

REFINITIV

DELTA REPORT

10-Q

SBSI - SOUTHSIDE BANCSHARES INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1322

█ CHANGES 475
█ DELETIONS 456
█ ADDITIONS 391

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2023** **March 31, 2024**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **000-12247**

SOUTHSIDE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas

75-1848732

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

1201 S. Beckham **Tyler, Texas**
Avenue,

75701

(Address of Principal Executive Offices)

(Zip Code)

903-531-7111

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$1.25 par value	SBSI	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of **October 24, 2023** **April 24, 2024** was **30,196,614** **30,284,712** shares.

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SOUTHSIDE BANCSHARES, INC.
Glossary of Acronyms, Abbreviations and Terms

The acronyms, abbreviations and terms listed below are used in various sections of this Form 10-Q, including "Item 1. Financial Statements" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Entities:

Southside Bancshares, Inc.	Bank holding company for Southside Bank
Southside Bank	Texas state bank and wholly owned subsidiary of Southside Bancshares, Inc.
Company	Combined entities of Southside Bancshares, Inc. and its subsidiaries, including Southside Bank
Bank	Southside Bank
Southside	Southside Bancshares, Inc.

Other Acronyms, Abbreviations and Terms:

2022 2023 Form 10-K	Company's Southside Bancshares, Inc. Annual Report on Form 10-K for the year ended December 31, 2022 SEC on February 27, 2024
401(k) Plan	401(k) Defined Contribution Plan
Acquired Retirement Plan	OmniAmerican Bank defined benefit pension plan
AFS	Available for sale
ALCO	Asset/Liability Committee
AOCI	Accumulated other comprehensive income or loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update issued by the FASB
ATM	Automated teller machines
BTFP	The Federal Reserve's Bank Term Funding Program
Basel Committee	Basel Committee on Banking Supervision
BOLI	Bank owned life insurance
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDs	Certificates of deposit
CECL	ASC 326, Financial Instruments- Credit Losses, also known as Current Expected Credit Losses
CET1	Common Equity Tier 1
CMOs	Collateralized mortgage obligations
CRE	Commercial real estate
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Economic Aid Act	Economic Aid to Hard-Hit Small Business, Nonprofits and Venues Act
ESOP	Employee Stock Ownership Plan
ETR	Effective tax rate
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	The Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
First Quarter Form 10-Q	Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023
FRBNY	Federal Reserve Bank of New York
FRDW	Federal Reserve Discount Window
FTE	Fully-taxable equivalents measurements
GAAP	United States generally accepted accounting principles
GSEs	U.S. government-sponsored enterprises

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GSEs	U.S. government-sponsored enterprises
Guidelines	Interagency Guidelines Prescribing Standards for Safety and Soundness adopted by federal banking agencies
HTM	Held to maturity
ITM	Interactive teller machines
LIBOR	London Interbank Offered Rate
MBS	Mortgage-backed securities
MVPE	Market value of portfolio equity
OREO	Other real estate owned
PCD	Purchased financial assets with credit deterioration under CECL
PCI	Financial assets purchased credit impaired under ASC 310-30 prior to CECL
Repurchase agreements	Securities sold under agreements to repurchase
Restoration Plan	Nonfunded supplemental retirement plan
Retirement Plan	Defined benefit pension plan
ROU	Right-of-use
SBA	Small Business Administration
SEC	Securities and Exchange Commission
Second Quarter Form 10-Q	Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023
SOFR	Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York
TDR	Troubled debt restructurings prior to implementation of ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"
U.S.	United States

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share amounts)

		March 31, 2024	March 31, December 31, 2024 2023			
		September 30, 2023	December 31, 2022			
ASSETS						
ASSETS						
ASSETS	ASSETS					
Cash and due from banks	Cash and due from banks	\$ 105,601	\$ 106,143			
Interest earning deposits	Interest earning deposits	106,094	9,276			
Federal funds sold	Federal funds sold	114,128	83,833			
Total cash and cash equivalents	Total cash and cash equivalents	325,823	199,252			
Securities:	Securities:					
Securities AFS, at estimated fair value (amortized cost of \$1,472,520 and \$1,387,874, respectively)		1,335,560	1,299,014			
Securities HTM (estimated fair value of \$1,052,430 and \$1,149,156)		1,307,886	1,326,729			

respectively)

Securities AFS, at estimated fair value (amortized cost of \$1,454,043 and \$1,332,467, respectively)

Securities AFS, at estimated fair value (amortized cost of \$1,454,043 and \$1,332,467, respectively)

Securities AFS, at estimated fair value (amortized cost of \$1,454,043 and \$1,332,467, respectively)

Securities HTM (estimated fair value of \$1,152,186 and \$1,166,162, respectively)

FHLB stock, at cost

FHLB stock, at cost

12,778

9,190

Equity investments

Equity investments

9,454

11,181

Loans held for sale

Loans held for sale

1,382

667

Loans:

Loans:

4,420,633

4,147,691

Less:
Allowance for
loan losses

Less:
Allowance for
loan losses

(41,760)

(36,515)

Net loans

Net loans

4,378,873

4,111,176

Premises and
equipment, net

Premises and
equipment, net

139,473

141,256

Operating lease

Operating lease

ROU assets

ROU assets

14,948

15,314

Goodwill

Goodwill

201,116

201,116

Other intangible
assets, net

Other intangible
assets, net

3,295

4,622

Interest receivable

Interest receivable

39,646

49,350

Deferred tax asset,
net

Deferred tax asset,
net

41,221

34,695

Unsettled trades to
sell securities

BOLI

BOLI

BOLI

BOLI

135,737

133,911

Other assets

Other assets

25,276

21,163

Total assets

Total assets

\$ 7,972,468

\$ 7,558,636

LIABILITIES AND
SHAREHOLDERS'
EQUITY

LIABILITIES AND
SHAREHOLDERS'
EQUITY

Deposits:

Deposits:

Noninterest
bearing

Noninterest
bearing

\$ 1,431,285

\$ 1,671,562

Interest bearing

Interest bearing

4,918,286

4,526,457

Total deposits

Total deposits

6,349,571

6,198,019

Other borrowings

Other borrowings

395,209

221,153

FHLB borrowings

FHLB borrowings

212,829

153,358

Subordinated

Subordinated

93,838

98,674

notes, net of unamortized debt issuance costs	notes, net of unamortized debt issuance costs		
Trust preferred subordinated debentures, net of unamortized debt issuance costs	Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,269	60,265
Unsettled trades to purchase securities	Unsettled trades to purchase securities	24,917	—
Unsettled trades to purchase securities			
Unsettled trades to purchase securities			
Operating lease liabilities	Operating lease liabilities	16,797	17,070
Other liabilities	Other liabilities	90,443	64,100
Total liabilities	Total liabilities	7,243,873	6,812,639
Off-balance- sheet arrangements, commitments and contingencies (Note 12)	Off-balance- sheet arrangements, commitments and contingencies (Note 12)		Off-balance-sheet arrangements, commitments and contingencies (Note 12)
Shareholders' equity:	Shareholders' equity:		
Common stock: (\$1.25 par value, 80,000,000 shares authorized, 38,029,245 shares issued at September 30, 2023 and 38,000,822 shares issued at December 31, 2022)	47,537	47,501	
Shareholders' equity:			
Shareholders' equity:			
Common stock: (\$1.25 par value, 80,000,000 shares authorized, 38,050,389 shares issued at March 31, 2024 and 38,039,706 shares issued at December 31, 2023)			
Paid-in capital	Paid-in capital	788,190	784,545
Retained earnings	Retained earnings	276,312	239,610
Treasury stock: (shares at cost, 7,691,151 at September 30, 2023 and 6,454,192 at December 31, 2022)	(228,467)	(188,203)	
Treasury stock: (shares at cost, 7,766,701 at March 31, 2024 and 7,790,276 at December 31, 2023)			
AOCI	AOCI	(154,977)	(137,456)

Total shareholders' equity	Total shareholders' equity	728,595	745,997
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$ 7,972,468	\$7,558,636

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share data)

	Interest income:	Three Months Ended		Nine Months Ended		
		September 30,		September 30,		
		2023		2022		
		2023	2022	2023	2022	
Interest income:						
Interest income:						
Interest income:						
Loans						
Loans						
Loans	Loans	\$ 64,110	\$ 45,257	\$ 177,570	\$ 118,489	
Taxable investment securities	Taxable investment securities	8,731	4,896	23,216	14,136	
Taxable investment securities						
Taxable investment securities						
Tax-exempt investment securities						
Tax-exempt investment securities						
Tax-exempt investment securities	Tax-exempt investment securities	13,758	11,482	41,394	32,306	
MBS	MBS	4,426	4,770	12,585	12,025	
MBS						
MBS						
FHLB stock and equity investments						
FHLB stock and equity investments						
FHLB stock and equity investments	FHLB stock and equity investments	265	101	889	291	
Other interest earning assets	Other interest earning assets	1,788	374	5,148	606	
Other interest earning assets						

Other interest earning assets					
Total interest income					
Total interest income					
Total interest income	Total interest income	93,078	66,880	260,802	177,853
Interest expense:	Interest expense:				
Interest expense:					
Interest expense:					
Deposits	Deposits				
Deposits	Deposits	30,951	7,887	72,536	15,388
FHLB borrowings	FHLB borrowings	1,174	1,078	5,347	1,668
FHLB borrowings					
FHLB borrowings					
Subordinated notes					
Subordinated notes	Subordinated notes	962	1,004	2,955	3,002
Trust preferred subordinated debentures	Trust preferred subordinated debentures	1,178	669	3,309	1,496
Trust preferred subordinated debentures					
Trust preferred subordinated debentures					
Other borrowings	Other borrowings				
Other borrowings	Other borrowings	5,540	727	16,113	800
Total interest expense	Total interest expense	39,805	11,365	100,260	22,354
Total interest expense					
Total interest expense					
Net interest income					
Net interest income	Net interest income	53,273	55,515	160,542	155,499
Provision for (reversal of) credit losses	Provision for (reversal of) credit losses	6,987	1,494	6,873	1,155
Provision for (reversal of) credit losses					
Provision for (reversal of) credit losses					
Net interest income after provision for credit losses					
Net interest income after provision for credit losses	Net interest income after provision for credit losses	46,286	54,021	153,669	154,344
Noninterest income:	Noninterest income:				
Noninterest income:	Noninterest income:				
Deposit services	Deposit services				
Deposit services	Deposit services	6,479	6,241	19,192	19,365
Net gain (loss) on sale of securities AFS	Net gain (loss) on sale of securities AFS	11	(99)	(5,590)	(3,819)
Net gain (loss) on sale of securities AFS					
Net gain (loss) on sale of securities AFS					

Net gain on sale of equity securities	Net gain on sale of equity securities	—	—	5,058	—
Gain on sale of loans		96	109	385	495
Net gain on sale of equity securities					
Net gain on sale of equity securities					
Gain (loss) on sale of loans					
Gain (loss) on sale of loans					
Gain (loss) on sale of loans					
Trust fees					
Trust fees					
Trust fees	Trust fees	1,522	1,407	4,479	4,421
BOLI	BOLI	790	720	3,221	2,131
BOLI					
BOLI					
Brokerage services					
Brokerage services					
Brokerage services	Brokerage services	760	701	2,361	2,608
Other	Other	1,178	1,190	4,227	4,890
Other					
Other					
Total noninterest income					
Total noninterest income					
Total noninterest income	Total noninterest income	10,836	10,269	33,333	30,091
Noninterest expense:	Noninterest expense:				
Noninterest expense:					
Noninterest expense:					
Salaries and employee benefits	Salaries and employee benefits	21,241	21,368	64,473	61,666
Salaries and employee benefits					
Salaries and employee benefits					
Net occupancy					
Net occupancy					
Net occupancy	Net occupancy	3,796	3,847	11,220	11,157
Advertising, travel & entertainment	Advertising, travel & entertainment	1,062	789	2,966	2,242
Advertising, travel & entertainment					
Advertising, travel & entertainment					
ATM expense					
ATM expense					
ATM expense	ATM expense	358	317	1,033	954
Professional fees	Professional fees	1,472	1,412	4,036	3,486
Professional fees					
Professional fees					
Software and data processing					
Software and data processing					
Software and data processing	Software and data processing	2,432	1,736	6,751	5,106
Communications	Communications	359	497	1,034	1,509
Communications					
Communications					
FDIC insurance	FDIC insurance	902	485	2,666	1,434

FDIC insurance							
FDIC insurance							
Amortization of intangibles							
Amortization of intangibles							
Amortization of intangibles	Amortization of intangibles	407	550	1,327	1,758		
Other	Other	3,524	2,463	9,889	7,453		
Other							
Other							
Total noninterest expense							
Total noninterest expense							
Total noninterest expense	Total noninterest expense	35,553	33,464	105,395	96,765		
Income before income tax expense	Income before income tax expense	21,569	30,826	81,607	87,670		
Income before income tax expense							
Income before income tax expense							
Income tax expense	Income tax expense	3,120	3,875	12,231	10,318		
Income tax expense							
Income tax expense							
Net income							
Net income	Net income	\$ 18,449	\$ 26,951	\$ 69,376	\$ 77,352		
Earnings per common share – basic	Earnings per common share – basic	\$ 0.60	\$ 0.84	\$ 2.25	\$ 2.40		
Earnings per common share – basic							
Earnings per common share – diluted							
Earnings per common share – diluted	Earnings per common share – diluted	\$ 0.60	\$ 0.84	\$ 2.24	\$ 2.39		
Cash dividends paid per common share	Cash dividends paid per common share	\$ 0.35	\$ 0.34	\$ 1.05	\$ 1.02		
Cash dividends paid per common share							
Cash dividends paid per common share							

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended
	Three Months Ended
	Three Months Ended
	March 31,
	March 31,
	March 31,
	2024

	2024	
	2024	
Net income		
Net income		
Net income		
Other comprehensive income (loss):		
Other comprehensive income (loss):		
Other comprehensive income (loss):		
Securities AFS and transferred securities:		
Securities AFS and transferred securities:		
Securities AFS and transferred securities:		
Change in unrealized holding gain (loss) on AFS securities during the period		
Change in unrealized holding gain (loss) on AFS securities during the period		
Change in unrealized holding gain (loss) on AFS securities during the period		
	Three Months Ended	
	September 30,	
	2023	2022
Net income	\$ 18,449	\$ 26,951
Other comprehensive income (loss):		
Securities AFS and transferred securities:		
Change in unrealized holding gain (loss) on AFS securities during the period	(52,882)	(61,354)
Reclassification adjustment for amortization related to AFS and HTM debt securities		
Change in net unrealized loss on securities transferred from AFS to HTM	—	(6,367)
Reclassification adjustment for amortization related to AFS and HTM debt securities		
Reclassification adjustment for amortization related to AFS and HTM debt securities	2,008	1,396
Reclassification adjustment for net (gain) loss on sale of AFS securities, included in net income	(11)	99
Reclassification adjustment for net (gain) loss on sale of AFS securities, included in net income		
Derivatives:	Derivatives:	
Derivatives:		
Derivatives:		
Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives		
Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives		

Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives	Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives	7,377	15,226	16,277	42,819
Reclassification adjustment of net (gain) loss related to derivatives designated as cash flow hedges	Reclassification adjustment of net (gain) loss related to derivatives designated as cash flow hedges	(6,408)	(1,572)	(17,570)	94
Reclassification adjustment of net (gain) loss related to derivatives designated as cash flow hedges					
Reclassification adjustment of net (gain) loss related to derivatives designated as cash flow hedges					
Pension plans:	Pension plans:				
Pension plans:					
Pension plans:					
Amortization of net actuarial loss, included in net periodic benefit cost					
Amortization of net actuarial loss, included in net periodic benefit cost					
Amortization of net actuarial loss, included in net periodic benefit cost	Amortization of net actuarial loss, included in net periodic benefit cost	189	224	567	671
Other comprehensive income (loss), before tax	Other comprehensive income (loss), before tax	(49,727)	(52,348)	(22,179)	(304,297)
Other comprehensive income (loss), before tax					
Other comprehensive income (loss), before tax					
Income tax (expense) benefit related to items of other comprehensive income (loss)					
Income tax (expense) benefit related to items of other comprehensive income (loss)					
Income tax (expense) benefit related to items of other comprehensive income (loss)	Income tax (expense) benefit related to items of other comprehensive income (loss)	10,443	10,993	4,658	63,902
Other comprehensive income (loss), net of tax	Other comprehensive income (loss), net of tax	(39,284)	(41,355)	(17,521)	(240,395)
Other comprehensive income (loss), net of tax					
Other comprehensive income (loss), net of tax					
Comprehensive income (loss)	Comprehensive income (loss)	\$ (20,835)	\$ (14,404)	\$ 51,855	\$ (163,043)
Comprehensive income (loss)					
Comprehensive income (loss)					

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (UNAUDITED)
 (in thousands, except share and per share data)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2022	\$ 47,501	\$ 784,545	\$ 239,610	\$ (188,203)	\$ (137,456)	\$ 745,997
Net income	—	—	26,034	—	—	26,034
Other comprehensive income (loss)	—	—	—	—	4,144	4,144
Issuance of common stock for dividend reinvestment plan (8,026 shares)	10	292	—	—	—	302
Purchase of common stock (457,394 shares)	—	—	—	(15,945)	—	(15,945)
Stock compensation expense	—	914	—	—	—	914
Net issuance of common stock under employee stock plans (23,919 shares)	—	368	(91)	295	—	572
Cash dividends paid on common stock (\$0.35 per share)	—	—	(10,988)	—	—	(10,988)
Balance at March 31, 2023	47,511	786,119	254,565	(203,853)	(133,312)	751,030
Net income	—	—	24,893	—	—	24,893
Other comprehensive income (loss)	—	—	—	—	17,619	17,619
Issuance of common stock for dividend reinvestment plan (10,390 shares)	13	286	—	—	—	299
Purchase of common stock (618,831 shares)	—	—	—	(18,725)	—	(18,725)
Stock compensation expense	—	924	—	—	—	924
Net issuance of common stock under employee stock plans (19,065 shares)	—	(302)	(95)	238	—	(159)
Cash dividends paid on common stock (\$0.35 per share)	—	—	(10,720)	—	—	(10,720)
Balance at June 30, 2023	47,524	787,027	268,643	(222,340)	(115,693)	765,161
Net income	—	—	18,449	—	—	18,449
Other comprehensive income (loss)	—	—	—	—	(39,284)	(39,284)
Issuance of common stock for dividend reinvestment plan (10,007 shares)	13	294	—	—	—	307
Purchase of common stock (212,388 shares)	—	—	—	(6,237)	—	(6,237)
Stock compensation expense	—	875	—	—	—	875
Net issuance of common stock under employee stock plans (8,670 shares)	—	(6)	(93)	110	—	11
Cash dividends paid on common stock (\$0.35 per share)	—	—	(10,687)	—	—	(10,687)
Balance at September 30, 2023	\$ 47,537	\$ 788,190	\$ 276,312	\$ (228,467)	\$ (154,977)	\$ 728,595

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2023	\$ 47,550	\$ 788,840	\$ 282,355	\$ (231,995)	\$ (113,462)	\$ 773,288
Net income	—	—	21,511	—	—	21,511
Other comprehensive income (loss)	—	—	—	—	2,603	2,603
Issuance of common stock for dividend reinvestment plan (10,683 shares)	13	293	—	—	—	306
Stock compensation expense	—	756	—	—	—	756
Net issuance of common stock under employee stock plans (23,575 shares)	—	75	(95)	370	—	350
Cash dividends paid on common stock (\$0.36 per share)	—	—	(10,892)	—	—	(10,892)
Balance at March 31, 2024	\$ 47,563	\$ 789,964	\$ 292,879	\$ (231,625)	\$ (110,859)	\$ 787,922

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

(UNAUDITED)

(in thousands, except share and per share data)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	\$ 47,461	\$ 780,501	\$ 179,813	\$ (155,308)	\$ 59,705	\$ 912,172
Net income	—	—	24,996	—	—	24,996
Other comprehensive income (loss)	—	—	—	—	(139,976)	(139,976)
Issuance of common stock for dividend reinvestment plan (7,671 shares)	10	312	—	—	—	322
Purchase of common stock (82,285 shares)	—	—	—	(3,358)	—	(3,358)
Stock compensation expense	—	819	—	—	—	819
Net issuance of common stock under employee stock plans (16,551 shares)	—	182	(67)	154	—	269
Cash dividends paid on common stock (\$0.34 per share)	—	—	(11,003)	—	—	(11,003)
Balance at March 31, 2022	47,471	781,814	193,739	(158,512)	(80,271)	784,241
Net income	—	—	25,405	—	—	25,405
Other comprehensive income (loss)	—	—	—	—	(59,064)	(59,064)
Issuance of common stock for dividend reinvestment plan (7,717 shares)	10	303	—	—	—	313
Purchase of common stock (223,901 shares)	—	—	—	(8,842)	—	(8,842)
Stock compensation expense	—	847	—	—	—	847
Net issuance of common stock under employee stock plans (30,162 shares)	—	(453)	(67)	308	—	(212)
Cash dividends paid on common stock (\$0.34 per share)	—	—	(10,906)	—	—	(10,906)
Balance at June 30, 2022	47,481	782,511	208,171	(167,046)	(139,335)	731,782
Net income	—	—	26,951	—	—	26,951
Other comprehensive income (loss)	—	—	—	—	(41,355)	(41,355)
Issuance of common stock for dividend reinvestment plan (7,372 shares)	9	269	—	—	—	278
Purchase of common stock (8,613 shares)	—	—	—	(309)	—	(309)
Stock compensation expense	—	760	—	—	—	760
Net issuance of common stock under employee stock plans (20,229 shares)	—	263	(61)	246	—	448
Cash dividends paid on common stock (\$0.34 per share)	—	—	(10,919)	—	—	(10,919)
Balance at September 30, 2022	\$ 47,490	\$ 783,803	\$ 224,142	\$ (167,109)	\$ (180,690)	\$ 707,636

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2022	\$ 47,501	\$ 784,545	\$ 239,610	\$ (188,203)	\$ (137,456)	\$ 745,997
Net income	—	—	26,034	—	—	26,034
Other comprehensive income (loss)	—	—	—	—	4,144	4,144
Issuance of common stock for dividend reinvestment plan (8,026 shares)	10	292	—	—	—	302
Purchase of common stock (457,394 shares)	—	—	—	(15,945)	—	(15,945)
Stock compensation expense	—	914	—	—	—	914

Net issuance of common stock under employee stock plans (23,919 shares)	—	368	(91)	295	—	572
Cash dividends paid on common stock (\$0.35 per share)	—	—	(10,988)	—	—	(10,988)
Balance at March 31, 2023	\$ 47,511	\$ 786,119	\$ 254,565	\$ (203,853)	\$ (133,312)	\$ 751,030

The accompanying notes are an integral part of these consolidated financial statements.

Southside Bancshares, Inc. 

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

OPERATING ACTIVITIES:	Nine Months Ended			Three Months Ended	
	September 30,		OPERATING ACTIVITIES:	March 31,	
	2023	2022		2024	2023
Net income	Net income	\$ 69,376	\$ 77,352		
Adjustments to reconcile net income to net cash provided by operations:	Adjustments to reconcile net income to net cash provided by operations:			Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and net amortization	Depreciation and net amortization	7,972	8,332		
Securities premium amortization (discount accretion), net	Securities premium amortization (discount accretion), net	3,791	13,861		
Loan (discount accretion) premium amortization, net	Loan (discount accretion) premium amortization, net	296	(267)		
Provision for (reversal of) credit losses	Provision for (reversal of) credit losses	6,873	1,155		
Stock compensation expense	Stock compensation expense	2,713	2,426		
Deferred tax expense (benefit)	Deferred tax expense (benefit)	(1,868)	103		
Net (gain) loss on sale of AFS securities	Net (gain) loss on sale of AFS securities	5,590	3,819		

Net (gain) loss on sale of equity securities	(5,058)	—
Loss on impairment of investments	—	38
Net (gain) loss on sale of AFS securities		
Net (gain) loss on sale of AFS securities		
Net gain on sale of equity securities		
Net loss on premises and equipment		
Net loss on premises and equipment		
Net loss on premises and equipment	Net loss on premises and equipment	106 435
Gross proceeds from sales of loans held for sale	Gross proceeds from sales of loans held for sale	12,941 20,195
Gross originations of loans held for sale	Gross originations of loans held for sale	(13,656) (18,932)
Net (gain) loss on consumer receivables		
Net (gain) loss on OREO	Net (gain) loss on OREO	(53) (12)
Gain on purchase of subordinated notes		(587) —
Net change in:		
Net change in:		
Net change in:	Net change in:	
Interest receivable	Interest receivable	9,704 6,231
Other assets	Other assets	(5,665) 76,432
Interest payable	Interest payable	10,545 925
Other liabilities	Other liabilities	33,434 16,271
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	136,454 208,364
INVESTING ACTIVITIES:	INVESTING ACTIVITIES:	

INVESTING ACTIVITIES:

INVESTING ACTIVITIES:

Securities AFS:	Securities AFS:	
Purchases		
Purchases		
Purchases	Purchases	(1,137,694) (697,393)
Sales	Sales	747,434 460,765
Maturities, calls and principal repayments	Maturities, calls and principal repayments	324,964 98,046
Securities HTM:	Securities HTM:	
Purchases		— (1,632)
Maturities, calls and principal repayments		
Maturities, calls and principal repayments		
Maturities, calls and principal repayments	Maturities, calls and principal repayments	21,010 11,020
Proceeds from sales of equity securities	Proceeds from sales of equity securities	6,679 —
Proceeds from redemption of FHLB stock and equity investments	Proceeds from redemption of FHLB stock and equity investments	30,767 26,623
Purchases of FHLB stock and equity investments	Purchases of FHLB stock and equity investments	(34,249) (24,346)
Net loan paydowns (originations)	Net loan paydowns (originations)	(274,843) (418,546)
Proceeds from sales of customer receivables		
Purchases of premises and equipment	Purchases of premises and equipment	(5,071) (8,370)
Proceeds from BOLI		951 —
Proceeds from (purchases of) BOLI		
Proceeds from sales of premises and equipment	Proceeds from sales of premises and equipment	430 1,365

Net proceeds from sales of OREO	Net proceeds from sales of OREO	146	34
Proceeds from sales of reposessed assets	Proceeds from sales of reposessed assets	168	47
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	(319,308)	(552,387)

(continued) (continued)

(continued)

SOUTHSIDE BANCSHARES, INC.
AND SUBSIDIARIES

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CONSOLIDATED
STATEMENTS
OF CASH
FLOWS
(continued)
(UNAUDITED)
(UNAUDITED)
(UNAUDITED)
(in thousands)
(in thousands)
(in thousands)

Three Months Ended

SOUTHSIDE BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS
OF CASH FLOWS (continued)

(UNAUDITED)
(in thousands)

Nine Months Ended
September 30,

March 31,

March 31,

2023 2022

2024

2023

FINANCING
ACTIVITIES:

FINANCING
ACTIVITIES:

FINANCING ACTIVITIES:

Net change in
deposits

Net change in
deposits

151,446 430,321

Net change in other borrowings	Net change in other borrowings	174,056	51,502
Proceeds from FHLB borrowings	Proceeds from FHLB borrowings	1,659,000	2,501,000
Repayment of FHLB borrowings	Repayment of FHLB borrowings	(1,599,529)	(2,601,507)
Purchase of subordinated notes		(4,365)	—
Proceeds from stock option exercises			
Proceeds from stock option exercises			
Proceeds from stock option exercises	Proceeds from stock option exercises	705	912
Cash paid to tax authority related to tax withholding on share-based awards	Cash paid to tax authority related to tax withholding on share-based awards	(281)	(407)
Purchase of common stock	Purchase of common stock	(40,120)	(12,509)
Proceeds from the issuance of common stock for dividend reinvestment plan	Proceeds from the issuance of common stock for dividend reinvestment plan	908	913
Cash dividends paid	Cash dividends paid	(32,395)	(32,828)
Cash dividends paid			
Cash dividends paid			
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	309,425	337,397
Net increase (decrease) in cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	Net increase (decrease) in cash and cash equivalents	126,571	(6,626)
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	199,252	201,753
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	\$ 325,823	\$ 195,127

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION: INFORMATION:

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION: INFORMATION:

Interest paid

Interest paid

Interest paid	Interest paid	\$ 89,715	\$ 21,428
Income taxes paid	Income taxes paid	\$ 12,250	\$ 8,200

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: INFORMATION:

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Loans transferred to other repossessed assets and real estate through foreclosure

Loans transferred to other repossessed assets and real estate through foreclosure

Loans transferred to other repossessed assets and real estate through foreclosure	Loans transferred to other repossessed assets and real estate through foreclosure	\$ 127	\$ 266
Transfer of AFS to HTM securities	\$ —	\$ 1,166,550	

Unsettled trades to purchase securities	Unsettled trades to purchase securities	\$ 24,917	\$ —
---	---	-----------	------

Unsettled trades to purchase securities

Unsettled trades to purchase securities

Unsettled trades to sell securities

Unsettled trades to repurchase common stock	Unsettled trades to repurchase common stock	\$ 541	\$ —
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Unsettled issuances of brokered CDs	\$ —	\$ 28,481	
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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

In this report, the words "the Company," "we," "us," and "our" refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries, including Southside Bank. The words "Southside" and "Southside Bancshares" refer to Southside Bancshares, Inc. The words "Southside Bank" and "the Bank" refer to Southside Bank.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, not all information required by GAAP for complete financial statements is included in these interim statements. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. The preparation of these consolidated financial statements in accordance with GAAP requires the use of management's estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

Accounting Changes and Reclassifications

Certain prior period amounts may be reclassified to conform to current year presentation.

