

**SOUTHSIDE BANCSHARES, INC.**

# **Annual Report**

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**2023**

**2023 ANNUAL REPORT**

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**LEE R. GIBSON**

# Letter From The CEO

Dear Fellow Shareholders,

2023 was an interesting year, to say the least. The news of closures of three high-profile U.S. banks, combined with a 100 basis point Federal funds rate hike by the Fed, mixed with global unrest and geopolitical tensions, certainly led way to roiling financial markets and ignited uncertainty for many across the nation. And while bank failures are not something new, the prominence of the few that occurred in 2023 certainly made headlines, which illuminated their own weaknesses and sparked concern and doubt on the national banking industry. Unfortunately, the success of the over 4,700 U.S. banks were overshadowed by the failure of three.

Despite the uneasy landscape, Southside ended the year with strong financial results and is well positioned for another great year in 2024. For over six decades, Southside has built upon its strong foundation of proven, conservative credit underwriting standards. These same practices, combined with our strong portfolio, have paved the way for continued success and resiliency, even during uncertain times. Over 80% of Southside's deposits are insured by FDIC and/or collateralized by the fair value of highly rated securities, which even further solidifies our strong position.

The following results would not be possible without our dedicated team members, whose talents and contributions continue to be the pathway to our success. I remain truly proud and grateful for their dedication, resiliency, and commitment to excellence each day.



## 2023 FINANCIAL RESULTS INCLUDED:

- Net income of \$86.7 million;
- Earnings per diluted common share of \$2.82;
- A 16.03% return on tangible common equity;
- A 9.1% increase in loans;
- Continued strong asset quality metrics; and
- An increase in the cash dividend per common share.

We all know the financial industry often faces moments of stability, followed by moments of uncertainty. As the saying goes, “The only constant is change,” and change is a concept that we expect, examine, and embrace. And regardless of the changes that come, our commitment to our core values, meeting the financial needs of our customers, and serving the humanistic needs of our communities remains unwavering.

## OUR CULTURE

Company culture remains a top priority for us, as well as all bank employees. Over the last few years, we have taken great steps and invested heavily in our team members' well-



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# ***“Happy to help” isn’t just a saying... it’s our way of showing that we really care about people.***

being – after all, they truly are our greatest asset. We believe the workplace should be one of camaraderie, support, and encouragement. We promote a “unified mindset” that focuses each day on 1) astounding others by how they are treated, 2) caring for and elevating others, 3) believing in yourself, and 4) always doing what is right.

In 2023, we published *The Blue Book: A Guide to Work Culture at Southside Bank*, which provides an objective outlook into the culture all team members have a responsibility of creating and sustaining. In addition, a culture training video was created and is shared with all new team members during the onboarding process. It is also readily accessible and viewed as a regular reminder for others.

We have taken great strides at investing in our team members through programs like our Corporate Mentorship Program, Core Leadership (a leadership academy for managers), and competitive benefits for all full-time team members. We offer multiple health and wellness initiatives and encourage volunteerism by providing 20 hours of Volunteer Paid Time Off (PTO) for team members to serve at non-profits in our communities.

Our commitment to our team members was recognized by American Banker as a Best Bank to Work For in 2023. American Banker along with the Best Companies Group, identified the top U.S. banks that excel at creating positive and supportive workplaces for employees. In the November 2023 publication, Southside was listed 24th out of 90 banks in the country and the number one bank in Texas. We are proud

of this recognition, but more so, proud of our team members for owning the mission of caring for customers, communities, and their fellow colleagues.

All of these efforts have led way to a united and unified team, which in turn, has enhanced the overall customer experience. We increased our average Google Review score by .5 star in 2023, and were also recognized as a “Texas Top Customer Service Reputation Award Winner” by Texas Bankers Association. A focus on internal work culture not only makes Southside a great place to work for our team members, but a great place to bank for our customers.

## **INNOVATION AND TECHNOLOGY**

Throughout 2023, Southside fulfilled its commitment to new and innovative ways to meet the needs of our customers while improving operational efficiencies. Our Innovation Department, which was established in 2021, has been successful at implementing two new systems to automate and streamline processes related to new accounts and loan origination.

Our new online account opening system was implemented in the fourth quarter of 2023 and was launched within our branches during the first quarter of 2024. New customers have enjoyed a smooth, swift, and seamless new account process. In addition, a loan origination platform has been implemented for customers to easily submit loan applications online and receive a quick answer resulting in faster turnaround times for the customer to receive their funds and for the Bank to process applications. The commercial platform will roll out in 2024.



## COMMUNITY INVOLVEMENT

Our investment in communities remains top of mind. Whether it's supporting local non-profits, schools, civic groups, or economic growth, our commitment to the people that live and work right here in Texas has never been stronger. We are truly proud of the Texas communities that we are a part of and continue to look for ways to support and build trust. After all, that's what being a "community bank" is all about...pride, ownership, and trust.

Throughout 2023, we focused heavily in supporting organizations, schools, and civic groups whose concentration was on meeting basic needs of people, providing financial literacy classes, and supporting the economic growth of communities. Team members proudly volunteered over 4,500 collective hours in service, and Southside was happy to invest over \$1.1 million back into our communities.

## OUR MARKETS

Over the last two decades, we have been strategic in the markets we have chosen to enter, all of which continue to thrive. In 2023, we created a path to open a loan production office in Dallas, further expanding our North Texas footprint. Dallas/Fort Worth has one of the top five fastest growing economies in the U.S. and is said to have the 20th largest economy in the world.

The Austin and Houston markets continue to see steady growth, and our regional leadership is making solid progress at growing relationships and capitalizing on new commercial lending opportunities, while continuing to grow deposits.

Our East Texas markets, spanning from the greater Tyler

area to the southeastern part of the state, has also enjoyed healthy growth and thriving economies. Tyler is proud to welcome a new medical school, right across the street from the Southside corporate office, which promises to bring new medical advancements and opportunities to the community, in addition to new businesses and medical professionals. We look forward to welcoming our neighbors and partnering together to serve and grow this community as they plan to open their doors in the fall of 2025.

## IN CONCLUSION

As we look to the future, we have much to be optimistic about. Our growing markets put us in favorable positions to continue enjoying success well into the future. My confidence in the future of Southside has much to do with my confidence in our team members. We have surrounded ourselves with immense talent who will continue to advance our progress forward. Even more, it's the way they deliver our products and services that I am most proud of...with excellence, passion, and concern for people and their communities.

We are thankful for the trust that our customers and clients have given us and just has honored for the support of our shareholders.



**LEE R. GIBSON**

President and Chief Executive Officer

**SOUTHSIDE BANCSHARES, INC.**

# Celebrating Progress and Achievements

## FINANCIAL LITERACY INITIATIVES

Southside team members extended their talents and compassion for their communities through volunteerism as well as teaching financial literacy. In 2023, team members participated in more than a dozen financial literacy initiatives, teaching classes at local schools and non-profit organizations and hosting elementary and secondary school financial education fairs in schools located in low-to-moderate income areas. The Bank hosted Reverse Junior Achievement (JA) in a Day again and taught a series of classes using the JA curriculum. Team members in North Texas continued participating in the Academy 4 program where they mentored 4th grade students in economically disadvantaged schools throughout the year.

## CUSTOMER SERVICE

Southside has always been proud of its reputation for outstanding and personalized customer service, a point that was validated during a 2023 customer feedback initiative. More than 1,000 online reviews and survey cards were submitted by our customers raising our Google score for every branch. Two branches won awards: one for the most reviews and one for the most improved Google score. Individuals with high reviews were also selected for special prizes and recognition.

## CUSTOMER REVIEWS



*I have never felt more appreciated or cared for by any other bank. The customer service is fantastic and I am a real person to them and not just a number on a page. Switching to this bank is the best thing I have ever done.*

Julie H.  
Tyler



*I walk in and the staff greets me by name. I call, they recognize my voice! Can't get that from a big box bank automated teller! Nice to have a sense of small-town life in the big city. Highly recommend!*

David F.  
Fort Worth



*Southside Bank has completely transformed our perspective on banking. Right from the beginning, they welcomed us as cherished members of their caring family, going beyond the usual customer relationship. What sets Southside apart is their personalized treatment. They know us by name, remember our preferences, and make every interaction feel special and tailored to us.*

Dereon H.  
Arlington

## FINANCIAL

# Highlights

Dollars in thousands except per share amounts

	2023	2022
<b>NET INCOME:</b>	\$ 86,692	\$ 105,020
<b>PER SHARE DATA:</b>		
Earnings per common share - basic	\$ 2.82	\$ 3.27
Earnings per common share - diluted	\$ 2.82	\$ 3.26
Cash dividends paid per common share	\$ 1.42	\$ 1.40
Book value per common share	\$ 25.56	\$ 23.65
<b>PERFORMANCE RATIOS:</b>		
Return on average assets	1.11 %	1.43 %
Return on average shareholders' equity	11.50 %	13.42 %
Dividend payout ratio - basic	50.35 %	42.81 %
Dividend payout ratio - diluted	50.35 %	42.94 %
Net interest margin	2.92 %	3.11 %
Net interest margin (fully taxable equivalent)*	3.09 %	3.32 %
<b>BALANCE SHEET DATA:</b>		
Loans	\$ 4,524,510	\$ 4,147,691
Securities	\$ 2,603,347	\$ 2,625,743
Total assets	\$ 8,284,914	\$ 7,558,636
Noninterest bearing deposits	\$ 1,390,407	\$ 1,671,562
Interest bearing deposits	\$ 5,159,274	\$ 4,526,457
Total deposits	\$ 6,549,681	\$ 6,198,019
Other borrowings	\$ 722,468	\$ 374,511
Long-term debt	\$ 154,147	\$ 158,939
Total shareholders' equity	\$ 773,288	\$ 745,997

\*A non-GAAP measure. See "Non-GAAP Financial Measures" for more information and a reconciliation to GAAP in our Form 10-K.





