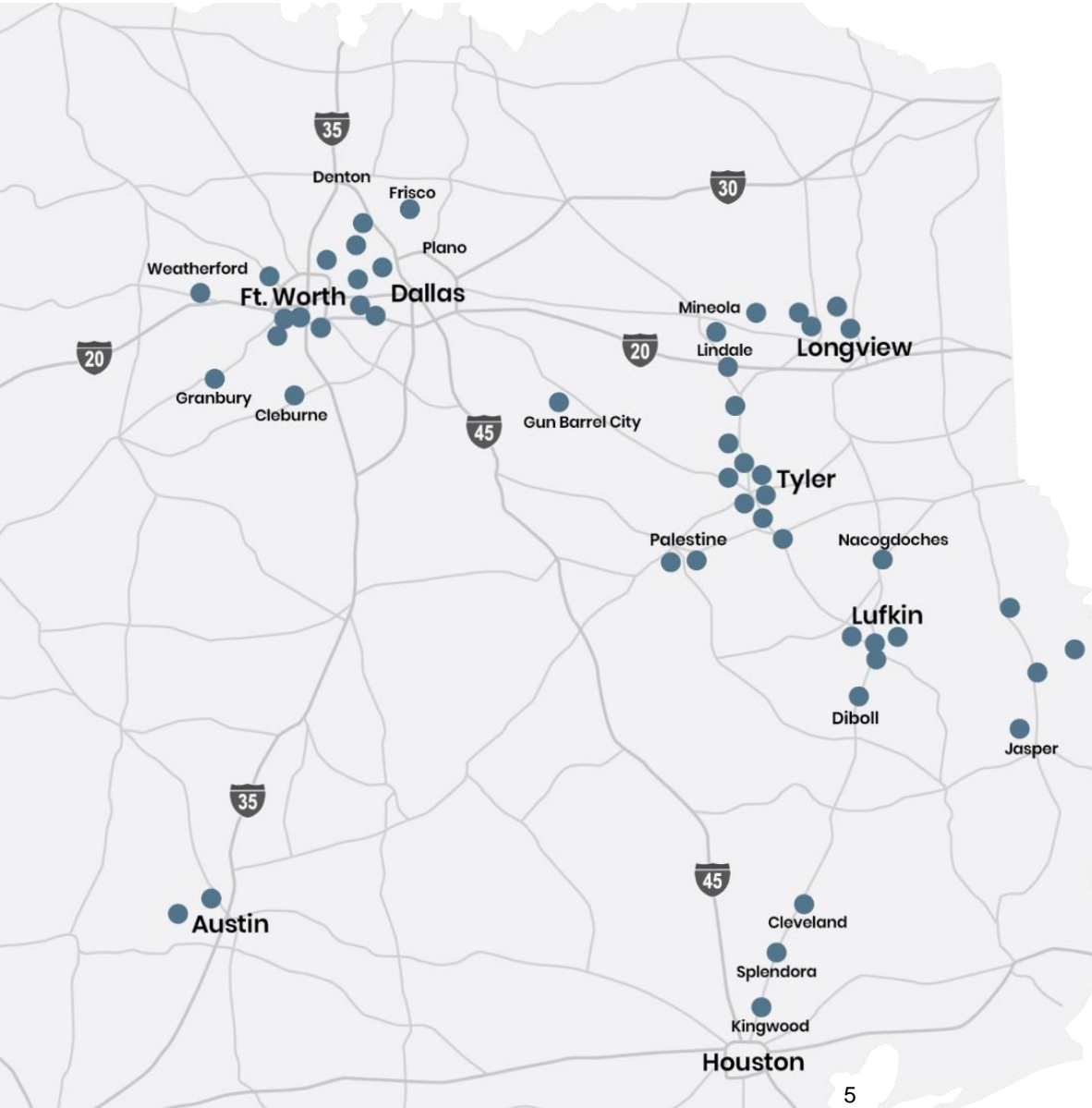
## ▪ Veteran Management Team

- Southside's Key Management Team each have over 20 years of banking experience

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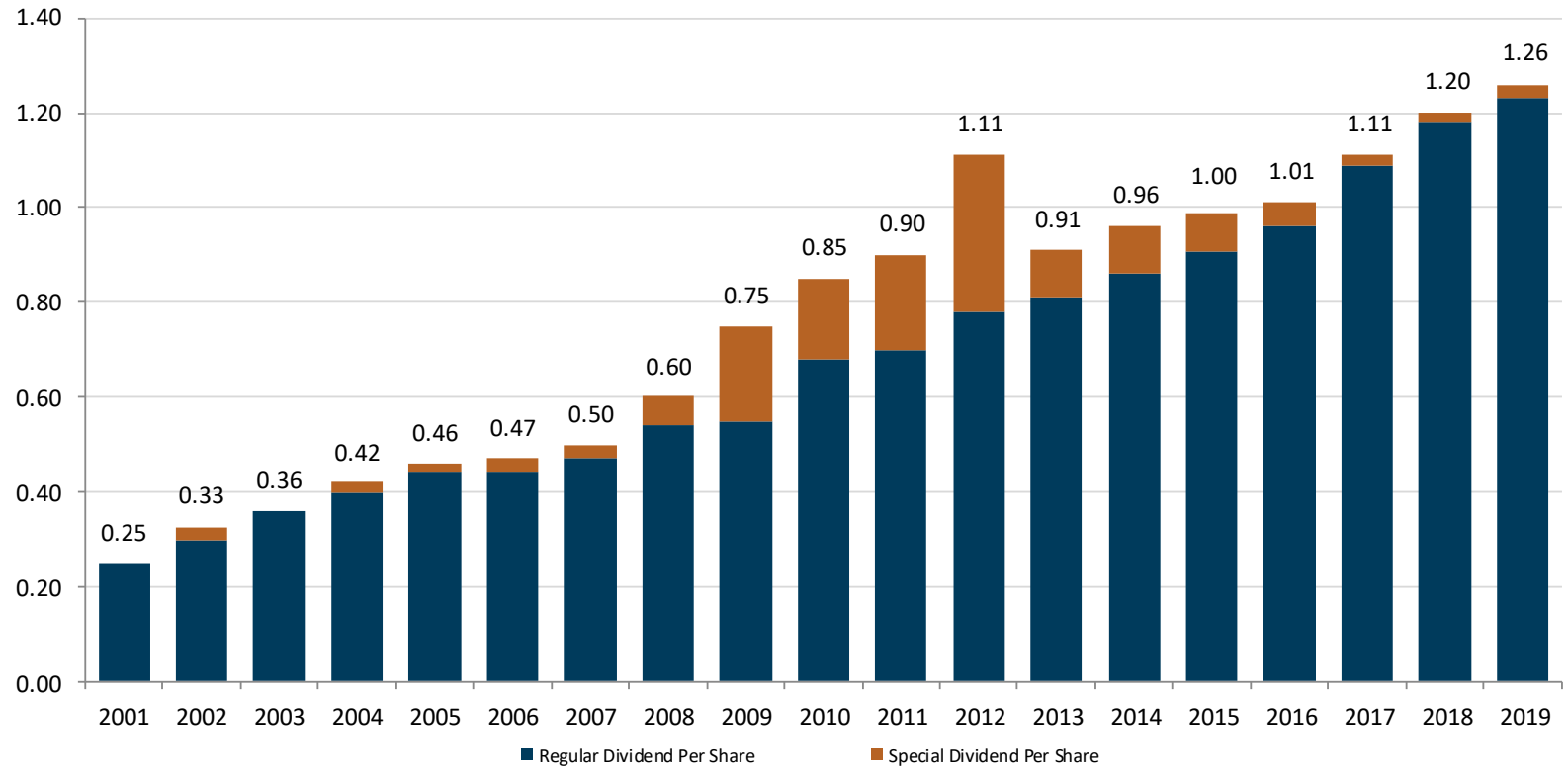
(1) 2020 – 2025 projected growth; source: S&P Global Market Intelligence