Current Expected Credit Losses - Troubled Debt Restructurings and Vintage Disclosures

We adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" on January 1, 2023, the effective date of the guidance, on a prospective basis. ASU 2022-02 eliminated the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, ASU 2022-02 requires an entity to disclose current-period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost." ASU 2022-02 did not have a material impact on our consolidated financial statements.

2. Earnings Per Share

Earnings per share on a basic and diluted basis are calculated as follows (in thousands, except per share amounts):

		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,		Nine Months Ended September 30,	
		2023		2022		2023		2022	
Basic and Diluted Earnings:	Basic and Diluted Earnings:								
Basic and Diluted Earnings:	Basic and Diluted Earnings:								
Net income	Net income								
Net income	Net income								
Net income	Net income	\$ 18,449		\$ 26,951		\$ 69,376		\$ 77,352	
Basic weighted-average shares outstanding	Basic weighted-average shares outstanding								
Basic weighted-average shares outstanding	Basic weighted-average shares outstanding	30,502		32,112		30,862		32,195	

Basic weighted-average shares outstanding								
Basic weighted-average shares outstanding								
Add: Stock awards								
Add: Stock awards								
Add: Stock awards	Add: Stock awards	41		109		54		146
Diluted weighted-average shares outstanding	Diluted weighted-average shares outstanding	30,543		32,221		30,916		32,341
Diluted weighted-average shares outstanding								
Diluted weighted-average shares outstanding								
Basic earnings per share:								
Basic earnings per share:								
Basic earnings per share:	Basic earnings per share:							
Net income	Net income	\$ 0.60		\$ 0.84		\$ 2.25		\$ 2.40
Net income								
Net income								
Diluted earnings per share:								
Diluted earnings per share:								
Diluted earnings per share:	Diluted earnings per share:							
Net income	Net income	\$ 0.60		\$ 0.84		\$ 2.24		\$ 2.39
Net income								
Net income								

For the three and nine months ended September 30, 2023, there were approximately 611,000 and 571,000 anti-dilutive shares, respectively. For the three months ended September 30, 2022 March 31, 2024, there were 22,000 approximately 630,000 anti-dilutive shares. For the nine months ended September 30, 2022 March 31, 2023, there were no 121,000 anti-dilutive shares.

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3. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component are as follows (in thousands):

	Three Months Ended March 31, 2024			
	Three Months Ended March 31, 2024			
	Three Months Ended March 31, 2024			
	Three Months Ended September 30, 2023	Unrealized Gains	Unrealized Gains	
		(Losses)	(Losses)	
		on Securities	on Derivatives	Retirement Plans
				Total
	Unrealized Gains			
	(Losses)			
	on Securities			
	Derivatives			
	Plans			
	Total			
	Unrealized Gains			
	(Losses)			
	on Securities			

		Unrealized Gains (Losses) on Securities					
		Unrealized Gains (Losses) on Securities		Unrealized Gains (Losses) on Derivatives		Retirement Plans	Total
Beginning	Beginning						
balance, net of tax	balance, net of tax	\$(125,929)	\$ 29,439	\$ (19,203)	\$ (115,693)		
Other comprehensive income (loss):	Other comprehensive income (loss):						
Other comprehensive income (loss) before reclassifications	Other comprehensive income (loss) before reclassifications						
Other comprehensive income (loss) before reclassifications	Other comprehensive income (loss) before reclassifications						
Other comprehensive income (loss) before reclassifications	Other comprehensive income (loss) before reclassifications	(52,882)	7,377	—	(45,505)		
Reclassification adjustments included in net income	Reclassification adjustments included in net income	1,997	(6,408)	189	(4,222)		
Income tax (expense) benefit	Income tax (expense) benefit	10,686	(203)	(40)	10,443		
Net current-period other comprehensive income (loss), net of tax	Net current-period other comprehensive income (loss), net of tax	(40,199)	766	149	(39,284)		
Ending balance, net of tax	Ending balance, net of tax	\$(166,128)	\$ 30,205	\$ (19,054)	\$ (154,977)		
Nine Months Ended September 30, 2023							
		Unrealized Gains (Losses) on Securities		Unrealized Gains (Losses) on Derivatives		Retirement Plans	Total
Beginning balance, net of tax	Beginning balance, net of tax	\$(149,181)	\$ 31,227	\$ (19,502)	\$ (137,456)		
Other comprehensive income (loss):	Other comprehensive income (loss):						
Other comprehensive (loss) income before reclassifications	Other comprehensive (loss) income before reclassifications	(33,032)	16,277	—	(16,755)		
Reclassification adjustments included in net income	Reclassification adjustments included in net income	11,579	(17,570)	567	(5,424)		
Income tax (expense) benefit	Income tax (expense) benefit	4,506	271	(119)	4,658		
Net current-period other comprehensive income (loss), net of tax	Net current-period other comprehensive income (loss), net of tax	(16,947)	(1,022)	448	(17,521)		
Ending balance, net of tax	Ending balance, net of tax	\$(166,128)	\$ 30,205	\$ (19,054)	\$ (154,977)		

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		Three Months Ended March 31, 2023			
		Three Months Ended March 31, 2023			
		Three Months Ended March 31, 2023			
		Three Months Ended September 30, 2022			
		Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Retirement Plans	Total
Beginning balance, net of tax	Beginning balance, net of tax	\$ (137,792)	\$ 21,857	\$ (23,400)	\$ (139,335)
Other comprehensive income (loss):	Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications					
Other comprehensive income (loss) before reclassifications					
Other comprehensive income (loss) before reclassifications	Other comprehensive income (loss) before reclassifications	(67,721)	15,226	—	(52,495)
Reclassification adjustments included in net income	Reclassification adjustments included in net income	1,495	(1,572)	224	147
Income tax (expense) benefit	Income tax (expense) benefit	13,908	(2,868)	(47)	10,993
Net current-period other comprehensive income (loss), net of tax	Net current-period other comprehensive income (loss), net of tax	(52,318)	10,786	177	(41,355)
Ending balance, net of tax	Ending balance, net of tax	\$ (190,110)	\$ 32,643	\$ (23,223)	\$ (180,690)
Nine Months Ended September 30, 2022					

	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Retirement Plans	Total
Beginning balance, net of tax	\$ 84,716	\$ (1,257)	\$ (23,754)	\$ 59,705
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications	(354,649)	42,819	—	(311,830)
Reclassification adjustments included in net income	6,768	94	671	7,533
Income tax (expense) benefit	73,055	(9,013)	(140)	63,902
Net current-period other comprehensive income (loss), net of tax	(274,826)	33,900	531	(240,395)
Ending balance, net of tax	<u><u>\$ (190,110)</u></u>	<u><u>\$ 32,643</u></u>	<u><u>\$ (23,223)</u></u>	<u><u>\$ (180,690)</u></u>

Southside Bancshares, Inc. [\[12\]](#) [\[10\]](#)

The reclassification adjustments out of accumulated other comprehensive income (loss) included in net income are presented below (in thousands):

	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended September 30,	Nine Months Ended September 30,
	2024	2024	2024	2023	2023
Unrealized gains and losses on securities transferred:					
Unrealized gains and losses on securities transferred:					
Unrealized gains and losses on securities transferred:	Unrealized gains and losses on securities transferred:				
Amortization of unrealized gains and losses ⁽¹⁾	Amortization of unrealized gains and losses ⁽¹⁾	\$ (2,008)	\$ (1,396)	\$ (5,989)	\$ (2,949)
Amortization of unrealized gains and losses					
(1)					
Amortization of unrealized gains and losses					
(1)					
Tax benefit	Tax benefit	422	293	1,258	619
Tax benefit					
Tax benefit					
Net of tax					

Net of tax					
Net of tax	Net of tax	(1,586)	(1,103)	(4,731)	(2,330)
Unrealized gains and losses on available for sale securities:	Unrealized gains and losses on available for sale securities:				
Unrealized gains and losses on available for sale securities:					
Unrealized gains and losses on available for sale securities:					
Realized net gain (loss) on sale of securities (2)	Realized net gain (loss) on sale of securities (2)	11	(99)	(5,590)	(3,819)
Tax (expense) benefit	Tax (expense) benefit	(2)	21	1,174	802
Tax (expense) benefit					
Tax (expense) benefit					
Net of tax	Net of tax	9	(78)	(4,416)	(3,017)
Derivatives:	Derivatives:				
Derivatives:					
Derivatives:					
Realized net gain (loss) on interest rate swap derivatives (3)	Realized net gain (loss) on interest rate swap derivatives (3)				
Realized net gain (loss) on interest rate swap derivatives (3)					
Realized net gain (loss) on interest rate swap derivatives (3)	Realized net gain (loss) on interest rate swap derivatives (3)	6,408	1,572	17,570	(94)
Tax benefit	Tax benefit	(1,346)	(330)	(3,690)	20
Tax benefit					
Tax benefit					
Net of tax	Net of tax	5,062	1,242	13,880	(74)
Amortization of pension plan:	Amortization of pension plan:				
Amortization of pension plan:					
Amortization of pension plan:					
Net actuarial loss (4)	Net actuarial loss (4)				
Net actuarial loss (4)					
Net actuarial loss (4)	Net actuarial loss (4)	(189)	(224)	(567)	(671)
Tax benefit	Tax benefit	40	47	119	140
Tax benefit					
Tax benefit					
Net of tax	Net of tax	(149)	(177)	(448)	(531)

Total reclassifications for the period, net of tax	Total reclassifications for the period, net of tax	\$ 3,336	\$ (116)	\$ 4,285	\$ (5,952)
Total reclassifications for the period, net of tax					
Total reclassifications for the period, net of tax					

(1) Included in interest income on the consolidated statements of income.
 (2) Listed as net gain (loss) on sale of securities AFS on the consolidated statements of income.
 (3) Included in interest expense for FHLB borrowings, other borrowings and deposits on the consolidated statements of income.
 (4) These AOCI components are included in the computation of net periodic pension cost (income) presented in "Note 8 – Employee Benefit Plans."

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4. Securities

Debt securities

The amortized cost, gross unrealized gains and losses and estimated fair value of investment and mortgage-backed AFS and HTM securities as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** are reflected in the tables below (in thousands):

		September 30, 2023				March 31, 2024			
		Amortized	Gross Unrealized	Gross Unrealized	Estimated	Amortized	Gross Unrealized	Gross Unrealized	Estimated
AVAILABLE FOR SALE	AVAILABLE FOR SALE	Cost	Gains	Losses	Fair Value	AVAILABLE FOR SALE	Cost	Gains	Losses
Investment securities:	Investment securities:								
U.S. Treasury	U.S. Treasury	\$ 224,174	\$ 35	\$ —	\$ 224,209				
U.S. Treasury	U.S. Treasury								
State and political subdivisions	State and political subdivisions								
State and political subdivisions	State and political subdivisions								
State and political subdivisions	State and political subdivisions	822,753	14	114,224	708,543				
Corporate bonds and other	Corporate bonds and other	14,550	19	1,173	13,396				
MBS: (1)	MBS: (1)								
MBS: (1)	MBS: (1)								
Residential	Residential								
Residential	Residential	399,943	305	20,861	379,387				
Commercial	Commercial	11,100	—	1,075	10,025				
Total	Total	\$ 1,472,520	\$ 373	\$ 137,333	\$ 1,335,560				
HELD TO MATURITY	HELD TO MATURITY								
HELD TO MATURITY	HELD TO MATURITY								
HELD TO MATURITY	HELD TO MATURITY								

Investment securities:	Investment securities:				
Investment securities:					
Investment securities:					
State and political subdivisions					
State and political subdivisions					
Corporate bonds and other					
MBS: (1)	MBS: (1)				
Residential	Residential	91,954	1	11,305	80,650
Residential	Residential				
Commercial	Commercial	30,458	—	3,264	27,194
Total	Total	\$ 1,307,886	\$ 314	\$ 255,770	\$ 1,052,430

December 31, 2022					
		Amortized	Gross Unrealized	Gross Unrealized	Estimated
AVAILABLE FOR SALE					
AVAILABLE FOR SALE					
AVAILABLE FOR SALE	AVAILABLE FOR SALE				
Investment securities:	Investment securities:				
Investment securities:					
U.S. Treasury					
U.S. Treasury					
U.S. Treasury					
State and political subdivisions					
State and political subdivisions					
State and political subdivisions	State and political subdivisions	\$ 1,039,453	\$ 956	\$ 75,557	\$ 964,852
Corporate bonds and other	Corporate bonds and other	8,692	26	14	8,704
Corporate bonds and other	Corporate bonds and other				
MBS: (1)					
MBS: (1)	MBS: (1)				
Residential	Residential	328,400	250	13,623	315,027
Residential					
Residential					
Commercial	Commercial	11,329	50	948	10,431
Commercial					

Commercial							
Total							
Total							
Total	Total	\$ 1,387,874	\$ 1,282	\$ 90,142	\$ 1,299,014		
HELD TO MATURITY	HELD TO MATURITY						
HELD TO MATURITY							
HELD TO MATURITY							
Investment securities:							
Investment securities:							
Investment securities:	Investment securities:						
State and political subdivisions	State and political subdivisions	\$ 1,037,556	\$ 3,969	\$ 163,283	\$ 878,242		
State and political subdivisions							
State and political subdivisions							
Corporate bonds and other							
Corporate bonds and other							
Corporate bonds and other	Corporate bonds and other	152,552	575	7,993	145,134		
MBS: (1)	MBS: (1)						
MBS: (1)							
Residential							
Residential							
Residential	Residential	93,796	21	8,343	85,474		
Commercial	Commercial	42,825	—	2,519	40,306		
Commercial							
Commercial							
Total	Total	\$ 1,326,729	\$ 4,565	\$ 182,138	\$ 1,149,156		
Total							
Total							

(1) All MBS are issued and/or guaranteed by U.S. government agencies or U.S. GSEs.

From time to time, we transfer securities from AFS to HTM due to overall balance sheet strategies. We did not transfer any securities from AFS to HTM during the ~~nine~~ three months ended ~~September 30, 2023~~. We transferred securities from AFS to HTM with an estimated fair value of \$1.25 billion during ~~March 31, 2024~~ or the year ended ~~December 31, 2022~~ December 31, 2023. The remaining net unamortized, unrealized loss on the transferred securities included in AOCI in the accompanying balance sheets totaled ~~\$115.6 million~~ \$111.5 million ~~(\$91.388.1 million, net of tax)~~ at ~~September 30, 2023~~ March 31, 2024 and ~~\$121.5 million~~ \$113.5 million ~~(\$96.089.7 million, net of tax)~~ at ~~December 31, 2022~~ December 31, 2023. Any net unrealized gain or loss on the transferred securities included in AOCI at the time of transfer will be amortized over the remaining life of the underlying security as an adjustment to the yield on those securities. Securities transferred with losses included in

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transferred with losses included in AOCI continue to be included in management's assessment for impairment for each individual security. We transferred these securities due to overall balance sheet strategies, and our management has the current intent and ability to hold these securities until maturity.

Investment securities and MBS with carrying values of ~~\$2.48 billion~~ \$2.31 billion and ~~\$1.82 billion~~ \$2.28 billion were pledged as of ~~September 30, 2023~~ March 31, 2024 and ~~December 31, 2022~~ December 31, 2023, respectively, to collateralize FHLB borrowings, borrowings from the FRDW, including from the BTFP, repurchase agreements and public fund deposits, for potential liquidity needs or other purposes as required by law. At ~~March 31, 2024~~ and ~~December 31, 2023~~, the amount of excess collateral at the FRDW was \$251.9 million and \$213.1 million, respectively.

The following tables present the fair value and unrealized losses on AFS and HTM investment securities and MBS, if applicable, for which an allowance for credit losses has not been recorded as of ~~September 30, 2023~~ March 31, 2024 and ~~December 31, 2022~~ December 31, 2023, segregated by major security type and length of time in a continuous loss position (in thousands):

	March 31, 2024			March 31, 2024		
	Less Than 12 Months		More Than 12 Months	Total		
Fair Value	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AVAILABLE FOR SALE	AVAILABLE FOR SALE					
Investment securities:						
U.S. Treasury						
U.S. Treasury						
U.S. Treasury						
State and political subdivisions						
State and political subdivisions						
State and political subdivisions						
Corporate bonds and other						
MBS:						
MBS:						
MBS:						
Residential						
Residential						
Residential						
Commercial						
Total						
HELD TO MATURITY						
HELD TO MATURITY						
HELD TO MATURITY						
Investment securities:						
Investment securities:						
Investment securities:						
State and political subdivisions						
State and political subdivisions						
State and political subdivisions						
Corporate bonds and other						
MBS:						
Residential						
Residential						
Residential						
Commercial						
Total						
	December 31, 2023					
	December 31, 2023					
	December 31, 2023					

		Less Than 12 Months		More Than 12 Months		Total	
		Fair Value		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AVAILABLE FOR SALE				AVAILABLE FOR SALE			
Investment securities:							
		September 30, 2023					
State and political subdivisions							
		Less Than 12 Months		More Than 12 Months		Total	
		Unrealized Fair Value	Loss	Unrealized Fair Value	Loss	Unrealized Fair Value	Loss
AVAILABLE FOR SALE							
Investment securities:							
State and political subdivisions							
State and political subdivisions		\$ 115,067	\$ 6,434	\$ 591,566	\$ 107,790	\$ 706,633	\$ 114,224
Corporate bonds and other		12,500	1,166	689	7	13,189	1,173
MBS:	MBS:						
MBS:							
MBS:							
Residential							
Residential		157,854	2,226	191,521	18,635	349,375	20,861
Commercial	Commercial	2,178	43	7,847	1,032	10,025	1,075
Total	Total	\$ 287,599	\$ 9,869	\$ 791,623	\$ 127,464	\$ 1,079,222	\$ 137,333
HELD TO MATURITY	HELD TO MATURITY						
Investment securities:	Investment securities:						
State and political subdivisions							
State and political subdivisions							
State and political subdivisions							
State and political subdivisions		\$ 186,212	\$ 13,551	\$ 626,801	\$ 212,370	\$ 813,013	\$ 225,921
Corporate bonds and other		13,595	1,425	111,451	13,855	125,046	15,280
MBS:	MBS:						
Residential	Residential	523	2	80,024	11,303	80,547	11,305
Commercial		—	—	27,194	3,264	27,194	3,264
Total		\$ 200,330	\$ 14,978	\$ 845,470	\$ 240,792	\$ 1,045,800	\$ 255,770
		December 31, 2022					
		Less Than 12 Months	More Than 12 Months	Total			

	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
AVAILABLE FOR SALE						
Investment securities:						
State and political subdivisions	\$ 859,270	\$ 68,683	\$ 26,620	\$ 6,874	\$ 885,890	\$ 75,557
Corporate bonds and other	3,678	14	—	—	3,678	14
MBS:						
Residential						
Residential	Residential	306,294	13,623	—	306,294	13,623
Commercial	Commercial	5,613	318	2,545	630	8,158
Total	Total	\$1,174,855	\$ 82,638	\$ 29,165	\$ 7,504	\$1,204,020
HELD TO MATURITY						
Investment securities:						
State and political subdivisions	\$ 426,382	\$ 66,898	\$ 323,385	\$ 96,385	\$ 749,767	\$ 163,283
Corporate bonds and other	125,250	6,660	12,738	1,333	137,988	7,993
MBS:						
Residential		80,801	7,799	3,932	544	84,733
Commercial		40,306	2,519	—	—	40,306
Total		\$ 672,739	\$ 83,876	\$ 340,055	\$ 98,262	\$ 1,012,794
						\$ 182,138

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For those AFS debt securities in an unrealized loss position (i) where management has the intent to sell or (ii) where it will more-likely-than-not be required to sell the security before the recovery of its amortized cost basis, we recognize the loss in earnings. For those AFS debt securities in an unrealized loss position that do not meet either of these criteria, management assesses whether the decline in fair value has resulted from credit-related factors, using both qualitative and quantitative criteria. Determining the allowance under the credit loss method requires the use of a discounted cash flow method to assess the credit losses. Any credit-related impairment will be recognized in allowance for credit losses on the balance sheet with a corresponding adjustment to earnings. Noncredit-related temporary impairment, the portion of the impairment relating to factors other than credit (such as changes in market interest rates), is recognized in other comprehensive income, net of tax.

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, we did not have an allowance for credit losses on our AFS securities, based on our consideration of the qualitative factors associated with each security type in our AFS portfolio. The unrealized losses on our investment and MBS are due to changes in interest rates and spreads and other market conditions. At **September 30, 2023**, we **We had 585,396** AFS debt securities in an unrealized loss position. **position at March 31, 2024**. Our state and political subdivisions are highly rated municipal securities with a long history of no credit losses. Our AFS MBS are highly rated securities which are either explicitly or implicitly backed by the U.S. Government through its agencies which are highly rated by major ratings agencies and also have a long history of no credit losses. Our corporate bonds and other investment securities consist of investment grade bonds and private placement bonds.

We assess the likelihood of default and the potential amount of default when assessing our HTM securities for credit losses. We utilize term structures and, due to no prior loss exposure on our state and political subdivision securities or our corporate securities, we currently apply a third-party average loss given default rate to model these securities. We elected to use the specific identification method to model our HTM securities which aligns with our third-party fair value measurement process. As of **March 31, 2024**, three bonds were rated below investment grade. The model determined any expected credit loss over the life of these securities to be insignificant. Management further evaluated the remote expectation of loss, along with the qualitative factors associated with these securities and concluded that, due to the securities being highly rated municipals and primarily investment grade corporates, and private placement bonds with a long history of no credit losses, no credit loss should be recognized for these securities for the three and nine months ended **September 30, 2023** **March 31, 2024** or **2022** **2023**.

The accrued interest receivable on our debt securities is excluded from the credit loss estimate and is included in interest receivable on our consolidated balance sheets. As of **September 30, 2023** **March 31, 2024**, accrued interest receivable on AFS and HTM debt securities totaled **\$10.8 million** **\$9.8 million** and **\$8.5 million** **\$8.4 million**, respectively. As of **December 31, 2022** **December 31, 2023**, accrued interest receivable on AFS and HTM debt securities totaled **\$16.9 million** **\$15.4 million** and **\$13.6 million** **\$13.7 million**, respectively. No HTM debt securities were past-due or on nonaccrual status as of **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**.

The following table reflects interest income recognized on securities for the periods presented (in thousands):

		Three Months Ended September 30,		Three Months Ended March 31,	
		2023	2022	2024	2023
U.S. Treasury	U.S. Treasury	\$ 3,784	\$ 44		
State and political subdivisions	State and political subdivisions	16,940	14,666		
State and political subdivisions					
State and political subdivisions					
Corporate bonds and other					
Corporate bonds and other					
Corporate bonds and other	Corporate bonds and other	1,765	1,668		
MBS	MBS	4,426	4,770		
Total interest income on securities	Total interest income on securities	\$ 26,915	\$ 21,148		
Nine Months Ended September 30,					
		2023	2022		
U.S. Treasury		\$ 8,307	\$ 271		
State and political subdivisions		50,940	41,786		
Corporate bonds and other		5,363	4,385		
MBS		12,585	12,025		
Total interest income on securities		\$ 77,195	\$ 58,467		

There was a **\$5.6 million** **\$18,000** net realized loss as a result of sales from the AFS securities portfolio for the **nine three** months ended **September 30, 2023** **March 31, 2024**, which consisted of **\$7.0 million** **\$79,000** in realized losses and **\$1.4 million** **\$61,000** in realized gains. There was a **\$3.8 million** **\$2.1 million** net realized loss as a result of sales from the AFS securities portfolio for the **nine three** months ended **September 30, 2022** **March 31, 2023**, which consisted of **\$4.4 million** **\$3.3 million** in realized losses and **\$584,000** **\$1.1 million** in realized gains. There were no sales from the HTM portfolio.

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during the three **and nine** months ended **September 30, 2023** **March 31, 2024** or **2022, 2023**. We calculate realized gains and losses on sales of securities under the specific identification method.

Expected maturities on our securities may differ from contractual maturities because issuers may have the right to call or prepay obligations. MBS are presented in total by category since MBS are typically issued with stated principal amounts and are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the security holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

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The amortized cost and estimated fair value of AFS and HTM securities at **September 30, 2023** **March 31, 2024**, are presented below by contractual maturity (in thousands):

	September 30, 2023		March 31, 2024		Fair Value
	Amortized Cost	Fair Value	Amortized Cost		
AVAILABLE					
FOR SALE	FOR SALE				
Investment securities:					

	September 30, 2023		March 31, 2024		Fair Value
	Amortized Cost	Fair Value	Amortized Cost		
HELD TO MATURITY	HELD TO MATURITY				
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Investment securities:					
Due in one year or less	Due in one year or less	\$ 15,962	\$ 15,281		
Due after one year through five years	Due after one year through five years	4,861	4,684		
Due after five years through ten years	Due after five years through ten years	140,605	125,451		
Due after ten years	Due after ten years	1,024,046	799,170		
		1,185,474	944,586		

MBS:	MBS:	122,412	107,844
Total	Total	\$1,307,886	\$1,052,430

Equity Investments

Equity investments on our consolidated balance sheets include Community Reinvestment Act funds with a readily determinable fair value as well as equity investments without readily determinable fair values. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, we had equity investments recorded in our consolidated balance sheets of **\$9.5 million** **\$9.6 million** and **\$11.2 million** **\$9.7 million**, respectively.

Any realized and unrealized gains and losses on equity investments are reported in income. Equity investments without readily determinable fair values are recorded at cost less impairment, if any. For the three months ended **September 30, 2023** **March 31, 2024**, there was no gain or loss on the sale of equity securities. For the nine months ended **September 30, 2023**, there was a net gain on the sale of equity securities of **\$5.1 million**.

The following is a summary of unrealized and realized gains and losses on equity investments recognized in other noninterest income in the consolidated statements of income during the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net gains (losses) recognized during the period on equity investments	\$ (163)	\$ (230)	\$ 4,895	\$ (696)
Less: Net gains recognized during the period on equity investments sold during the period	—	—	5,058	—
Unrealized gains (losses) recognized during the reporting period on equity investments held at the reporting date	\$ (163)	\$ (230)	\$ (163)	\$ (696)

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	Three Months Ended	
	March 31,	
	2024	2023
Net gains (losses) recognized during the period on equity investments	\$ (56)	\$ 2,500
Less: Net gains recognized during the period on equity investments sold during the period	—	2,416
Unrealized gains (losses) recognized during the reporting period on equity investments held at the reporting date	\$ (56)	\$ 84

Equity investments are assessed quarterly for other-than-temporary impairment. Based upon that evaluation, management does not consider any of our equity investments to be other-than-temporarily impaired at **September 30, 2023** **March 31, 2024**.

FHLB Stock

Our FHLB stock, which has limited marketability, is carried at cost and is assessed quarterly for other-than-temporary impairment. Based upon evaluation by management at **September 30, 2023** **March 31, 2024**, our FHLB stock was not impaired and thus was not considered to be other-than-temporarily impaired.

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5. Loans and Allowance for Loan Losses

Loans in the accompanying consolidated balance sheets are classified as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	March 31, 2024	December 31, 2023
Real estate loans:	Real estate loans:	Real estate loans:	—	—	—
Construction	Construction	\$ 720,515	\$ 559,681	—	—
1-4 family residential	1-4 family residential	689,492	663,519	—	—
Commercial	Commercial	2,117,306	1,987,707	—	—

Commercial loans	Commercial loans	385,816	412,064
Municipal loans	Municipal loans	441,512	450,067
Loans to individuals	Loans to individuals	65,992	74,653
Total loans	Total loans	4,420,633	4,147,691
Less: Allowance for loan losses	Less: Allowance for loan losses	41,760	36,515
Net loans	Net loans	\$4,378,873	\$4,111,176

Construction Real Estate Loans

Our construction loans are collateralized by property located primarily in or near the market areas we serve. A number of our construction loans will be owner occupied upon completion. Construction loans for non-owner occupied projects are financed, but these typically have cash flows from leases with tenants, secondary sources of repayment, and in some cases, additional collateral. Our construction loans have both adjustable and fixed interest rates during the construction period. Construction loans to individuals are typically priced and made with the intention of granting the permanent loan on the completed property. Commercial construction loans are subject to underwriting standards similar to that of the **commercial real estate loan portfolio**. Owner occupied 1-4 family residential construction loans are subject to the underwriting standards of the permanent loan.