**SOUTHSIDE BANK**

# A Texas Bank

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**NEW  
MEXICO**

Southside currently operates 55 branches, one loan production office, and a network of 73 ATMs/ITMs throughout East Texas, Southeast Texas, and the greater Dallas/Fort Worth, Austin, and Houston areas. Additionally, Southside is affiliated with over 60,000 ATMs across the nation. Serving customers since 1960, Southside Bank is a community-focused financial institution that offers a full range of financial products and services to individuals and businesses.

**MEXICO**



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**SOUTHSIDE BANCSHARES, INC.**

# Board of Directors

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**John R. (Bob) Garrett**  
*Chairman of the Board*

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**Donald W. Thedford**  
*Vice Chairman of the Board*

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**Lawrence L.  
Anderson, MD**

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**S. Elaine  
Anderson, CPA**

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**Michael J.  
Bosworth**

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**Herbert C.  
Buie**

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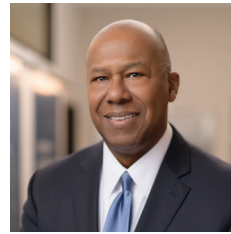
**Patricia A.  
Callan**

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**Shannon  
Dacus**

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**Alton L.  
Frailey**

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**Lee R. Gibson, CPA**  
*President and CEO*

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**George H. (Trey)  
Henderson, III**

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**Tony K.  
Morgan, CPA**

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**John F.  
Sammons, Jr.**

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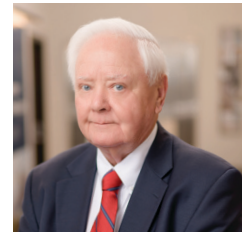
**H. J.  
Shands, III**

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**Preston L.  
Smith**

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**William Sheehy**  
*Director Emeritus*

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**SOUTHSIDE BANCSHARES, INC.**

**Officers**

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**OFFICERS OF SOUTHSIDE BANCSHARES, INC.**

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**Lee R. Gibson, CPA**

President and  
Chief Executive Officer

**Julie N. Shamburger, CPA**

Chief Financial Officer

**Tim Alexander**

Chief Lending Officer

**T. L. Arnold**

Chief Credit Officer

**Vonna Crowley, CRCM**

Chief Compliance Officer

**Suni Davis, CPA, CERP**

Chief Risk Officer

**Sandi Hegwood, CPA, CIA**

Chief Audit Executive

**Brian K. McCabe**

Chief Operations Officer

**Anne Martinez**

Executive Vice President  
and Senior Loan Review Officer

**April Pugh, CPA**

Executive Vice President and  
Controller

**Erin Byers**

Senior Vice President  
and Loan Review Officer

**Brooke Mott, CRCM**

Senior Vice President and  
Fair and Responsible  
Banking Officer

**Lindsey Bailes, CPA**

Vice President and  
Investor Relations Officer

**Katherine Clover, CPA, CIA, CISA**

Vice President and  
Internal Audit Manager

**Misty de Wet, CPA, CIA**

Vice President and  
Internal Audit Manager

**Roxanne Reynolds, CPA**

Vice President and  
and Internal Audit Manager

**Trent Wilson**

Vice President and  
Loan Review Officer

**Austin Fleet, CPA**

Assistant Vice President and  
Internal Auditor

**Adam McElroy, CPA, CIA**

Assistant Vice President and  
Internal Auditor

**Erika Morales**

Assistant Vice President and  
Senior Compliance Analyst

**Petra Herbert**

Banking Officer and  
Loan Review Analyst

**Mary McLarry**

Corporate Secretary

## DIRECTORS OF SOUTHSIDE BANK

**Tim Alexander\***  
Chief Lending Officer

**Lawrence L. Anderson, MD**  
Retired Physician

**S. Elaine Anderson, CPA**  
Retired Healthcare Executive  
Healthcare Consultant

**T. L. Arnold\***  
Chief Credit Officer

**Michael J. Bosworth**  
President  
Bosworth & Associates

**Herbert C. Buie**  
Retired CEO  
and Business Owner

**Patricia A. Callan**  
Principal  
Callan Consulting

**Tim Carter**  
Retired Banker

**Shannon Dacus**  
President and Owner  
The Dacus Firm

**Alton L. Frailey**  
President  
Alton L. Frailey & Associates, LLC

**John R. (Bob) Garrett**  
Chairman of the Board  
President  
Fair Oil Company

**Lee R. Gibson, CPA**  
President and  
Chief Executive Officer

**George H. (Trey) Henderson, III**  
Owner  
Henderson Mineral, Inc.

**Brian K. McCabe\***  
Chief Operations Officer

**Tony K. Morgan, CPA**  
Retired Accounting Partner

**John F. Sammons, Jr.**  
Chairman and CEO  
Mid-States Services, Inc.

**Julie N. Shamburger, CPA\***  
Chief Financial Officer

**H. J. Shands, III**  
Retired Banker

**William Sheehy**  
Director Emeritus  
Retired Attorney

**Preston L. Smith**  
President  
PSI Production, Inc.

**Donald W. Thedford**  
Vice Chairman of the Board  
President  
Don's TV & Appliance, Inc.

**Lonny R. Uzzell\***  
Market President, East Texas

\*Advisory Directors



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## OFFICERS OF SOUTHSIDE BANK

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### **Lee R. Gibson, CPA**

President and Chief Executive Officer

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### **Julie N. Shamburger, CPA**

Chief Financial Officer

### **Tim Alexander**

Chief Lending Officer

### **Sherri Anthony**

Chief Banking Officer

### **T. L. Arnold**

Chief Credit Officer

### **Faye Bond**

Chief Innovation Officer

### **Vonna Crowley, CRCM**

Chief Compliance Officer

### **Suni Davis, CPA, CERP**

Chief Risk Officer

### **Brian K. McCabe**

Chief Operations Officer

### **Gary Mills**

Chief Technology Officer

### **Carlos Renteria, CISA, CISM, CDPSE**

Chief Information Security Officer

### **James Schafer**

Chief Information Officer

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### **Regional Presidents**

Keith Donahoe, Central Texas  
Mark Drennan, North Texas  
Jared Green, East Texas

### **Market Presidents**

Michael Goode, Nacogdoches  
Codie Jenkins, Southeast Texas  
Ernest King, CPA, Southeast Texas,  
Wealth Management  
Brian Turner, Tyler  
Lonny R. Uzzell, East Texas  
Alice Yang, Houston

### **Senior Executive Vice President**

Curtis Burchard

### **Executive Vice Presidents**

Joel Adams  
Brad Browder, CFA  
Kim Christie, CPA, CTFA  
Charles Colley  
Mark Cundiff  
Pam Cunningham  
Lynn Davis  
Joe (Trey) Denman, III  
Christopher Katri  
Keith Leonhardt  
Phyllis Milstead  
Emily Moore, CPA, SHRM-SCP  
Michael Phea  
Chris Phelps  
April Pugh, CPA  
Leigh Anne Rozell, CAMS  
Ron Veitenheimer

### **President**

Bill Newburn, Wealth Management



**2023**

# **Form 10-K**





**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2023**

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**

(State or Other Jurisdiction of  
Incorporation or Organization)

**75-1848732**

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

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

(Address of Principal Executive Offices)

**75701**

(Zip Code)

Registrant's telephone number, including area code: (903) 531-7111

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2023, was approximately \$751.3 million (based upon the closing price of \$26.16 per share as reported by the NASDAQ Global Select Market on June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter).

As of February 23, 2024, there were 30,255,576 shares of the registrant's common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the Registrant's Proxy statement to be filed for the Annual Meeting of Shareholders to be held May 15, 2024 are incorporated by reference into Part III of this Annual Report on Form 10-K. Other than those portions of the proxy statement specifically incorporated by reference pursuant to Items 10-14 of Part III hereof, no other portions of the proxy statement shall be deemed so incorporated.

**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-K, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

**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
Omni	OmniAmerican Bancorp, Inc., a bank holding company, and its wholly-owned subsidiary, OmniAmerican Bank, acquired by Southside on December 17, 2014
Southside	Southside Bancshares, Inc.

**Other Acronyms,  
Abbreviations and Terms:**

2017 Incentive Plan	Southside Bancshares, Inc. 2017 Incentive Plan
2022 Form 10-K	Southside Bancshares, Inc. Annual Report on Form 10-K filed with the SEC on February 24, 2023
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
AML	Anti-money laundering
AOCI	Accumulated other comprehensive income or loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update issued by the FASB
ATM	Automated teller machines
BTFFP	The Federal Reserve's Bank Term Funding Program
Basel Committee	Basel Committee on Banking Supervision
BHCA	Bank Holding Company Act of 1956
Board	Board of directors
BOLI	Bank owned life insurance
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBCA	Change in Bank Control Act
CBLR	Community Bank Leverage Ratio framework
CDs	Certificates of deposit
CECL	ASC 326, Financial Instruments- Credit Losses, also known as Current Expected Credit Losses
CET1	Common Equity Tier 1
CFPB	Consumer Financial Protection Bureau
CISO	Chief Information Security Officer
CMOs	Collateralized mortgage obligations
CRE	Commercial real estate
COVID-19	Novel strain of coronavirus
CRA	Community Reinvestment Act
DEI	Diversity, equity and inclusion
DIF	FDIC's Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

DRIP	Dividend Reinvestment Plan
DRR	Designated reserve ratio established by the Dodd-Frank Act
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
Fannie Mae	Federal National Mortgage Association
FFIEC	Federal Financial Institutions Examination Council
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
Federal Reserve	The Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
FinCEN	Financial Crimes Enforcement Network
Fintech	Financial technology
FRA	Federal Reserve Act
FRBNY	Federal Reserve Bank of New York
FRDW	Federal Reserve Discount Window
Freddie Mac	Federal Home Loan Mortgage Corporation
FTE	Fully-taxable equivalents measurements
GAAP	United States generally accepted accounting principles
GLBA	Gramm-Leach-Bliley Act
GNMA	Government National Mortgage Association
GSEs	U.S. government-sponsored enterprises
Guidelines	Interagency Guidelines Prescribing Standards for Safety and Soundness adopted by federal banking agencies
HTM	Held to maturity
IBA	ICE Benchmark Administration, the administrator of LIBOR
ITM	Interactive teller machines
LIBOR	London Interbank Offered Rate
LIBOR Act	Adjustable Interest Rate (LIBOR) Act
MBS	Mortgage-backed securities
MVPE	Market value of portfolio equity
NPI	Nonpublic personal information
NQSO	Nonqualified stock options
OFAC	The U.S. Department of the Treasury's Office of Foreign Assets Control
OREO	Other real estate owned
PCAOB	Public Company Accounting Oversight Board
PSU	Performance-based restrictive stock units
REIT	Real estate investment trust
Repurchase agreements	Securities sold under agreements to repurchase
RESPA	Real Estate Settlement Procedures Act
Restoration Plan	Nonfunded supplemental retirement plan
Retirement Plan	Defined benefit pension plan
ROATCE	Return on Average Tangible Common Equity
ROU	Right-of-use
RSU	Restricted stock units
SEC	Securities and Exchange Commission

SOFR	Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York
TDB	Texas Department of Banking
TDR	Troubled debt restructurings prior to implementation of ASU 2022-02 “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”
TILA	Truth in Lending Act
U.S.	United States
USA PATRIOT Act	Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
VIE	Variable interest entity



## IMPORTANT INFORMATION ABOUT THIS REPORT

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.