# Geographic Footprint



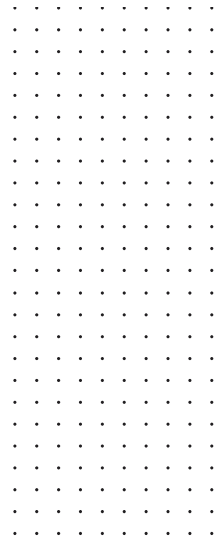
# Dividends

- Cash dividend paid every year since 1970
- Consistent record of dividend increases
- YTD 2019 Dividend payout ratio (diluted) of 57.27%



# Goals for 2020

- 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 December 31,

(dollars in thousands, except per share data)

	<u>2019</u>	<u>2018</u>	<u>%Chg.</u>
Net Income	\$ 17,335	\$ 17,381	(0.3)%
EPS (diluted)	\$ 0.51	0.50	2.0%
ROAE	8.42%	9.30%	
ROAA	1.03%	1.14%	
Efficiency Ratio (FTE) <sup>(1)</sup>	53.87%	52.18%	

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

# Year Ended December 31,

(dollars in thousands, except per share data)

	<u>2019</u>	<u>2018</u>	<u>%Chg.</u>
Net Income	\$ 74,554	\$ 74,138	0.6%
EPS (diluted)	\$ 2.20	\$ 2.11	4.3%
ROAE	9.53%	9.87%	
ROAA	1.17%	1.19%	
Efficiency Ratio (FTE) <sup>(1)</sup>	52.36%	49.98%	

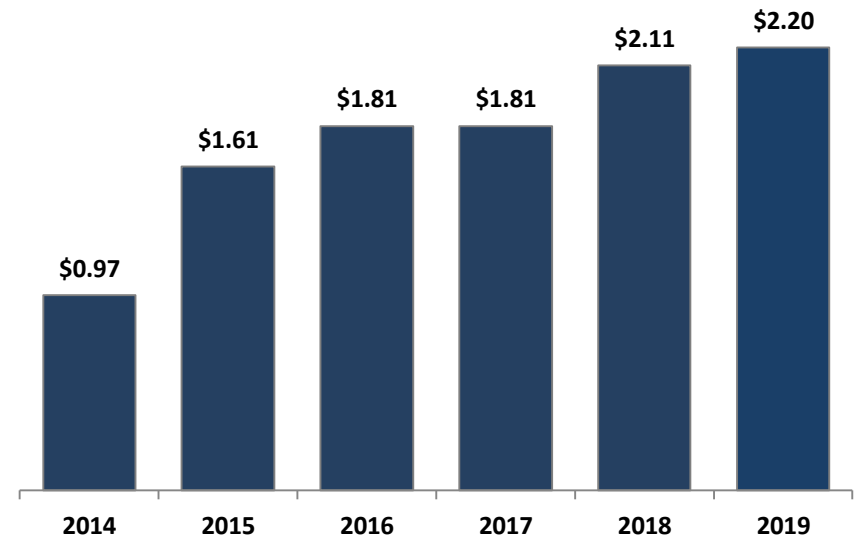
(1) Calculated on a fully taxable-equivalent basis (FTE). See Non-GAAP Reconciliation.

# Shareholder Returns

## Tangible Book Value Per Common Share<sup>(1)</sup> (\$)



## Diluted Earnings Per Common Share (\$)

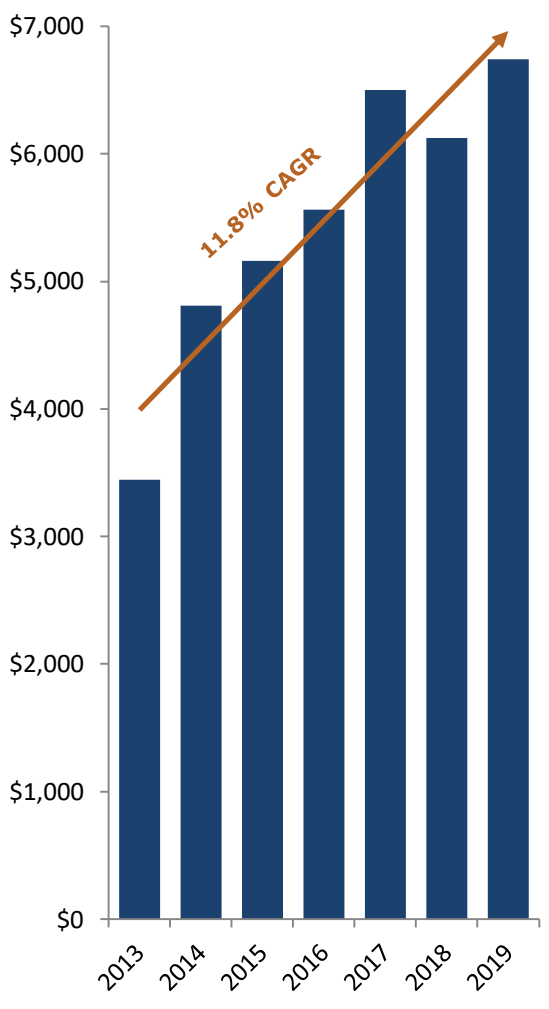


(1) See Non-GAAP Reconciliation.