1-4 Family Residential Real Estate Loans

Residential loan originations are generated by our **mortgage** loan officers, in-house origination staff, marketing efforts, present customers, walk-in customers and referrals from real estate agents and builders. We focus our lending efforts primarily on the origination of loans secured by first mortgages on owner occupied 1-4 family residences. Substantially all of our 1-4 family residential originations are secured by properties located in or near our market areas.

Our 1-4 family residential loans generally have maturities ranging from 15 to 30 years. These loans are typically fully amortizing with monthly payments sufficient to repay the total amount of the loan. Our 1-4 family residential loans are made at both fixed and adjustable interest rates.

Underwriting for 1-4 family residential loans includes debt-to-income analysis, credit history analysis, appraised value and down payment considerations. Changes in the market value of real estate can affect the potential losses in the residential portfolio.

Commercial Real Estate Loans

Commercial real estate loans as of **September 30, 2023** **March 31, 2024** consisted of **\$1.75 billion** **\$1.83 billion** of owner and non-owner occupied real estate, **\$339.4 million** **\$551.8 million** of loans secured by multi-family properties and **\$29.4 million** **\$28.0 million** of loans secured by farmland. Commercial real estate loans primarily include loans collateralized by retail, commercial office buildings, multi-family residential buildings, medical facilities and offices, senior living, assisted living and skilled nursing facilities, warehouse facilities, hotels and churches. In determining whether to originate commercial real estate loans, we generally consider such factors as the financial condition of the borrower and the debt service coverage of the property. Commercial real estate loans are made at both fixed and adjustable interest rates for terms generally up to 20 years.

Commercial Loans

Our commercial loans are diversified loan types including short-term working capital loans for inventory and accounts receivable and short- and medium-term loans for equipment or other business capital expansion. In our commercial loan underwriting, we assess the creditworthiness, ability to repay and the value and liquidity of the collateral being offered. Terms of commercial loans are generally commensurate with the useful life of the collateral offered.

Municipal Loans

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We **make** **have made** loans to municipalities and school districts primarily throughout the state of Texas, with a small percentage originating outside of the state. The majority of the loans to municipalities and school districts have tax or revenue pledges and

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in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service. **Lending money directly to these municipalities allows** **These loans allow** us to earn a higher yield than we could if we purchased municipal securities for similar durations.

Loans to Individuals

Substantially all originations of our loans to individuals are made to consumers in our market areas. The majority of loans to individuals are collateralized by titled equipment, which are primarily automobiles. Loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards we employ for consumer loans include an application, a determination of the applicant's payment history on other debts, with the greatest weight being given to payment history with us and an assessment of the borrower's ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount. Most of our loans to individuals are collateralized, which management believes assists in limiting our exposure.

Credit Quality Indicators

We categorize loans into risk categories on an ongoing basis based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. We use the following definitions for risk ratings:

- Pass (Rating 1 – 4) – This rating is assigned to all satisfactory loans. This category, by definition, consists of acceptable credit. Credit and collateral exceptions should not be present, although their presence would not necessarily prohibit a loan from being rated Pass, if deficiencies are in the process of correction. These loans are not included in the Watch List.
- Pass Watch (Rating 5) – These loans require some degree of special treatment, but not due to credit quality. This category does not include loans specially mentioned or adversely classified; however, particular attention is warranted to characteristics such as:
 - A lack of, or abnormally extended payment program;
 - A heavy degree of concentration of collateral without sufficient margin;
 - A vulnerability to competition through lesser or extensive financial leverage; and
 - A dependence on a single or few customers or sources of supply and materials without suitable substitutes or alternatives.
- Special Mention (Rating 6) – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in our credit position at some future date. Special Mention loans are not adversely classified and do not expose us to sufficient risk to warrant adverse classification.
- Substandard (Rating 7) – Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful (Rating 8) – Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation, in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Watch List loans reported as 2024 originations as of March 31, 2024 and Watch List loans reported as 2023 originations as of December 31, 2023 were, for the majority, first originated in various years prior to 2024 and 2023, respectively, but were renewed in the respective year.

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The following tables set forth the amortized cost basis by class of financing receivable and credit quality indicator for the periods presented (in thousands):

September 30, 2023		Term Loans Amortized Cost Basis by Origination Year						Revolving	Loans	Amortized	Cost
		2023	2022	2021	2020	2019	Prior	Basis	Total	Basis	Total
March 31, 2024								March 31,	Term Loans Amortized Cost Basis by	Revolving Loans Amortized	
								2024	Origination Year	Cost Basis	Total
2024											
Construction real estate:	Construction real estate:										
Construction real estate:											
Pass											
Pass	Pass	\$ 109,018	\$ 225,290	\$ 191,843	\$ 33,111	\$ 3,009	\$ 6,753	\$ 128,083	\$ 697,107		
Pass watch	Pass watch	—	—	—	—	—	—	—	9,544	9,544	
Special mention	Special mention	171	13,303	188	—	8	—	—	13,670		

Substandard	Substandard	—	73	—	—	—	80	—	153
Doubtful	Doubtful	—	—	41	—	—	—	—	41
Total	Total								
construction	construction								
real estate	real estate	\$ 109,189	\$ 238,666	\$ 192,072	\$ 33,111	\$ 3,017	\$ 6,833	\$ 137,627	\$ 720,515
Current	Current								
period gross	period gross								
charge-offs	charge-offs	\$ —	\$ 63	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 63
1-4 family	1-4 family								
residential real	residential real								
estate:	estate:								
1-4 family residential real estate:									
1-4 family residential real estate:									
Pass	Pass								
Pass	Pass								
Pass	Pass	\$ 36,549	\$ 114,435	\$ 143,340	\$ 119,327	\$ 64,791	\$ 202,168	\$ 1,858	\$ 682,468
Pass watch	Pass watch	—	—	—	34	—	—	—	34
Special	Special								
mention	mention	—	—	—	1,090	—	1,348	—	2,438
Substandard	Substandard	155	—	76	378	53	3,479	57	4,198
Doubtful	Doubtful	—	—	—	—	—	354	—	354
Total 1-4 family	Total 1-4 family								
residential real	residential real								
estate	estate	\$ 36,704	\$ 114,435	\$ 143,416	\$ 120,829	\$ 64,844	\$ 207,349	\$ 1,915	\$ 689,492
Current	Current								
period gross	period gross								
charge-offs	charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 71	\$ —	\$ 71
Commercial	Commercial								
real estate:	real estate:								
Commercial real estate:									
Commercial real estate:									
Pass	Pass								
Pass	Pass								
Pass	Pass	\$ 338,060	\$ 708,281	\$ 501,231	\$ 148,979	\$ 92,448	\$ 203,242	\$ 15,583	\$ 2,007,824
Pass watch	Pass watch	39,704	9,530	1,846	632	338	148	—	52,198
Special	Special								
mention	mention	2,015	871	—	—	7,761	25,347	—	35,994
Substandard	Substandard	—	—	281	269	14,206	6,377	—	21,133
Doubtful	Doubtful	—	—	—	—	70	87	—	157
Total	Total								
commercial real	commercial real								
estate	estate	\$ 379,779	\$ 718,682	\$ 503,358	\$ 149,880	\$ 114,823	\$ 235,201	\$ 15,583	\$ 2,117,306
Current	Current								
period gross	period gross								
charge-offs	charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial	Commercial								
loans:	loans:								
Commercial loans:									
Commercial loans:									
Pass	Pass								
Pass	Pass								
Pass	Pass	\$ 54,023	\$ 78,551	\$ 58,150	\$ 12,486	\$ 5,107	\$ 4,038	\$ 170,437	\$ 382,792
Pass watch	Pass watch	26	40	125	—	—	20	—	211

Special mention	Special mention	—	176	—	20	—	177	780	1,153
Substandard	Substandard	205	443	89	—	92	6	—	835
Doubtful	Doubtful	—	395	106	—	102	120	102	825
Total commercial loans	Total commercial loans	\$ 54,254	\$ 79,605	\$ 58,470	\$ 12,506	\$ 5,301	\$ 4,361	\$ 171,319	\$ 385,816
Current period gross charge-offs	Current period gross charge-offs	\$ 575	\$ 439	\$ 44	\$ 26	\$ 23	\$ 6	—	\$ 1,113
Municipal loans:	Municipal loans:								
Municipal loans:									
Municipal loans:									
Pass									
Pass									
Pass	Pass	\$ 30,063	\$ 62,250	\$ 70,471	\$ 50,793	\$ 42,340	\$ 185,595	\$ —	\$ 441,512
Pass watch	Pass watch	—	—	—	—	—	—	—	—
Special mention	Special mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	—	—	—	—
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total municipal loans	Total municipal loans	\$ 30,063	\$ 62,250	\$ 70,471	\$ 50,793	\$ 42,340	\$ 185,595	\$ —	\$ 441,512
Current period gross charge-offs	Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans to individuals:	Loans to individuals:								
Loans to individuals:									
Loans to individuals:									
Pass									
Pass									
Pass	Pass	\$ 20,845	\$ 17,948	\$ 13,536	\$ 7,550	\$ 2,698	\$ 1,169	\$ 2,207	\$ 65,953
Pass watch	Pass watch	—	—	—	—	—	—	—	—
Special mention	Special mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	14	—	—	14
Doubtful	Doubtful	—	—	5	—	—	11	9	25
Total loans to individuals	Total loans to individuals	\$ 20,845	\$ 17,948	\$ 13,541	\$ 7,550	\$ 2,712	\$ 1,180	\$ 2,216	\$ 65,992
Current period gross charge-offs	Current period gross charge-offs								
(1)	(1)	\$ 1,218	\$ 34	\$ 39	\$ 12	\$ 3	\$ 79	—	\$ 1,385
Total loans	Total loans	\$ 630,834	\$ 1,231,586	\$ 981,328	\$ 374,669	\$ 233,037	\$ 640,519	\$ 328,660	\$ 4,420,633
Total loans	Total loans								
Total current period gross charge-offs (1)	Total current period gross charge-offs (1)	\$ 1,793	\$ 536	\$ 83	\$ 38	\$ 26	\$ 156	—	\$ 2,632

(1) Includes \$1.2 million \$306,000 in charged off demand deposit overdrafts reported as 2024 originations.

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December 31, 2023	Term Loans Amortized Cost Basis by Origination Year										Revolving Loans	Basis	Total
											Amortized Cost		
	2023	2022	2021	2020	2019	Prior							
Construction real estate:													
Pass	\$ 132,838	\$ 236,573	\$ 196,311	\$ 37,997	\$ 3,938	\$ 6,457	\$ 144,358	\$ 758,472					
Pass watch	—	7,798	—	—	—	—	—	—				7,798	
Special mention	13,166	9,456	698	—	7	—	—	—				23,327	
Substandard	36	—	68	—	—	43	—	—				147	
Doubtful	—	—	—	—	—	—	—	—				—	
Total construction real estate	\$ 146,040	\$ 253,827	\$ 197,077	\$ 37,997	\$ 3,945	\$ 6,500	\$ 144,358	\$ 789,744					
Current period gross charge-offs	\$ —	\$ 92	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 92					
1-4 family residential real estate:													
Pass	\$ 41,520	\$ 126,981	\$ 145,671	\$ 114,631	\$ 63,710	\$ 196,651	\$ 1,803	\$ 690,967					
Pass watch	—	—	—	32	—	—	—	32				32	
Special mention	—	—	—	75	—	—	—	—				75	
Substandard	325	—	73	1,379	—	3,259	74	5,110					
Doubtful	—	—	—	163	—	391	—	554					
Total 1-4 family residential real estate	\$ 41,845	\$ 126,981	\$ 145,744	\$ 116,280	\$ 63,710	\$ 200,301	\$ 1,877	\$ 696,738					
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 118	\$ —	\$ 119					
Commercial real estate:													
Pass	\$ 469,844	\$ 641,577	\$ 495,363	\$ 143,150	\$ 91,085	\$ 189,021	\$ 16,493	\$ 2,046,533					
Pass watch	24,300	34,424	255	1,037	333	146	—	60,495					
Special mention	17,403	—	—	—	9,746	25,072	—	52,221					
Substandard	—	862	95	269	1,565	6,346	—	9,137					
Doubtful	—	—	—	—	65	—	—	65					
Total commercial real estate	\$ 511,547	\$ 676,863	\$ 495,713	\$ 144,456	\$ 102,794	\$ 220,585	\$ 16,493	\$ 2,168,451					
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 788	\$ —	\$ —	\$ 788					
Commercial loans:													
Pass	\$ 78,090	\$ 62,192	\$ 42,114	\$ 10,708	\$ 4,356	\$ 3,310	\$ 161,153	\$ 361,923					
Pass watch	—	128	117	—	—	18	—	263					
Special mention	191	174	—	16	—	162	—	543					
Substandard	14	2,357	73	—	65	12	821	3,342					
Doubtful	238	267	133	—	64	120	—	822					
Total commercial loans	\$ 78,533	\$ 65,118	\$ 42,437	\$ 10,724	\$ 4,485	\$ 3,622	\$ 161,974	\$ 366,893					
Current period gross charge-offs	\$ 745	\$ 440	\$ 44	\$ 26	\$ 23	\$ 5	\$ —	\$ 1,283					
Municipal loans:													
Pass	\$ 39,028	\$ 61,429	\$ 68,979	\$ 49,746	\$ 39,949	\$ 182,037	\$ —	\$ 441,168					
Pass watch	—	—	—	—	—	—	—	—				—	
Special mention	—	—	—	—	—	—	—	—				—	
Substandard	—	—	—	—	—	—	—	—				—	
Doubtful	—	—	—	—	—	—	—	—				—	
Total municipal loans	\$ 39,028	\$ 61,429	\$ 68,979	\$ 49,746	\$ 39,949	\$ 182,037	\$ —	\$ 441,168					
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —				—	
Loans to individuals:													
Pass	\$ 22,788	\$ 15,503	\$ 11,588	\$ 6,256	\$ 2,180	\$ 941	\$ 2,216	\$ 61,472					
Pass watch	—	—	—	—	—	—	—	—				—	
Special mention	—	—	—	—	—	—	—	—				—	

Substandard	—	—	—	—	13	—	—	—	13
Doubtful	4	17	—	10	—	—	—	—	31
Total loans to individuals	\$ 22,792	\$ 15,520	\$ 11,588	\$ 6,266	\$ 2,193	\$ 941	\$ 2,216	\$ 61,516	
Current period gross charge-offs	\$ 1,682	\$ 54	\$ 61	\$ 20	\$ 6	\$ 99	\$ —	\$ 1,922	
Total loans	\$ 839,785	\$ 1,199,738	\$ 961,538	\$ 365,469	\$ 217,076	\$ 613,986	\$ 326,918	\$ 4,524,510	
Total current period gross charge-offs (1)	\$ 2,427	\$ 586	\$ 105	\$ 46	\$ 818	\$ 222	\$ —	\$ 4,204	

(1) Includes \$1.7 million in charged off demand deposit overdrafts reported as 2023 originations.

Southside Bancshares, Inc. [21]

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans		
							Amortized Cost		
	2022	2021	2020	2019	2018	Prior	Basis		Total
Construction real estate:									
Pass	\$ 169,652	\$ 184,501	\$ 34,537	\$ 7,091	\$ 1,844	\$ 6,434	\$ 152,530	\$	556,589
Pass watch	299	—	—	—	—	—	—	—	299
Special mention	1,858	290	—	—	—	—	—	—	2,148
Substandard	—	—	—	10	42	194	—	—	246
Doubtful	—	44	—	355	—	—	—	—	399
Total construction real estate	\$ 171,809	\$ 184,835	\$ 34,537	\$ 7,456	\$ 1,886	\$ 6,628	\$ 152,530	\$	559,681
1-4 family residential real estate:									
Pass	\$ 82,847	\$ 144,424	\$ 128,666	\$ 70,142	\$ 36,710	\$ 194,490	\$ 2,160	\$	659,439
Pass watch	—	—	—	—	—	—	—	—	—
Special mention	—	—	79	—	1,397	—	—	—	1,476
Substandard	3	—	217	54	32	1,942	43	—	2,291
Doubtful	—	—	—	—	173	140	—	—	313
Total 1-4 family residential real estate	\$ 82,850	\$ 144,424	\$ 128,962	\$ 70,196	\$ 38,312	\$ 196,572	\$ 2,203	\$	663,519
Commercial real estate:									
Pass	\$ 798,653	\$ 546,938	\$ 168,607	\$ 136,440	\$ 55,480	\$ 233,509	\$ 12,315	\$	1,951,942
Pass watch	—	9,219	—	—	—	—	—	—	9,219
Special mention	—	—	1,832	330	115	1,849	—	—	4,126
Substandard	—	—	281	14,603	260	6,992	—	—	22,136
Doubtful	—	—	—	76	—	208	—	—	284
Total commercial real estate	\$ 798,653	\$ 556,157	\$ 170,720	\$ 151,449	\$ 55,855	\$ 242,558	\$ 12,315	\$	1,987,707
Commercial loans:									
Pass	\$ 113,678	\$ 68,509	\$ 17,852	\$ 8,249	\$ 4,820	\$ 3,313	\$ 178,951	\$	395,372
Pass watch	208	13	56	—	—	—	—	—	277
Special mention	—	5,109	31	—	288	—	9,986	—	15,414
Substandard	220	116	70	110	12	9	—	—	537
Doubtful	68	100	—	86	210	—	—	—	464
Total commercial loans	\$ 114,174	\$ 73,847	\$ 18,009	\$ 8,445	\$ 5,330	\$ 3,322	\$ 188,937	\$	412,064
Municipal loans:									
Pass	\$ 65,258	\$ 74,617	\$ 57,147	\$ 47,636	\$ 24,576	\$ 173,919	\$ —	\$	443,153
Pass watch	—	—	—	508	403	6,003	—	—	6,914
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total municipal loans	\$ 65,258	\$ 74,617	\$ 57,147	\$ 48,144	\$ 24,979	\$ 179,922	\$ —	\$	450,067

Loans to individuals:														
Pass	\$ 29,579	\$ 21,480	\$ 12,651	\$ 5,261	\$ 1,665	\$ 1,005	\$ 2,935	\$ 74,576						
Pass watch	—	—	—	—	—	—	—	—						
Special mention	—	—	—	—	—	—	—	—						
Substandard	—	1	—	6	—	2	—	9						
Doubtful	7	—	—	18	40	3	—	68						
Total loans to individuals	\$ 29,586	\$ 21,481	\$ 12,651	\$ 5,285	\$ 1,705	\$ 1,010	\$ 2,935	\$ 74,653						
Total loans	\$ 1,262,330	\$ 1,055,361	\$ 422,026	\$ 290,975	\$ 128,067	\$ 630,012	\$ 358,920	\$ 4,147,691						

Watch List loans reported as 2023 originations as of September 30, 2023 and Watch List loans reported as 2022 originations as of December 31, 2022 were, for the majority, first originated in various years prior to 2023 and 2022, respectively, but were renewed in the respective year.

Southside Bancshares, Inc. [\[22\]](#) [\[19\]](#)

The following tables present the aging of the amortized cost basis in past due loans by class of loans (in thousands):

		September 30, 2023						March 31, 2024					
		Greater than 90 Days Past Due						Total Past Due					
		30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due				30-59 Days Past Due	60-89 Days Past Due	Total Past Due			
Real estate loans:	Real estate loans:			Days Due	Days Due	Days Due	Total Due	Days Due	Days Due	Days Due	Total Due	Current	Total
Construction	Construction												
Construction	Construction	\$ 175	\$ —	\$ —	\$ 175	\$ 720,340	\$ 720,515						
1-4 family residential	1-4 family residential	748	685	1,963	3,396	686,096	689,492						
Commercial	Commercial	2,331	41	36	2,408	2,114,898	2,117,306						
Commercial loans	Commercial loans	494	162	525	1,181	384,635	385,816						
Municipal loans	Municipal loans	—	—	—	—	441,512	441,512						
Loans to individuals	Loans to individuals	140	11	—	151	65,841	65,992						
Total	Total	\$3,888	\$899	\$2,524	\$7,311	\$4,413,322	\$4,420,633						
		December 31, 2022						December 31, 2023					
		Greater than 90 Days Past Due						Greater than 90 Days Past Due					
		30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due				30-59 Days Past Due	60-89 Days Past Due	Total Past Due			
Real estate loans:	Real estate loans:			Days Due	Days Due	Days Due	Total Due	Days Due	Days Due	Days Due	Total Due	Current	Total
Construction	Construction												
Construction	Construction	\$ 43	\$ 21	\$ —	\$ 64	\$ 559,617	\$ 559,681						
1-4 family residential	1-4 family residential	3,529	368	214	4,111	659,408	663,519						

Commercial	Commercial	105	153	415	673	1,987,034	1,987,707
Commercial loans	Commercial loans	515	277	247	1,039	411,025	412,064
Municipal loans	Municipal loans	—	—	—	—	450,067	450,067
Loans to individuals	Loans to individuals	203	3	40	246	74,407	74,653
Total	Total	\$4,395	\$822	\$ 916	\$ 6,133	\$4,141,558	\$4,147,691

Southside Bancshares, Inc. [\[23\]](#) [\[20\]](#)

The following table sets forth the amortized cost basis of nonperforming assets for the periods presented (in thousands):

		September		December		March 31, 2024	December 31, 2023
		30, 2023	31, 2022	31, 2022	31, 2023		
Nonaccrual loans:	Nonaccrual loans:						
Real estate loans:	Real estate loans:						
Real estate loans:	Real estate loans:						
Construction	Construction						
Construction	Construction	\$ 41	\$ 405				
1-4 family residential	1-4 family residential	2,365	848				
Commercial	Commercial	527	762				
Commercial loans	Commercial loans	1,358	757				
Loans to individuals	Loans to individuals	25	74				
Loans to individuals	Loans to individuals						
Loans to individuals	Loans to individuals						
Total nonaccrual loans ⁽¹⁾	Total nonaccrual loans ⁽¹⁾	4,316	2,846				
Accruing loans past due more than 90 days	Accruing loans past due more than 90 days	—	—				
Restructured loans ⁽²⁾	Restructured loans ⁽²⁾	15	7,849				
Accruing loans past due more than 90 days	Accruing loans past due more than 90 days						
Accruing loans past due more than 90 days	Accruing loans past due more than 90 days						
Restructured loans	Restructured loans						
OREO	OREO	50	93				
Repossessed assets	Repossessed assets	—	74				

Total nonperforming assets	Total nonperforming assets	\$ 4,381	\$ 10,862
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(1) Includes \$343,000 \$535,000 and \$897,000 \$506,000 of restructured loans as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

(2) Pursuant

The increase in nonaccrual loans was primarily due to our adoption of ASU 2022-02, effective January 1, 2023, we prospectively discontinued one commercial real estate loan and one commercial loan relationship that were put on nonaccrual during the recognition and measurement guidance previously required on troubled debt restructures. As a result, "restructured" loans as of September 30, 2023 exclude any loan modifications that are performing but would have previously required disclosure as troubled debt restructures.

three months ended March 31, 2024. We reversed \$13,000 and \$78,000 \$34,000 of interest income on nonaccrual loans during the three and nine months ended September 30, 2023 March 31, 2024, respectively, and \$10,000 and \$33,000 \$26,000 for the three and nine months ended September 30, 2022, respectively, March 31, 2023. We had \$1.0 million \$939,000 and \$1.6 million \$1.0 million of loans on nonaccrual for which there was no related allowance for credit losses as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Collateral-dependent loans are loans that we expect the repayment to be provided substantially through the operation or sale of the collateral of the loan and we have determined that the borrower is experiencing financial difficulty. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for selling costs. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had \$7.7 million \$10.6 million and \$8.1 \$7.5 million, respectively, of collateral-dependent loans, secured mainly by real estate and equipment. There have been no significant changes to the collateral that secures the collateral-dependent assets. Foreclosed assets include OREO and repossessed assets. For 1-4 family residential real estate properties, a loan is recognized as a foreclosed property once legal title to the real estate property has been received upon completion of foreclosure or the borrower has conveyed all interest in the residential property through a deed in lieu of foreclosure. There were \$63,000 \$1.2 million and \$1.0 million loans secured by 1-4 family residential properties for which formal foreclosure proceedings were in process as of September 30, 2023. There were no loans secured by 1-4 family residential properties for which formal foreclosure proceedings were in process as of December 31, 2022, March 31, 2024 and December 31, 2023, respectively.

Restructured Loans

Pursuant to our adoption of ASU 2022-02 effective January 1, 2023, we prospectively discontinued the recognition and measurement of TDRs. This guidance eliminated TDR accounting for loans in which the borrower was experiencing financial difficulty and the creditor granted a concession. See "Note 1 - Summary of Significant Accounting and Reporting Policies" to our consolidated financial statements included in this report.

A loan is now considered restructured if the borrower is experiencing financial difficulties and the loan has been modified. Modifications may include interest rate reductions or below market interest rates, restructuring amortization schedules and other actions intended to minimize potential losses. We may provide a combination of modifications which may include an extension of the amortization period, interest rate reduction and/or converting the loan to interest-only for a limited period of time. In most instances, interest will continue to be charged on principal balances outstanding during the extended term. Therefore, the financial effects of the recorded investment of loans restructured during the nine three months ended September 30, 2023 March 31, 2024 were not significant.

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The following tables set forth the recorded balance of There were no loans restructured loans and type of modification by class of loans during the periods presented (dollars in thousands):

Three Months Ended September 30, 2023						
	Amortization Period Extension	Interest Rate Reduction	Combination	Total Modifications	Number of Loans	Percent of Total Class
Commercial loans	\$ 15	\$ —	\$ 65	\$ 80	2	0.02 %
Total	\$ 15	\$ —	\$ 65	\$ 80	2	

Nine Months Ended September 30, 2023						
	Amortization Period Extension	Interest Rate Reduction	Combination	Total Modifications	Number of Loans	Percent of Total Class
Commercial loans	\$ 293	\$ —	\$ 65	\$ 358	4	0.09 %
Total	\$ 293	\$ —	\$ 65	\$ 358	4	

three months ended March 31, 2024. There were three restructured 3 loans totaling \$343,000 \$535,000 included in nonperforming assets as of March 31, 2024. There was one commercial loan for \$179,000 that was restructured with an extension of amortization period as of March 31, 2023 and is included in our nonaccrual loans in nonperforming assets as of September 30, 2023, assets.

On an ongoing basis, the performance of the restructured loans is monitored for subsequent payment default. Payment default is recognized when the borrower is 90 days or more past due. As of September 30, 2023, For the three months ended March 31, 2024 and 2023, there were no restructured loans in default. Payment defaults for restructured loans did not significantly impact the determination of the allowance for loan losses in the periods presented. At September 30, 2023 March 31, 2024, there were no commitments to lend additional funds to borrowers whose loans had been restructured.