### PART I

#### ITEM 1. BUSINESS

##### FORWARD-LOOKING INFORMATION

The disclosures set forth in this item are qualified by the section captioned “Cautionary Notice Regarding Forward-Looking Statements” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K and other cautionary statements set forth elsewhere in this report.

##### GENERAL

Southside Bancshares, Inc., incorporated in Texas in 1982, is a bank holding company for Southside Bank, a Texas state bank headquartered in Tyler, Texas that was formed in 1960. We operate through 55 branches, 13 of which are located in grocery stores, in addition to wealth management and trust services, and/or loan production, brokerage or other financial services offices.

At December 31, 2023, our total assets were \$8.28 billion, total loans were \$4.52 billion, total deposits were \$6.55 billion and total equity was \$773.3 million. For the years ended December 31, 2023 and 2022, our net income was \$86.7 million and \$105.0 million, respectively. For the years ended December 31, 2023 and 2022, diluted earnings per common share was \$2.82 and \$3.26, respectively. We have paid a cash dividend to shareholders every year since 1970 (including dividends paid by Southside Bank prior to the incorporation of Southside Bancshares).

We are a community-focused financial institution that offers a full range of financial services to individuals, businesses, municipal entities and nonprofit organizations in the communities that we serve. These services include consumer and commercial loans, deposit accounts, wealth management, trust and brokerage services.

Our consumer loan services include 1-4 family residential loans, home equity loans, home improvement loans, automobile loans and other consumer related loans. Commercial loan services include short-term working capital loans for inventory and accounts receivable, short- and medium-term loans for equipment or other business capital expansion, commercial real estate loans and municipal loans. We also offer construction loans for 1-4 family residential and commercial real estate.

We offer a variety of deposit accounts with a wide range of interest rates and terms, including savings, money market, interest and noninterest bearing checking accounts and CDs.

Our trust and wealth management services include investment management, administration of irrevocable, revocable and testamentary trusts, estate administration, and custodian services, primarily for individuals and, to a lesser extent, partnerships and corporations. Additionally, we offer retirement and employee benefit accounts, including but not limited to, IRAs, 401(k) plans and profit sharing plans. At December 31, 2023, our wealth management and trust assets under management were approximately \$1.48 billion.

Our business strategy includes evaluating expansion opportunities through acquisitions of financial institutions in market areas that could complement our existing franchise. We generally seek merger partners that are culturally similar, have experienced management teams and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services.

We and our subsidiaries are subject to comprehensive regulation, examination and supervision by the Federal Reserve, the TDB and the FDIC and are subject to numerous laws and regulations relating to internal controls, the extension of credit, making of loans to individuals, deposits and all other facets of our operations.

Our primary executive offices are located at 1201 South Beckham Avenue, Tyler, Texas 75701 and our telephone number is 903-531-7111. Our website can be found at [www.southside.com](http://www.southside.com). Our public filings with the SEC may be obtained free of charge on either our website, <https://investors.southside.com/> under the topic Financials, or the SEC’s website, [www.sec.gov](http://www.sec.gov), as soon as reasonably practicable after filing with the SEC.

## MARKET AREA

We are headquartered in Tyler, Texas. The Tyler metropolitan area has an estimated population of 240,000 and is located approximately 90 miles east of Dallas, Texas and 90 miles west of Shreveport, Louisiana.

We consider our primary market areas to be East Texas, Southeast Texas, as well as the greater Dallas-Fort Worth, Austin and Houston, Texas areas. Our expectation is that our presence in all of the market areas we serve should grow in the future. In addition, we continue to explore new markets in which we believe we can successfully expand.

The principal economic activities in our market areas include medical services, retail, education, financial services, technology, distribution, manufacturing, government and to a lesser extent, oil and gas industries. These economic activities support a growing regional system of medical service, retail and education centers. Tyler, Dallas-Fort Worth, Austin and Houston are home to several nationally recognized health care systems that represent all major specialties.

Our 55 branches and 38 drive-thru facilities are located in and around Arlington, Austin, Bullard, Chandler, Cleburne, Cleveland, Diboll, Euless, Fort Worth, Frisco, Granbury, Grapevine, Gresham, Gun Barrel City, Hawkins, Hemphill, Houston, Irving, Jacksonville, Jasper, Kingwood, Lindale, Longview, Lufkin, Nacogdoches, Palestine, Pineland, San Augustine, Splendor, Tyler, Watauga, Weatherford and Whitehouse. Our advertising is designed to target the market areas we serve. The type and amount of advertising in each location is directly attributable to our market share in that area, combined with overall cost.

Additionally, our customers may access various banking services through a wide network of ATMs, ITMs and through automated telephone, internet and mobile banking products. These products allow our customers to apply for loans, open deposit accounts, access account information and conduct various other transactions online from their smart phones or computers.

## RECENT DEVELOPMENTS

During the year ended December 31, 2023, we closed one traditional branch location in Lufkin, due to close proximity to another Southside branch and a shift in customer preferences and their transition from in-branch banking to digital banking.

During the year ended December 31, 2023, we entered into a lease for a loan production office in Preston Center in Dallas which opened during January 2024.

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 branch and a shift in customer preferences and their transition from in-branch banking to digital banking.

## THE BANKING INDUSTRY IN TEXAS

The banking industry is affected by general economic conditions such as interest rates, inflation, recession, unemployment and other factors beyond our control. During the last 30 years the Texas economy has continued to diversify, decreasing the overall impact of fluctuations in oil and gas prices; however, the oil and gas industry is still a significant component of the Texas economy. The economic conditions and growth prospects for our markets, even against the headwinds of inflation and potential recessionary concerns, continue to reflect a solid and positive overall outlook. Ongoing elevated inflation levels and higher interest rates could have a negative impact on both our consumer and commercial borrowers. However, currently the Texas markets we serve continue to remain healthy due to both job and population growth.

## COMPETITION

The activities we are engaged in are highly competitive. Financial institutions such as credit unions, fintech companies, consumer finance companies, insurance companies, brokerage companies and other financial institutions with varying degrees of regulatory restrictions compete vigorously for a share of the financial services market. Fintech, brokerage and insurance companies continue to become more competitive in the financial services arena and pose an ever-increasing challenge to banks. Legislative changes also greatly affect the level of competition we face. Federal legislation allows credit unions to use their expanded membership capabilities, combined with tax-free status, to compete more openly for traditional bank business. The tax-free status granted to credit unions provides them with a significant competitive advantage. Many of the largest banks operating in Texas, including some of the largest banks in the country, have offices in our market areas with capital resources, broader geographic markets and legal lending limits substantially in excess of those available to us. We face competition from institutions that offer products and services we do not or cannot currently offer. Some institutions we compete with offer interest rate levels on loan and deposit products that we are unwilling to offer due to interest rate risk and overall profitability concerns. We expect the level of competition to continue to increase.

## HUMAN CAPITAL RESOURCES

At December 31, 2023, we employed approximately 815 full time equivalent persons. None of our employees are represented by any unions or similar groups, and we have not experienced any type of strike or labor dispute. We consider the relationship with our employees to be good, which we believe to be reflected in the average tenure of our employees exceeding eight years, with the tenure of 35% of our employees exceeding ten years.

During 2023, Southside was awarded “Best Banks to Work For” by American Banker and obtained the number one spot among all Texas Banks. The award identifies banks that excel at creating positive and supportive workplaces for employees. We continuously work toward an outstanding workplace with competitive benefits for employees through our initiatives outlined below.

We value diversity and are committed to creating a diverse and inclusive workforce. Our DEI officer oversees our diversity, equity and inclusion efforts, which includes implementation of a three-year DEI training strategic plan company-wide. As of December 31, 2023, women and ethnic minorities represented approximately 69% and 38% of our workforce, respectively.

The health, safety and wellness of our employees is a top priority. In 2023, we continued to focus on the health and wellness of our employees through several company-wide efforts including: a wellness program that allows employees to earn cash rewards; a three-week wellness challenge to encourage healthy habits; on-site biometric screenings, as well as wellness communications and webinars throughout the year. We maintain a comprehensive employee handbook, code of business conduct, as well as other policies, including a harassment policy, whistleblower policy and a human rights policy statement, to promote a safe and supportive workplace culture.

We believe employees to be our greatest asset and that our future success depends on our ability to attract, retain and develop employees. Professional development is a key priority, which is facilitated through our many corporate initiatives including extensive training programs, corporate mentoring, leadership programs, educational reimbursement and corporate and personal development coaching.

As part of our effort to attract and retain employees, we offer a broad range of benefits, including, but not limited to, 15-30 days of annual paid time off based on length of employment, sick leave, participation in our ESOP, 401(k) match for eligible employees and up to 20 hours of paid time off annually to volunteer. We believe our compensation package and benefits are competitive with others in our industry. For additional information regarding our employee benefit plans, see “Note 10 - Employee Benefits” to our consolidated financial statements included in this report.