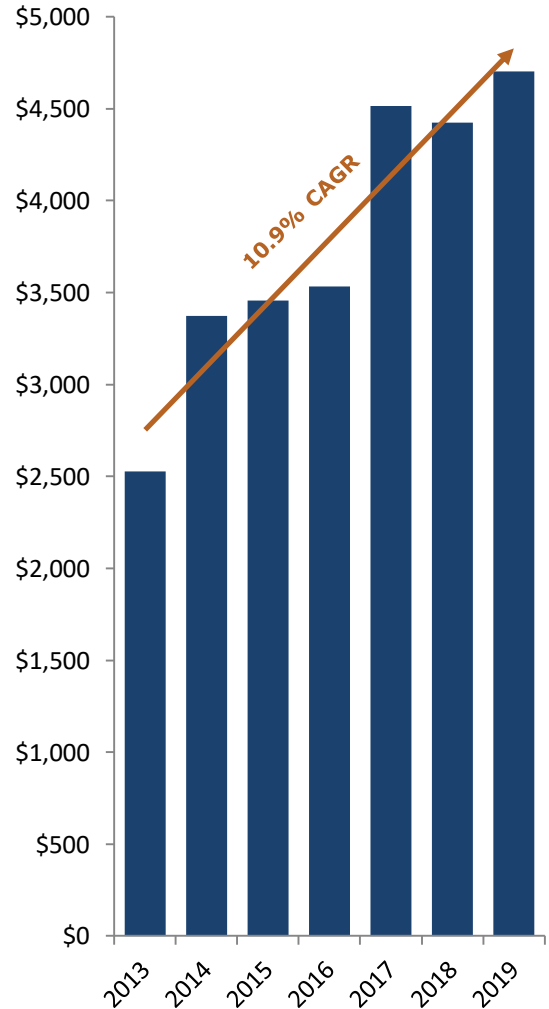
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 resulting in pre-tax merger expenses of \$15.9mm and \$5.5mm in 2014 and 2015, respectively, as well as \$2.8mm in impairment charges in 2014 relating to the exit of SFG. Completed acquisition of Diboll State Bancshares, Inc. on 11/30/17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

# Balance Sheet Growth

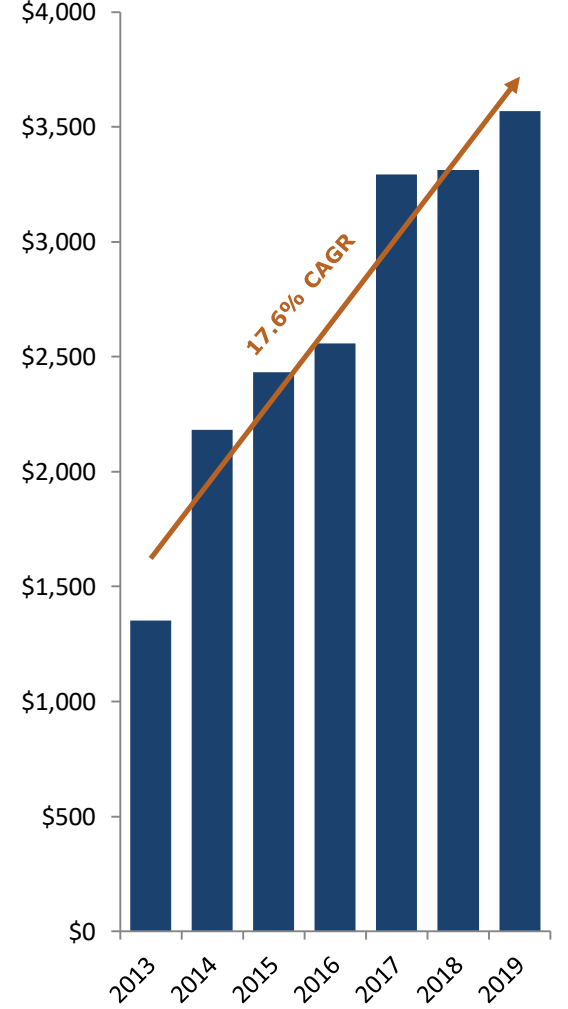
**Total Assets (\$mm)**



**Total Deposits (\$mm)**



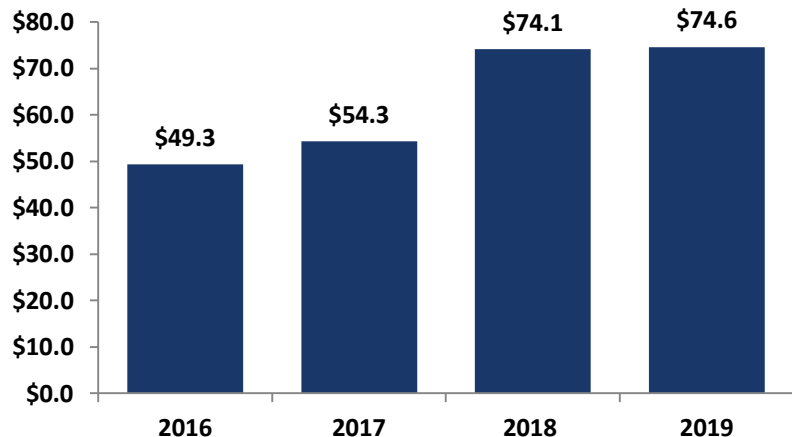
**Loans HFI (\$mm)**



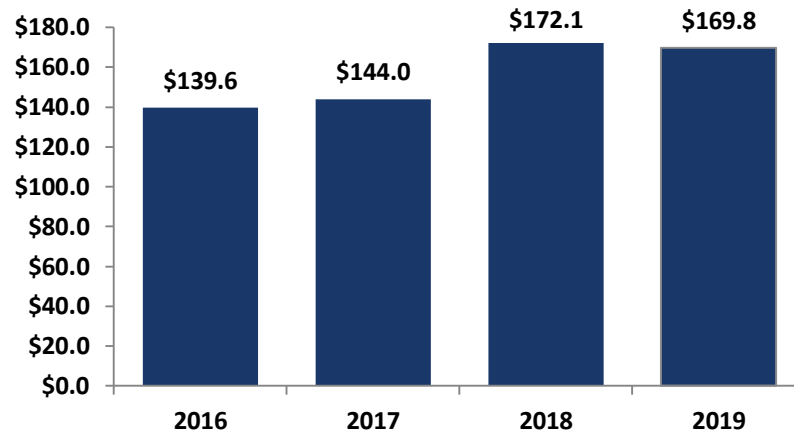
Note: Completed acquisition of OmniAmerican Bancorp, Inc. on 12/17/14 and completed acquisition of Diboll State Bancshares, Inc. on 11/30/17.