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Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses by portfolio segment for the periods presented (in thousands):

		Three Months Ended September 30, 2023						Three Months Ended March 31, 2024							
		Real Estate			Real Estate			Real Estate			Real Estate				
		Construction	1-4 Family Residential	Commercial	Commercial	Municipal	Loans	Loans to Individuals	Total	Construction	1-4 Family Residential	Commercial	Municipal	Loans to Individuals	Total
Balance at beginning of period	Balance at beginning of period	\$ 3,395	\$ 2,660	\$ 28,012	\$ 2,017	\$ 37	\$ 182	\$ 36,303							
Loans charged-off	Loans charged-off	—	—	—	(744)	—	(518)	(1,262)							
Recoveries of loans charged-off	Recoveries of loans charged-off	—	62	—	65	—	251	378							
Net loans (charged-off) recovered	Net loans (charged-off) recovered	—	62	—	(679)	—	(267)	(884)							
Provision for (reversal of) loan losses	Provision for (reversal of) loan losses	1,019	17	4,327	731	(17)	264	6,341							
Balance at end of period	Balance at end of period	\$ 4,414	\$ 2,739	\$ 32,339	\$ 2,069	\$ 20	\$ 179	\$ 41,760							

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		Three Months Ended March 31, 2023							
		Real Estate				Commercial			
		Construction	1-4 Family Residential	Commercial	Loans	Commercial	Municipal	Loans to Individuals	Total
Balance at beginning of period		\$ 3,164	\$ 2,173	\$ 28,701	\$ 2,235	\$ 45	\$ 197	\$ 36,515	
Loans charged-off		—	(49)	—	(109)	—	(475)	(633)	
Recoveries of loans charged-off		1	5	—	60	—	296	362	
Net loans (charged-off) recovered		1	(44)	—	(49)	—	(179)	(271)	
Provision for (reversal of) loan losses		(13)	185	20	(285)	(1)	182	88	
Balance at end of period		\$ 3,152	\$ 2,314	\$ 28,721	\$ 1,901	\$ 44	\$ 200	\$ 36,332	
Nine Months Ended September 30, 2023									

	Real Estate							Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial	Commercial Loans						
Balance at beginning of period	\$ 3,164	\$ 2,173	\$ 28,701	\$ 2,235	\$ 45	\$ 197	\$ 36,515			
Loans charged-off	(63)	(71)	—	(1,113)	—	(1,385)	(2,632)			
Recoveries of loans charged-off	1	108	1	268	—	792	1,170			
Net loans (charged-off) recovered	(62)	37	1	(845)	—	(593)	(1,462)			
Provision for (reversal of) loan losses	1,312	529	3,637	679	(25)	575	6,707			
Balance at end of period	<u>\$ 4,414</u>	<u>\$ 2,739</u>	<u>\$ 32,339</u>	<u>\$ 2,069</u>	<u>\$ 20</u>	<u>\$ 179</u>	<u>\$ 41,760</u>			
Three Months Ended September 30, 2022										
	Real Estate							Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial	Commercial Loans						
Balance at beginning of period	\$ 3,399	\$ 2,024	\$ 27,221	\$ 2,558	\$ 46	\$ 201	\$ 35,449			
Loans charged-off	—	(66)	—	(192)	—	(428)	(686)			
Recoveries of loans charged-off	—	4	—	139	—	306	449			
Net loans (charged-off) recovered	—	(62)	—	(53)	—	(122)	(237)			
Provision for (reversal of) loan losses	136	44	1,273	(272)	(2)	115	1,294			
Balance at end of period	<u>\$ 3,535</u>	<u>\$ 2,006</u>	<u>\$ 28,494</u>	<u>\$ 2,233</u>	<u>\$ 44</u>	<u>\$ 194</u>	<u>\$ 36,506</u>			
Nine Months Ended September 30, 2022										
	Real Estate							Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial	Commercial Loans						
Balance at beginning of period	\$ 3,787	\$ 1,866	\$ 26,980	\$ 2,397	\$ 47	\$ 196	\$ 35,273			
Loans charged-off	—	(66)	—	(369)	—	(1,285)	(1,720)			
Recoveries of loans charged-off	1	96	81	469	—	858	1,505			
Net loans (charged-off) recovered	1	30	81	100	—	(427)	(215)			
Provision for (reversal of) loan losses	(253)	110	1,433	(264)	(3)	425	1,448			
Balance at end of period	<u>\$ 3,535</u>	<u>\$ 2,006</u>	<u>\$ 28,494</u>	<u>\$ 2,233</u>	<u>\$ 44</u>	<u>\$ 194</u>	<u>\$ 36,506</u>			

The accrued interest receivable on our loan receivables is excluded from the allowance for credit loss estimate and is included in interest receivable on our consolidated balance sheets. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the accrued interest on our loan portfolio was **\$20.3 million** **\$21.5 million** and **\$18.8 million** **\$21.3 million**, respectively.

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6. Borrowing Arrangements

Information related to borrowings is provided in the table below (dollars in thousands):

September 30, 2023	December 31, 2022	March 31, 2024	March 31, 2024	December 31, 2023

Other borrowings:	Other borrowings:	Other borrowings:
Balance at end of period	Balance at end of period	\$ 395,209 \$221,153
Average amount outstanding during the period ⁽¹⁾	Average amount outstanding during the period ⁽¹⁾	451,966 77,845
Maximum amount outstanding during the period ⁽²⁾	Maximum amount outstanding during the period ⁽²⁾	1,030,421 316,563
Weighted average interest rate during the period	Weighted average interest rate during the period	4.8 % 2.4 %
(3)	(3)	Weighted average interest rate during the period ⁽³⁾
Interest rate at end of period ⁽⁴⁾	Interest rate at end of period ⁽⁴⁾	4.4 % 4.1 %
FHLB borrowings:	FHLB borrowings:	Interest rate at end of period ⁽⁴⁾
FHLB borrowings:	FHLB borrowings:	
Balance at end of period	Balance at end of period	\$ 212,829 \$153,358
Average amount outstanding during the period ⁽¹⁾	Average amount outstanding during the period ⁽¹⁾	281,260 135,926
Maximum amount outstanding during the period ⁽²⁾	Maximum amount outstanding during the period ⁽²⁾	533,242 423,645
Weighted average interest rate during the period	Weighted average interest rate during the period	2.5 % 2.4 %
Interest rate at end of period ⁽⁵⁾	Interest rate at end of period ⁽⁵⁾	1.4 % 0.7 %
		Interest rate at end of period ⁽⁵⁾

(1) The average amount outstanding during the period was computed by dividing the total daily outstanding principal balances by the number of days in the period.

(2) The maximum amount outstanding at any month-end during the period.

(3) The weighted average interest rate during the period was computed by dividing the actual interest expense (annualized for interim periods) by the average amount outstanding during the period. The weighted average interest rate on other borrowings and FHLB borrowings includes the effect of interest rate swaps.

(4) Stated rate.

(5) The interest rate on FHLB borrowings includes the effect of interest rate swaps.

Maturities of the obligations associated with our borrowing arrangements based on scheduled repayments at September 30, 2023 March 31, 2024 are as follows (in thousands):

Payments Due by Period											
Payments Due by Period											
	Less than 1 Year	Payments Due by Period				Less than 1 Year	Payments Due by Period				
		1 Year	2-3 Years	3-4 Years	4-5 Years		1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter
											Total
Other borrowings	Other borrowings	\$388,888	\$6,321	\$ —	\$ —	\$ —	\$ —	\$ —	\$395,209		
FHLB borrowings	FHLB borrowings	210,733	764	582	401	349	—	—	212,829		
Total obligations	Total obligations	\$599,621	\$7,085	\$582	\$401	\$349	\$ —	\$ —	\$608,038		

Other borrowings may include federal funds purchased, repurchase agreements and borrowings from the Federal Reserve through the FRDW and BTFP. Southside Bank has three unsecured lines of credit for the purchase of overnight federal funds at prevailing rates with Frost Bank, Amegy Bank and TIB – The Independent Bankers Bank and Comerica Bank for \$40.0 million, \$15.0 million \$25.0 million and \$7.5 million \$15.0 million, respectively. There were no federal funds purchased at September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023. To provide more liquidity in response to economic conditions in recent years, the Federal Reserve has encouraged broader use of the discount window. At September 30, 2023 March 31, 2024, the amount of additional funding the Bank could obtain from the FRDW, collateralized by securities, was approximately \$636.9 million \$251.9 million. There were no \$250.0 million in borrowings from the FRDW at September 30, 2023 March 31, 2024, and \$188.0 million \$300.0 million at December 31, 2022 December 31, 2023. To provide more stability and to assure banks have the ability to meet the needs of all of their depositors, the Federal Reserve created the BTFP in the first quarter of 2023. At September 30, 2023 On March 11, 2024, the amount of additional funding the Bank could obtain from the Federal Reserve stopped extending new BTFP collateralized by securities, was approximately \$6,000. advances. There were \$291.3 million \$116.1 million in borrowings from the BTFP at September 30, 2023 March 31, 2024, with a remaining maturity under one year. Southside Bank has a \$5.0 million line of credit with Frost Bank to be used to issue letters of credit, and at September 30, 2023 March 31, 2024, the line had one outstanding letter of credit for \$155,000. Southside Bank currently has no outstanding letters of credit from FHLB held as collateral for its public fund deposits.

Southside Bank enters into sales of securities under repurchase agreements. These repurchase agreements totaled \$103.9 million \$91.6 million at September 30, 2023 March 31, 2024 and \$33.2 million \$92.1 million at December 31, 2022 December 31, 2023, and had maturities of less than 2.0 1.4 years. Repurchase

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agreements are secured by investment and MBS securities and are stated at the amount of cash received in connection with the transaction.

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FHLB borrowings represent borrowings with fixed interest rates ranging from 0.74% 0.61% to 4.80% and with remaining maturities of 20 days one day to 4.8 4.3 years at September 30, 2023 March 31, 2024. FHLB borrowings may be collateralized by FHLB stock, nonspecified loans and/or securities. At September 30, 2023 March 31, 2024, the amount of additional funding Southside Bank could obtain from FHLB, collateralized by securities, FHLB stock and nonspecified loans and securities, was approximately \$1.71 billion \$2.01 billion, net of FHLB stock purchases required.

7. Long-term Debt

Information related to our long-term debt is summarized as follows for the periods presented (in thousands):

		September 30, 2023	December 31, 2022	March 31, 2024	March 31, 2024	December 31, 2023
Subordinated notes: (1)	Subordinated notes: (1)					
Subordinated notes: (1)						
Subordinated notes: (1)						
3.875% Subordinated notes, net of unamortized debt issuance costs (2)						

3.875% Subordinated notes, net of unamortized debt issuance costs (2)			
3.875%	3.875%		
Subordinated	Subordinated		
notes, net of	notes, net of		
unamortized	unamortized		
debt	debt		
issuance	issuance		
costs (2)	costs (2)	\$ 93,838	\$ 98,674
Total	Total		
Subordinated	Subordinated		
notes	notes	93,838	98,674
Total Subordinated notes			
Total Subordinated notes			
Trust preferred	Trust preferred		
subordinated	subordinated		
debentures: (3)	debentures: (3)		
Southside Statutory Trust III, net of unamortized debt issuance costs (4)			
Southside Statutory Trust III, net of unamortized debt issuance costs (4)			
Southside	Southside		
Statutory	Statutory		
Trust III, net	Trust III, net		
of	of		
unamortized	unamortized		
debt	debt		
issuance	issuance		
costs (4)	costs (4)	20,577	20,573
Southside	Southside		
Statutory	Statutory		
Trust IV	Trust IV	23,196	23,196
Southside	Southside		
Statutory	Statutory		
Trust V	Trust V	12,887	12,887
Magnolia	Magnolia		
Trust	Trust		
Company I	Company I	3,609	3,609
Total Trust	Total Trust		
preferred	preferred		
subordinated	subordinated		
debentures	debentures	60,269	60,265
Total Long-term debt	Total Long-term debt	\$ 154,107	\$ 158,939
Total Long-term debt			
Total Long-term debt			

- (1) This debt consists of subordinated notes with a remaining maturity greater than one year that qualify under the risk-based capital guidelines as Tier 2 capital, subject to certain limitations.
- (2) The unamortized discount and debt issuance costs reflected in the carrying amount of the subordinated notes totaled approximately \$1.2 million \$1.1 million at September 30, 2023 March 31, 2024 and \$1.3 million at December 31, 2022 December 31, 2023.
- (3) This debt consists of trust preferred securities that qualify under the risk-based capital guidelines as Tier 1 capital, subject to certain limitations.
- (4) The unamortized debt issuance costs reflected in the carrying amount of the Southside Statutory Trust III junior subordinated debentures totaled \$42,000 \$40,000 at September 30, 2023 March 31, 2024 and \$46,000 \$41,000 at December 31, 2022 December 31, 2023.

As of **September 30, 2023** **March 31, 2024**, the details of the subordinated notes and the trust preferred subordinated debentures are summarized below (dollars in thousands):

	Date Issued	Amount Issued	Fixed or Floating Rate	Interest Rate	Maturity Date
3.875% Subordinated Notes ⁽¹⁾	November 6, 2020	\$ 100,000	Fixed-to-Floating	3.875%	November 15, 2030
Southside Statutory Trust III ⁽²⁾	September 4, 2003	\$ 20,619	Floating	3 month SOFR + 3.20%	September 4, 2033
Southside Statutory Trust IV ⁽²⁾	August 8, 2007	\$ 23,196	Floating	3 month SOFR + 1.56%	October 30, 2037
Southside Statutory Trust V ⁽²⁾	August 10, 2007	\$ 12,887	Floating	3 month SOFR + 2.51%	September 15, 2037
Magnolia Trust Company I ^{(2) (3)}	May 20, 2005	\$ 3,609	Floating	3 month SOFR + 2.06%	November 23, 2035

	Date Issued	Amount Issued	Fixed or Floating Rate	Interest Rate	Maturity Date
3.875% Subordinated Notes ⁽¹⁾	November 6, 2020	\$ 100,000	Fixed-to-Floating	3.875%	November 15, 2030
Southside Statutory Trust III	September 4, 2003	\$ 20,619	Floating	3 month SOFR + 3.20%	September 4, 2033
Southside Statutory Trust IV	August 8, 2007	\$ 23,196	Floating	3 month SOFR + 1.56%	October 30, 2037
Southside Statutory Trust V	August 10, 2007	\$ 12,887	Floating	3 month SOFR + 2.51%	September 15, 2037
Magnolia Trust Company I ⁽²⁾	May 20, 2005	\$ 3,609	Floating	3 month SOFR + 2.06%	November 23, 2035

(1) On June 14, 2023, the Company repurchased \$5.0 million of the \$100 million fixed-to-floating rate subordinated notes that mature on November 15, 2030.

(2) Effective July 1, 2023, the Company began utilizing SOFR to reset rates on our floating rate trust preferred subordinated debentures, due to the fact that LIBOR ceased to be published as of June 30, 2023.

(3)(2) On October 10, 2007, as part of an acquisition we assumed \$3.6 million of floating rate junior subordinated debentures issued in 2005 to Magnolia Trust Company I.

On November 6, 2020, the Company issued \$100.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes that mature on November 15, 2030. This debt initially bears interest at a fixed rate of 3.875% per year through November 14, 2025 and thereafter, adjusts quarterly at a floating rate equal to the then current three-month term SOFR, as published by the FRBNY, plus 366 basis points. The proceeds from the sale of the subordinated notes were used for general corporate purposes.

8. Employee Benefit Plans

The components of net periodic benefit cost (income) related to our employee benefit plans are as follows (in thousands):

Three Months Ended September 30,						
	Acquired		Retirement		Restoration	
	Retirement	Plan	Plan	Plan	2023	2022
Three Months Ended March 31,						
	Retirement		Acquired Retirement Plan		Restoration Plan	
	Plan	Plan	2024	2023	2024	2023
Interest cost						
Interest cost						
Interest cost	\$ 942	\$ 685	\$ 31	\$ 25	\$ 208	\$ 144
Expected return on assets	Expected return on assets		(1,143)	(1,461)	(47)	(58)
Net loss amortization	Net loss amortization		—	—	—	—
Net periodic benefit cost (income)	\$ (19)	\$ (616)	\$ (16)	\$ (33)	\$ 215	\$ 208

	Nine Months Ended September 30,					
	Retirement Plan		Acquired Retirement Plan		Restoration Plan	
	2023	2022	2023	2022	2023	2022
Interest cost	\$ 2,828	\$ 2,056	\$ 94	\$ 76	\$ 623	\$ 433
Expected return on assets	(3,430)	(4,384)	(140)	(174)	—	—
Net loss amortization	545	480	—	—	22	191
Net periodic benefit cost (income)	\$ (57)	\$ (1,848)	\$ (46)	\$ (98)	\$ 645	\$ 624

All cost components disclosed above are recorded in other noninterest expense. The noncash adjustment to the employee benefit plan liabilities, consisting of changes in net loss, was \$567,000 \$167,000 and \$671,000 \$173,000 for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023, respectively.

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9. Derivative Financial Instruments and Hedging Activities

Our hedging policy allows the use of interest rate derivative instruments to manage our exposure to interest rate risk or hedge specified assets and liabilities. These instruments may include interest rate swaps and interest rate caps and floors. All derivative instruments are carried on the balance sheet at their estimated fair value and are recorded in other assets or other liabilities, as appropriate.

Derivative instruments may be designated as cash flow hedges of variable rate assets or liabilities, cash flow hedges of forecasted transactions, fair value hedges of a recognized asset or liability or as non-hedging instruments.

Cash Flow Hedges

Gains and losses on derivative instruments designated as cash flow hedges are recorded in AOCI to the extent they are effective. If the hedge is effective, the amount recorded in other comprehensive income is reclassified to earnings interest expense in the same periods that the hedged cash flows impact earnings. The ineffective portion of changes in fair value is reported in current earnings. Gains and losses on derivative instruments designated as fair value hedges, as well as the change in fair value on the hedged item, are recorded in interest income in the consolidated statements of income. Gains and losses due to changes in fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the hedged item. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

We have entered into certain interest rate swap contracts on specific variable rate agreements and fixed rate short-term pay agreements with third-parties. These interest rate swap contracts were designated as hedging instruments in cash flow hedges under ASC Topic 815. The objective of the interest rate swap contracts is to manage the expected future cash flows on \$760.0 million \$940 billion of Bank liabilities. The cash flows from the swap contracts are expected to be highly effective in hedging the variability in future cash flows attributable to fluctuations in the underlying SOFR rate.

In accordance with ASC Topic 815, if a hedging item is terminated prior to maturity for a cash settlement, the existing gain or loss within AOCI will continue to be reclassified into earnings during the period or periods in which the hedged forecasted transaction affects earnings unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period. These transactions are reevaluated on a monthly basis to determine if the hedged forecasted transactions are still probable of occurring. If at a subsequent evaluation, it is determined that the transactions will are probable of not occur, occurring, any related gains or losses recorded in AOCI are immediately recognized in earnings. During the second quarter of 2023, we terminated one interest rate swap contract designated as a cash flow hedge. At the time of termination, we determined the underlying hedged forecasted transactions were still probable of occurring. The existing loss in AOCI will be reclassified into earnings in the same periods the hedged forecasted transaction affects earnings.

Fair Value Hedges

Gains and losses on derivative instruments designated as fair value hedges, as well as the change in fair value on the hedged item, are recorded in interest income in the consolidated statements of income. Gains and losses due to changes in fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the hedged item. During 2022, we entered into partial term fair value hedges, as allowed under ASU 2017-12, for certain of our fixed rate callable AFS municipal securities. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. As of September 30, 2023 March 31, 2024, hedged securities with a carrying amount of \$609.1 million \$449.4 million are included in our AFS securities portfolio in our consolidated balance sheets. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for us making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The change in the fair value of these hedging instruments is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged transactions affect earnings. During the second quarter of 2023, we terminated some of our fair value hedging relationships and sold the hedged items. As a result of the sale, the cumulative adjustments to the carrying amount was a fair value net gain of \$6.5 million recognized in earnings and recorded in noninterest income during the year ended December 31, 2023.

The following table presents the amounts recorded in the consolidated balance sheets related to the cumulative adjustments for fair value hedges (in thousands):

	March 31, 2024	December 31, 2023
Amortized cost of hedged assets - Securities AFS	\$ 485,979	\$ 487,486
Cumulative amount of fair value hedging adjustments included in the carrying amount of the hedged items	20,422	13,642

Derivatives Designated as Non-Hedging Instruments

From time to time, we may enter into certain interest rate swaps, cap and floor contracts that are not designated as hedging instruments. These interest rate derivative contracts relate to transactions in which we enter into an interest rate swap, cap or floor with a customer while concurrently entering into an offsetting interest rate swap, cap or floor with a third-party financial institution. We agree to pay interest to the customer on a notional amount at a variable rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, we agree to pay a third-party financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These interest rate derivative contracts allow our customers to effectively convert a variable rate loan to a

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fixed rate loan. The changes in the fair value of the underlying derivative contracts primarily offset each other and do not significantly impact our results of operations. We recognized swap fee income associated with these derivative contracts immediately based upon the difference in the bid/ask spread of the underlying transactions with the customer and the third-party financial institution. The swap fee income is included in other noninterest income in our consolidated statements of income.

At [September 30, 2023](#) [March 31, 2024](#) and [December 31, 2022](#) [December 31, 2023](#), net derivative assets included [\\$109.5 million](#) [\\$65.4 million](#) and [\\$82.1 million](#) [\\$46.8 million](#), respectively, of cash collateral received from counterparties under master netting agreements.

The notional amounts of the derivative instruments represent the contractual cash flows pertaining to the underlying agreements. These amounts are not exchanged and are not reflected in the consolidated balance sheets. The fair value of the interest rate swaps are presented at net in other assets and other liabilities and in the net change in each of these financial

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statement line items in the accompanying consolidated statements of cash flows when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement.

The following tables present the notional and estimated fair value amount of derivative positions outstanding (in thousands):

	September 30, 2023		December 31, 2022		
	Estimated Fair Value		Estimated Fair Value		
Notional Amount (1)	Asset Derivative	Liability Derivative	Notional Amount (1)	Asset Derivative	Liability Derivative
March 31, 2024			March 31, 2024		
March 31, 2024			March 31, 2024		
March 31, 2024			March 31, 2024		
	Estimated Fair Value			Estimated Fair Value	
	Estimated Fair Value			Estimated Fair Value	
	Estimated Fair Value			Estimated Fair Value	
Notional Amount (1)			Notional Amount (1)		
Notional Amount (1)			Notional Amount (1)		
Notional Amount (1)			Notional Amount (1)		
Notional Amount (1)			Notional Amount (1)		
Derivatives designated as hedging instruments					
Derivatives designated as hedging instruments					
Derivatives designated as hedging instruments	Derivatives designated as hedging instruments				

Interest rate contracts:	Interest rate contracts:												
Interest rate contracts:													
Interest rate contracts:													
Swaps-Cash Flow Hedge-Financial institution counterparties													
Swaps-Cash Flow Hedge-Financial institution counterparties													
Swaps-Cash Flow Hedge-Financial institution counterparties	Swaps-Cash Flow Hedge-Financial institution counterparties	\$	760,000	\$	39,409	\$	—	\$	575,000	\$	39,527	\$	—
Swaps-Fair Value Hedge-Financial institution counterparties	Swaps-Fair Value Hedge-Financial institution counterparties		654,870		42,229		—		742,675		21,733		171
Swaps-Fair Value Hedge-Financial institution counterparties													
Swaps-Fair Value Hedge-Financial institution counterparties													
Derivatives designated as non-hedging instruments													
Derivatives designated as non-hedging instruments													
Derivatives designated as non-hedging instruments	Derivatives designated as non-hedging instruments												
Interest rate contracts:	Interest rate contracts:												
Interest rate contracts:													
Interest rate contracts:													
Swaps-Financial institution counterparties	Swaps-Financial institution counterparties												
Swaps-Financial institution counterparties	Swaps-Financial institution counterparties												
Swaps-Financial institution counterparties	Swaps-Financial institution counterparties		216,777		27,876		—		223,124		21,046		—
Swaps-Customer counterparties	Swaps-Customer counterparties		216,777		—		27,876		223,124		—		21,046
Swaps-Customer counterparties													
Swaps-Customer counterparties													
Gross derivatives	Gross derivatives			109,514		27,876			82,306		21,217		
Offsetting derivative assets/liabilities	Offsetting derivative assets/liabilities			—		—			(171)		(171)		
Offsetting derivative assets/liabilities													
Offsetting derivative assets/liabilities													
Cash collateral received/posted	Cash collateral received/posted												
Cash collateral received/posted	Cash collateral received/posted												
Cash collateral received/posted	Cash collateral received/posted		(109,514)		—				(82,135)		—		

Net derivatives included in the consolidated balance sheets ⁽²⁾	Net derivatives included in the consolidated balance sheets ⁽²⁾	\$ —	\$ 27,876	\$ —	\$ 21,046
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Net derivatives included in the consolidated balance sheets ⁽²⁾

Net derivatives included in the consolidated balance sheets ⁽²⁾

(1) Notional amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected in the consolidated balance sheets.

(2) Net derivative assets are included in other assets and net derivative liabilities are included in other liabilities on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and our credit risk. **We At March 31, 2024, we had no \$1.0 million credit exposure related to interest rate swaps with financial institutions and none \$27,000 related to interest rate swaps with customers at September 30, 2023 or December 31, 2022. customers. At December 31, 2023, we had \$1.9 million credit exposure related to interest rate swaps with financial institutions and \$509,000 related to interest rate swaps with customers.** The credit risk associated with customer transactions is partially mitigated as these are generally secured by the non-cash collateral securing the underlying transaction being hedged.

The summarized expected weighted average remaining maturity of the notional amount of interest rate swaps and the weighted average interest rates associated with the amounts expected to be received or paid on interest rate swap agreements are

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presented below (dollars in thousands). Variable rates received on fixed pay swaps are based on **one-month or three-month LIBOR or overnight SOFR rates in effect at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023**:

		September 30, 2023				December 31, 2022							
		Weighted Average				Weighted Average							
		Remaining		Remaining		Notional		Maturity					
		Notional Amount	(in years)	Rate	Pay	Notional Amount	(in years)	Rate	Pay				
March 31, 2024													
Weighted Average													
Swaps-Cash	Swaps-Cash									Notional Amount			
Flow hedge	Flow hedge									Maturity (in years)			
Financial institution counterparties													
Financial institution counterparties	Financial institution counterparties	\$ 760,000	2.4	5.42 %	2.02 %	\$ 575,000	2.3	4.44 %	1.13 %	\$940,000			
Swaps-Fair Value hedge	Swaps-Fair Value hedge									2.3			
Financial institution counterparties	Financial institution counterparties	654,870	5.6	5.30 %	3.19 %	742,675	6.3	3.42 %	3.21 %	2.3			
Financial institution counterparties													
Financial institution counterparties													
Swaps-Non-hedging	Swaps-Non-hedging									453,440			
										5.1			
										5.34			

Financial institution counterparties	Financial institution counterparties	216,777	8.3	5.91 %	2.66 %	223,124	9.0	4.83 %	2.69 %		
Financial institution counterparties											
Financial institution counterparties										245,874	7.2
Customer counterparties	Customer counterparties	216,777	8.3	2.66 %	5.91 %	223,124	9.0	2.69 %	4.83 %	Customer counterparties	245,874

The following table presents amounts included in the consolidated statements of income related to interest rate swap agreements (in thousands):

	Three Months Ended March 31,	
	2024	2023
Derivatives designated as hedging instruments		
Swaps-Cash Flow hedge		
Gain (loss) included in interest expense on deposits	\$ 4,111	\$ 3,071
Gain (loss) included in interest expense on FHLB borrowings	2,531	1,901
Gain (loss) included in interest expense on other borrowings	—	136
	6,642	5,108
Swaps-Fair Value hedge		
Gain (loss) included in interest income on tax-exempt investment securities	2,622	2,450
Derivatives designated as non-hedging instruments		
Swaps-Non-hedging		
Other noninterest income	—	160

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10. Fair Value Measurement

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants. A fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Valuation techniques including the market approach, the income approach and/or the cost approach are utilized to determine fair value. Inputs to valuation techniques refer to the assumptions market participants would use in pricing the asset or liability. Valuation policies and procedures are determined by our investment department and reported to our ALCO for review. An entity must consider all aspects of nonperforming risk, including the entity's own credit standing, when measuring fair value of a liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. A fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Certain financial assets are measured at fair value in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of fair value accounting or write-downs of individual assets. A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities AFS and Equity Investments with readily determinable fair values – U.S. Treasury securities and equity investments with readily determinable fair values are reported at fair value utilizing Level 1 inputs. Other securities classified as AFS are reported at fair value utilizing Level 2 inputs. For most of these securities, we obtain fair value measurements from independent pricing services and obtain an understanding of the pricing methodologies used by these independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things, as stated in the pricing methodologies of the independent pricing services.

We review and validate the prices supplied by the independent pricing services for reasonableness by comparison to prices obtained from, in some cases, two additional third-party sources. For securities where prices are outside a reasonable range, we further review those securities, based on internal ALCO approved procedures, to determine what a reasonable fair value measurement is for those securities, given available data.

Derivatives – Derivatives are reported at fair value utilizing Level 2 inputs. We obtain fair value measurements from two sources including an independent pricing service and the counterparty to the derivatives designated as hedges. The fair value measurements consider observable data that may include dealer quotes, market spreads, the U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the derivatives' terms and conditions, among other things. We review the prices supplied by the sources for reasonableness. In addition, we obtain a basic understanding of their underlying pricing methodology. We validate prices supplied by the sources by comparison to one another.

Certain nonfinancial assets and nonfinancial liabilities measured at fair value on a recurring basis include reporting units measured at fair value and tested for goodwill impairment.

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Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, which means that the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis included foreclosed assets and collateral-dependent loans at [September 30, 2023](#) [March 31, 2024](#) and [December 31, 2022](#) [December 31, 2023](#).

Foreclosed Assets – Foreclosed assets are initially recorded at fair value less costs to sell. The fair value measurements of foreclosed assets can include Level 2 measurement inputs such as real estate appraisals and comparable real estate sales information, in conjunction with Level 3 measurement inputs such as cash flow projections, qualitative adjustments and sales cost estimates. As a result, the categorization of foreclosed assets is Level 3 of the fair value hierarchy. In connection with the measurement and initial recognition of certain foreclosed assets, we may recognize charge-offs through the allowance for credit losses.

Collateral-Dependent Loans – Certain loans may be reported at the fair value of the underlying collateral if repayment is expected substantially from the operation or sale of the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria or appraisals. At [September 30, 2023](#) [March 31, 2024](#) and [December 31, 2022](#) [December 31, 2023](#), the impact of the fair value of collateral-dependent loans was reflected in our allowance for loan losses.

The fair value estimate of financial instruments for which quoted market prices are unavailable is dependent upon the assumptions used. Consequently, those estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented in the fair value tables do not necessarily represent their underlying value.