## SUPERVISION AND REGULATION

### General

Banking is a complex, highly regulated industry. As a bank holding company under federal law, the Company is subject to regulation, supervision and examination by the Federal Reserve. In addition, under state law, as the parent company of a Texas-chartered state bank that is not a member of the Federal Reserve, the Company is subject to supervision and examination by the TDB. As a Texas-chartered state bank, Southside Bank is subject to regulation, supervision and examination by the TDB, as its chartering authority, and by the FDIC, as its primary federal regulator and deposit insurer. This system of regulation and supervision provides a comprehensive legal framework for our operations and is intended primarily for the protection of bank depositors, the FDIC's DIF and the public, rather than our shareholders and creditors.

In addition to the system of regulation and supervision outlined above, the CFPB has authority to supervise and examine depository institutions with more than \$10 billion in assets for compliance with these federal consumer laws. The CFPB also has rulemaking authority for a range of consumer financial protection laws (such as TILA, the Electronic Fund Transfer Act and RESPA, among others). The authority to supervise and examine depository institutions with \$10 billion or less in assets (such as Southside Bank) for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. Accordingly, the CFPB may participate in examinations of Southside Bank, and could supervise and examine other direct or indirect subsidiaries of the Company that offer consumer financial products or services.

The earnings of Southside Bank and, therefore, the earnings of the Company, are affected by general economic conditions, changes in federal and state laws and regulations and actions of various regulatory authorities, including those referenced above.

Significant changes to federal and state laws, changes in the interpretation or application of such laws by regulators, and/or the enactment of new legislation or adoption of new regulations could (i) materially impact the profitability of our business, the value of assets we hold, or the value of collateral available for our loans; (ii) require changes to our business practices; (iii) force us to discontinue certain businesses lines; and/or (iv) otherwise expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. The likelihood, timing and scope of any such change of law, and the impact that any such change may have on us, are impossible to determine with any certainty.

Set forth below are brief descriptions of the significant federal and state laws and regulations to which we are currently subject. These descriptions do not purport to be complete and are qualified in their entirety by reference to the particular statutory or regulatory provisions.

### Holding Company Regulation

As a bank holding company regulated under the BHCA, as amended, the Company is registered with and subject to regulation, supervision and examination by the Federal Reserve. The Company is required to file annual and other reports with, and furnish information to, the Federal Reserve, which makes periodic inspections of the Company. The Federal Reserve may also examine our nonbank subsidiaries.

*Permitted Activities.* Under the BHCA, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than five percent of the voting shares of any company engaged in, the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for its subsidiaries; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking, including:
  - factoring accounts receivable;
  - making, acquiring, brokering or servicing loans and usual related activities;
  - leasing personal or real property;
  - operating a nonbank depository institution, such as a savings association;
  - performing trust company functions;
  - conducting financial and investment advisory activities;
  - conducting discount securities brokerage activities;

- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions;
- performing selected insurance underwriting activities;
- providing certain community development activities (such as making investments in projects designed primarily to promote community welfare); and
- issuing and selling money orders and similar consumer-type payment instruments.

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Under the BHCA, a bank holding company meeting certain eligibility requirements may elect to become a "financial holding company," which is a form of bank holding company with authority to engage in certain additional activities. Specifically, a financial holding company and companies under its control may engage in activities that are "financial in nature," as defined by the GLBA and Federal Reserve interpretations, and therefore may engage in a broader range of activities than those permitted for bank holding companies and their subsidiaries. Financial activities include insurance brokerage and underwriting, securities underwriting and dealing, merchant banking, investment advisory and lending activities. Financial holding companies and their subsidiaries also may engage in additional activities that are determined by the Federal Reserve, in consultation with the U.S. Department of the Treasury, to be "financial in nature or incidental to" a financial activity or are determined by the Federal Reserve unilaterally to be "complementary" to financial activities.

The Company has elected to become a financial holding company. Our election was declared effective based in part upon a finding by the Federal Reserve that all of our depository institution subsidiaries satisfy the Federal Reserve's "well capitalized" and "well managed" standards and have at least a satisfactory rating under the CRA (discussed below). We do not currently engage in financial activities beyond those permissible for a bank holding company. However, if we undertake expanded financial activities (i.e., those that are not permissible for a bank holding company) and we subsequently fail to continue to meet any of the prerequisites for "financial holding company" status, including those described above, we would be required to enter into an agreement with the Federal Reserve to restore our compliance with all applicable requirements, including specifically the "well-capitalized" and "well-managed" standards. If we do not return to compliance within 180 days of such an agreement, the Federal Reserve may order the Company to divest its Bank, or the Company may discontinue (or divest investments in companies engaged in) those expanded activities that are only permissible for financial holding companies.

Capital Adequacy. Each of the federal banking agencies, including the Federal Reserve and the FDIC, has issued substantially similar risk-based and minimum leverage capital guidelines applicable to the banking organizations they supervise.

Under existing capital standards, a banking organization is required to continually monitor the ratio of its assets against its capital so as to gauge its ability to absorb unexpected losses in an economic downturn.

The Bank is subject to the following minimum capital ratios: 4.5 percent Common Equity Tier 1 capital to risk-weighted assets; 6.0 percent Tier 1 capital to risk-weighted assets; 8.0 percent total capital to risk-weighted assets; and 4.0 percent Tier 1 leverage ratio to average consolidated assets. The Bank must also maintain a minimum "capital conservation buffer" equal to 2.5% of its total risk-weighted assets. The "capital conservation buffer," which must consist entirely of CET1, is designed to absorb losses during periods of economic stress. The capital rules provide for a number of deductions from and adjustments to CET1, which include the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Certain regulatory capital ratios of the Company and Southside Bank, as of December 31, 2023, are shown in the following table.

	Capital Adequacy Ratios			
	Regulatory Minimums	Regulatory Minimums to be Well Capitalized	Southside Bancshares, Inc.	Southside Bank
Common equity tier 1 risk-based capital ratio .....	4.50 %	6.50 %	12.28 %	14.88 %
Tier 1 risk-based capital ratio .....	6.00 %	8.00 %	13.32 %	14.88 %
Total risk-based capital ratio .....	8.00 %	10.00 %	15.73 %	15.62 %
Leverage ratio .....	4.00 %	5.00 %	9.39 %	10.49 %

On March 27, 2020 the federal bank agencies announced a final rule that permits banks that have adopted the CECL standard to defer recognition of the estimated impact of credit losses on regulatory capital by permitting a three-year “phase-in” approach commencing in 2022. We elected to adopt the transition option.

Eligible community banks and holding companies with less than \$10 billion in consolidated assets may opt into the CBLR framework. A “qualifying community banking organization” is one that has (i) less than \$10 billion in total consolidated assets; (ii) a leverage ratio greater than 9%; (iii) off-balance sheet exposures of 25% or less of total consolidated assets; and (iv) trading assets and liabilities of 5% or less of total consolidated assets. Qualifying banks that meet these thresholds and elect the CBLR framework, are exempt from the agencies’ current capital framework, including the risk-based capital requirements and capital conservation buffer, and are deemed well-capitalized under the agencies’ prompt corrective action regulations. Southside Bank has not elected to use the CBLR framework at this time.

*Source of Strength.* A bank holding company, such as us, is required to act as a source of financial and managerial strength to its subsidiary banks. As a result, a bank holding company may be required to contribute additional capital to its subsidiaries in the form of capital notes or other instruments which qualify as capital under regulatory rules. Any loans from the holding company to its subsidiary banks likely will be unsecured and subordinated to the bank’s depositors and perhaps to other creditors of the bank. In addition to the foregoing requirements, the Federal Reserve and other federal banking regulators are authorized to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its source of strength obligations and to enforce the company’s compliance with these obligations. As of December 31, 2023, the Federal Reserve and other federal banking regulators have not issued rules implementing this requirement.

In addition, if a bank holding company enters into bankruptcy or becomes subject to the orderly liquidation process established by the Dodd-Frank Act, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee or the FDIC, as appropriate, and entitled to a priority of payment. Furthermore, the FDIA provides that any insured depository institution generally will be liable for any loss incurred by the FDIC in connection with the default of, or any assistance provided by the FDIC to, a commonly controlled insured depository institution. Southside Bank is an FDIC-insured depository institution and thus subject to these requirements. See also *Bank Regulation - Prompt Corrective Action and Undercapitalization*.

*Dividends.* The principal source of our liquidity at the parent company level is dividends from Southside Bank. Southside Bank is subject to federal and state restrictions on its ability to pay dividends to the Company. We must pay essentially all of our operating expenses from funds we receive from Southside Bank. Therefore, shareholders may receive dividends from us only to the extent that funds are available after payment of our operating expenses. Consistent with its source of strength policy, the Federal Reserve discourages bank holding companies from paying dividends except out of operating earnings and prefers that dividends be paid only if, after the payment, the prospective rate of earnings retention appears consistent with the bank holding company’s capital needs, asset quality and overall financial condition.

The ability of the Company or Southside Bank to pay dividends, and the contents of their respective dividend policies, is subject to changes of law, as well as possible supervisory restrictions imposed by the TDB, FDIC or Federal Reserve. See also *Bank Regulation - Dividends* for additional information.

*Change in Control.* Subject to certain exceptions, under the BHCA, the CBCA and the regulations promulgated thereunder, persons who intend to acquire direct or indirect control of a depository institution or a bank holding company are required to obtain the prior approval of the Federal Reserve. With respect to the Company, “control” is conclusively presumed to exist where an acquiring party directly or indirectly owns, controls or has the power to vote at least 25% of our voting securities. Under the Federal Reserve’s CBCA regulations, a rebuttable presumption of control would arise with respect to an acquisition where, after the transaction, the acquiring party owns, controls or has the power to vote at least 10% (but less than

25%) of our voting securities. Under the Federal Reserve's "Tiered Presumptions" framework, promulgated in 2010, the Federal Reserve will consider the nature and extent of "controlling influences" that exist between a party and a banking organization at different levels of voting security ownership (i.e., between 0% and 4.99%, or between 5% and 9.99%). The Federal Reserve will presume that no control exists when a company owns 9.99% or less of another company, and no other indicators of control exists.