# Profitability

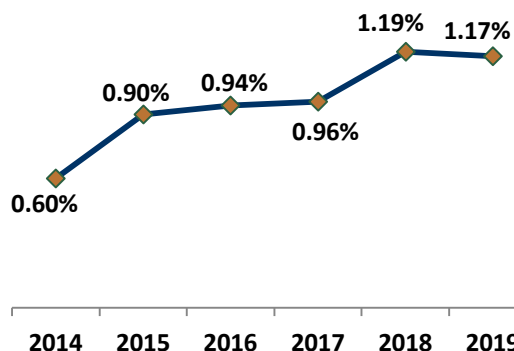
## Net Income (\$mm)



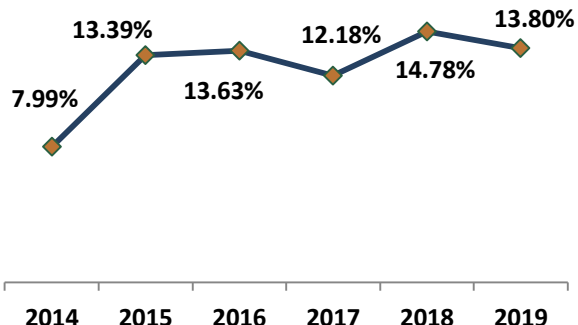
## Net Interest Income (\$mm)