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The following tables summarize assets measured at fair value on a recurring and nonrecurring basis segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Fair Value Measurements at the End of the Reporting Period Using					
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets			Significant Other Observable Inputs	
		Significant for Identical Assets	Other Observable Inputs	Unobservable Inputs	Significant Other Observable Inputs	Unobservable Inputs
September 30, 2023	Carrying Amount	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)		
March 31, 2024	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		

Recurring fair value measurements	Recurring fair value measurements	Recurring fair value measurements
Investment securities:	Investment securities:	Investment securities:
U.S. Treasury	U.S. Treasury	\$ 224,209 \$ 224,209 \$ — \$ —
State and political subdivisions	State and political subdivisions	
State and political subdivisions	State and political subdivisions	708,543 — 708,543 —
Corporate bonds and other	Corporate bonds and other	13,396 — 13,396 —
MBS: (1)	MBS: (1)	MBS: (1)
Residential	Residential	379,387 — 379,387 —
Commercial	Commercial	10,025 — 10,025 —
Equity investments:	Equity investments:	
Equity investments	Equity investments	5,072 5,072 — —
Equity investments	Equity investments	
Derivative assets:	Derivative assets:	
Interest rate swaps	Interest rate swaps	
Interest rate swaps	Interest rate swaps	109,514 — 109,514 —
Total asset recurring fair value measurements	Total asset recurring fair value measurements	\$ 1,450,146 \$ 229,281 \$ 1,220,865 \$ —
Derivative liabilities:	Derivative liabilities:	
Derivative liabilities:	Derivative liabilities:	
Interest rate swaps	Interest rate swaps	
Interest rate swaps	Interest rate swaps	\$ 27,876 \$ — \$ 27,876 \$ —
Total liability recurring fair value measurements	Total liability recurring fair value measurements	\$ 27,876 \$ — \$ 27,876 \$ —
Nonrecurring fair value measurements	Nonrecurring fair value measurements	
Nonrecurring fair value measurements	Nonrecurring fair value measurements	

Foreclosed assets	Foreclosed assets	\$ 50	\$ —	\$ —	\$ 50
Collateral-dependent loans (2)	Collateral-dependent loans (2)	7,137	—	—	7,137
Total asset nonrecurring fair value measurements	Total asset nonrecurring fair value measurements	\$ 7,187	\$ —	\$ —	\$ 7,187

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Fair Value Measurements at the End of the Reporting Period Using					
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2022		Carrying Amount (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2023		December 31, 2023			Fair Value Measurements at the End of the Reporting Period Using
Recurring fair value measurements	Recurring fair value measurements		Recurring fair value measurements		Quoted Prices in Active Markets for Identical Assets (Level 1)
Investment securities:	Investment securities:		Investment securities:		Significant Other Observable Inputs (Level 2)
U.S. Treasury					Significant Unobservable Inputs (Level 3)
State and political subdivisions					
State and political subdivisions					
State and political subdivisions					
State and political subdivisions	State and political subdivisions	\$ 964,852	\$ —	\$ 964,852	\$ —
Corporate bonds and other	Corporate bonds and other	8,704	—	8,704	—
MBS: (1)	MBS: (1)				
Residential	Residential	315,027	—	315,027	—
Residential					
Commercial	Commercial	10,431	—	10,431	—
Equity investments:	Equity investments:				
Equity investments	Equity investments	5,235	5,235	—	—

Equity investments						
Equity investments						
Derivative assets:	Derivative assets:					
Interest rate swaps						
Interest rate swaps						
Interest rate swaps	Interest rate swaps	82,306	—	82,306	—	
Total asset recurring fair value measurements	Total asset recurring fair value measurements	\$ 1,386,555	\$ 5,235	\$ 1,381,320	\$ —	
Derivative liabilities:	Derivative liabilities:					
Derivative liabilities:						
Derivative liabilities:						
Interest rate swaps	Interest rate swaps	\$ 21,217	\$ —	\$ 21,217	\$ —	
Total liability recurring fair value measurements	Total liability recurring fair value measurements	\$ 21,217	\$ —	\$ 21,217	\$ —	
Nonrecurring fair value measurements						
Nonrecurring fair value measurements						
Nonrecurring fair value measurements	Nonrecurring fair value measurements					
Foreclosed assets	Foreclosed assets	\$ 167	\$ —	\$ —	\$ 167	
Collateral-dependent loans (2)	Collateral-dependent loans (2)	7,815	—	—	7,815	
Total asset nonrecurring fair value measurements	Total asset nonrecurring fair value measurements	\$ 7,982	\$ —	\$ —	\$ 7,982	
Total asset nonrecurring fair value measurements						
Total asset nonrecurring fair value measurements						

(1) All MBS are issued and/or guaranteed by U.S. government agencies or U.S. GSEs.

(2) Consists of individually evaluated loans. Loans for which the fair value of the collateral and commercial real estate fair value of the properties is less than cost basis are presented net of allowance. Losses on these loans represent charge-offs which are netted against the allowance for loan losses.

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Disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, is required when it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other estimation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Such techniques and assumptions, as they apply to individual categories of our financial instruments, are as follows:

Cash and cash equivalents – The carrying amount for cash and cash equivalents is a reasonable estimate of those assets' fair value.

Investment and MBS HTM – Fair values for these securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services.

FHLB stock – The carrying amount of FHLB stock is a reasonable estimate of the fair value of those assets.

Equity investments – The carrying value of equity investments without readily determinable fair values are measured at cost less impairment, if any, adjusted for observable price changes for an identical or similar investment of the same issuer. This carrying value is a reasonable estimate of the fair value of those assets.

Loans receivable – We estimate the fair value of our loan portfolio to an exit price notion with adjustments for liquidity, credit and prepayment factors. Nonperforming loans continue to be estimated using discounted cash flow analyses or the underlying value of the collateral where applicable.

Loans held for sale – The fair value of loans held for sale is determined based on expected proceeds, which are based on sales contracts and commitments.

Deposit liabilities – The fair value of demand deposits, savings accounts and certain money market deposits is the amount on demand at the reporting date, which is the carrying value. Fair values for fixed rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Other borrowings – Federal funds purchased generally have original terms to maturity of one day and repurchase agreements generally have terms of less than one year, and therefore both are considered short-term borrowings. Consequently, their carrying value is a reasonable estimate of fair value. Borrowings from the Federal Reserve through the FRDW and BTFP have original maturities of one year or less, and the fair value is estimated by discounting the future cash flows using rates at which borrowings would be made to borrowers with similar credit ratings and for the same remaining maturities.

FHLB borrowings – The fair value of these borrowings is estimated by discounting the future cash flows using rates at which borrowings would be made to borrowers with similar credit ratings and for the same remaining maturities.

Subordinated notes – The fair value of the subordinated notes is estimated by discounting future cash flows using estimated rates at which long-term debt would be made to borrowers with similar credit ratings and for the remaining maturities.

Trust preferred subordinated debentures – The fair value of the long-term debt is estimated by discounting future cash flows using estimated rates at which long-term debt would be made to borrowers with similar credit ratings and for the remaining maturities.

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The following tables present our financial assets and financial liabilities measured on a nonrecurring basis at both their respective carrying amounts and estimated fair value (in thousands):

		Estimated Fair Value					Estimated Fair Value
		Carrying Amount	Total	Level 1	Level 2	Level 3	
September 30, 2023							
March 31, 2024							
							March 31, 2024
Financial assets:	Financial assets:						Financial assets:
Cash and cash equivalents	Cash and cash equivalents	\$ 325,823	\$ 325,823	\$325,823	\$ —	\$ —	
Investment securities:	Investment securities:						
HTM, at carrying value	HTM, at carrying value	1,185,474	944,586	—	944,586	—	
HTM, at carrying value							
HTM, at carrying value							
MBS:	MBS:						
HTM, at carrying value							

HTM, at carrying value						
HTM, at carrying value	HTM, at carrying value	122,412	107,844	—	107,844	—
FHLB stock, at cost	FHLB stock, at cost	12,778	12,778	—	12,778	—
Equity investments	Equity investments	4,382	4,382	—	4,382	—
Loans, net of allowance for loan losses	Loans, net of allowance for loan losses	4,378,873	3,962,889	—	—	3,962,889
Loans held for sale	Loans held for sale	1,382	1,382	—	1,382	—
Financial liabilities:	Financial liabilities:					
Deposits	Deposits	\$6,349,571	\$6,315,058	\$	—	\$6,315,058
Deposits	Deposits					
Deposits	Deposits					
Other borrowings	Other borrowings	395,209	393,551	—	393,551	—
FHLB borrowings	FHLB borrowings	212,829	198,457	—	198,457	—
Subordinated notes, net of unamortized debt issuance costs	Subordinated notes, net of unamortized debt issuance costs	93,838	84,992	—	84,992	—
Trust preferred subordinated debentures, net of unamortized debt issuance costs	Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,269	52,568	—	52,568	—
Estimated Fair Value					Estimated Fair Value	
Carrying Amount		Total	Level 1	Level 2	Level 3	
December 31, 2022						
December 31, 2023						
Financial assets:	Financial assets:					
Cash and cash equivalents	Cash and cash equivalents	\$ 199,252	\$ 199,252	\$ 199,252	\$ —	\$ —
Investment securities:	Investment securities:					
HTM, at carrying value	HTM, at carrying value	1,190,108	1,023,376	—	1,023,376	—
HTM, at carrying value						
HTM, at carrying value						

Mortgage-backed securities:	Mortgage-backed securities:						
HTM, at carrying value	HTM, at carrying value						
HTM, at carrying value	HTM, at carrying value	136,621	125,780	—	125,780	—	
FHLB stock, at cost	FHLB stock, at cost	9,190	9,190	—	9,190	—	
Equity investments	Equity investments	5,946	5,946	—	5,946	—	
Loans, net of allowance for loan losses	Loans, net of allowance for loan losses	4,111,176	3,880,664	—	—	3,880,664	
Loans held for sale	Loans held for sale	667	667	—	667	—	
Financial liabilities:	Financial liabilities:						
Deposits	Deposits	\$6,198,019	\$6,158,517	\$	—	\$6,158,517	\$
Deposits	Deposits						
Other borrowings	Other borrowings	221,153	221,153	—	221,153	—	
FHLB borrowings	FHLB borrowings	153,358	140,976	—	140,976	—	
Subordinated notes, net of unamortized debt issuance costs	Subordinated notes, net of unamortized debt issuance costs	98,674	91,357	—	91,357	—	
Trust preferred subordinated debentures, net of unamortized debt issuance costs	Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,265	60,594	—	60,594	—	

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11. Income Taxes

The income tax expense included in the accompanying consolidated statements of income consists of the following (in thousands):

	Current income tax expense	Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022	
		\$	4,672	\$	4,415	\$	14,099	\$	10,215

Current income tax expense					
Current income tax expense					
Deferred income tax expense					
(benefit)					
Deferred income tax expense					
(benefit)					
Deferred income tax expense	Deferred income tax expense				
(benefit)	(benefit)	(1,552)	(540)	(1,868)	103
Income tax expense	Income tax expense	\$ 3,120	\$ 3,875	\$ 12,231	\$ 10,318
Income tax expense					
Income tax expense					

The net deferred tax asset totaled \$41.2 million at September 30, 2023 March 31, 2024 as compared to \$34.7 million at December 31, 2022 December 31, 2023. The slight decrease in the net deferred tax asset is primarily the result of an increase in unrealized losses in the AFS securities portfolio. estimated fair value of the effective hedging derivatives. No valuation allowance was recorded at September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023, as management believes it is more likely than not that all of the deferred tax asset items will be realized in future years. Unrecognized tax benefits were not material at September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023.

We recognized income tax expense of \$3.1 million and \$12.2 million \$4.6 million for an ETR of 14.5% and 15.0% 17.7% for the three and nine months ended September 30, 2023 March 31, 2024, respectively, compared to income tax expense of \$3.9 million and \$10.3 million, \$4.5 million for an ETR of 12.6% and 11.8%, respectively, 14.9% for the three and nine months ended September 30, 2022 March 31, 2023. The higher ETR for the three and nine months ended September 30, 2023 March 31, 2024 was primarily due to a decrease in net tax-exempt income as a percentage of pre-tax income as compared to the same period in 2022. The ETR differs from the statutory rate of 21% for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 primarily due to the effect of tax-exempt income from municipal loans and securities, as well as BOLI. We file income tax returns in the U.S. federal jurisdictions and in certain states. We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2020 or Texas state tax examinations by tax authorities for years before 2019.

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12. Off-Balance-Sheet Arrangements, Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk. In the normal course of business, we are a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of our customers. These off-balance-sheet instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the financial statements. The contract or notional amounts of these instruments reflect the extent of involvement and exposure to credit loss that we have in these particular classes of financial instruments. The allowance for credit losses on these off-balance-sheet credit exposures is calculated using the same methodology as loans including a conversion or usage factor to anticipate ultimate exposure and expected losses and is included in other liabilities on our consolidated balance sheets.

Allowance for off-balance-sheet credit exposures were as follows (in thousands):

	Three Months Ended March 31,			
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	2024			
	2024			
	2024			
		Three Months Ended September 30,		Nine Months Ended September 30,
Balance at beginning of period				
		2023	2022	2023
Balance at beginning of period				2022

Balance at beginning of period	Balance at beginning of period	\$ 3,207	\$ 1,891	\$ 3,687	\$ 2,384
Provision for (reversal of) off-balance-sheet credit exposures	Provision for (reversal of) off-balance-sheet credit exposures	646	200	166	(293)
Provision for (reversal of) off-balance-sheet credit exposures					
Balance at end of period	Balance at end of period	\$ 3,853	\$ 2,091	\$ 3,853	\$ 2,091
Balance at end of period					
Balance at end of period					

Contractual commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. Commitments to extend credit generally have fixed expiration dates and may require the payment of fees. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in commitments to extend credit and similarly do not necessarily represent future cash obligations.

Financial instruments with off-balance-sheet risk were as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	Commitments to extend credit	\$ 1,160,638	\$ 1,296,773	
Standby letters of credit	Standby letters of credit	16,651	26,844	
Total	Total	\$ 1,177,289	\$ 1,323,617	

We apply the same credit policies in making commitments to extend credit and standby letters of credit as we do for on-balance-sheet instruments. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant and equipment.

Leases. There were no \$372,000 and \$192,000 operating lease ROU assets obtained in exchange for new operating lease liabilities during the three months ended September 30, 2023, March 31, 2024 and there were \$603,000 operating lease ROU assets obtained in exchange for new operating lease liabilities during the nine months ended September 30, 2023. During both the three and nine months ended September 30, 2022, there were \$1.5 million operating lease ROU assets obtained in exchange for new operating lease liabilities, 2023, respectively.

Securities. In the normal course of business we buy and sell securities. At September 30, 2023 March 31, 2024, there were \$24.9 million \$7.2 million unsettled trades to purchase securities and no \$6.4 million unsettled trades to sell securities. At December 31, 2022 December 31, 2023, there were no unsettled trades to purchase securities and no unsettled trades to sell securities.

Deposits. There were no unsettled issuances of brokered CDs at September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023.

Litigation. We are involved with various litigation in the normal course of business. Management, after consulting with our legal counsel, believes that any liability resulting from litigation will not have a material effect on our financial position, results of operations or liquidity.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our consolidated financial condition, changes in our financial condition and results of our operations, and should be read and reviewed in conjunction with the financial statements, and the notes thereto, in this Quarterly Report on Form 10-Q, our First Quarter and Second Quarter Reports on Form 10-Q and in our 2022 2023 Form 10-K. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A. of the 2022 2023 Form 10-K "Risk Factors" in Part II, Item 1A. of the First Quarter Form 10-Q and elsewhere in this Quarterly Report on Form 10-Q, may cause actual results to differ materially from the results discussed in the forward-looking statements appearing in this discussion and analysis.

Forward-Looking Statements

Certain statements of other than historical fact that are contained in this report 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," "might," "will," "would," "seek," "intend," "probability," "risk," "goal," "target," "objective," "plans," "potential," and similar expressions. Forward-looking statements are statements with respect to our beliefs, plans, expectations, objectives, goals, anticipations, assumptions, estimates, intentions and future performance and are subject to significant known and unknown risks and uncertainties, which could cause our actual results to differ materially from the results discussed in the forward-looking statements. For example, discussions of the effect of our expansion, benefits of the Share Repurchase Plan, trends in asset quality, capital, liquidity, our ability to sell nonperforming assets, expense reductions, planned operational efficiencies and earnings from growth and certain market risk disclosures, including the impact of interest rates, tax reform, inflation, the impacts related to or resulting from 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. Accordingly, our results could materially differ from those that have been estimated. The most significant factor that could cause future results to differ materially from those anticipated by our forward-looking statements include the ongoing impact of higher inflation levels, higher interest rates and general economic and recessionary concerns, all of which could impact economic growth and could cause a reduction in financial transactions and business activities, including decreased deposits and reduced loan originations, our ability to manage liquidity in a rapidly changing and unpredictable market, supply chain disruptions, labor shortages and additional changes in interest rate increases rates by the Federal Reserve. Other factors that could cause actual results to differ materially from those indicated by forward-looking statements include, but are not limited to, the following:

- general (i) political conditions, including, without limitation, governmental action and uncertainty resulting from U.S. and global political trends and (ii) economic conditions, either globally, nationally, in the State of Texas, or in the specific markets in which we operate, including, without limitation, the deterioration of the commercial real estate, residential real estate, construction and development, energy, oil and gas, credit or liquidity markets, which could cause an adverse change in our net interest margin, or a decline in the value of our assets, which could result in realized losses, as well as the risk of an economic slowdown or recession;
- inflation and fluctuations in interest rates that reduce our margins and yields, the fair value of financial instruments, the level of loan originations or prepayments on loans we have made and make, and the cost we pay to retain and attract deposits and secure other types of funding;
- current or future legislation, regulatory changes or changes in monetary or fiscal policy that adversely affect the businesses in which we or our customers or our borrowers are engaged, including the impact of the Dodd-Frank Act, the Federal Reserve's actions to increase interest rates, the capital requirements promulgated by the Basel Committee, the CARES Act, the Economic Aid Act and other regulatory responses to economic conditions;
- economic or other disruptions caused by acts of terrorism, war or other conflicts, including the Russia-Ukraine conflict, and Israeli-Hamas conflicts, natural disasters, such as hurricanes, freezes, flooding and other man-made disasters, such as oil spills or power outages, health emergencies, epidemics or pandemics, climate changes or other catastrophic events;
- potential impacts of the recent adverse developments in the banking industry highlighted by high-profile bank failures, including impacts on customer confidence, deposit outflows, liquidity and the regulatory response thereto;
- technological changes, including potential cyber-security incidents and other disruptions, or innovations to the financial services industry, including as a result of the increased telework environment;

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- our ability to identify and address cyber-security risks such as data security breaches, malware, "denial of service" attacks, "hacking" and identity theft, which may be exacerbated by recent developments in generative artificial intelligence and which could disrupt our business and result in the disclosure of and/or misuse or misappropriation of confidential or proprietary information, disruption or damage of our systems, increased costs, significant losses, or adverse effects to our reputation;
- changes in the interest rate yield curve such as flat, inverted or steep yield curves, or changes in the interest rate environment that impact net interest margins and may impact prepayments on our MBS portfolio;
- the risk that our enterprise risk management framework, compliance program or our corporate governance and supervisory oversight functions may not identify or address risks adequately, which may result in unexpected losses;
- the effect of compliance with legislation or regulatory changes;
- credit risks of borrowers, including any increase in those risks due to changing economic conditions;
- increases in our nonperforming assets;
- risks related to environmental liability as a result of certain lending activity;
- our ability to maintain adequate liquidity to fund operations and growth;
- our ability to monitor control interest rate risk;

- any applicable regulatory limits or other restrictions on the Bank and its ability to pay dividends to us;
- the failure of our assumptions underlying our allowance for credit losses and other estimates;
- the failure to maintain an effective system of controls and procedures, including internal control over financial reporting;
- the effectiveness of our derivative financial instruments and hedging activities to manage risk;
- unexpected outcomes of, and the costs associated with, existing or new litigation involving us;
- potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation, regulatory proceedings and enforcement actions;
- changes impacting our balance sheet and leverage strategy;
- risks related to actual mortgage prepayments diverging from projections;
- risks related to fluctuations in the price per barrel of crude oil;
- significant increases in competition in the banking and financial services industry;
- changes in consumer spending, borrowing and saving habits, including as a result of rising inflation and recessionary concerns;
- execution of future acquisitions, reorganization or disposition transactions, including the risk that the anticipated benefits of such transactions are not realized;
- our ability to increase market share and control expenses;
- our ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by our customers;
- the effect of changes in federal or state tax laws;
- the effect of changes in accounting policies and practices;
- adverse changes in the status or financial condition of the GSEs which impact the GSEs' guarantees or ability to pay or issue debt;
- adverse changes in the credit portfolios of other U.S. financial institutions relative to the performance of certain of our investment securities;
- risks related to actual U.S. agency MBS prepayments exceeding projected prepayment levels;
- risks related to U.S. agency MBS prepayments increasing due to U.S. government programs designed to assist homeowners to refinance their mortgage that might not otherwise have qualified;
- risks related to loans secured by real estate, including the risk that the value and marketability of collateral could decline;
- risks associated with our common stock and our other securities, including fluctuations in our stock price and general volatility in the stock market; and
- other risks and uncertainties discussed in "Part I – Item 1A. Risk Factors" in the **2022** **2023** Form 10-K and "Part II – Item 1A. Risk Factors" in the First Quarter Form 10-Q **10-K**.

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All written or oral forward-looking statements made by us or attributable to us are expressly qualified by this cautionary notice. We disclaim 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, unless otherwise required by law.

Critical Accounting Estimates

Our accounting and reporting estimates conform with U.S. GAAP and general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We consider accounting estimates that can (1) be replaced by other reasonable estimates and/or (2) changes to an estimate from period to period that have a material impact on the presentation of our financial condition, changes in financial condition or results of operations as well as (3) those estimates that require significant and complex assumptions about matters that are highly uncertain to be critical accounting estimates. We consider our critical accounting **policies** **estimates** to include allowance for credit losses on loans and off-balance-sheet credit exposure.

Critical accounting estimates include a high degree of uncertainty in the underlying assumptions. Management bases its estimates on historical experience, current information and other factors deemed relevant. The development, selection and disclosure of our critical accounting estimates are reviewed with the Audit Committee of the Company's Board of Directors. Actual results could differ from these estimates. For additional information regarding critical accounting policies, refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Allowance for Credit Losses – Loans and Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures," "Note 1 – Summary of Significant Accounting and Reporting Policies," "Note 5 – Loans and Allowance for Loan Losses" and "Note 17 – Off-Balance-Sheet Arrangements, Commitments and Contingencies" in the **2022** **2023** Form 10-K. As of **September 30, 2023** **March 31, 2024**, there have been no significant changes to our critical accounting estimates.

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Non-GAAP Financial Measures

Certain non-GAAP measures are used by management to supplement the evaluation of our performance. These include the following fully taxable-equivalent measures: Net interest income (FTE), net interest margin (FTE) and net interest spread (FTE), which include the effects of taxable-equivalent adjustments using a federal income tax rate of 21% to increase tax-exempt interest income to a tax-equivalent basis. Interest income earned on certain assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments.

Net interest income (FTE), net interest margin (FTE) and net interest spread (FTE). Net interest income (FTE) is a non-GAAP measure that adjusts for the tax-favored status of net interest income from certain loans and investments and is not permitted under GAAP in the consolidated statements of income. We believe this measure to be the preferred industry measurement of net interest income, and that it enhances comparability of net interest income arising from taxable and tax-exempt sources. The most directly comparable financial measure calculated in accordance with GAAP is our net interest income. Net interest margin (FTE) is the ratio of net interest income (FTE) to average earning assets. The most directly comparable financial measure calculated in accordance with GAAP is our net interest margin. Net interest spread (FTE) is the difference in the average yield on average earning assets on a tax-equivalent basis and the average rate paid on average interest bearing liabilities. The most directly comparable financial measure calculated in accordance with GAAP is our net interest spread.

These non-GAAP financial measures should not be considered alternatives to GAAP-basis financial statements and other bank holding companies may define or calculate these non-GAAP measures or similar measures differently. Whenever we present a non-GAAP financial measure in an SEC filing, we are also required to present the most directly comparable financial measure calculated and presented in accordance with GAAP and reconcile the differences between the non-GAAP financial measure and such comparable GAAP measure.

In the following table we present the reconciliation of net interest income to net interest income adjusted to a fully taxable-equivalent basis assuming a 21% marginal tax rate for interest earned on tax-exempt assets such as municipal loans and investment securities (dollars in thousands), along with the calculation of net interest margin (FTE) and net interest spread (FTE).

Non-GAAP Reconciliations		Non-GAAP Reconciliations		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		
Non-GAAP Reconciliations							
Non-GAAP Reconciliations							
		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
		2024		2024		2024	
Net interest income (GAAP)							
Net interest income (GAAP)							
Net interest income (GAAP)	Net interest income (GAAP)	\$ 53,273	\$ 55,515	\$ 160,542	\$ 155,499		
Tax equivalent adjustments:	Tax equivalent adjustments:						
Tax equivalent adjustments:							
Tax equivalent adjustments:							
Loans	Loans	674	742	2,044	2,249		
Loans	Loans						
Tax-exempt investment securities	Tax-exempt investment securities	2,474	2,973	7,486	8,431		
Tax-exempt investment securities							
Tax-exempt investment securities							
Net interest income (FTE) ⁽¹⁾	Net interest income (FTE) ⁽¹⁾						
Net interest income (FTE) ⁽¹⁾	Net interest income (FTE) ⁽¹⁾						
Net interest income (FTE) ⁽¹⁾	Net interest income (FTE) ⁽¹⁾	\$ 56,421	\$ 59,230	\$ 170,072	\$ 166,179		

Average earning assets	Average earning assets	\$ 7,418,157	\$ 6,999,525	\$ 7,269,326	\$ 6,742,985	
Average earning assets						
Average earning assets						
Net interest margin	Net interest margin	2.85 %	3.15 %	2.95 %	3.08 %	
Net interest margin						
Net interest margin						
Net interest margin (FTE) ⁽¹⁾	Net interest margin (FTE) ⁽¹⁾	3.02 %	3.36 %	3.13 %	3.29 %	
Net interest margin (FTE) ⁽¹⁾	Net interest margin (FTE) ⁽¹⁾	2.14 %	2.87 %	2.31 %	2.90 %	
Net interest spread						
Net interest spread						
Net interest spread	Net interest spread	2.31 %	3.08 %	2.48 %	3.11 %	
Net interest spread (FTE) ⁽¹⁾	Net interest spread (FTE) ⁽¹⁾	36.2% 36.5% of total deposits as of September 30, 2023 March 31, 2024. When excluding affiliate deposits (Southside-owned deposits) and public fund deposits (all collateralized), our total estimated deposits without insurance or collateral was 19.4% 18.5% of total deposits as of September 30, 2023 March 31, 2024.				
Net interest spread (FTE) ⁽¹⁾	Net interest spread (FTE) ⁽¹⁾					

(1) These amounts are presented on a fully taxable-equivalent basis and are non-GAAP measures.

Management believes adjusting net interest income, net interest margin and net interest spread to a fully taxable-equivalent basis is a standard practice in the banking industry as these measures provide useful information to make peer comparisons. Tax-equivalent adjustments are reported in the respective earning asset categories as listed in the "Average Balances with Average Yields and Rates" tables under Results of Operations.

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OVERVIEW

ECONOMIC CONDITIONS

The economic conditions and growth prospects for our markets, even against the headwinds of inflation, continued higher interest rates and potential recessionary concerns, continue to reflect a solid and positive overall outlook. Worker shortages, supply chain disruptions, Ongoing elevated inflation levels and continued higher interest rates and inflationary conditions have had some impact on the level of economic growth in our market areas. Ongoing higher inflation and interest rates could have a negative impact on both our consumer and commercial borrowers. Currently, the Texas markets we serve continue to remain healthy due to both job and population growth.

DEPOSITS

Our deposits increased \$151.6 million were \$6.55 billion at March 31, 2024, a slight decrease of \$3.9 million, or 2.4% 0.1%, to \$6.35 billion at September 30, 2023 from \$6.20 billion at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, we had 181,094 179,889 total deposit accounts with an average balance of \$31,000, \$32,000. Our estimated uninsured deposits was 36.2% 36.5% of total deposits as of September 30, 2023 March 31, 2024. When excluding affiliate deposits (Southside-owned deposits) and public fund deposits (all collateralized), our total estimated deposits without insurance or collateral was 19.4% 18.5% of total deposits as of September 30, 2023 March 31, 2024.

We continued to increase interest rates paid on deposits during the quarter in order to retain deposits. Our noninterest bearing deposits represent approximately 23% 20.8% of total deposits. During the three months ended September 30, 2023 March 31, 2024, our cost of interest bearing deposits increased 188 115 basis points from 0.70% 1.82% for the three months ended September 30, 2022 March 31, 2023 to 2.58% 2.97%. Our cost of total deposits for the third first quarter of 2023 2024 increased 147 102 basis points from 0.51% 1.34% for the three months ended September 30, 2022 March 31, 2023 to 1.98%.