*Acquisitions.* The BHCA provides that a bank holding company must obtain the prior approval of the Federal Reserve (i) for the acquisition of more than five percent of the voting stock in any bank or bank holding company, (ii) for the acquisition of substantially all the assets of any bank or bank holding company, or (iii) in order to merge or consolidate with another bank holding company.

*Regulatory Examination.* Federal and state banking agencies require the Company and Southside Bank to prepare annual reports on financial condition and to conduct an annual audit of financial affairs in compliance with minimum standards and procedures. Southside Bank, and in some cases the Company and any nonbank affiliates, must undergo regular on-site examinations by the appropriate regulatory agency, which will examine for adherence to a range of legal and regulatory compliance responsibilities. A bank regulator conducting an examination has complete access to the books and records of the examined institution, and the results of the examination are confidential. The cost of examinations may be assessed against the examined organization as the agency deems necessary or appropriate. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report.

*Enforcement Authority.* The Federal Reserve has broad enforcement powers over bank holding companies and their nonbank subsidiaries, as well as "institution-affiliated parties," including management, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the institution's affairs, and has authority to prohibit activities that represent unsafe or unsound banking practices or constitute knowing or reckless violations of laws or regulations. These powers may be exercised through the issuance of cease and desist orders, civil money penalties or other actions. Civil money penalties can be as high as \$1,000,000 for each day the activity continues and criminal penalties for some financial institution crimes may include imprisonment for 20 years. Regulators have flexibility to commence enforcement actions against institutions and institution-affiliated parties, and the FDIC has the authority to terminate deposit insurance. When issued by a banking agency, cease and desist and similar orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, refrain from declaring or paying dividends, or take other actions determined to be appropriate by the ordering agency. The federal banking agencies also may remove a director or officer from an insured depository institution (or bar them from the industry) if a violation is willful or reckless.

### Bank Regulation

Southside Bank is a Texas-chartered commercial bank, the deposits of which are insured up to the applicable limits by the FDIC. Southside Bank is not a member of the Federal Reserve. The Bank is subject to extensive regulation, examination and supervision by the TDB, as its chartering authority, and by the FDIC, as its primary federal regulator and deposit insurer. In addition, the CFPB could participate in examinations of the Bank (as described above) regarding the Bank's offering of consumer financial products and services. The federal and state laws applicable to banks regulate, among other things, the scope of their activities and investments, lending and deposit-taking activities, borrowings, maintenance of retained earnings and reserve accounts, distribution of earnings and payment of dividends.

*Permitted Activities and Investments.* Under the FDIA, the activities and investments of state nonmember banks are generally limited to those permissible for national banks, notwithstanding state law. With FDIC approval, a state nonmember bank may engage in activities not permissible for a national bank if the FDIC determines that the activity does not pose a significant risk to the DIF and that the bank meets its minimum capital requirements. Similarly, under Texas law, a state bank may engage in those activities permissible for national banks domiciled in Texas. The TDB may permit a Texas state bank to engage in additional activities so long as the performance of the activity by the bank would not adversely affect the safety and soundness of the bank.

In 2013, federal regulators promulgated the "Volcker Rule" to prohibit insured depository institutions and their affiliates from proprietary trading and acquiring certain interests in hedge or private equity funds. The final rules contain certain exemptions from the prohibition and permit the retention of certain ownership interests. Subsequent amendments to the Volcker Rule exempt from coverage those banks with (i) total consolidated assets equal to \$10 billion or less; and (ii) total trading assets and liabilities equal to 5 percent or less of total consolidated assets. Based on this amendment, Southside Bank is exempt from the Volcker Rule's restrictions and prohibitions.



Brokered Deposits. Southside Bank also may be restricted in its ability to accept, renew or roll over brokered deposits, depending on its capital classification. Subject to certain exceptions, deposits are “brokered” if they are placed at a bank through the intervention of a third party in the business of facilitating the placement of deposits with FDIC-insured banks. Only “well-capitalized” banks are permitted to accept, renew or roll over brokered deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. Undercapitalized banks generally may not accept, renew or roll over brokered deposits. On December 15, 2020, the FDIC approved a final rule, effective April 1, 2021, setting forth a new framework for determining when deposits accepted by an insured depository institution qualify as “brokered deposits.” The new rule also clarifies when a third party may qualify as a “deposit broker,” and identifies several business relationships between banks and third parties that are exempt from the brokered deposit restrictions. Additional guidance was released by the FDIC on July 15, 2022, regarding how banks should treat the placement of deposits by third-parties under “sweep arrangements” with broker-dealers.

Loans to One Borrower. Under Texas law, without the approval of the TDB and subject to certain limited exceptions for loans secured by livestock, stored agricultural products, or readily marketable collateral, the maximum aggregate amount of loans that Southside Bank is permitted to make to any one borrower is 25% of Tier 1 capital. For purposes of applying this limit, loans to one borrower may be combined with loans to another borrower (i) when proceeds of the loan are to be used for the direct benefit of the other borrower, to the extent of the proceeds so used, or (ii) when a “common enterprise” is deemed to exist between the borrowers.

Insider Loans. Under Regulation O of the Federal Reserve, as made applicable to state nonmember banks by section 18(j)(2) of the FDIA, Southside Bank is subject to quantitative restrictions on extensions of credit to its executive officers and directors, the executive officers and directors of the Company, any owner of 10% or more of its stock or the stock of Southside Bancshares, Inc. and certain entities affiliated with any such persons. In general, any such extensions of credit must (i) not exceed certain dollar limitations, (ii) be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (iii) not involve more than the normal risk of repayment or present other unfavorable features. Additional restrictions are imposed on extensions of credit to executive officers. Certain extensions of credit also require the approval of a bank’s board of directors. On December 22, 2020, the federal banking agencies issued an Interagency Statement clarifying that they will not apply the quantitative and qualitative restrictions of Regulation O to investors in large funds (e.g., mutual funds) that may hold an investment position in banks, and therefore could qualify as an “insider” under current Regulation O definitions. On December 22, 2022, the agencies extended this relief to January 1, 2024, and on December 15, 2023, the agencies extended this relief to January 1, 2025.

Deposit Insurance and Assessments. The deposits of Southside Bank are insured by the FDIC, up to the applicable limits established by law and are subject to the deposit insurance premium assessments of the DIF. By statute, the DRR must be at least 1.35 percent of estimated insured deposits. Based on circumstances related to the COVID-19 pandemic, the DRR dropped below the statutory minimum in 2020, and the FDIC adopted a restoration plan to return the DRR to 1.35 percent by September 30, 2028. To that end, on October 24, 2022, the FDIC adopted a final rule raising the DIF assessment rate on all insured depository institutions, including Southside Bank, by two basis points. This assessment rate became effective January 1, 2023, with the first quarterly assessment due June 30, 2023. As a result of bank failures in March and May 2023, the DRR fell to 1.10 percent as of June 30, 2023. However, the FDIC projected that the reserve ratio will still reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028 as a result of the FDIC’s prior assessment rate adjustment. On November 16, 2023, the FDIC approved a final rule to implement a special assessment to recover the loss to the DIF associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank. The special assessment is targeted primarily at larger banks with significant uninsured deposit levels. Specifically, the assessment base for the special assessment is equal to a bank’s estimated uninsured deposits reported as of December 31, 2022, adjusted to exclude the first \$5 billion. As of December 31, 2022, Southside Bank had less than \$5 billion in estimated uninsured deposits.

#### Capital Adequacy.

See *Holding Company Regulation - Capital Adequacy.*

Prompt Corrective Action and Undercapitalization. The FDICIA established a system of prompt corrective action to resolve the problems of undercapitalized insured depository institutions. Under this system, the federal banking regulators are required to rate insured depository institutions based on five capital categories as described below. The federal banking regulators are also required to take mandatory supervisory actions and are authorized to take other discretionary actions, with respect to insured depository institutions in the three undercapitalized categories, the severity of which will depend upon the capital category in which the insured depository institution is assigned. Generally, subject to a narrow exception, the FDICIA requires the banking regulator to appoint a receiver or conservator for an insured depository institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under the regulations, all insured depository institutions are assigned to one of the following capital categories:

- Well Capitalized - The insured depository institution exceeds the required minimum level for each relevant capital measure. A well-capitalized insured depository institution is one (1) having a total risk-based capital ratio of 10 percent or greater, (2) having a Tier 1 risk-based capital ratio of 8 percent or greater, (3) having a CET1 capital ratio of 6.5 percent or greater, (4) having a leverage capital ratio of 5 percent or greater and (5) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.
- Adequately Capitalized - The insured depository institution meets the required minimum level for each relevant capital measure. An adequately-capitalized depository institution is one having (1) a total risk based capital ratio of 8 percent or more, (2) a Tier 1 capital ratio of 6 percent or more, (3) a CET1 capital ratio of 4.5 percent or more and (4) a leverage ratio of 4 percent or more.
- Undercapitalized - The insured depository institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized depository institution is one having (1) a total capital ratio of less than 8 percent, (2) a Tier 1 capital ratio of less than 6 percent, (3) a CET1 capital ratio of less than 4.5 percent or (4) a leverage ratio of less than 4 percent.
- Significantly Undercapitalized - The insured depository institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one having (1) a total risk-based capital ratio of less than 6 percent (2) a Tier 1 capital ratio of less than 4 percent, (3) a CET1 ratio of less than 3 percent or (4) a leverage capital ratio of less than 3 percent.
- Critically Undercapitalized - The insured depository institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2 percent.

The prompt corrective action regulations permit the appropriate federal banking regulator to downgrade an institution to the next lower category if the regulator determines after notice and opportunity for hearing or response that (1) the institution is in an unsafe or unsound condition or (2) that the institution has received and not corrected a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent examination. Supervisory actions by the appropriate federal banking regulator depend upon an institution's classification within the five capital categories. Our management believes that we and our Bank subsidiary have the requisite capital levels to qualify as well-capitalized institutions under the FDICIA regulations.

If an institution fails to remain well capitalized, it will be subject to a variety of enforcement remedies that increase as the capital condition worsens. For instance, the FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a dividend, or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized as a result. Undercapitalized depository institutions are also subject to restrictions on borrowing from the Federal Reserve, may not accept brokered deposits, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A depository institution's holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5 percent of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. In addition to the "prompt corrective action" directives, failure to meet capital guidelines may subject a banking organization to a variety of other enforcement remedies, including additional substantial restrictions on its operations and activities, termination of deposit insurance by the FDIC and, under certain conditions, the appointment of a conservator or receiver.