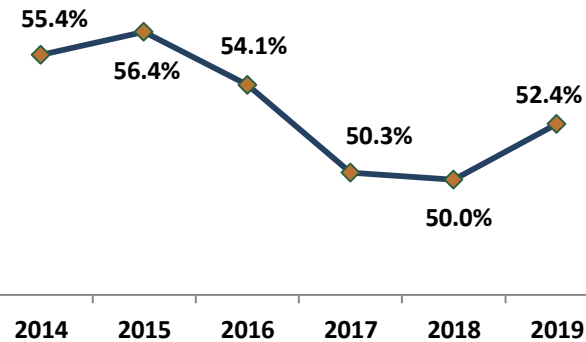
## ROAA



## ROATCE<sup>(1)</sup>



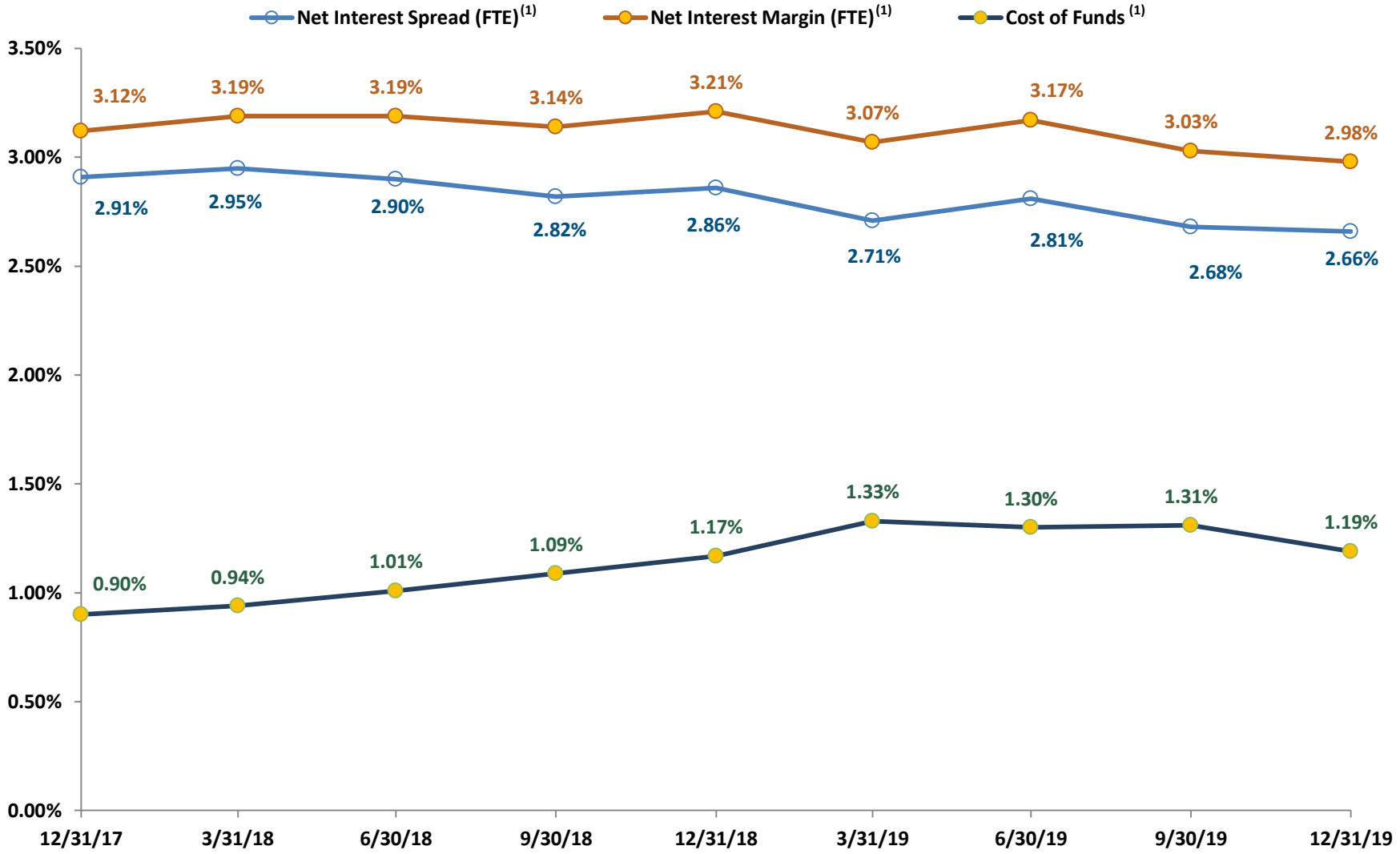
## Efficiency Ratio (FTE)<sup>(1)</sup>



(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



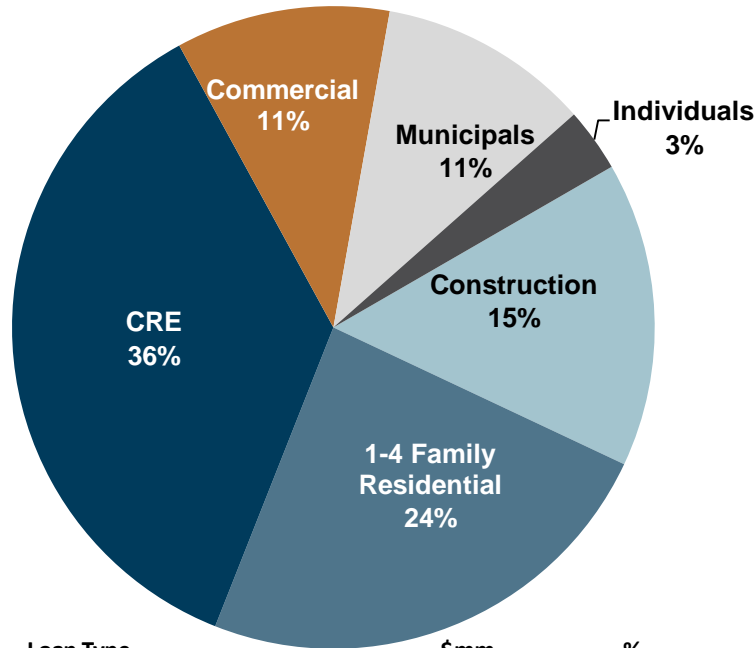
(1) Annualized

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



# Loan Portfolio Composition

12/31/2018



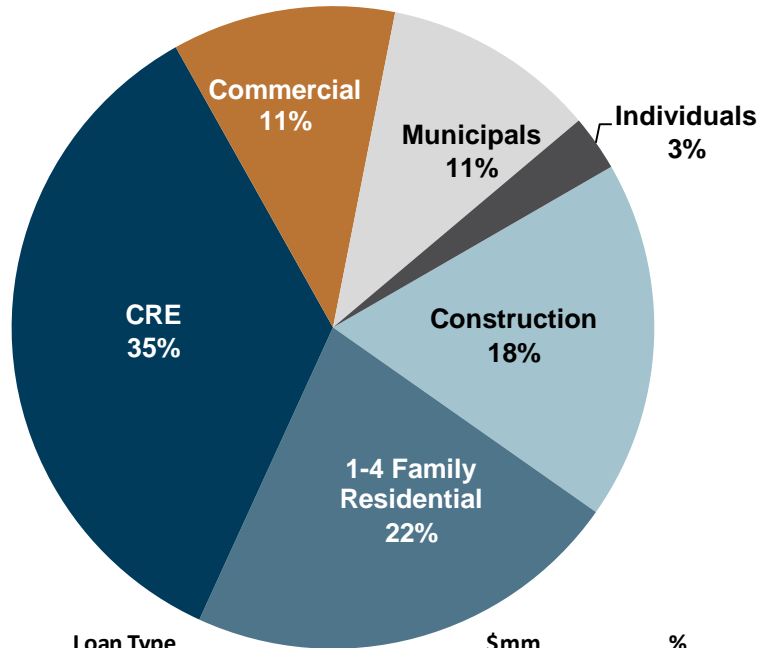
Loan Type	\$mm	%
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Real Estate Loans:

Construction	\$508	15%
1-4 Family Residential	795	24%
CRE	1,194	36%
Commercial	357	11%
Municipals	353	11%
Individuals	106	3%

<b>Total</b>	<b>\$3,313</b>	<b>100%</b>
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12/31/2019



Loan Type	\$mm	%
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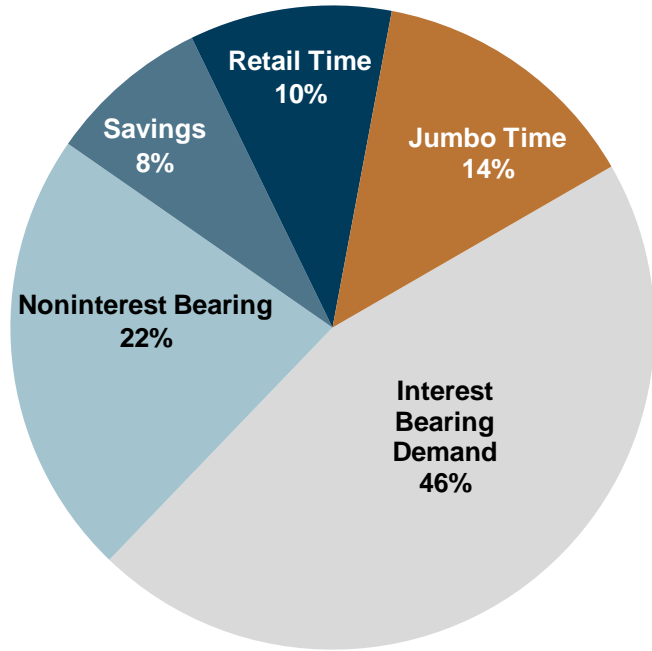
Real Estate Loans:

Construction	\$645	18%
1-4 Family Residential	788	22%
CRE	1,250	35%
Commercial	401	11%
Municipals	384	11%
Individuals	100	3%