Our cost of interest bearing deposits increased 169 basis points, from 0.47% for the nine months ended September 30, 2022, to 2.16% for the nine months ended September 30, 2023. Our cost of total deposits increased 128 basis points, from 0.34% for the nine months ended September 30, 2022, to 1.62% for the nine months ended September 30, 2023 2.36%.

CAPITAL RESOURCES AND LIQUIDITY

Our capital ratios and contingent liquidity sources remain solid. We utilized the Federal Reserve's Bank Term Funding Program BTFP to reduce our overall funding costs and to enhance our interest rate risk position. On March 11, 2024, the Federal Reserve stopped extending new BTFP advances. As of September 30, 2023 March 31, 2024, our BTFP borrowings of \$291.3 million were totaled \$116.1 million at a cost of 4.46% 5.40%, compared to \$117.7 million at a cost of 4.37% at December 31, 2023.

The table below shows our total lines of credit, current borrowings, as of September 30, 2023, total amounts available for future borrowings, liquidity, and swapped value as of March 31, 2024 (in thousands):

March 31, 2024	March 31, 2024
----------------	----------------

	Line of Credit		Line of Credit	Borrowings	Total Available for Future Liquidity	Swapped
	September 30, 2023					
		Total Available for Future				
		Line of Credit	Borrowings	Liquidity		Swapped
FHLB advances						
FHLB advances						
FHLB advances	FHLB advances	\$ 1,924,617	\$ 212,829	\$ 1,711,788	\$ 210,000	
Federal Reserve discount window	Federal Reserve discount window	636,863	—	636,863	—	
Correspondent bank lines of credit	Correspondent bank lines of credit	62,500	—	62,500	—	
Federal Reserve Bank	Federal Reserve Bank					
Term Funding Program	Term Funding Program	291,273	291,267	6	—	
Total liquidity lines	Total liquidity lines	\$ 2,915,253	\$ 504,096	\$ 2,411,157	\$ 210,000	

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Operating Results

Net income decreased \$8.5 million \$4.5 million, or 31.5% 17.4%, to \$21.5 million for the three months ended September 30, 2023 March 31, 2024, to \$18.4 million compared to the same period in 2022 2023. The decrease in net income was primarily a result of the \$5.5 million increase in the provision for credit losses, the \$2.2 million \$2.3 million decrease in net interest noninterest income and the \$2.1 million \$2.0 million increase in noninterest expense, partially offset by the \$755,000 decrease in income tax expense and the \$567,000 increase in noninterest income expense. Earnings per diluted common share decreased \$0.24, \$0.12, or 28.6% 14.5%, to \$0.60 \$0.71 for the three months ended September 30, 2023 March 31, 2024, compared to \$0.84 \$0.83 for the three months ended September 30, 2022 March 31, 2023.

During the nine months ended September 30, 2023, our net income decreased \$8.0 million, or 10.3%, to \$69.4 million compared to \$77.4 million for the same period in 2022. The decrease in net income was primarily a result of the \$8.6 million increase in noninterest expense, the \$5.7 million increase in the provision for credit losses and the \$1.9 million increase in income tax expense, partially offset by the \$5.0 million increase in net interest income and the \$3.2 million increase in noninterest income. Earnings per diluted common share decreased \$0.15, or 6.3%, to \$2.24 for the nine months ended September 30, 2023, compared to \$2.39 for the same period in 2022.

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Financial Condition

Our total assets increased \$413.8 million \$68.9 million, or 5.5% 0.8%, to \$7.97 billion \$8.35 billion at September 30, 2023 March 31, 2024 from \$7.56 billion \$8.28 billion at December 31, 2022 December 31, 2023. Our securities portfolio increased by \$17.7 million \$108.8 million, or 0.7% 4.2%, to \$2.64 billion \$2.71 billion, compared to \$2.63 billion \$2.60 billion at December 31, 2022 December 31, 2023. The increase in the securities portfolio was due to purchases of three-month U.S. Treasury Bills and to a lesser extent, MBS, partially offset by a decrease in municipal bonds during the nine three months ended September 30, 2023 March 31, 2024. Our FHLB stock increased \$3.6 million \$16.0 million, or 39.0% 134.2%, to \$12.8 million \$28.0 million from \$9.2 million \$11.9 million at December 31, 2022 December 31, 2023, due to the increase in our FHLB borrowings during the nine three months ended September 30, 2023, increasing the amount of FHLB stock we are required to hold. March 31, 2024.

Loans at September 30, 2023 March 31, 2024 were \$4.42 billion \$4.58 billion, an increase of \$272.9 million \$52.9 million, or 6.6% 1.2%, compared December 31, 2022 to December 31, 2023, due to increases of \$160.8 million in construction loans, \$129.6 million \$244.9 million in commercial real estate loans and \$26.0 million \$23.8 million in 1-4 family residential loans. The increases were partially offset by decreases of \$26.2 million \$190.3 million in construction loans, \$13.9 million in municipal loans, \$8.8 million in commercial loans, \$8.7 million and \$2.7 million in loans to individuals and \$8.6 million in municipal loans. individuals. Loans held for sale increased \$0.7 million decreased \$10.1 million, or

107.2% 93.1%, to \$1.4 million \$756,000 at September 30, 2023 March 31, 2024 from \$667,000 \$10.9 million at December 31, 2022 December 31, 2023 due to the sale of a \$7.9 million commercial real estate loan relationship during the three months ended March 31, 2024.

Our nonperforming assets at September 30, 2023 decreased \$6.5 million March 31, 2024 increased \$4.0 million, or 59.7% 99.4%, to \$4.4 million \$8.0 million and represented 0.05% 0.10% of total assets, compared to \$10.9 million \$4.0 million, or 0.14% 0.05% of total assets, at December 31, 2022 December 31, 2023. Nonaccruing loans increased \$1.5 million \$3.8 million, or 51.7% 98.2%, to \$4.3 million \$7.7 million, and the ratio of nonaccruing loans to total loans was 0.10% 0.17% and 0.07% 0.09% for September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. There The increase in nonaccrual loans was a \$15,000 restructured primarily due to one commercial real estate loan at September 30, 2023 and one commercial loan relationship that were put on nonaccrual during the three months ended March 31, 2024. Restructured loans were \$151,000 as of March 31, 2024, compared to \$7.8 million \$13,000 at December 31, 2022 December 31, 2023. The decrease in restructured loans was due to the adoption of ASU 2022-22 on January 1, 2023, which allowed for the prospective exclusion of loan modifications that are performing, but would have previously required disclosure as troubled debt restructures in nonperforming assets. There were no reposessed assets at September 30, 2023 and \$74,000 at December 31, 2022 March 31, 2024 or December 31, 2023. There was \$50,000 \$119,000 and \$93,000 \$99,000 of OREO at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Our deposits increased \$151.6 million slightly decreased \$3.9 million, or 2.4% 0.1%, to \$6.35 billion with a balance of \$6.55 billion at September 30, 2023 from \$6.20 billion at December 31, 2022 March 31, 2024 and December 31, 2023, which consisted of an increase a decrease of \$391.8 million \$31.6 million in interest noninterest bearing deposits, partially offset by a decrease an increase of \$240.3 million in noninterest bearing deposits. The increase \$27.7 million in interest bearing deposits included an increase in our brokered deposits of \$130.4 million, or 19.8%, as the funding of our cash flow hedge swaps partially transitioned from FHLB advances to brokered deposits to obtain lower cost funding. Additionally, our public fund deposits increased \$160.3 million, or 17.7%, to \$1.07 billion at September 30, 2023 from \$907.7 million at December 31, 2022, deposits.

Total FHLB borrowings increased \$59.5 million \$99.8 million, or 38.8% 46.9%, to \$212.8 million \$312.5 million at September 30, 2023 March 31, 2024 from \$153.4 million \$212.6 million at December 31, 2022 December 31, 2023.

Other borrowings decreased \$52.1 million, or 10.2%, to \$457.7 million at March 31, 2024, from \$509.8 million at December 31, 2023, which was primarily due to a \$50.0 million decrease in borrowings from the FRDW.

Our total shareholders' equity at September 30, 2023 decreased 2.3% March 31, 2024 increased 1.9%, or \$17.4 million \$14.6 million, to \$728.6 million \$787.9 million, or 9.1% 9.4% of total assets, compared to \$746.0 million \$773.3 million, or 9.9% 9.3% of total assets, at December 31, 2022 December 31, 2023. The decrease increase in shareholders' equity was the result of the repurchase of \$40.9 million of our common stock, cash dividends paid of \$32.4 million and other comprehensive loss of \$17.5 million, partially offset by net income of \$69.4 million \$21.5 million, other comprehensive income of \$2.6 million, stock compensation expense of \$2.7 million, common stock issued under our dividend reinvestment plan of \$908,000 and \$756,000, net issuance of common stock under employee stock plans of \$424,000 \$350,000 and common stock issued under our dividend reinvestment plan of \$306,000, partially offset by cash dividends paid of \$10.9 million.

Key financial indicators management follows include, but are not limited to, numerous interest rate sensitivity and interest rate risk indicators, credit risk, operations risk, liquidity risk, capital risk, regulatory risk, inflation risk, competition risk, yield curve risk, U.S. agency MBS prepayment risk and economic risk indicators.

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Balance Sheet Strategy

Determining the appropriate size of the balance sheet is one of the critical decisions any bank makes. Our balance sheet is not merely the result of a series of micro-decisions, but rather the size is controlled based on the economics of assets compared to the economics of funding and funding sources. Changing interest rate environments and economic conditions require that we monitor the interest rate sensitivity of the assets, the funding driving our growth and closely align ALCO objectives accordingly.

Due to disruptions in the banking industry during the first quarter of 2023, we increased the balance of securities pledged as collateral at the FRDW in preparation for potential liquidity needs and utilized the BTFP as a source of wholesale funding to reduce interest cost and interest rate risk. We ended the third first quarter of 2023 2024 with approximately \$636.9 million \$251.9 million in available liquidity between from the FRDW, and the BTFP in addition to the approximately \$1.71 billion \$2.01 billion credit line available from FHLB due primarily to the blanket lien on our loan portfolio and to a lesser extent, securities available as collateral. At September 30, 2023 March 31, 2024, the estimated deposits, without insurance or collateral, to total deposits, excluding affiliate deposits (Southside-owned deposits) was 19.4% 18.5%, or \$1.23 billion \$1.21 billion.

During the nine three months ended September 30, 2023 March 31, 2024, we entered into \$350 million an additional \$50 million cash flow hedge swap while \$120 million of additional cash flow hedge swaps \$100 million matured. At March 31, 2024, FHLB advances of which were terminated in the second quarter. We also replaced \$60 million of \$310 million and brokered deposits of \$630 million were hedged with FHLB advances as the funding source for our \$940 million of cash flow hedge swaps, bringing this funding source to \$210 million. At September 30, 2023, brokered deposits funded \$550 million of our \$760 million remaining cash flow hedge swaps. As of September 30, 2023 March 31, 2024, a pre-tax unrealized gain of \$39.4 million \$24.2 million was recognized in other comprehensive income, and there was no ineffective portion of these hedges. We continue to evaluate the lowest cost funding sources for our cash flow swaps and will utilize either brokered deposits, FHLB advances or FRDW borrowings, or a combination of the three funding sources, sources in addition to utilizing cash flow hedges to mitigate the impacts of interest rate movements. At September 30, 2023 March 31, 2024, the majority of the securities portfolio was funded by non-maturity deposits, with some of which are included in wholesale funding accounting that accounts for approximately 47% 53% of the funding source, of which approximately 59% 64% is swapped at a fixed rate, providing protection from rising interest rates.

We utilize wholesale funding and securities to enhance overall profitability to determine the appropriate leverage of our capital, determining acceptable levels of credit, interest rate and liquidity risk consistent with prudent capital management. This balance sheet strategy currently consists of borrowing funds from the brokered market, FHLB and the Federal Reserve through the FRDW and BTFP. These funds are invested primarily in U.S. agency MBS and long-term municipal securities and to a lesser extent, U.S. Treasury Bills and corporate securities. Although U.S. agency MBS the securities purchased often carry lower yields than loans we make, these securities generally (i) increase the overall quality of our assets because of either the implicit or explicit guarantees of the U.S. Government, and the guarantees of the municipalities, (ii) are more liquid than individual loans and (iii) may be used to collateralize our borrowings or other obligations.

Risks associated with this asset structure include a potentially lower net interest rate spread and margin when compared to our peers, changes in the slope of the yield curve, increased interest rate risk, the length of interest rate cycles, changes in volatility or spreads associated with the MBS, municipal and corporate securities, the unpredictable nature

of MBS prepayments and credit risks associated with the municipal and corporate securities. See "Part I - Item 1A. Risk Factors – Risks Related to Our Business" in the **2022** **2023** Form 10-K for a discussion of risks related to interest rates. An additional risk is significant increases in interest rates, especially long-term interest rates, which could adversely impact the fair value of the AFS securities portfolio and could also impact our equity capital. Due to the unpredictable nature of MBS prepayments, the length of interest rate cycles and the slope of the interest rate yield curve, net interest income could fluctuate more than simulated under the scenarios modeled by our ALCO and described under "Item 3. Quantitative and Qualitative Disclosures about Market Risk" in this Quarterly Report on Form 10-Q.

Our securities portfolio increased **slightly** from **\$2.63 billion** **\$2.60 billion** at **December 31, 2022** **December 31, 2023** to **\$2.64 billion** **\$2.71 billion** at **September 30, 2023** **March 31, 2024**. The increase in the securities portfolio was due to securities purchased during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, which more than offset sales of securities and principal payments.

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, the composition of the securities portfolio continued to change as U.S. Treasury Bills and MBS increased while the remaining categories in the portfolio decreased. The increase in MBS was attributable to purchases of U.S. Agency MBS, partially offset by MBS sales and principal payments. During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, we purchased **\$888.5 million** **\$237.5 million** in short-term U.S. Treasury Bills **\$268.3 million** and **\$155.8 million** in MBS and **\$5.8 million** in investment grade subordinated corporate debt **MBS**. Sales during the **nine** **three** months ended **September 30, 2023**, **March 31, 2024** included **\$372.7 million** in U.S. Treasury Bills, **\$205.7 million** **\$7.3 million** in municipal securities and **\$174.7 million** in MBS to align the investment portfolio with the current balance sheet strategy. Sales of AFS securities for the three and nine months ended **September 30, 2023**, **March 31, 2024** resulted in a net realized gain of **\$11,000** and a net realized loss of **\$5.6 million**, respectively, which was partially offset by the sale of equity securities that resulted in a net gain of **\$5.1 million** for the nine months ended **September 30, 2023**.

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\$18,000.

At **September 30, 2023** **March 31, 2024**, securities as a percentage of assets totaled **33.2%** **32.5%**, compared to **34.7%** **31.4%** at **December 31, 2022** **December 31, 2023**, due primarily to a **\$413.8 million** **\$108.8 million**, or **5.5%** **4.2%**, increase in **the** **securities**, while cash and cash equivalents decreased to 5.62% of total **assets**, **assets** at **March 31, 2024**, compared to 6.77% at **December 31, 2023**. Our balance sheet management strategy is dynamic and is continually evaluated as market conditions warrant.

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During **the year ended** 2022, we entered into partial term fair value hedges for certain of our fixed rate callable AFS municipal securities. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to partially offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. As of **September 30, 2023** **March 31, 2024**, hedged securities with a carrying amount of **\$609.1 million** **\$449.4 million** are included in our AFS securities portfolio in our consolidated balance sheets representing approximately **46%** **32%** and **86%** **82%** of the AFS securities portfolio and the AFS municipal portfolio, respectively. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for us making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. As of **September 30, 2023**, a pre-tax unrealized gain of **\$42.2 million** was recognized in other comprehensive income, and there was no ineffective portion of these hedges.

With respect to funding sources, we primarily utilize deposits and to a lesser extent wholesale funding to achieve our strategy of minimizing cost while achieving overall interest rate risk objectives as well as the liability management objectives of the ALCO. Our primary wholesale funding sources are brokered deposits, FHLB and borrowings from the Federal Reserve through the FRDW and BTFP. Our FHLB borrowings increased **38.8%** **46.9%**, or **\$59.5 million** **\$99.8 million**, to **\$212.8 million** **\$312.5 million** at **September 30, 2023** **March 31, 2024** from **\$153.4 million** **\$212.6 million** at **December 31, 2022** **December 31, 2023**.

As of **September 30, 2023** **March 31, 2024**, our total wholesale funding as a percentage of deposits, not including brokered deposits, increased decreased to **23.3%** **25.3%** from **18.1%** **25.5%** at **December 31, 2022** **December 31, 2023**, and **19.2%** increased from **25.1%** at **September 30, 2022** **March 31, 2023**.

Our brokered deposits may consist of CDs and non-maturity deposits. Our We had **\$117.6 million** in brokered CDs decreased **\$109.3 million**, or **49.5%**, from **\$220.9 million** at **December 31, 2022** to **\$111.5 million** **March 31, 2024**. We had no brokered CDs at **September 30, 2023** **December 31, 2023**. At **September 30, 2023** **March 31, 2024**, our brokered CDs had a weighted average cost of **525** **533** basis points and remaining maturities of approximately **3** **three** months or less. Our brokered non-maturity deposits increased decreased to **\$678.1 million** **\$664.5 million** at **September 30, 2023** **March 31, 2024**, of which **\$550.0 million** **\$630.0 million** are related to our cash flow hedges, from **\$438.4 million** **\$828.0 million** at **December 31, 2022** **December 31, 2023**, with a weighted average cost of **301** **323** basis points and **126** basis points, respectively, for both periods. Our wholesale funding policy currently allows for maximum brokered deposits of **\$1.41 billion** the lesser of **\$1.20 billion**, with an additional **\$100 million** or **20%** of flexibility for deposits maturing within 30 days, total deposits. Potential higher interest expense and lack of customer loyalty are risks associated with the use of brokered deposits.

In connection with **\$760.0 million** **\$940.0 million** of our wholesale funds, the Bank has entered into various variable rate agreements and fixed or variable rate short-term pay agreements with an interest rate tied to overnight SOFR. In connection with **\$760.0 million** **\$940.0 million** and **\$575.0 million** **\$1.01 billion** of the agreements outstanding at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively, the Bank also entered into various interest rate swap contracts that are treated as cash flow hedges under ASC Topic 815, "Derivatives and Hedging" that are expected to be effective in hedging the variability in future cash flows attributable to fluctuations in the underlying SOFR interest rate. The interest rate swap contracts had an average interest rate of **2.13%** at **3.08%** with a remaining average weighted maturity of **2.4** **2.3** years at **September 30, 2023** **March 31, 2024**. Refer to "Note 11 – Derivative Financial Instruments and Hedging Activities" in our consolidated financial statements included in this report for a detailed description of our hedging policy and methodology related to derivative instruments.

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Results of Operations

Our results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on assets (loans and investments) and interest expense due on our funding sources (deposits and borrowings) during a particular period. Results of operations are also affected by our noninterest income, provision for credit losses, noninterest expenses and income tax expense. General economic and competitive conditions, particularly changes in interest rates, changes in interest rate yield curves, prepayment rates of MBS and loans, repricing of loan relationships, government policies and actions of regulatory authorities also significantly affect our results of operations. Future changes in applicable law, regulations or government policies may also have a material impact on us.

The following table presents net interest income for the periods presented (in thousands):

		Three Months Ended		Three Months Ended		Three Months Ended			
				September 30,					
				2023	2022			2023	2022
Interest income:	Interest income:								
Interest income:									
Interest income:									
Loans									
Loans	Loans	\$	64,110	\$	45,257	\$	177,570	\$	118,489
Taxable investment securities	Taxable investment securities		8,731		4,896		23,216		14,136
Taxable investment securities									
Taxable investment securities									
Tax-exempt investment securities									
Tax-exempt investment securities									
Tax-exempt investment securities	Tax-exempt investment securities		13,758		11,482		41,394		32,306
MBS	MBS		4,426		4,770		12,585		12,025
MBS									
MBS									
FHLB stock and equity investments									
FHLB stock and equity investments									
FHLB stock and equity investments	FHLB stock and equity investments		265		101		889		291
Other interest earning assets	Other interest earning assets		1,788		374		5,148		606
Other interest earning assets									
Other interest earning assets									
Total interest income									
Total interest income									
Total interest income	Total interest income		93,078		66,880		260,802		177,853
Interest expense:	Interest expense:								
Interest expense:									
Interest expense:									
Deposits									
Deposits	Deposits		30,951		7,887		72,536		15,388
FHLB borrowings	FHLB borrowings		1,174		1,078		5,347		1,668

FHLB borrowings					
FHLB borrowings					
Subordinated notes					
Subordinated notes					
Subordinated notes	Subordinated notes	962	1,004	2,955	3,002
Trust preferred subordinated debentures	Trust preferred subordinated debentures	1,178	669	3,309	1,496
Trust preferred subordinated debentures					
Trust preferred subordinated debentures					
Repurchase agreements					
Repurchase agreements					
Repurchase agreements	Repurchase agreements	1,048	54	2,423	82
Other borrowings	Other borrowings	4,492	673	13,690	718
Other borrowings					
Other borrowings					
Total interest expense					
Total interest expense					
Total interest expense	Total interest expense	39,805	11,365	100,260	22,354
Net interest income	Net interest income	\$ 53,273	\$ 55,515	\$ 160,542	\$ 155,499
Net interest income					
Net interest income					

Net Interest Income

Net interest income is one of the principal sources of a financial institution's earnings stream and represents the difference or spread between interest and fee income generated from interest earning assets and the interest expense paid on interest bearing liabilities. Fluctuations in interest rates or interest rate yield curves, as well as repricing characteristics and volume and changes in the mix of interest earning assets and interest bearing liabilities, materially impact net interest income. During the nine months year ended September 30, 2023 December 31, 2023, the Federal Reserve increased the target federal funds rate by 100 basis points to 550 basis points and 5.25% to 5.50%. During the three months ended March 31, 2024, the Federal Reserve held the rate steady but has indicated it anticipates may cut interest rates will remain higher for longer in 2024. The increase in the federal funds rate has increased resulted in a slight decrease in our net interest income. However, as if the federal funds rate remains elevated or increases further and the yield curve remains inverted, it may be less beneficial continue to negatively impact our net interest income.

Net interest income for the three months ended September 30, 2023 decreased \$2.2 million March 31, 2024, or 4.0%, declined slightly when compared to the same period in 2022, 2023. The decrease in net interest income for the three months ended September 30, 2023 March 31, 2024, was due to the increase in interest expense on our interest bearing liabilities exceeding the increase in interest income on our interest earning assets. The increase in interest expense was due to higher interest rates and an increase in the average balance of our interest bearing liabilities, partially offset by the increase in interest income, a result of the increase in the average yield and the average balance of interest earning assets. Total interest income increased \$26.2 million \$21.9 million, or 39.2% 27.1%, to \$93.1 million \$102.8 million for the three months ended September 30, 2023 March 31, 2024, compared to \$66.9 million \$80.8 million during the same period in 2022, 2023. Total interest expense increased \$28.4 million \$21.9 million, or 250.2% 79.7%, to \$39.8 million \$49.4 million for the three months ended September 30, 2023 March 31, 2024, compared to \$11.4 million \$27.5 million for the same period in 2022, 2023. Our net interest margin and net interest margin (FTE), a non-GAAP measure, decreased to 2.85% 2.72% and 3.02% 2.86%, respectively, for the three months ended September 30, 2023 March 31, 2024, compared to 3.15% 3.02% and 3.36% 3.21%, respectively, for the same period in 2022, 2023, and our net interest spread and net interest spread (FTE), also a non-GAAP measure, decreased to 2.14% 2.02% and 2.31% 2.16%, respectively, compared to 2.87% 2.44% and 3.08% 2.62%, respectively, for the same period in 2022.

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Net interest income was \$160.5 million for the nine months ended September 30, 2023, compared to \$155.5 million for the same period in 2022, an increase of \$5.0 million, or 3.2%. The increase in net interest income for the nine months ended September 30, 2023 was due to the increase in the average yield as well as the average balance of interest earning assets, partially offset by the increase in interest expense on our interest bearing liabilities due to the increase in interest rates and an increase in the average balance of our interest bearing liabilities. Total interest income increased \$82.9 million, or 46.6%, to \$260.8 million for the nine months ended September 30, 2023, compared to \$177.9 million for the same period in 2022. Total interest expense increased \$77.9 million, or 348.5%, to \$100.3 million for the nine months ended September 30, 2023, compared to \$22.4 million for the same period in 2022. Our net interest margin and net interest margin (FTE), a non-GAAP measure, decreased to 2.95% and 3.13%, respectively, for the nine months ended September 30, 2023, compared to 3.08% and 3.29%, respectively, for the same period in 2022, and our net interest spread and net interest spread (FTE), also a non-GAAP measure, decreased to 2.31% and 2.48%, respectively, compared to 2.90% and 3.11%, respectively, for the same period in 2022, 2023. See "Non-GAAP Financial Measures" for more information and for a reconciliation to GAAP.

Quarterly Analysis of Changes in Interest Income and Interest Expense

The following table presents on a fully taxable-equivalent basis, a non-GAAP measure, the net change in net interest income and sets forth the dollar amount of increase (decrease) in the average volume of interest earning assets and interest bearing liabilities and from changes in yields/rates. Volume/Yield/Rate variances (change in volume times change in yield/rate) have been allocated to amounts attributable to changes in volumes and to changes in yields/rates in proportion to the amounts directly attributable to those changes (in thousands). The comparison between the quarters includes an additional change factor that shows the effect of the difference in the number of days in each period for assets and liabilities that accrue interest based upon the actual number of days in the period, as further discussed below.

	Three Months Ended September 30, 2023			Three Months Ended March 31, 2024 Compared to 2023				
	Compared to 2022			Change Attributable to		Change Attributable to		
	Change		Total	Average Volume		Average Yield/Rate		Number of Days
Change Attributable to								
Fully Taxable-Equivalent Basis:	Fully Taxable-Equivalent Basis:	Average Volume	Average Yield/Rate	Fully Taxable-Equivalent Basis:	Average Volume	Average Yield/Rate	Number of Days	Change
Interest income on:	Interest income on:			Interest income on:				
Loans (1)	Loans (1)	\$ 4,712	\$ 14,054	\$ 18,766				
Loans held for sale	Loans held for sale	15	4	19				
Taxable investment securities	Taxable investment securities	2,578	1,257	3,835				
Tax-exempt investment securities (1)	Tax-exempt investment securities (1)	(2,177)	3,954	1,777				
Mortgage-backed and related securities	Mortgage-backed and related securities	(751)	407	(344)				
FHLB stock, at cost, and equity investments	FHLB stock, at cost, and equity investments	(7)	171	164				
Interest earning deposits	Interest earning deposits	174	256	430				
Federal funds sold	Federal funds sold	444	540	984				
Total earning assets	Total earning assets	4,988	20,643	25,631				
Interest expense on:	Interest expense on:			Interest expense on:				
Savings accounts	Savings accounts	(49)	1,026	977				
CDs	CDs	1,349	6,642	7,991				
Interest bearing demand accounts	Interest bearing demand accounts	46	14,050	14,096				

FHLB borrowings	FHLB borrowings	309	(213)	96
Subordinated notes, net of unamortized debt issuance costs	Subordinated notes, net of unamortized debt issuance costs	(49)	7	(42)
Trust preferred subordinated debentures, net of unamortized debt issuance costs	Trust preferred subordinated debentures, net of unamortized debt issuance costs	—	509	509
Repurchase agreements	Repurchase agreements	337	657	994
Other borrowings	Other borrowings	2,591	1,228	3,819
Total interest bearing liabilities	Total interest bearing liabilities	4,534	23,906	28,440
Net change	Net change	\$ 454	\$ (3,263)	\$ (2,809)

(1) Interest yields on loans and securities that are nontaxable for federal income tax purposes are presented on a fully taxable-equivalent basis. See "Non-GAAP Financial Measures" for more information and for a reconciliation to GAAP.

The increase in total interest income for the three months ended March 31, 2024, was primarily attributable to an increase in the average yield on interest earning assets to 5.15% 5.38% from 4.00% 4.76% for the same period in 2022, 2023, as well as an a \$720.5 million, or 10.1%, increase in the average balance of interest earning assets of \$418.6 million, or 6.0%, for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023. The increase in total interest expense for the three months ended September 30, 2023 March 31, 2024, was primarily attributable to the increase in interest rates on our interest bearing liabilities to 2.84% 3.22% from 0.92% 2.14% for the same period in 2022, 2023, and an increase in the average balance of our interest bearing liabilities of \$666.9 million \$969.8 million, or 13.6% 18.6%, for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023. The increase in average earning assets was primarily the result of the increase in loans, interest earning deposits and MBS, partially offset by the decrease in tax-exempt investment securities.

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The "Average Balances with Average Yields and Rates" table that follows shows average earning assets and interest bearing liabilities together with the average yield on the earning assets and the average rate of the interest bearing liabilities (dollars in thousands) for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023. The interest and related yields presented are on a fully taxable-equivalent basis and are therefore non-GAAP measures. See "Non-GAAP Financial Measures" for more information, and for a reconciliation to GAAP.