*Standards for Safety and Soundness.* The FDIA requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls; (ii) information systems and internal audit systems; (iii) loan documentation; (iv) credit underwriting; (v) interest rate risk exposure; and (vi) asset quality. The agencies also must prescribe standards for asset quality, earnings and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Guidelines to implement these required standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the FDIC determines that Southside Bank fails to meet any standards prescribed by the Guidelines, it may require Southside Bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and

soundness compliance plans. Notably, in June 2020, the federal financial regulators issued the Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions. The guidance directs bank examiners to focus specifically on how challenges created by the COVID-19 pandemic are being addressed by the institution, particularly with respect to credit risk and asset quality.

The Dodd-Frank Act requires federal banking regulators to issue regulations or guidelines to prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing excessive compensation or that may lead to material loss at certain financial institutions with \$1 billion or more in assets. A joint proposed rule was published in the Federal Register on April 14, 2011, and a second joint proposed rule was published on June 10, 2016; however, as of December 31, 2023, regulators have yet to issue a final rule (or further guidance) on the topic.

In addition, on May 8, 2020, the federal banking regulators published Interagency Guidance on Risk Systems, applicable to all regulated depository institutions regardless of asset size, to be used in creating an appropriate “credit risk review system” consistent with the existing Guidelines. The guidance encourages banks to consider (i) the qualification of the bank’s reviewing personnel; (ii) the frequency, scope and depth of credit reviews; and (iii) appropriate internal distribution of credit review results.

Dividends. All dividends paid by Southside Bank are paid to the Company, as the sole shareholder of Southside Bank. The ability of Southside Bank, as a Texas state bank, to pay dividends is restricted under federal and state law and regulations. The FDICIA and the regulations of the FDIC generally prohibit an insured depository institution from making a capital distribution (including payment of dividend) if, thereafter, the institution would not be at least adequately capitalized. Under Texas law, Southside Bank generally may not pay a dividend reducing its capital and surplus without the prior approval of the Texas Banking Commissioner. All dividends must be paid out of net profits then on hand, after deducting expenses, including losses and provisions for loan losses.

Southside Bank’s general dividend policy is to pay dividends at levels consistent with maintaining liquidity and preserving applicable capital ratios and servicing obligations. Southside Bank’s dividend policies are subject to the discretion of its board of directors and will depend upon such factors as future earnings, financial conditions, cash needs, capital adequacy, compliance with applicable statutory and regulatory requirements and general business conditions. The exact amount of future dividends paid by Southside Bank will be a function of its general profitability (which cannot be accurately estimated or assured), applicable tax rates in effect from year to year and the discretion of its board of directors.

Transactions with Affiliates. Southside Bank is subject to sections 23A and 23B of the FRA and the Federal Reserve’s Regulation W, as made applicable to state nonmember banks by section 18(j) of the FDIA. Sections 23A and 23B of the FRA restrict a bank’s ability to engage in certain transactions with its affiliates. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies controlled by such parent bank holding company are generally affiliates of the bank.

Specifically, section 23A places limits on the amount of “covered transactions” between a bank and its affiliates, including loans or extensions of credit to, investments in or certain other transactions with, affiliates. It also limits the amount of any advances to third parties that are collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited to 10 percent of the bank’s capital and surplus for any one affiliate and 20 percent for all affiliates. Additionally, within the foregoing limitations, each credit transaction with an affiliate must meet specified collateral requirements ranging from 100 to 130 percent of the loan amount, depending on the type of collateral. Further, banks are prohibited from purchasing low quality assets from an affiliate. The definition of “covered transactions” has been broadened to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions are viewed as extensions of credit (instead of asset purchases) and thus become subject to collateral requirements.

Section 23B, among other things, prohibits a bank from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies. Except for limitations on low quality asset purchases and transactions that are deemed to be unsafe or unsound, Regulation W generally excludes affiliated depository institutions from treatment as affiliates.

Anti-Tying Regulations. Under the BHCA and the Federal Reserve’s regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these products or services on the condition that either: (i) the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or subsidiaries thereof or (ii) the customer not obtain credit, property, or service from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. A bank may, however, offer combined-balance products and may

otherwise offer more favorable terms if a customer obtains two or more traditional bank products. Also, certain foreign transactions are exempt from the general rule.

Community Reinvestment Act. Under the CRA, Southside Bank has a continuing and affirmative obligation, consistent with safe and sound banking practices, to help meet the needs of our entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for banks nor does it limit a bank's discretion to develop the types of products and services that it believes are best suited to its particular community.

On a periodic basis, the FDIC is charged with preparing a written evaluation of our record of meeting the credit needs of the entire community and assigning a rating - outstanding, satisfactory, needs to improve or substantial noncompliance. Banks are rated based on their actual performance in meeting community credit needs. The FDIC will take that rating into account in its evaluation of any application made by the bank for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger or the acquisition of shares of capital stock of another financial institution. A bank's CRA rating may be used as the basis to deny or condition an application. In addition, as discussed above, a bank holding company may not become a financial holding company unless each of its subsidiary banks has a CRA rating of at least "satisfactory." As of September 7, 2021, the most recent exam date, Southside Bank has a CRA rating of "outstanding."

On October 24, 2023, the federal banking agencies jointly issued a final rule modernizing and overhauling the prior CRA regulations. Key elements of the final rule include (i) encouragement of expanded access to credit, investment, and basic banking services in low- and moderate-income communities; (ii) updated CRA assessment areas by including activities associated with online and mobile banking, branchless banking, and hybrid models; (iii) greater clarity and consistency in the application of CRA regulations; and (iv) better tailoring CRA evaluations and data collection requirements by bank size and type. Most of the final rule's requirements will be applicable beginning January 1, 2026. The remaining requirements, including new data reporting requirements, will be applicable on January 1, 2027.

Branch Banking. Pursuant to the Texas Finance Code, all banks located in Texas are authorized to branch statewide. Accordingly, a bank located anywhere in Texas has the ability, subject to regulatory approval, to establish branch facilities near any of our facilities and within our market area. Similarly, under applicable Federal law, out-of-state banks are permitted to establish branches in Texas. If other banks were to establish branch facilities near our facilities, it is uncertain whether these branch facilities would have a material adverse effect on our business.

De novo interstate branching by Southside Bank is also subject to the Federal interstate branching rules. All branching in which Southside Bank may engage remains subject to regulatory approval and adherence to applicable legal and regulatory requirements.

Consumer Protection Regulation. The activities of Southside Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws and regulations applicable to credit transactions, such as:

- the Truth in Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit and other operations also are subject to:

- the Truth in Savings Act and Regulation DD, governing disclosure of deposit account terms to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Fund Transfer Act and Regulation E, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of ATMs and other electronic banking

services, which the CFPB has expanded to include a new compliance regime that governs consumer-initiated cross border electronic transfers.

The foregoing laws and regulations are amended periodically. Notably, several were changed as a direct result of the COVID-19 pandemic. For example, during the pandemic, the CFPB was particularly active and adopted several amendments to Regulation Z. These included: (i) an interpretive rule clarifying that consumers can waive required waiting periods under TILA/RESPA, and Regulation Z rescission rules, so as to enable consumers to obtain mortgage credit more quickly; (ii) amending the definition of “qualified mortgage loan” to expand the number of mortgage loans that will be exempted from the “ability to repay” consideration; and (iii) amending the asset-size threshold for purposes of determining when a creditor can be exempted from the requirement to establish an escrow account for higher-price mortgages. The CFPB also issued a “COVID-19 Mortgage Servicing Rule” on June 28, 2021, affording borrowers greater procedural safeguards designed to limit situations in which a servicer can initiate foreclosures. While most of these protections expired in 2022, on January 18, 2023, in its revised *Mortgage Servicing Examination Procedures*, the CFPB stated it expected servicers to continue to utilize these safeguards, regardless of their expiration.

We cannot predict the extent to which new or modified regulations focused on consumer financial protection, whether adopted by the TDB, the CFPB, or the federal banking agencies will have on our businesses. We are particularly unable to predict a resurgence of COVID-19 (or the emergence of a similar pandemic), its long term impact on the Company, Southside Bank, or its customers, or whether the federal or state legislatures, federal banking agencies, or the TDB will adopt new laws intended to provide relief to borrowers adversely affected by the pandemic. Any such new laws may materially adversely affect our business, financial condition or results of operations.

Commercial Real Estate Lending. Lending operations that involve a significant concentration of commercial real estate loans are subject to enhanced scrutiny by federal banking regulators. The regulators have issued guidance with respect to the risks posed by CRE lending concentrations. CRE loans generally include land development, construction loans, land and lot loans to individuals, loans secured by multi-family property and nonfarm nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for examiners to help identify institutions that are potentially exposed to concentration risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land represent 100 percent or more of the institution’s total capital, or
- total CRE loans represent 300 percent or more of the institution’s total capital and the outstanding balance of the institution’s CRE loan portfolio has increased by 50 percent or more during the prior 36 months.

In addition, Federal regulations requiring risk retention of assets may impact our business by reducing the amount of our CRE lending and increasing the cost of borrowing. A loan originator or a securitizer of asset-backed securities is required to retain a percentage of the credit risk of securitized assets. On June 29, 2023, in response to the increased risks on CRE loans created by the COVID-19 pandemic, the federal banking agencies issued an Interagency Policy Statement on prudent CRE Loan Accommodations and Workouts. On December 18, 2023, the FDIC issued an advisory on Managing Commercial Real Estate Concentrations in a Challenging Economic Environment.

Anti-Money Laundering. Southside Bank is subject to the regulations of the FinCEN, a bureau of the U.S. Department of the Treasury, which implements the Bank Secrecy Act, as amended by the USA PATRIOT Act and the Anti-Money Laundering Act of 2020. The USA PATRIOT Act gives the federal government the power to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Title III of the USA PATRIOT Act includes measures intended to encourage information sharing among banks, regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including state-chartered banks like Southside Bank. Most recently, the Anti-Money Laundering Act of 2020 expanded the coverage of the Bank Secrecy Act to include new categories of “financial institutions,” expanding the types of monetary transactions that must be monitored and reported, and increasing the enforcement authority of the U.S. Department of Justice with respect to federal anti-money laundering laws.