<b>Total</b>	<b>\$3,568</b>	<b>100%</b>
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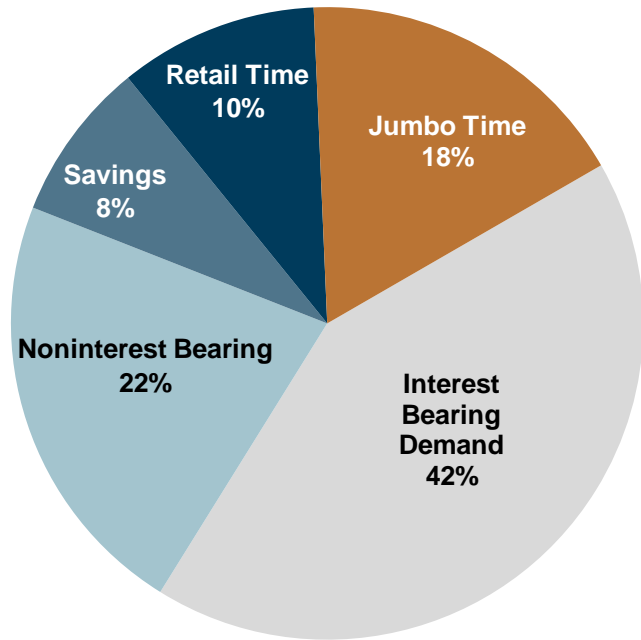
# Deposit Composition

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%
<b>Total</b>	<b>\$4,425</b>	<b>100%</b>

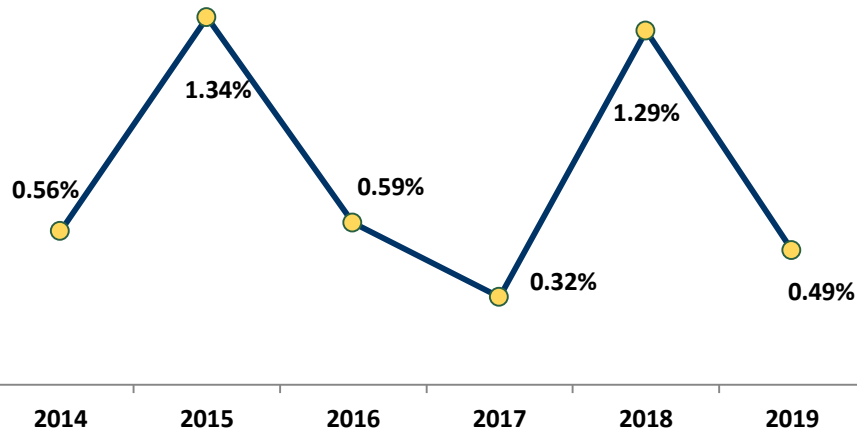
12/31/2019



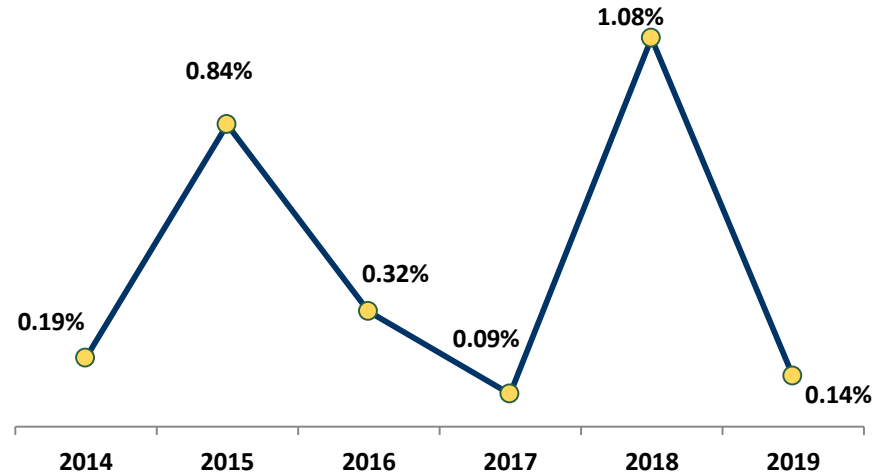
Deposit Type	\$mm	%
Interest Bearing Demand	\$1,984	42%
Noninterest Bearing	1,040	22%
Savings	385	8%
Retail Time	478	10%
Jumbo Time	816	18%
<b>Total</b>	<b>\$4,703</b>	<b>100%</b>

# Asset Quality Trends

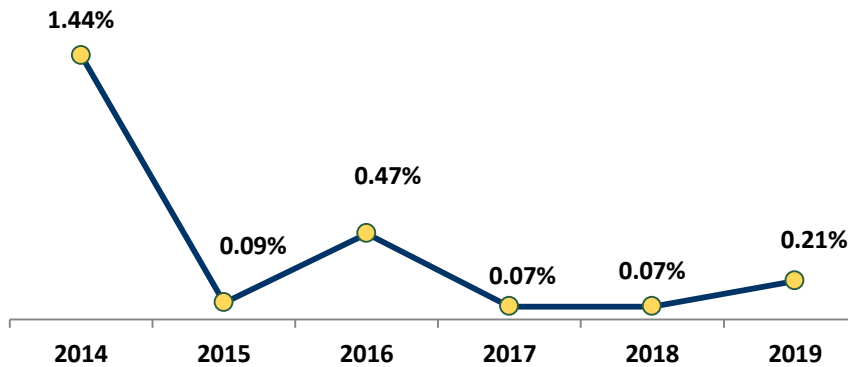
## NPAs / Loans and OREO<sup>(1)</sup>



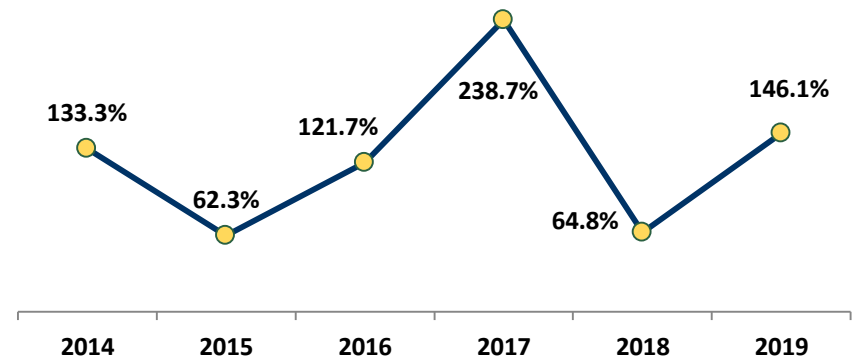
## Nonaccrual Loans / Loans<sup>(1)</sup>