Average Balances with Average Yields and Rates (Annualized)							
(unaudited)							
Three Months Ended							
September 30, 2023				September 30, 2022			
Average Balance	Average Interest	Average Yield/Rate		Average Balance	Average Interest	Average Yield/Rate	
Average Balances with Average Yields and Rates (Annualized)							
(unaudited)							
Three Months Ended							
March 31, 2024							

											Average Balance			Average Balance			Interest	
ASSETS		ASSETS																
Loans (1)																		
Loans (1)																		
Loans (1)	Loans (1)	\$4,396,184	\$64,758	5.84 %	\$4,012,547	\$45,992	4.55 %	\$	4,559,602	\$	\$ 68,849	6.07	6.07	\$ 68,849	6.07	6.07		
Loans held for sale	Loans held for sale	1,537	26	6.71 %	606	7	4.58 %	Loans held for sale	8,834	18	18	18	18	0.82	0.82			
Securities:	Securities:																	
Taxable investment securities (2)																		
Taxable investment securities (2)																		
Taxable investment securities (2)	Taxable investment securities (2)	912,789	8,731	3.79 %	626,136	4,896	3.10 %		780,423	6,967	6,967	3.59	3					
Tax-exempt investment securities (2)	Tax-exempt investment securities (2)	1,510,044	16,232	4.26 %	1,750,952	14,455	3.28 %		1,285,922	13,168	13,168	4.12						
Mortgage-backed and related securities (2)	Mortgage-backed and related securities (2)	442,908	4,426	3.96 %	520,501	4,770	3.64 %		764,713	10,119	10,119	5.32						
Total securities	Total securities	2,865,741	29,389	4.07 %	2,897,589	24,121	3.30 %		2,831,058	30,254	30,254	4.30						
FHLB stock, at cost, and equity investments	FHLB stock, at cost, and equity investments	22,363	265	4.70 %	24,013	101	1.67 %	FHLB stock, at cost, and equity investments	40,063	333	333	3.34						
Interest earning deposits	Interest earning deposits	37,891	535	5.60 %	18,664	105	2.23 %	Interest earning deposits	380,181	5,202	5,202	5.50						
Federal funds sold	Federal funds sold	94,441	1,253	5.26 %	46,106	269	2.31 %	Federal funds sold	62,599	838	838	5.38						
Total earning assets	Total earning assets	7,418,157	96,226	5.15 %	6,999,525	70,595	4.00 %	Total earning assets	7,882,337	105,494	105,494	5.38						
Cash and due from banks	Cash and due from banks		106,348			102,840												
Accrued interest and other assets	Accrued interest and other assets		400,850			433,532												
Accrued interest and other assets																		
Accrued interest and other assets																		
Less: Allowance for loan losses																		
Less: Allowance for loan losses																		
Less: Allowance for loan losses	Less: Allowance for loan losses		(36,493)			(35,706)												
Total assets	Total assets	\$ 7,888,862			\$ 7,500,191													
Total assets																		
LIABILITIES AND SHAREHOLDERS' EQUITY																		
LIABILITIES AND SHAREHOLDERS' EQUITY																		
Savings accounts																		
Savings accounts																		
Savings accounts	Savings accounts	\$ 622,246	1,458	0.93 %	\$ 685,947	481	0.28 %	\$	604,529	1,424	1,424	0.95	0					
CDs	CDs	949,894	9,443	3.94 %	588,212	1,452	0.98 %	CDs	941,947	10,341	10,341	4.42						
Interest bearing demand accounts	Interest bearing demand accounts	3,189,048	20,050	2.49 %	3,164,961	5,954	0.75 %	Interest bearing demand accounts	3,634,936	26,433	26,433	2.92						
Total interest bearing deposits	Total interest bearing deposits	4,761,188	30,951	2.58 %	4,439,120	7,887	0.70 %	Total interest bearing deposits	5,181,412	38,198	38,198	2.97						

FHLB borrowings	FHLB borrowings	230,184	1,174	2.02 %	173,838	1,078	2.46 %	FHLB borrowings	607,033	5,950	5,950	3.94
Subordinated notes, net of unamortized debt	Subordinated notes, net of unamortized debt							Subordinated notes, net of unamortized debt				
issuance costs	issuance costs	93,817	962	4.07 %	98,621	1,004	4.04 %	issuance costs	93,895	956	956	4.10
Trust preferred subordinated debentures, net of unamortized debt	Trust preferred subordinated debentures, net of unamortized debt							Trust preferred subordinated debentures, net of unamortized debt				
issuance costs	issuance costs	60,268	1,178	7.75 %	60,263	669	4.40 %	issuance costs	60,270	1,175	1,175	7.84
Repurchase agreements	Repurchase agreements	104,070	1,048	4.00 %	30,530	54	0.70 %	Repurchase agreements	92,177	967	967	4.22
Other borrowings	Other borrowings	317,913	4,492	5.61 %	98,174	673	2.72 %	Other borrowings	137,287	2,164	2,164	6.34
Total interest bearing liabilities	Total interest bearing liabilities	5,567,440	39,805	2.84 %	4,900,546	11,365	0.92 %	Total interest bearing liabilities	6,172,074	49,410	49,410	3.22
Noninterest bearing deposits	Noninterest bearing deposits	1,441,738			1,746,245							
Accrued expenses and other liabilities	Accrued expenses and other liabilities	109,490			101,881							
Accrued expenses and other liabilities	Accrued expenses and other liabilities											
Total liabilities	Total liabilities	7,118,668			6,748,672							
Shareholders' equity	Shareholders' equity	770,194			751,519							
Shareholders' equity	Shareholders' equity											
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity											
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$7,888,862			\$7,500,191							
Net interest income (FTE)	Net interest income (FTE)											
Net interest income (FTE)	Net interest income (FTE)											
Net interest margin (FTE)	Net interest margin (FTE)											
Net interest margin (FTE)	Net interest margin (FTE)											
Net interest margin (FTE)	Net interest margin (FTE)											
Net interest margin (FTE)	Net interest margin (FTE)											
Net interest spread (FTE)	Net interest spread (FTE)							Net interest spread				
Net interest spread (FTE)	Net interest spread (FTE)							Net interest spread (FTE)				

(1) Interest on loans includes net fees on loans that are not material in amount.

(2) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of **September 30, 2023** **March 31, 2024** and **2022**, loans totaling **\$4.3 million** **\$7.7 million** and **\$3.0 million** **\$3.2 million**, respectively were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

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Year-to-Date Analysis of Changes in Interest Income and Interest Expense

The following table presents on a fully taxable-equivalent basis, a non-GAAP measure, the net change in net interest income and sets forth the dollar amount of increase (decrease) in the average volume of interest earning assets and interest bearing liabilities and from changes in yields/rates. Volume/Yield/Rate variances (change in volume times change in

yield/rate) have been allocated to amounts attributable to changes in volumes and to changes in yields/rates in proportion to the amounts directly attributable to those changes (in thousands):

Fully Taxable-Equivalent Basis:	Nine Months Ended September 30, 2023 Compared to 2022					
	Change Attributable to			Total		
	Average Volume	Average Yield/Rate	Change			
Interest income on:						
Loans (1)	\$ 13,019	\$ 45,821	\$ 58,840			
Loans held for sale	19	17	36			
Taxable investment securities	5,469	3,611	9,080			
Tax-exempt investment securities (1)	(1,758)	9,901	8,143			
Mortgage-backed and related securities	(1,766)	2,326	560			
Federal Home Loan Bank stock, at cost, and equity investments	71	527	598			
Interest earning deposits	94	1,962	2,056			
Federal funds sold	962	1,524	2,486			
Total earning assets	16,110	65,689	81,799			
Interest expense on:						
Savings accounts	(40)	3,161	3,121			
CDs	1,994	16,597	18,591			
Interest bearing demand accounts	(546)	35,982	35,436			
FHLB borrowings	2,953	726	3,679			
Subordinated notes, net of unamortized debt issuance costs	(56)	9	(47)			
Trust preferred subordinated debentures, net of unamortized debt issuance costs	—	1,813	1,813			
Repurchase agreements	512	1,829	2,341			
Other borrowings	11,865	1,107	12,972			
Total interest bearing liabilities	16,682	61,224	77,906			
Net change	\$ (572)	\$ 4,465	\$ 3,893			

(1) Interest yields on loans and securities that are nontaxable for federal income tax purposes are presented on a fully taxable-equivalent basis. See "Non-GAAP Financial Measures" for more information and for a reconciliation to GAAP.

The increase in total interest income was attributable to the increase in the average yield on earning assets to 4.97% from 3.74% for the same period in 2022 as well as an increase in average earning assets of \$526.3 million, or 7.8%, for the nine months ended September 30, 2023, compared to the same period in 2022. The increase in total interest expense for the nine months ended September 30, 2023 was primarily attributable to the increase in interest rates on our interest bearing liabilities to 2.49% from 0.63% for the same period in 2022 and an increase in the average balance of our interest bearing liabilities of \$674.9 million, or 14.3%, when compared to the same period in 2022.

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The "Average Balances with Average Yields and Rates" table that follows shows average earning assets and interest bearing liabilities together with the average yield on the earning assets and the average rate of the interest bearing liabilities (dollars in thousands) for the nine months ended September 30, 2023 and 2022. The interest and related yields presented are on a fully taxable-equivalent basis and are therefore non-GAAP measures. See "Non-GAAP Financial Measures" for more information, and for a reconciliation to GAAP.

ASSETS	Average Balances with Average Yields and Rates (Annualized)					
	(unaudited)					
	Nine Months Ended					
	September 30, 2023		September 30, 2022		Average	
	Average Balance	Interest	Average Balance	Interest	Yield/Rate	
Loans (1)	\$ 4,241,676	\$ 179,545	5.66 %	\$ 3,855,844	\$ 120,705	4.19 %
Loans held for sale	1,620	69	5.69 %	1,102	33	4.00 %

Securities:						
Taxable investment securities (2)	843,846	23,216	3.68 %	629,413	14,136	3.00 %
Tax-exempt investment securities (2)	1,587,656	48,880	4.12 %	1,656,691	40,737	3.29 %
Mortgage-backed and related securities (2)	433,335	12,585	3.88 %	501,330	12,025	3.21 %
Total securities	2,864,837	84,681	3.95 %	2,787,434	66,898	3.21 %
FHLB stock, at cost, and equity investments	25,071	889	4.74 %	20,796	291	1.87 %
Interest earning deposits	60,623	2,310	5.09 %	46,972	254	0.72 %
Federal funds sold	75,499	2,838	5.03 %	30,837	352	1.53 %
Total earning assets	7,269,326	270,332	4.97 %	6,742,985	188,533	3.74 %
Cash and due from banks	105,885			103,390		
Accrued interest and other assets	406,160			492,173		
Less: Allowance for loan losses	(36,564)			(35,746)		
Total assets	\$ 7,744,807			\$ 7,302,802		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Savings accounts	\$ 645,415	4,201	0.87 %	\$ 669,632	1,080	0.22 %
CDs	845,851	21,215	3.35 %	556,728	2,624	0.63 %
Interest bearing demand accounts	3,005,449	47,120	2.10 %	3,146,350	11,684	0.50 %
Total interest bearing deposits	4,496,715	72,536	2.16 %	4,372,710	15,388	0.47 %
FHLB borrowings	281,260	5,347	2.54 %	117,724	1,668	1.89 %
Subordinated notes, net of unamortized debt issuance costs	96,753	2,955	4.08 %	98,587	3,002	4.07 %
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,266	3,309	7.34 %	60,262	1,496	3.32 %
Repurchase agreements	89,282	2,423	3.63 %	27,393	82	0.40 %
Other borrowings	362,684	13,690	5.05 %	35,421	718	2.71 %
Total interest bearing liabilities	5,386,960	100,260	2.49 %	4,712,097	22,354	0.63 %
Noninterest bearing deposits	1,506,431			1,697,779		
Accrued expenses and other liabilities	91,784			92,161		
Total liabilities	6,985,175			6,502,037		
Shareholders' equity	759,632			800,765		
Total liabilities and shareholders' equity	\$ 7,744,807			\$ 7,302,802		
Net interest income (FTE)	\$ 170,072			\$ 166,179		
Net interest margin (FTE)		3.13 %			3.29 %	
Net interest spread (FTE)		2.48 %			3.11 %	

(1) Interest on loans includes net fees on loans that are not material in amount.

(2) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: As of September 30, 2023 and 2022, loans totaling \$4.3 million and \$3.0 million, respectively, were on nonaccrual status. Our policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

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Noninterest Income

Noninterest income consists of revenue generated from a broad range of financial services and activities and other fee generating fee-generating services that we either provide or in which we participate.

The following table details the categories included in noninterest income (dollars in thousands):

	Three Months Ended		Change From	2023
	September 30,			
	2023	2022		2022
Three Months Ended				

		March 31,		Three Months Ended				
		Three Months Ended		March 31,		Change From		
				Change From				
		2024		2024		2024		
		2024		2024		2024		
Deposit services								
Deposit services								
Deposit services	Deposit services	\$ 6,479		\$ 6,241		\$ 238	3.8	%
Net gain (loss) on sale of securities	Net gain (loss) on sale of securities							
AFS	AFS	11		(99)		110	111.1	%
Net gain (loss) on sale of securities AFS								
Net gain (loss) on sale of securities AFS								
Net gain on sale of equity securities	Net gain on sale of equity securities	—		—		—	—	%
Gain on sale of loans		96		109		(13)	(11.9)	%
Net gain on sale of equity securities								
Net gain on sale of equity securities								
Gain (loss) on sale of loans								
Gain (loss) on sale of loans								
Gain (loss) on sale of loans								
Trust fees								
Trust fees								
Trust fees	Trust fees	1,522		1,407		115	8.2	%
BOLI	BOLI	790		720		70	9.7	%
BOLI								
BOLI								
Brokerage services								
Brokerage services								
Brokerage services	Brokerage services	760		701		59	8.4	%
Other noninterest income	Other noninterest income	1,178		1,190		(12)	(1.0)	%
Other noninterest income								
Other noninterest income								
Total noninterest income	Total noninterest income	\$ 10,836		\$ 10,269		\$ 567	5.5	%
Total noninterest income								
Total noninterest income								

		Nine Months Ended			2023			
		September 30,			2023		Change From	
					2023			
		\$ 19,192	\$ 19,365	\$ (173)	\$ (173)	\$ (173)	(0.9)%	(0.9)%
Deposit services								
Net gain (loss) on sale of securities AFS								
Net gain on sale of equity securities		5,058	—	5,058	—	5,058	100.0	%
Gain on sale of loans		385	495	(110)	(110)	(110)	(22.2)%	
Trust fees		4,479	4,421	58	58	58	1.3	%
BOLI		3,221	2,131	1,090	1,090	1,090	51.1	%
Brokerage services		2,361	2,608	(247)	(247)	(247)	(9.5)%	

Other noninterest income	4,227	4,890	(663)	(13.6)%
Total noninterest income	\$ 33,333	\$ 30,091	\$ 3,242	10.8 %

The 5.5% increase decrease in noninterest income for the three months ended September 30, 2023 March 31, 2024, when compared to the same period in 2022, 2023, was due to increases in deposit services income and trust fees and a net gain on sale of securities AFS. The 10.8% increase in noninterest income for the nine months ended September 30, 2023, when compared to the same period in 2022, was due to a \$2.4 million net gain on sale of equity securities and an increase during the three months ended March 31, 2023, as well as a decrease in BOLI income, a loss on sale of loans, and decreases in deposit services income and other noninterest income during the three months ended March 31, 2024. These decreases were partially offset by an increase a decrease in net loss on sale of securities AFS and a decrease an increase in other noninterest income, brokerage services income during the three months ended March 31, 2024.

During the three and nine months ended September 30, 2023 March 31, 2024, we sold MBS and municipal securities that resulted in a net gain on sale of AFS securities of \$11,000 and a net loss on sale of AFS securities of \$5.6 million, respectively. \$18,000.

During the nine three months ended September 30, 2023 March 31, 2023, we sold equity securities that resulted in a net gain of \$5.1 million \$2.4 million.

Gain The loss on sale of loans decreased for the three and nine months ended September 30, 2023, when compared to the same periods in 2022, due to a decrease in the volume of loans sold and a decrease in margins on loan sales as interest rates continued to increase in 2023.

Trust fees increased for the three months ended September 30, 2023 March 31, 2024, was due to a \$512,000 loss on the sale of a commercial real estate loan relationship during the first quarter of 2024.

The decrease in BOLI income for the three months ended March 31, 2024, when compared to the same period in 2022, due to an increase in accounts under management during the quarter.

The increase in BOLI income for the nine months ended September 30, 2023, when compared to the same period in 2022, 2023, was primarily due to a death benefit of \$951,000 realized in the first quarter of 2023 for a former covered officer.

Other noninterest Brokerage services income decreased increased for the nine three months ended September 30, 2023 March 31, 2024, when compared to the same period in 2022, 2023, due to an increase in assets under management.

Other noninterest income decreased for the three months ended March 31, 2024, when compared to the same period in 2023, primarily due to decreases in swap fee income, investment income, other recoveries and mortgage servicing fee merchant services income, partially offset by a gain recognized on the repurchase of \$5.0 million of our subordinated notes and an increase in equity investment mortgage servicing fee income.

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Noninterest Expense

We incur certain types of noninterest expenses associated with the operation of our various business activities. The following table details the categories included in noninterest expense (dollars in thousands):

		Three Months Ended		2023			
		September 30,		Change From			
		2023	2022			2022	
Salaries and employee benefits	Salaries and employee benefits	Three Months Ended	Three Months Ended	Three Months Ended	Change From	Change From	
		September 30,	March 31,	March 31,			
		2023	2022	2022			
		Change From	Change From	Change From			
		2024	2024	2024			
Salaries and employee benefits	Salaries and employee benefits	\$ 21,241	\$ 21,368	\$ (127)	(0.6)	%	
Salaries and employee benefits							
Net occupancy	Net occupancy	3,796	3,847	(51)	(1.3)	%	
Net occupancy							

Advertising, travel & entertainment	Advertising, travel & entertainment	1,062	789	273	34.6	%
Advertising, travel & entertainment						
Advertising, travel & entertainment						
ATM expense						
ATM expense						
ATM expense	ATM expense	358	317	41	12.9	%
Professional fees	Professional fees	1,472	1,412	60	4.2	%
Professional fees						
Professional fees						
Software and data processing						
Software and data processing						
Software and data processing	Software and data processing	2,432	1,736	696	40.1	%
Communications	Communications	359	497	(138)	(27.8)	%
Communications						
Communications						
FDIC insurance	FDIC insurance	902	485	417	86.0	%
FDIC insurance						
FDIC insurance						
Amortization of intangibles						
Amortization of intangibles						
Amortization of intangibles	Amortization of intangibles	407	550	(143)	(26.0)	%
Other noninterest expense	Other noninterest expense	3,524	2,463	1,061	43.1	%
Other noninterest expense						
Other noninterest expense						
Total noninterest expense	Total noninterest expense	\$ 35,553	\$ 33,464	\$ 2,089	6.2	%
Total noninterest expense						
Total noninterest expense						

		Nine Months Ended		2023	
		September 30,		Change From	
		2023	2022	2022	
Salaries and employee benefits		\$ 64,473	\$ 61,666	\$ 2,807	4.6 %
Net occupancy		11,220	11,157	63	0.6 %
Advertising, travel & entertainment		2,966	2,242	724	32.3 %
ATM expense		1,033	954	79	8.3 %
Professional fees		4,036	3,486	550	15.8 %
Software and data processing		6,751	5,106	1,645	32.2 %
Communications		1,034	1,509	(475)	(31.5)%
FDIC insurance		2,666	1,434	1,232	85.9 %
Amortization of intangibles		1,327	1,758	(431)	(24.5)%
Other noninterest expense		9,889	7,453	2,436	32.7 %
Total noninterest expense		\$ 105,395	\$ 96,765	\$ 8,630	8.9 %

The increase in noninterest expense for the three months ended **September 30, 2023** **March 31, 2024**, when compared to the same period in 2022, was due to increases in other noninterest expense, software and data processing expense, FDIC insurance and advertising, travel and entertainment. The increase in noninterest expense for the nine months ended **September 30, 2023**, when compared to the same period in 2022, **2023**, was due to increases in salaries and employee benefits, other noninterest expense, software and

data processing expense, FDIC insurance **advertising, travel and entertainment, other noninterest expense**, partially offset by decreases in net occupancy expense and professional fees.

Salaries and employee benefits **expense increased for** during the **nine three** months ended **September 30, 2023** **March 31, 2024**, compared to the same period in 2023, due to increases in direct salary expense and retirement expense, partially offset by a decrease in health insurance expense.

For the three months ended March 31, 2024, direct salary expense increased \$1.2 million, or 6.6%, when compared to the same period in 2022, due to an increase in direct salary expense, partially offset by a decrease in retirement expense.

For the nine months ended September 30, 2023, direct salary expense increased \$3.3 million, or 6.1%, when compared to the same period in 2022, 2023, primarily due to normal salary increases effective in the first quarter of 2023, 2024 and approximately \$618,000 associated with future cost reductions.

Retirement expense, included in salaries and employee benefits, **decreased \$448,000, increased \$173,000, or 17.9% 24.6%**, for the **nine three** months ended **September 30, 2023** **March 31, 2024**, when compared to the same period in 2022, 2023. This **decrease increase** was primarily due to **decreases increases** in our 401(k) matching expense, deferred compensation expense, split dollar expense and deferred compensation post-retirement benefits expense.

Advertising, travel **Health and entertainment** **life insurance expense, increased included** in salaries and employee benefits, decreased \$164,000, or 7.8%, for the three months ended **September 30, 2023** **March 31, 2024**, compared to the same period in 2023, primarily due to a decrease in health claims expense. We have a self-insured health plan which is supplemented with a stop loss policy.

Net occupancy expense decreased for the three months ended March 31, 2024, when compared to the same period in 2022, primarily 2023, due to **increases decreases** in media repairs, property insurance expense, depreciation and other advertising expense, travel related expenses and conference registration utilities expense.

Professional fees and **increased decreased** for the **nine three** months ended **September 30, 2023** **March 31, 2024**, when compared to the same period in 2022, primarily 2023, due to **increases** a decrease in travel related expenses, media consulting and other advertising expense, conference registrations fees and donations.

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ATM expense increased for the three months ended September 30, 2023, when compared to the same period in 2022, due primarily to an increase in ATM maintenance expense.

Professional fees increased for the nine months ended September 30, 2023, when compared to the same period in 2022, due to an increase in legal and consulting fees.

Software and data processing expense increased for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, when compared to the same **periods period** in 2022, 2023, due to new software contracts and increases in existing contract renewal costs.

Communications expense **decreased increased** for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, when compared to the same **periods period** in 2022, 2023, driven by **a decrease in phone and internet initial costs due related to a change in vendors**, project to improve network management efficiency.

FDIC insurance increased for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, when compared to the same **periods period** in 2022, 2023, due to an increase in the rate assessed by the FDIC and an increase in our assessment base resulting from an increase in our total assets.

Amortization of intangibles decreased for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, when compared to the same **periods period** in 2022, 2023, due primarily to a decrease in core deposit intangible amortization which is recognized on an accelerated method resulting in a decline in expense over the amortization period.

The **primary increase in other noninterest expense** for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, when compared to the same **periods period** in 2022, 2023, was **due to increases in non-service cost retirement printing and supplies expense, related to the Retirement Plan**. Several additional expenses increased during the **three trust expense, third-party deposit fee expense and nine months ended September 30, 2023, including advantage check card losses, a decrease in gains on other losses and computer supplies expense, real estate**.

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Income Taxes

Pre-tax income for the three **and nine** months ended **September 30, 2023** **March 31, 2024** was \$21.6 million and \$81.6 million \$26.1 million, respectively, a decrease of 30.0% and 6.9%, 14.5% compared to \$30.8 million and \$87.7 million \$30.6 million for the same **periods period** in 2022, 2023. We recorded income tax expense of \$3.1 million and \$12.2 million, \$4.6 million for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, respectively, compared to income tax expense of \$3.9 million and \$10.3 million \$4.5 million for the same **periods period** in 2022, 2023. The ETR as a percentage of pre-tax income was 14.5% and 15.0% 17.7% for the three **and nine** months ended **September 30, 2023** **March 31, 2024**, compared to an ETR as a percentage of pre-tax income of 12.6% and 11.8% 14.9% for the same **periods period** in 2022, 2023. The increase in the **income tax expense ETR** for the **nine three** months ended **September 30, 2023** **March 31, 2024** was primarily a result of a decrease in net tax-exempt income as a percentage of pre-tax income as compared to the same **periods period** in 2022, 2023. The increase in income tax expense is due to the higher ETR for the three months ended March 31, 2024 compared to the same period in 2023.

The ETR differs from the statutory rate of 21% primarily due to the effect of tax-exempt income from municipal loans and securities, as well as BOLI. The net deferred tax asset totaled \$41.2 \$29.9 million at September 30, 2023 as March 31, 2024, compared to \$34.7 \$30.4 million at December 31, 2022 December 31, 2023. The **increase** slight decrease in the net deferred tax asset is primarily the result of an increase in **unrealized losses** in the **AFS securities portfolio**, estimated fair value of the hedging derivatives.

See "Note 11 – Income Taxes" to our consolidated financial statements included in this report. No valuation allowance was recorded at **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**, as management believes it is more likely than not that all of the deferred tax asset items will be realized in future years.

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Composition of Loans

One of our main objectives is to seek attractive lending opportunities in Texas, primarily in the market areas in which we operate. Refer to "Part I – Item 1. Business – Market Area" in the **2022** **2023** Form 10-K for a discussion of our primary market area and the geographic concentration of our loan portfolio as of **December 31, 2022** **December 31, 2023**. There were no substantial changes in these concentrations during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**. The majority of our loan originations are made to borrowers who live in and/or conduct business in the market areas of Texas in which we operate or adjoin, with the exception of municipal loans, which are made primarily throughout the state of Texas. Municipal loans are made to municipalities, counties, school districts and colleges.

The following table sets forth loan totals by class as of the dates presented (dollars in thousands):

			Compared to			
			December 31, 2022	September 30, 2022		
			Change (%)	Change (%)		
			Compared to			
			Compared to			
			Compared to			
			December 31, 2023			
Real estate loans:			March 31, 2024		March 31, 2024	
Real estate loans:	Real estate loans:	Real estate loans:				
Real estate loans:	Real estate loans:	Real estate loans:				
Construction	Construction	Construction				
1-4 family residential	1-4 family residential	1-4 family residential	\$ 720,515	\$ 559,681	\$ 554,345	28.7 % 30.0 %
Commercial	Commercial	Commercial	2,117,306	1,987,707	1,901,921	6.5 % 11.3 %
Commercial loans	Commercial loans	Commercial loans	385,816	412,064	433,538	(6.4) % (11.0) %
Municipal loans	Municipal loans	Municipal loans	441,512	450,067	449,219	(1.9) % (1.7) %
Loans to individuals	Loans to individuals	Loans to individuals	65,992	74,653	77,780	(11.6) % (15.2) %
Total loans	Total loans	Total loans	\$ 4,420,633	\$ 4,147,691	\$ 4,063,495	6.6 % 8.8 %
						Total loans
			\$ 591,894	\$ 672,595	\$ 1,990,861	\$ 4,119,566
			\$ 4,524,510	\$ 4,388,182	\$ 438,566	\$ 4,119,566
			\$ 4,119,566	\$ 4,119,566	\$ 4,119,566	\$ 4,119,566

Our total loan portfolio increased **\$272.9 million** **\$52.9 million**, or **6.6%** **1.2%**, and **\$357.1 million** **\$424.7 million**, or **8.8%** **10.2%**, at **September 30, 2023** **March 31, 2024** compared to **December 31, 2022** **December 31, 2023** and **September 30, 2022** **March 31, 2023**, respectively, with net increases in all the total real estate loan categories, loans, partially offset by decreases in commercial loans, municipal loans and loans to individuals.

At **September 30, 2023** **March 31, 2024**, our real estate loans represented **79.8%** **81.6%** of our loan portfolio and were comprised of commercial real estate loans of **60.0%** **64.6%**, 1-4 family residential loans of **19.6%** **19.3%** and construction loans of **20.4%** **16.1%**. Commercial real estate loans primarily include loans collateralized by retail, commercial office buildings, multi-family residential buildings, medical facilities and offices, senior living, assisted living and skilled nursing facilities, warehouse facilities, hotels and churches. Our 1-4 family residential loans consist primarily of loans secured by first mortgages on owner occupied 1-4 family residences. Our construction loans are collateralized by property located primarily in or near the market areas we serve. A number of our construction loans will be owner occupied upon completion. Construction loans for non-owner occupied projects are financed, but these typically have cash flows from leases with tenants, secondary sources of repayment, and in some cases, additional collateral.