## NCOs / Average Loans



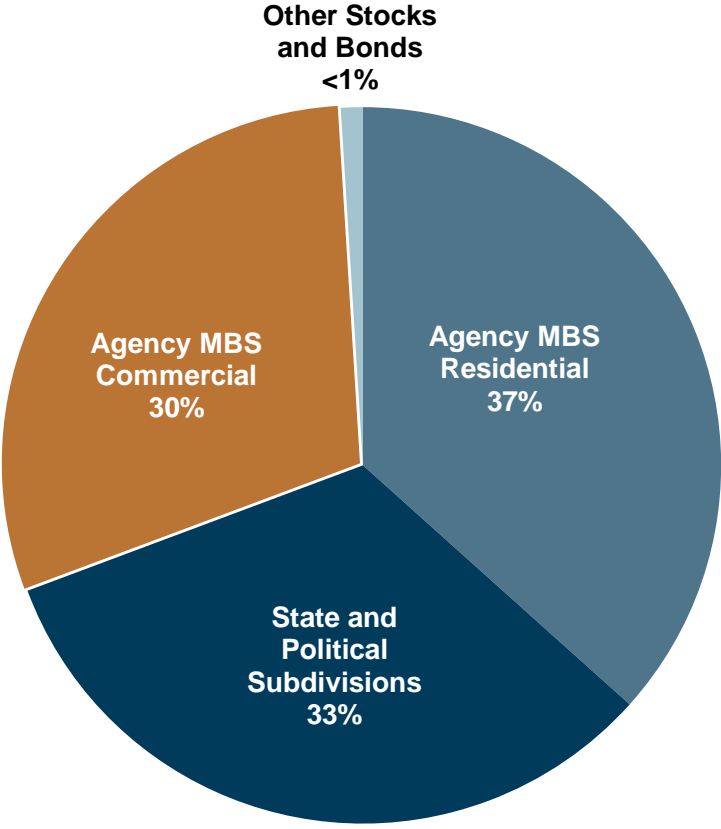
## Reserves / NPLs



(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.

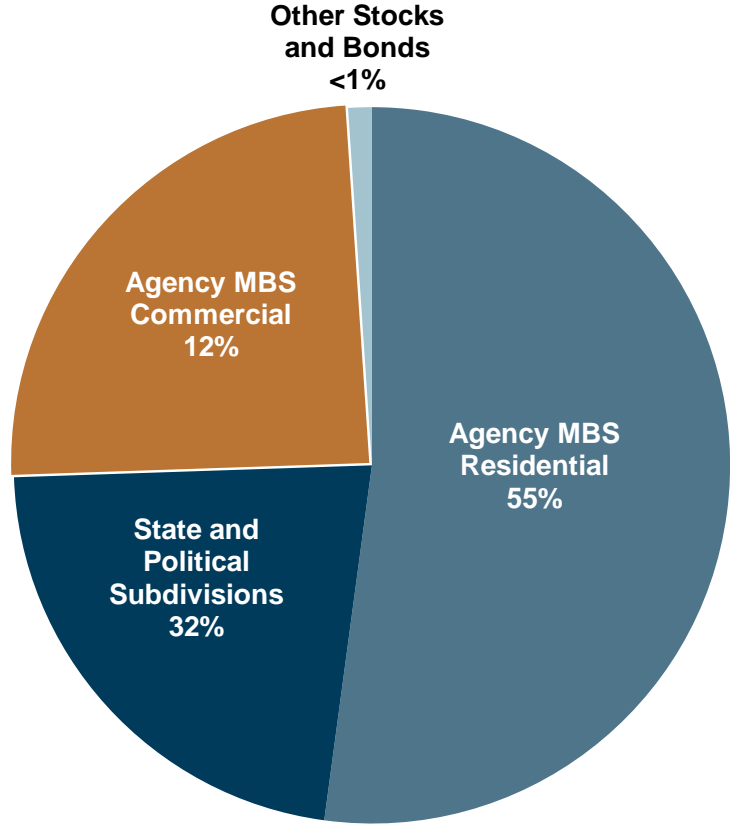
# Securities Portfolio

12/31/2018



**\$2.15 billion**

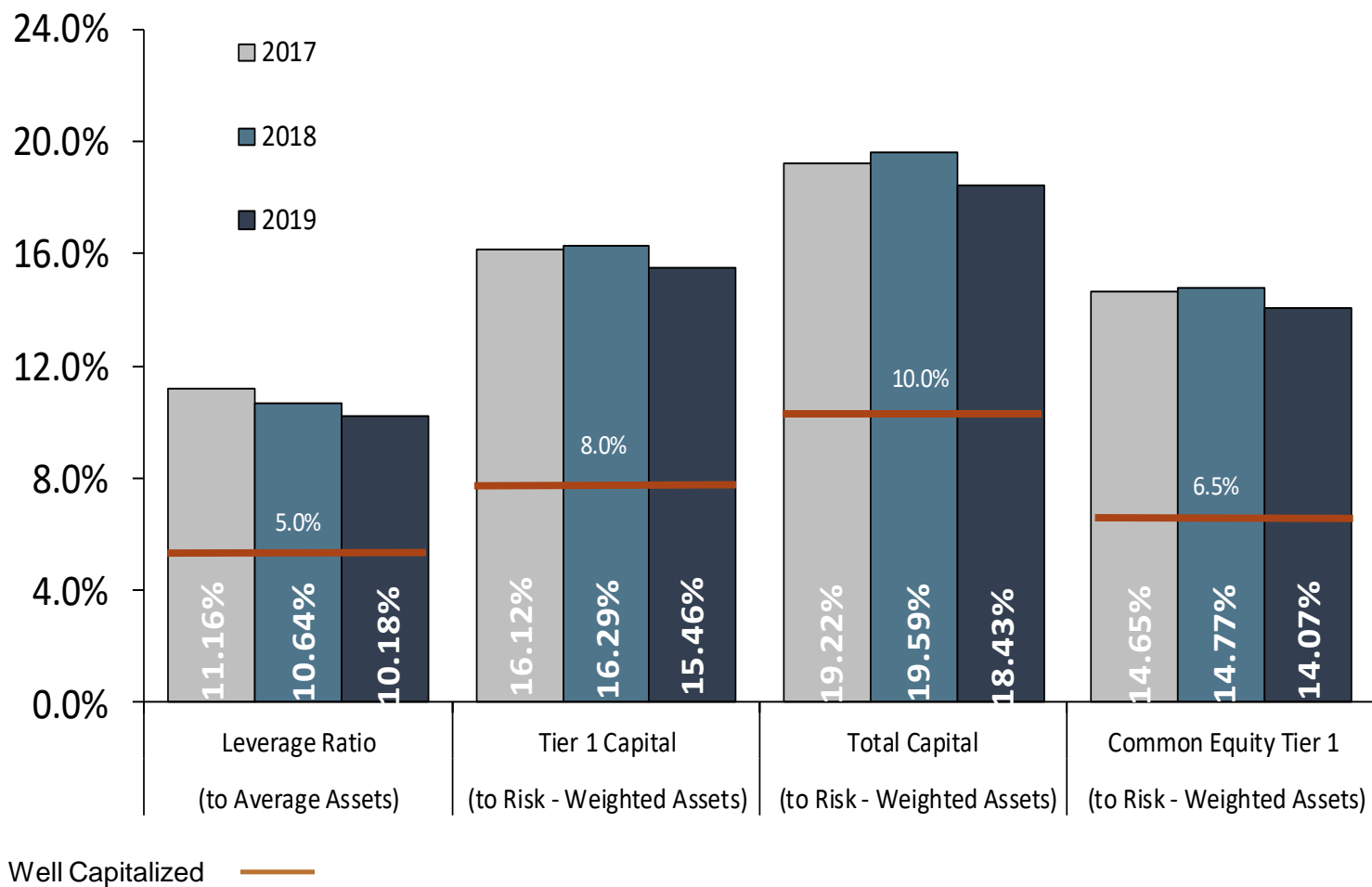
12/31/2019



**\$2.49 billion**

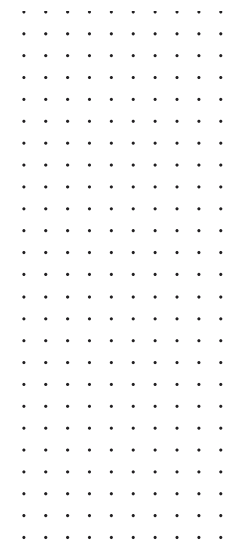
Note: All mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government sponsored enterprises.

# Capital Levels



# Appendix

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# 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)

		As of and for the Year Ended December 31,					
(dollars in thousands, except per share data)		2014	2015	2016	2017	2018	2019
Net income available to common shareholders		\$20,833	\$43,997	\$49,349	\$54,312	\$74,138	\$74,554
Plus: After-tax amortization expense (35% tax rate for 2014-2017, 21% tax rate for 2018-2019)		133	1,496	1,261	1,271	4,118	3,490
<b>Adjusted net income available to common shareholders</b>	<b>[a]</b>	<b>\$20,966</b>	<b>\$45,493</b>	<b>\$50,610</b>	<b>\$55,583</b>	<b>\$78,256</b>	<b>\$78,044</b>
Average shareholders' equity		\$287,768	\$438,427	\$468,424	\$563,023	\$751,262	\$782,367
Less: Average intangible assets for the period		25,377	98,702	97,123	106,747	221,650	216,733
<b>Average tangible shareholders' equity</b>	<b>[b]</b>	<b>\$262,391</b>	<b>\$339,725</b>	<b>\$371,301</b>	<b>\$456,276</b>	<b>\$529,612</b>	<b>\$565,634</b>
<b>Return on average tangible common equity (ROATCE)</b>	<b>[a] / [b]</b>	<b>7.99%</b>	<b>13.39%</b>	<b>13.63%</b>	<b>12.18%</b>	<b>14.78%</b>	<b>13.80%</b>
Common equity at end of period		\$425,243	\$444,062	\$518,274	\$754,140	\$731,291	\$804,580
Less: Intangible assets at end of period		100,216	98,068	96,128	224,239	218,895	214,477
<b>Tangible common shareholders' equity at end of period</b>	<b>[c]</b>	<b>\$325,027</b>	<b>\$345,994</b>	<b>\$422,146</b>	<b>\$529,901</b>	<b>\$512,396</b>	<b>\$590,103</b>
Total assets at end of period		\$4,807,176	\$5,161,996	\$5,563,767	\$6,498,097	\$6,123,494	\$6,748,913
Less: Intangible assets at end of period		100,216	98,068	96,128	224,239	218,895	214,477
<b>Tangible assets at end of period</b>	<b>[d]</b>	<b>\$4,706,960</b>	<b>\$5,063,928</b>	<b>\$5,467,639</b>	<b>\$6,273,858</b>	<b>\$5,904,599</b>	<b>\$6,534,436</b>
<b>Tangible common equity/tangible assets (TCE/TA)</b>	<b>[c] / [d]</b>	<b>6.91%</b>	<b>6.83%</b>	<b>7.72%</b>	<b>8.45%</b>	<b>8.68%</b>	<b>9.03%</b>
Common shares outstanding at end of period	<b>[e]</b>	27,256	27,341	29,261	35,000	33,725	33,823 (A)
<b>Tangible book value per common share</b>	<b>[c] / [e]</b>	<b>\$11.92</b>	<b>\$12.65</b>	<b>\$14.43</b>	<b>\$15.14</b>	<b>\$15.19</b>	<b>\$17.45</b>
Noninterest expense		\$97,704	\$112,954	\$109,522	\$106,335	\$120,099	\$119,297 (B)
Less: Pre-tax amortization expense		204	2,301	1,940	1,955	5,213	4,418
Less: Nonrecurring expense		15,838	6,000	2,375	4,394	3,236	26
<b>Adjusted noninterest expense</b>	<b>[f]</b>	<b>\$81,662</b>	<b>\$104,653</b>	<b>\$105,207</b>	<b>\$99,986</b>	<b>\$111,650</b>	<b>\$114,853</b>
Net interest income (FTE)		\$122,946	\$151,400	\$157,555	\$161,480	\$181,422	\$177,443
Plus: Noninterest income		24,489	37,895	39,411	37,473	40,773	42,368 (B)
Less: Nonrecurring income (loss)		75	3,660	2,426	191	(1,198)	470
<b>Total Revenue</b>	<b>[g]</b>	<b>\$147,360</b>	<b>\$185,635</b>	<b>\$194,540</b>	<b>\$198,762</b>	<b>\$223,393</b>	<b>\$219,341</b>
<b>Efficiency Ratio (FTE)</b>	<b>[f] / [g]</b>	<b>55.42%</b>	<b>56.38%</b>	<b>54.08%</b>	<b>50.30%</b>	<b>49.98%</b>	<b>52.36%</b>

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.

# KBW Financial Services Symposium

## February 13, 2020

 **SOUTHSIDE**  
BANCSHARES, INC.™

NASDAQ: SBSI