PCD Loans

We have purchased certain loans that as of the date of purchase have experienced more-than-insignificant deterioration in credit quality since origination. Management evaluates these loans against a probability threshold to determine if substantially all of the contractually required payments will be received. PCD loans are recorded at the purchase price plus an allowance for credit losses which becomes the PCD loan's initial amortized cost. The non-credit related discount or premium, the difference between the initial amortized cost and the par value, will be amortized into interest income over the life of the loan. Any further changes to the allowance for credit losses are recorded through provision expense. In accordance with the adoption of ASU 2016-13, management did not reassess whether PCI assets met the criteria of PCD assets and elected to not maintain pools of loans as of the date of adoption. All PCD loans are evaluated based upon product type within the underlying segment.

Nonperforming Assets

Nonperforming assets consist of delinquent loans 90 days or more past due, nonaccrual loans, OREO, repossessed assets and restructured loans. Nonaccrual loans are loans 90 days or more delinquent and collection in full of both the principal and interest is not expected. Additionally, some loans that are not delinquent or that are delinquent less than 90 days may be placed on nonaccrual status if it is probable that we will not receive contractual principal and interest payments in accordance with the terms of the respective loan agreements. When a loan is categorized as nonaccrual, the accrual of interest is discontinued and any accrued balance is reversed for financial statement purposes. OREO represents real estate taken in full or partial satisfaction of debts previously contracted. The dollar amount of OREO is based on a current evaluation of the OREO at the

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time it is recorded on our books, net of estimated selling costs. Updated valuations are obtained as needed and any additional impairments are recognized. Restructured loans represent loans that have been modified due to the borrower experiencing financial difficulty to provide interest rate reductions or below market interest rates, restructuring amortization schedules and other actions intended to minimize potential losses. Categorization of a loan as nonperforming is not in itself a reliable indicator of potential loan loss. Other factors, such as the value of collateral securing the loan and the financial condition of the borrower are considered in judgments as to potential loan loss.

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The following table sets forth nonperforming assets for the periods presented (dollars in thousands):

		Compared to				Compared to					
		December				September					
		31, 2023				December 31, 2022				30, 2023	
		September	September	30,	December	30,	September	Change (%)	Change (%)	March	March
		30, 2023	31, 2022	2023	2022	2022	30, 2022			31, 2024	31, 2023
Nonaccrual loans											
Nonaccrual loans	Nonaccrual loans	\$ 4,316	\$ 2,846	\$ 3,039			51.7 %	42.0 %	\$ 7,709	\$ 3,889	\$ 3,169
Accruing loans past due more than 90 days	Accruing loans past due more than 90 days	—	—	—			—	—			
Restructured loans (1)	Restructured loans (1)	15	7,849	8,481	(99.8)%	(99.8)%	151	13		13	—
OREO	OREO	50	93	162	(46.2)%	(69.1)%	119	99		99	—
Repossessed assets	Repossessed assets	—	74	35	(100.0)%	(100.0)%	—	—		—	11



(1) Pursuant to our adoption of ASU 2022-02, effective January 1, 2023, we prospectively discontinued the recognition and measurement guidance previously required on troubled debt restructures. As a result, "restructured" loans as of September 30, 2023 exclude any loan modifications that are performing but would have previously required disclosure as troubled debt restructures.

We actively market all OREO properties and do not hold them for investment purposes.

Allowance for Credit Losses – Loans

In accordance with ASC 326, the allowance for credit losses on loans is estimated and recognized upon origination of the loan based on expected credit losses. The CECL model uses historical experience and current conditions for homogeneous pools of loans, and reasonable and supportable forecasts about future events. The impact of varying economic conditions and portfolio stress factors are a component of the credit loss models applied to each portfolio. Reserve factors are specific to the loan segments that share similar risk characteristics based on the probability of default assumptions and loss given default assumptions, over the contractual term. The forecasted periods gradually mean-revert the economic inputs to their long-run historical trends. Management evaluates the economic data points used in the Moody's forecasting scenarios on a quarterly basis to determine the most appropriate impact to the various portfolio characteristics based on management's view and applies weighting to various forecasting scenarios as deemed appropriate based on known and expected economic activities. Management also considers and may apply relevant qualitative factors, not previously considered, to determine the appropriate allowance level. The use of the CECL model includes significant judgment by management and may differ from those of our

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peers due to different historical loss patterns, economic forecasts, and the length of time of the reasonable and supportable forecast period and reversion period.

We utilize Moody's Analytics economic forecast scenarios and assign probability weighting to those scenarios which best reflect management's views on the economic forecast. The probability weighting and scenarios utilized for the estimate of the allowance were generally reflective of continued increased economic and repricing uncertainty related to prolonged inflation, higher interest rates and recessionary concerns, as based on known and knowable information forecasted in our CECL model as of September 30, 2023 March 31, 2024.

When determining the appropriate allowance for credit losses on our loan portfolio, our commercial construction and real estate loans, commercial loans and municipal loans utilize the probability of default/loss given default discounted cash flow approach. Reserves on these loans are based upon risk factors including the loan type and structure, collateral type, leverage ratio,

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refinancing risk and origination quality, among others. Our consumer construction real estate loans, 1-4 family residential loans and our loans to individuals use a loss rate based upon risk factors including loan types, origination year and credit scores.

Loans evaluated collectively in a pool are monitored to ensure they continue to exhibit similar risk characteristics with other loans in the pool. If a loan does not share similar risk characteristics with other loans, expected credit losses for that loan are evaluated individually.

As of September 30, 2023 March 31, 2024, our review of the loan portfolio indicated that an allowance for loan losses of \$41.8 million \$43.6 million was appropriate to cover expected losses in the portfolio. Changes in economic and other conditions, including the application of the CECL model rising interest rates and heightened inflation, may require future adjustments to the allowance for loan losses.

During the nine three months ended September 30, 2023 March 31, 2024, the allowance for loan losses increased \$5.3 million \$883,000, or 2.1%, to \$43.6 million, or 14.4%, 0.95% of total loans, when compared to \$41.8 million \$42.7 million, or 0.94% of total loans when compared to \$36.5 million, or 0.88% of total loans at December 31, 2022 December 31, 2023.

For the three and nine months ended September 30, 2023 March 31, 2024, loan charge-offs were \$1.3 million and \$2.6 million, respectively, \$634,000, and recoveries were \$378,000 and \$1.2 million, respectively, \$347,000. For the three and nine months ended September 30, 2022 March 31, 2023, loan charge-offs were \$686,000 and \$1.7 million, respectively, \$633,000, and recoveries were \$449,000 and \$1.5 million, respectively. For the three and nine months ended September 30, 2023, we \$362,000. We recorded a provision for credit losses for loans of \$6.3 million \$1.2 million and \$6.7 million, respectively. For the \$88,000 for three and nine months ended September 30, 2022, we recorded a provision for credit losses for loans of \$1.3 million March 31, 2024 and \$1.4 million, 2023, respectively.

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures

Allowance for off-balance-sheet credit exposures were as follows (in thousands):

		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended September 30,	Nine Months Ended September 30,
		2024	2024	2024		
Balance at beginning of period						
		2023	2022		2023	2022
Balance at beginning of period	Balance at beginning of period	\$ 3,207	\$ 1,891		\$ 3,687	\$ 2,384

Provision for (reversal of) off- balance-sheet credit exposures	Provision for (reversal of) off- balance-sheet credit exposures	646	200	166	(293)
Provision for (reversal of) off-balance-sheet credit exposures					
Provision for (reversal of) off-balance-sheet credit exposures					
Balance at end of period	Balance at end of period	\$ 3,853	\$ 2,091	\$ 3,853	\$ 2,091
Balance at end of period	Balance at end of period				

Our off-balance-sheet credit exposures include contractual commitments to extend credit and standby letters of credit. For these credit exposures we evaluate the expected credit losses using usage given defaults and credit conversion factors depending on the type of commitment and based upon historical usage rates. These assumptions are reevaluated on an annual basis and adjusted if necessary. For additional information regarding our methodology used to estimate the allowance for credit losses on off-balance-sheet credit exposures, see "Note 12 – Off-Balance-Sheet Arrangements, Commitments and Contingencies" to our consolidated financial statements included in this report.

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Capital Resources and Liquidity

Our total shareholders' equity at **September 30, 2023** decreased 2.3% **March 31, 2024** increased 1.9%, or **\$17.4 million** **\$14.6 million**, to **\$728.6 million** **\$787.9 million**, or **9.1%** **9.4%** of total assets, compared to **\$746.0 million** **\$773.3 million**, or **9.9%** **9.3%** of total assets, at **December 31, 2022** **December 31, 2023**. The decrease increase in shareholders' equity was the result of the repurchase of \$40.9 million of our common stock, cash dividends paid of \$32.4 million and other comprehensive loss of \$17.5 million, partially offset by net income of \$69.4 million \$21.5 million, other comprehensive income of \$2.6 million, stock compensation expense of \$2.7 million, common stock issued under our dividend reinvestment plan of \$908,000 and \$756,000, net issuance of common stock under employee stock plans of \$424,000 \$350,000 and common stock issued under our dividend reinvestment plan of \$306,000, partially offset by cash dividends paid of \$10.9 million.

The Company's Common Equity Tier 1 capital includes common stock and related paid-in capital, net of treasury stock, and retained earnings. The Bank's Common Equity Tier 1 capital includes common stock and related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1. We also elected, for a five-year transitional period, the effects of credit loss accounting under CECL from Common Equity Tier 1, as further discussed below. Common Equity Tier 1 for both the Company and the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities.

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital. For the Company, additional Tier 1 capital at **September 30, 2023** **March 31, 2024** included \$58.5 million of trust preferred securities. For bank holding companies that had assets of less than \$15 billion as of December 31, 2009, trust preferred securities issued prior to May 19, 2010 can be treated as Tier 1 capital to the extent that they do not exceed 25% of Tier 1 capital after the application of capital deductions and adjustments. The Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 at **September 30, 2023** **March 31, 2024**.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for both the Company and the Bank includes a permissible portion of the allowance for credit losses on loans and off-balance sheet exposures. Tier 2 capital for the Company also includes **\$93.8 million** **\$93.9 million** of qualified subordinated debt as of **September 30, 2023** **March 31, 2024**. The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

In April 2020, the FDIC, Federal Reserve, and the Office of the Comptroller of the Currency issued supplemental instructions allowing banking organizations that implement CECL before the end of 2020, the option to delay for two years an estimate of the CECL methodologies' effect on regulatory capital, relative to the incurred loss methodologies effect on capital, followed by a three-year transition period. We elected to adopt the five-year transition option. In accordance with CECL guidance, a CECL transitional amount totaling **\$4.1 million** **\$2.0 million** has been added back to CET1 as of **September 30, 2023** **March 31, 2024**, representing **50%** **25%** of the \$8.2 million transitional amount at **December 31, 2022** **December 31, 2023**.

Management believes that, as of **September 30, 2023** **March 31, 2024**, we met all capital adequacy requirements to which we were subject. It is management's intention to maintain our capital at a level acceptable to all regulatory authorities and future dividend payments will be determined accordingly. Regulatory authorities require that any dividend payments made by either us or the Bank not exceed earnings for that year. Accordingly, shareholders should not anticipate a continuation of the cash dividend payments simply because of the existence of a dividend reinvestment program. The payment of dividends will depend upon future earnings, our financial condition and other related factors including the discretion of the board of directors. Board.

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To be categorized as well capitalized we must maintain minimum Common Equity Tier 1 risk-based, Tier 1 risk-based, Total capital risk-based and Tier 1 leverage ratios as set forth in the following table (dollars in thousands):

		To Be Well Capitalized									
		For Capital Adequacy Purposes		Under Prompt Corrective Actions		Provisions					
September 30, 2023		Amount	Ratio	Amount	Ratio	Amount	Amount				
											For Capital Adequacy Purposes
March 31, 2024	Actual							March 31, 2024	Actual		
Common Equity Tier 1 (to Risk-Weighted Assets)	Common Equity Tier 1 (to Risk-Weighted Assets)							Common Equity Tier 1 (to Risk-Weighted Assets)			
Consolidated	Consolidated	\$686,806	12.27 %	\$251,949	4.50 %	N/A	N/A	Consolidated	\$700,566	12.43	12.43 %
Bank Only	Bank Only	\$825,559	14.75 %	\$251,932	4.50 %	\$363,901	6.50 %	Bank Only	\$843,989	14.98	14.98 %
Tier 1 Capital (to Risk-Weighted Assets)	Tier 1 Capital (to Risk-Weighted Assets)										
Consolidated	Consolidated	\$745,264	13.31 %	\$335,932	6.00 %	N/A	N/A		\$759,026	13.47	13.47 %
Bank Only	Bank Only	\$825,559	14.75 %	\$335,909	6.00 %	\$447,879	8.00 %	Bank Only	\$843,989	14.98	14.98 %
Total Capital (to Risk-Weighted Assets)	Total Capital (to Risk-Weighted Assets)										
Consolidated	Consolidated	\$879,571	15.71 %	\$447,909	8.00 %	N/A	N/A		\$896,741	15.92	15.92 %
Bank Only	Bank Only	\$866,028	15.47 %	\$447,879	8.00 %	\$559,848	10.00 %	Bank Only	\$887,791	15.76	15.76 %
Tier 1 Capital (to Average Assets) ⁽¹⁾	Tier 1 Capital (to Average Assets) ⁽¹⁾										
Tier 1 Capital (to Average Assets) ⁽¹⁾	Tier 1 Capital (to Average Assets) ⁽¹⁾										
Consolidated	Consolidated										

		Consolidated		Bank Only				Consolidated		Bank Only				Consolidated		Bank Only			
		Amount	Ratio	Amount	Ratio			Amount	Ratio	Amount	Ratio			Amount	Ratio	Amount	Ratio		
		December 31, 2023						December 31, 2023						December 31, 2023					
												</td							

Tier 1 Capital (to Average Assets) (1)

Consolidated

Consolidated

Consolidated	Consolidated	\$746,140	9.96 %	\$299,511	4.00 %	N/A	N/A	\$748,755	9.39	9.39 %	\$318,906	4.00	4.00 %	
Bank Only	Bank Only	\$823,323	11.00 %	\$299,410	4.00 %	\$374,263	5.00 %	Bank Only	\$836,228	10.49	10.49 %	\$318,814	4.00	4.00 %

(1) Refers to quarterly average assets as calculated in accordance with policies established by bank regulatory agencies.

As of **September 30, 2023** **March 31, 2024**, Southside Bancshares and Southside Bank met all capital adequacy requirements under the Basel III Capital Rules that became fully phased-in as of January 1, 2019. Refer to the Supervision and Regulation section in the **2022** **2023** Form 10-K for further discussion of our capital requirements.

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The table below summarizes our key equity ratios for the periods presented:

	Three Months Ended September 30,		Three Months Ended March 31,			
	2023	2022	2024	2023		
Return on average assets	Return on average assets	0.93 % 1.43 %	Return on average assets	1.03 %	1.38 %	
Return on shareholders' equity	Return on shareholders' equity	9.50 % 14.23 %	Return on average shareholders' equity	11.02 %	13.92 %	
Dividend payout ratio – Basic	Dividend payout ratio – Basic	58.33 % 40.48 %	Dividend payout ratio – Basic	50.70 %	42.17 %	
Dividend payout ratio – Diluted	Dividend payout ratio – Diluted	58.33 % 40.48 %	Dividend payout ratio – Diluted	50.70 %	42.17 %	
Average shareholders' equity to average total assets	Average shareholders' equity to average total assets	9.76 % 10.02 %	Average shareholders' equity to average total assets	9.35 %	9.94 %	
Nine Months Ended September 30,						
Return on average assets	1.20 % 1.42 %					
Return on average shareholders' equity	12.21 % 12.92 %					
Dividend payout ratio – Basic	46.67 % 42.50 %					
Dividend payout ratio – Diluted	46.88 % 42.68 %					
Average shareholders' equity to average total assets	9.81 % 10.97 %					

Management of Liquidity

Liquidity management involves our ability to convert assets to cash with minimum risk of loss while enabling us to meet our current and future obligations to our customers at any time. This means addressing (1) the immediate cash withdrawal requirements of depositors and other fund providers; (2) the funding requirements of lines and letters of credit; and (3) the short-term credit needs of customers. Liquidity is provided by cash, interest earning deposits and short-term investments that can be readily liquidated with a minimum risk of loss. At **September 30, 2023** **March 31, 2024**, these investments were **6.3%** **8.1%** of total assets, as compared with **2.4%** **8.9%** for **December 31, 2022** **December 31, 2023** and **2.6%** **7.5%** for **September 30, 2022** **March 31, 2023**. The **increase** **decrease** to **6.3%** **8.1%** at **September 30, 2023** **March 31, 2024** as compared to **December 31, 2022** and **September 30, 2022** **December 31, 2023**, is reflective of **increases** **a decrease** in the short-term investment portfolio and interest earning deposits and cash and due from banks, as well as an increase in total assets, partially offset by **the** **an** **increase** in **total assets**. **short-term investment portfolio**. Liquidity is further provided through the matching, by time period, of rate sensitive interest earning assets with rate sensitive interest bearing liabilities. The Bank has three unsecured lines of credit for the purchase of overnight federal funds at prevailing rates with Frost Bank, **Amegy Bank** and **TIB – The Independent Bankers Bank** and **Comerica Bank** for \$40.0 million, **\$15.0 million** \$25.0 million and **\$7.5 million** \$15.0 million, respectively. There were no federal funds purchased at **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**. To provide more liquidity in response to economic conditions in recent years, the Federal Reserve has encouraged broader use of the discount window. At **September 30, 2023** **March 31, 2024**, the amount of additional funding the Bank could obtain from the FRDW, collateralized by securities, was approximately **\$636.9 million** \$251.9 million. There were **no** \$250.0 million in borrowings from the FRDW at **September 30, 2023** **March 31, 2024**, and **\$188.0 million** \$300.0 million at **December 31, 2022** **December 31, 2023**. To provide more stability and to assure that banks have the ability to meet the needs of all of their depositors, the Federal Reserve created the BTFP in the first quarter of 2023. At **September 30, 2023** **On March 11, 2024**, the amount of additional funding the Bank could obtain from the Federal Reserve stopped extending new BTFP collateralized by securities, was approximately **\$6,000** advances. There were **\$291.3 million** \$116.1 million in borrowings from the BTFP at **September 30, 2023** **March 31, 2024**. At **September 30, 2023** **March 31, 2024**, the amount of additional funding the Bank could obtain from FHLB, collateralized by securities, FHLB stock and nonspecified loans and securities, was approximately **\$1.71 billion** \$2.01 billion, net of FHLB stock purchases required. The Bank has a \$5.0 million line of credit with Frost Bank to be used to issue letters of credit, and at **September 30, 2023** **March 31, 2024**, the line had one outstanding letter of credit for \$155,000. The Bank currently has no outstanding letters of credit from FHLB held as collateral for its public fund deposits.

Interest rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing interest rates. The ALCO closely monitors various liquidity ratios and interest rate spreads and margins. The ALCO utilizes a simulation model to perform interest rate simulation tests that apply various interest rate scenarios including immediate shocks and MVPE to assist in determining our overall interest rate risk and the adequacy of our liquidity position. In addition, the ALCO utilizes this simulation model to determine the impact on net interest income of various interest rate scenarios. By utilizing this technology, we can determine changes that need to be made to the asset and liability mix to minimize the change in net interest income under these various interest rate scenarios.

Management continually evaluates our liquidity position and currently believes the Company has adequate funding to meet our financial needs.

Expansion

On January 16, 2024, we opened a loan production office in Preston Center in Dallas.

Branch Closure

In January 2024, we announced our plan to close a traditional branch location in Jasper on May 3, 2024, due to close proximity to another Southside Bancshares, Inc. |61 branch.

In April 2024, we announced our plan to close a retail grocery store branch location in Kingwood on November 2, 2024.

Recent Accounting Pronouncements

See "Note 1 – Summary of Significant Accounting and Reporting Policies" in our consolidated financial statements included in this Quarterly Report on Form 10-Q.

Subsequent Events

Southside Bancshares, Inc. |56

Subsequent to September 30, 2023, and through October 24, 2023, we purchased 141,480 shares of common stock at an average price of \$28.56 pursuant to the Stock Repurchase Plan.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by the section captioned "Forward-Looking Statements" included in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report and other cautionary statements set forth elsewhere in this Quarterly Report on Form 10-Q.

Refer to the discussion of market risks included in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the **2022** **2023** Form 10-K.

In the banking industry, a major risk exposure is changing interest rates. The primary objective of monitoring our interest rate sensitivity, or risk, is to provide management the tools necessary to manage the balance sheet to minimize adverse changes in net interest income as a result of changes in the direction and level of interest rates. Federal Reserve monetary control efforts, the effects of deregulation, economic uncertainty and legislative changes have been significant factors affecting the task of managing interest rate sensitivity positions in recent years.

In an attempt to manage our exposure to changes in interest rates, management closely monitors our exposure to interest rate risk through our ALCO. Our ALCO meets regularly and reviews our interest rate risk position and makes recommendations to our board for adjusting this position. In addition, our board regularly reviews our asset/liability position. We primarily use two methods for measuring and analyzing interest rate risk: net income simulation analysis and MVPE modeling. We utilize the net income simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. This model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next 12 months. The model is used to measure the impact on net interest income relative to a base case scenario of rates immediately increasing 100 and 200 basis points or decreasing 50, 100 and 200 basis points over the next 12 months. These simulations incorporate assumptions

regarding balance sheet growth and mix, pricing and the repricing and maturity characteristics of the existing and projected balance sheet. The impact of interest rate-related risks such as prepayment, basis and option risk are also considered. The model has interest rate floors and no interest rates are assumed to go negative. We continue to monitor interest rates and anticipate additional rate increases changes during the remainder of 2023, 2024.

The following table reflects the noted increases and decreases in interest rates under the model simulations and the anticipated impact on net interest income relative to the base case over the next 12 months for the periods presented.

Anticipated impact over the next 12 months		September 30,			
Anticipated impact over the next 12 months				Anticipated impact over the next 12 months	
March 31,				March 31,	
Rate projections:	Rate projections:	2023	2022	Rate projections:	2024
Increase:	Increase:				
100 basis points					
100 basis points					
100 basis points	100 basis points	3.14 %	4.26 %	3.26 %	5.44 %
200 basis points	200 basis points	6.53 %	7.19 %	6.40 %	10.50 %
Decrease:	Decrease:				
Decrease:					
Decrease:					
50 basis points					
50 basis points					
50 basis points	50 basis points	(2.22)%	(2.13)%	(1.12) %	(3.17) %
100 basis points	100 basis points	(4.71)%	(4.54)%	100 basis points	(2.38) %
200 basis points	200 basis points	(9.60)%	(10.28)%	200 basis points	(4.88) %

As part of the overall assumptions, certain assets and liabilities are given reasonable floors. This type of simulation analysis requires numerous assumptions including but not limited to changes in balance sheet mix, prepayment rates on mortgage-related assets and fixed rate loans, cash flows and repricing of all financial instruments, changes in volumes and pricing, future shapes of the yield curve, relationship of market interest rates to each other (basis risk), credit spread and deposit sensitivity. Assumptions are based on management's best estimates but may not accurately reflect actual results under certain changes in interest rates.

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Economic conditions and growth prospects are currently impacted by record inflation, continued higher interest rates and potential recessionary concerns. Furthermore, worker shortages, supply chain disruptions and inflationary conditions, have had some impact on the level of economic growth in our market areas. Ongoing higher elevated inflation levels and higher interest rates could have a negative impact on the financial condition of both our consumer and commercial borrowers.

The ALCO monitors various liquidity ratios to ensure a satisfactory liquidity position for us. Management continually evaluates the condition of the economy, the pattern of market interest rates and other economic data to determine the types of investments that should be made and at what maturities. Using this analysis, management from time to time assumes calculated interest sensitivity gap positions to maximize net interest income based upon anticipated movements in the general level of

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interest rates. Regulatory authorities also monitor our gap position along with other liquidity ratios. In addition, as described above, we utilize a simulation model to determine the impact of net interest income under several different interest rate scenarios. By utilizing this model, we can determine changes that need to be made to the asset and liability mixes to mitigate the change in net interest income under these various interest rate scenarios.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), undertook an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report, and, based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report, in recording, processing, summarizing and reporting in a timely manner the information that the Company is required to disclose in its reports under the Exchange Act and in accumulating and communicating to the Company's management, including the Company's CEO and CFO, such information as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

No changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended **September 30, 2023** **March 31, 2024** that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to various litigation in the normal course of business. Management, after consulting with our legal counsel, believes that any liability resulting from litigation will not have a material effect on our financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed in the **First Quarter Form 10-Q and the 2022 2023 Form 10-K**.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On July 20, 2023, our board of directors approved a Stock Repurchase Plan authorizing the repurchase of up to 1.0 million shares of the Company's outstanding common stock. Repurchases may be carried out in open market purchases, privately negotiated transactions or pursuant to any trading plan that might be adopted in accordance with Rule 10b5-1 of the Exchange Act, as amended. The Company has no obligation to repurchase any shares under the Stock Repurchase Plan and may modify, suspend or discontinue the plan at any time.

The following table provides information with respect to purchases made by or on behalf of any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the three months ended **September 30, 2023** **March 31, 2024**:

Period	Total Number of Shares Purchased		Total Number of Shares Purchased as Part of Publicly Announced Plan		Maximum Number of Shares That May Yet Be Purchased Under the Stock Repurchase Plan at the End of the Period
	Purchased	Average Price Paid Per Share	Announced Plan	—	
July 1, 2023 - July 31, 2023	—	\$ —	—	—	1,000,000
August 1, 2023 - August 31, 2023	20,000	30.38	20,000	—	980,000
September 1, 2023 - September 30, 2023	192,388	29.29	192,388	—	787,612
Total	212,388	\$ 29.39	212,388	—	

Period	Total Number of Shares Purchased		Total Number of Shares Purchased as Part of Publicly Announced Plan		Maximum Number of Shares That May Yet Be Purchased Under the Stock Repurchase Plan at the End of the Period
	Shares Purchased	Average Price Paid Per Share	Per Share	Announced Plan	
January 1, 2024 - January 31, 2024	—	\$ —	—	—	641,032
February 1, 2024 - February 29, 2024	—	\$ —	—	—	641,032
March 1, 2024 - March 31, 2024	—	\$ —	—	—	641,032
Total	—	\$ —	—	—	641,032

Subsequent to September 30, 2023, and through October 24, 2023, we have not purchased any shares of common stock at an average price of \$28.56 pursuant to the Stock Repurchase Plan. Plan subsequent to March 31, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

Pursuant to Item 408(a) of Regulation S-K, none of our directors or executive officers adopted, terminated or modified a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the three months ended September 30, 2023 March 31, 2024.

Southside Bancshares, Inc. [\[64\]](#) [\[59\]](#)

ITEM 6. EXHIBITS

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Filed Herewith	Exhibit	Form	Filing Date	File No.
(3)	Articles of Incorporation and Bylaws					
3.1	Restated Certificate of Formation of Southside Bancshares, Inc.		3.1	8-K	05/14/2018	0-12247
3.2	Amended and Restated Bylaws of Southside Bancshares, Inc.		3.1	8-K	02/22/2018	0-12247
(31)	Rule 13a-14(a)/15d-14(a) Certifications					
31.1	Certification of Chief Executive Officer		X			
31.2	Certification of Chief Financial Officer		X			
(32)	Section 1350 Certification					
†32	Certification of Executive Officer and Chief Financial Officer		X			
(101)	Interactive Data File					
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.		X			
101.SCH	Inline XBRL Taxonomy Extension Schema Document.		X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.		X			

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).	X

† The certification attached as Exhibit 32 accompanies this Quarterly Report on Form 10-Q and is "furnished" to the Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by us for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHSIDE BANCSHARES, INC.

DATE: [October 27, 2023](#) [April 26, 2024](#)

BY: /s/ Lee R. Gibson

Lee R. Gibson, CPA
President and Chief Executive Officer
(Principal Executive Officer)

DATE: [October 27, 2023](#) [April 26, 2024](#)

BY: /s/ Julie N. Shamburger

Julie N. Shamburger, CPA
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 31.1

Certification of Chief Executive Officer

I, Lee R. Gibson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southside Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **October 27, 2023** April 26, 2024

By: /s/ LEE R. GIBSON

Lee R. Gibson, CPA

President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Julie N. Shamburger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southside Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2023 April 26, 2024

By: /s/ JULIE N. SHAMBURGER

Julie N. Shamburger, CPA
Chief Financial Officer

Exhibit 32

**Certification of Chief Executive and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the filing of the Quarterly Report on Form 10-Q for the period ended September 30, 2023 March 31, 2024 (the "Report") by Southside Bancshares, Inc. ("Registrant"), each of the undersigned hereby certifies that to his or her knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: October 27, 2023 April 26, 2024

By: /s/ LEE R. GIBSON

Lee R. Gibson, CPA
President and Chief Executive Officer

Date: October 27, 2023 April 26, 2024

By: /s/ JULIE N. SHAMBURGER

Julie N. Shamburger, CPA
Chief Financial Officer

DISCLAIMER

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