The Bank Secrecy Act, USA PATRIOT Act, and Anti-Money Laundering Act of 2020, along with the related FinCEN regulations, impose numerous requirements with respect to financial institution operations, including the following:

- establishment of AML programs, including adoption of written procedures and an ongoing employee training program, designation of a compliance officer and auditing of the program;
- establishment of a program specifying procedures for obtaining information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;

- establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering, for financial institutions that administer, maintain or manage private bank accounts or correspondent accounts for non-U.S. persons;
- prohibitions on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks;
- filing of suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations; and
- requirements that bank regulators consider bank holding and bank compliance with federal anti-money laundering laws in connection with proposed merger or acquisition transactions.

In addition, under applicable FinCEN regulations, covered financial institutions, subject to certain exclusions and exemptions, are required to identify and verify the identity of beneficial owners of legal entity customers. On August 13, 2020, the federal banking agencies issued a joint statement addressing the circumstances under which an agency will issue a mandatory “cease-and-desist” order to a regulated financial institution for failure to comply with its AML obligations, emphasizing that the “effectiveness” of a bank’s AML program will be the key factor in the agency’s decision. On June 30, 2021, FinCEN published the first set of “national AML priorities,” as required by the Bank Secrecy Act, which include, but are not limited to, cybercrime, terrorist financing, fraud, and drug/human trafficking. FinCEN is required to implement regulations to specify how covered financial institutions, such as Southside Bank, should incorporate these national priorities into their AML programs. As of December 31, 2023, no such regulations have been proposed.

The Corporate Transparency Act was enacted in 2021, and FinCEN regulations promulgating the Act’s requirements became effective on January 1, 2024. The regulations will require certain entities created or registered to do business in the United States to disclose personal information about their beneficial owners, senior officers and other control persons to the federal government. The Corporate Transparency Act requires FinCEN to promulgate rules to revise financial institutions’ customer due diligence obligations to bring them into conformity with the new beneficial ownership requirements. FinCEN has not yet proposed this rule, but it must finalize the new rule by January 1, 2025.

Bank regulators routinely examine institutions for compliance with anti-money laundering obligations and have been active in imposing cease and desist and other regulatory orders, and money penalty sanctions, against institutions found to be violating these obligations. In addition, the Federal Bureau of Investigation can send bank regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. Southside Bank can be requested to search its records for any relationships or transactions with persons on those lists and be required to report any identified relationships or transactions.

*OFAC.* OFAC is responsible for helping to ensure that U.S. entities, including banks, do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

*Privacy and Data Security; Cybersecurity.* Under federal law, financial institutions are generally prohibited from disclosing consumer nonpublic personal information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required, subject to certain exceptions, to disclose their privacy policies to customers annually. Generally, Southside Bank must disclose its privacy policy for collecting and protecting NPI to consumers, permit consumers to “opt out” of having NPI disclosed to non-affiliated third parties, with some exceptions, and allow consumers to opt out of receiving marketing solicitations based on information about the consumer received from another affiliate. Many states have also recently implemented or modified their data privacy laws and some may apply to financial institutions. For example, in California, the California Privacy Rights Act became effective on January 1, 2023, and provides new protections for those Southside Bank customers who reside in that state.

In addition, federal and state banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information, to which Southside Bank is subject. Pursuant to these standards, Southside Bank is required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Southside Bank is also subject to state and federal laws for notifying individuals and regulators in the event of a security breach affecting their personal information. Under federal law, customers must be notified when a financial institution becomes aware of unauthorized access of sensitive customer information and misuse has occurred or is reasonably possible.

More broadly, on November 23, 2021, the federal banking regulators imposed a new cybersecurity-related notification rule that would require banking organizations, including the Company and Southside Bank, to notify their primary federal regulator as soon as possible (but within 36 hours) of incidents that have materially disrupted or degraded, or are reasonably likely to materially disrupt or degrade, the banking organization’s ability to deliver services to a material portion of its customer

base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The rule also imposes requirements on bank service providers to notify their affected banking organization customers of certain computer-security incidents. This rule became effective on April 1, 2022. At the state level, as of January 2, 2020, Texas state banks are required to notify the TDB of “cybersecurity incidents” within specified timeframes.

Regulatory Examination.

See *Holding Company Regulation - Regulatory Examination.*

Enforcement Authority. Southside Bank and its “institution-affiliated parties,” including management, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the institution’s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. Violations can include failure to timely file required reports, filing false or misleading information or submitting inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations, and criminal penalties for some financial institution crimes may include imprisonment for 20 years. Regulators have flexibility to commence enforcement actions against institutions and institution-affiliated parties, and the FDIC has the authority to terminate deposit insurance. When issued by a banking agency, cease and desist orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering agency. The federal banking agencies also may remove a director or officer from an insured depository institution (or bar them from the industry) if a violation is willful or reckless.

Governmental Monetary Policies. The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowings, control of borrowings, open market operations, the imposition of and changes in reserve requirements against member banks, deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates and the placing of limits on interest rates which member banks may pay on time and savings deposits are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies influence to a significant extent the overall growth of all bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. The nature of future monetary policies and the effect of such policies on Southside Bank’s future business and earnings, therefore, cannot be predicted accurately.

Other Regulatory Matters. The Company and its affiliates are subject to oversight by the SEC, the NASDAQ Stock Market, various state securities regulators and other regulatory authorities. The Company and its subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business.



## ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-K, you should carefully consider the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption “Risk Factors” in evaluating us and our business and making or continuing an investment in our stock. Set forth below are the material risks and uncertainties that, if they were to occur, could materially and adversely affect our business, financial condition, results of operations and the trading price of our common stock. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our financial condition and business operations. The trading price of our securities could decline due to the materialization of any of these risks, and our shareholders may lose all or part of their investment. This Form 10-K also contains forward-looking statements that may not be realized as a result of certain factors, including, but not limited to, the risks described herein and in our other public filings with the SEC. Please refer to the section in this Form 10-K entitled “Cautionary Notice Regarding Forward-Looking Statements” for additional information regarding forward-looking statements.

### RISKS RELATED TO OUR BUSINESS

*Our earnings are subject to interest rate risk.*

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest earning assets such as loans and securities and interest expense paid on interest bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including the rate of inflation, general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Since the beginning of 2022, the Federal Reserve has raised interest rates 11 times, to a federal funds rate of 5.25% – 5.50% as of July 31, 2023. In December 2023, the Federal Reserve held the federal funds rate steady for the third consecutive meeting and indicated it may likely decrease the rate in 2024 and beyond. These increased interest rates and uncertainty regarding future rates could negatively impact our cost of borrowing and reduce the amount of money our customers borrow or adversely affect their ability to repay outstanding loan balances that may increase due to adjustments in their variable rates.

Changes in monetary policy, interest rates, the yield curve, or market risk spreads, or a prolonged, flat or inverted yield curve could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect:

- our ability to originate loans and obtain deposits;
- our ability to retain deposits in a rising rate environment;
- net interest rate spreads and net interest rate margins;
- our ability to enter into instruments to hedge against interest rate risk;
- the fair value of our financial assets and liabilities; and
- the average duration of our loan and securities portfolio.

If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. See the section captioned “Net Interest Income” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report for further discussion related to our management of interest rate risk.

*We are subject to credit quality risks and our credit policies may not be sufficient to avoid losses.*

We are subject to the risk of losses resulting from the failure of borrowers, guarantors and related parties to pay us the interest and principal amounts due on their loans. Although we maintain well-defined credit policies and credit underwriting and monitoring and collection procedures, these policies and procedures may not prevent losses, particularly during periods in which the local, regional or national economy suffers a general decline. The effects of inflation and recessionary concerns on economic activity could negatively affect the collateral values associated with our existing loans, our ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect

borrowers may slow or prevent us from making business decisions or delay us from taking certain remediation actions, such as foreclosure. If borrowers fail to repay their loans, our financial condition and results of operations would be adversely affected.

*We have a high concentration of loans secured by real estate and a decline in the real estate market, for any reason, could result in losses and materially and adversely affect our business, financial condition, results of operations and future prospects.*

A significant portion of our loan portfolio is dependent on real estate. In addition to the importance of the financial strength and cash flow characteristics of the borrower, loans are also often secured with real estate collateral. As of December 31, 2023, approximately 80.8% of our loans have real estate as a primary or secondary component of collateral. The real estate in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in the credit markets generally could adversely affect our financial condition and results of operations if we are unable to extend credit or sell loans in the secondary market. An adverse change in the economy affecting real estate values generally or in our primary markets specifically could significantly impair the value of collateral underlying certain of our loans and our ability to sell the collateral at a profit or at all upon foreclosure. Furthermore, it is likely that, in a declining real estate market, we would be required to further increase our allowance for loan losses. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability and financial condition could be adversely impacted.

*Our information systems may experience an interruption or breach in security.*

We rely heavily on communications and information systems to conduct our business. Our communications and information systems remain vulnerable to unexpected disruptions and failures. Any failure, interruption or breach in security of these systems could result in a material adverse effect on our customer relationships, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, there can be no assurance that we will adhere to such policies or procedures or that they can prevent any such failures, interruptions, cybersecurity breaches or other security breaches or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny and disclosure obligations or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business strategy, financial condition and results of operations.

In our ordinary course of business, we rely on electronic communications and information systems to conduct our businesses and to collect and store sensitive data, including financial information regarding our customers and personally identifiable information of our customers and employees. The integrity of information systems of financial institutions is under significant threat from cyber-attacks by third parties, including through coordinated attacks sponsored by foreign nations and criminal organizations to disrupt business operations and other compromises to data and systems for political or criminal purposes. We employ an in-depth, layered, defense approach that leverages people, processes and technology to manage and maintain cybersecurity controls.

Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe as attacks are sophisticated, and attackers respond rapidly to changes in defensive measures. Cybersecurity risks may also occur with our third-party service providers and may interfere with their ability to fulfill their contractual obligations to us, with potential for financial loss or liability that could have a material adverse effect on our business strategy, financial condition or results of operations. We offer our customers the ability to bank remotely and provide other technology-based products and services, which services include the secure transmission of confidential information over the Internet and other remote channels. To the extent that our customers' systems are not secure or are otherwise compromised, our network could be vulnerable to unauthorized access, malicious software, phishing schemes and other security breaches. To the extent that our activities or the activities of our customers or third-party service providers involve the storage and transmission of confidential information, security breaches and malicious software could expose us to claims, regulatory scrutiny, litigation and other possible liabilities.

In addition, we permit a portion of our employees to work remotely from their homes. However, consumer technology in employees' homes may not provide similar performance or security as commercial-grade technology in our offices. This, along with reliance on employees' residential internet, could cause network, system, application, and communication limitations or instability, affecting customer experience for some departments. The continuation of these work-from-home measures also introduces additional operational risk, including increased cybersecurity risk. These cyber risks include greater phishing, malware, and other social engineering attacks targeted at employees working from home. Increased risk of unauthorized dissemination of confidential information, greater risk of privacy breach due to screen/voice/video conversation outside private office space, limited ability to restore the systems in the event of a system failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted customers.

Our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we could experience a significant compromise, significant data loss or material financial losses related to cyber-attacks in the future. We may suffer material financial losses related to these risks in the future or we may be subject to liability for compromises to our customer or third-party service provider systems. Any such losses or liabilities could have a material adverse effect on our business strategy, financial condition or results of operations and could expose us to reputation risk, the loss of customer business, increased operational costs, as well as additional regulatory scrutiny, possible litigation and related financial liability. These risks also include possible business interruption, including the inability to access critical information and systems.

*General political or economic conditions in the United States could adversely affect our financial condition and results of operations.*

The state of the economy and various economic, social and political factors, including inflation, recession, pandemics, unemployment, social unrest/civil disorder, interest rates, declining oil prices and the level of U.S. debt, as well as governmental action and uncertainty resulting from U.S. and global political trends, including weakness in foreign sovereign debt and currencies, hostile actions of foreign governments (including the Russian-Ukrainian War and the Israel/Hamas conflict), may directly and indirectly have a destabilizing effect on our financial condition and results of operations. Unfavorable or uncertain international, national or regional political or economic environments could drive losses beyond those which are provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position;
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power;
- decreases in the credit quality of our non-U.S. Government and non-U.S. agency investment securities, corporate and municipal securities;
- an adverse or unfavorable resolution of the Fannie Mae or Freddie Mac conservatorship; and
- decreases in the real estate values subject to ad-valorem taxes by municipalities that impact such municipalities' ability to repay their debt, which could adversely affect our municipal loans or debt securities.

Any of the foregoing could adversely affect our financial condition and results of operations.

*Negative developments in the banking industry could adversely affect our current and projected business operations and our financial condition and results of operations.*

Bank failures in the first half of 2023 and related negative media attention have generated significant market trading volatility among publicly traded bank holding companies like the Company and, in particular, regional and community banks like the Bank. These developments have negatively impacted customer confidence in regional and community banks, which could prompt customers to transfer their deposits to larger financial institutions. Further, competition for deposits has increased in recent periods, and the cost of funding has similarly increased, putting pressure on our net interest margin. If we were required to sell a portion of our securities portfolio to address liquidity needs, we may incur losses as a result of the negative impact of rising interest rates on the value of our securities portfolio, which could negatively affect our earnings and our capital. If we were required to raise additional capital in the current environment, any such capital raise may be on unfavorable terms, thereby negatively impacting book value and profitability. While we have taken actions to increase our funding, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.

We also anticipate increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks similar to our size, designed to address the negative developments in the banking industry in 2023, all of which may increase our costs of doing business and reduce our profitability. Among other things, there is an increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, losses embedded in the held-to-maturity portion of our securities portfolio, contingent liquidity, CRE composition and concentration, capital position and our general oversight and internal control structures regarding the foregoing. As a result, the Bank could continue to face increased scrutiny or be viewed as higher risk by regulators and the investor community.

*Rising interest rates have decreased the value of a portion of the Company's securities portfolio, and the Company would realize losses if it were required to sell such securities to meet liquidity needs.*

As a result of inflationary pressures and the resulting rapid increases in interest rates in 2022 and the first half of 2023, the fair value of our securities classified as available for sale and held-to-maturity has declined. This has resulted in unrealized

losses on AFS securities embedded in other comprehensive income as a part of shareholders' equity. If the Company were required to sell such securities to meet liquidity needs, including in the event of deposit outflows or slower deposit growth, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.

*We rely on other companies to provide key components of our business infrastructure.*

Third parties provide key components of our business infrastructure, such as banking services, core processing and internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to our customers and otherwise to conduct business. Technological or financial difficulties of one of our third-party service providers or their subcontractors could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. In addition, one or more of our third-party service providers may become subject to cyber-attacks or information security breaches, including as a result of increased remote working, that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business strategies, financial condition or results of operations. While we have processes in place to monitor our third-party service providers' data and information security safeguards, there can be no assurance that we will adhere to such processes. We also do not control such service providers' day-to-day operations, and preventing a successful attack or security breach at one or more of such third-party service providers is not within our control. The occurrence of any such breaches or failures could damage our reputation, result in a loss of customer business and expose us to additional regulatory scrutiny, disclosure obligations, civil litigation and possible financial liability, any of which could have a material adverse effect on our business strategy, financial condition and results of operations. Further, in some instances we may be held responsible for the failure of such third parties to comply with government regulations. We may not be insured against all types of losses as a result of third-party failures, and our insurance coverage may not be adequate to cover all losses resulting from system failures, third-party breaches or other disruptions. Failures in our business structure or in the structure of one or more of our third-party service providers could interrupt our operations or increase the cost of doing business.

*We continually encounter technological change.*

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services including those related to or involving artificial intelligence, machine learnings, blockchain and other distributed ledger technologies. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, and even if we implement such products and services, we may incur substantial costs in doing so. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on our business, financial condition and results of operations.

*We are subject to the risk that our U.S. agency MBS could prepay faster than we have projected.*

We have purchased and may continue to purchase MBS at premiums. Our prepayment assumptions take into account market consensus speeds, current trends and past experience. If actual prepayments exceed our projections, the amortization expense associated with these MBS will increase, thereby decreasing our net income. The increase in amortization expense and the corresponding decrease in net income could have a material adverse effect on our financial condition and results of operations.

*We rely on dividends from our bank subsidiary for most of our revenue.*

Southside Bancshares, Inc. is a separate and distinct legal entity from its subsidiaries. We receive substantially all of our revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on our common stock to our shareholders and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank and certain of our nonbank subsidiaries may pay to us. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends to our shareholders. The inability to receive dividends from the Bank could have a material adverse effect on our

business, financial condition and results of operations. See the section captioned “Supervision and Regulation” in “Item 1. Business” and “Note 13 – Shareholders’ Equity” to our consolidated financial statements included in this report.

*You may not receive dividends on our common stock.*

Although we have historically declared quarterly cash dividends on our common stock, we are not required to do so and may reduce or cease to pay common stock dividends to our shareholders in the future. If we reduce or cease to pay common stock dividends, the market price of our common stock could be adversely affected.

As noted above, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from the Bank. The Bank’s ability to pay dividends to us is subject to, among other things, its earnings, financial condition and need for funds, as well as federal and state governmental policies and regulations applicable to us and the Bank, including the statutory requirement that we serve as a source of financial strength for the Bank, which limits the amount that may be paid as dividends without prior regulatory approval. Additionally, if the Bank’s earnings are not sufficient to pay dividends to us while maintaining adequate capital levels, we may not be able to pay dividends to our shareholders. See “Supervision and Regulation — Holding Company Regulation — Dividends” included in this report.

*We may not be able to attract and retain skilled personnel.*

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for the best personnel in most of our activities can be intense, and we may not be able to hire or retain acceptable personnel. The increase of “remote work” opportunities in the financial services industry means that community banks must compete more directly against larger financial institutions for qualified workers. The federal banking agencies have also issued comprehensive guidance on incentive compensation limitations, and jointly proposed additional restrictions in the future, which may impact our retention of qualified personnel. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, relationships in the communities we serve, years of industry experience and the difficulty of promptly finding qualified replacement personnel. Although we have employment agreements with certain of our executive officers, there is no guarantee that these officers and other key personnel will remain employed with the Company.

*We operate in a highly competitive industry and market area.*

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional and community banks within the various markets we operate. Additionally, various out-of-state banks have entered or have announced plans to enter the market areas in which we currently operate. We also face competition from many other types of financial institutions, including, without limitation, credit unions, fintech companies, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes, continued consolidation and recent trends in the credit and mortgage lending markets. Banks, securities firms and insurance companies can be affiliated under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer certain products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Our competitors may have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can, including lower or discontinued fees, such as non-sufficient funds and overdraft fees.

Our ability to compete successfully depends on a number of factors, including:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- our ability to invest in or partner with technology providers offering banking solutions and delivery channels at a level equal to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

*Our accounting estimates and risk management processes rely on analytical and forecasting models.*

The process we use to estimate our loan losses and to measure our retirement plan liabilities and the fair value of our financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. The adoption of CECL in 2020 increased the complexity of these analytical and forecasting models. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the methodology we use for determining our loan losses are inadequate, our allowance for loan losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. If the key assumptions and models used to measure the retirement plan liabilities and expense are inadequate, the liability may not accurately reflect the amount required to fund the benefit obligation. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

*Our allowance for loan losses may be insufficient.*

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense. This allowance represents management's best estimate of expected losses that may occur over the contractual life of our current loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks expected in the loan portfolio considering historical losses, current conditions and reasonable and supportable forecasts. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present and forecasted economic, political and regulatory conditions, including inflation and recessionary concerns; the Federal Reserve's aggressive raising of the federal funds rate throughout 2022 and most of 2023; and unidentified losses expected in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting the value of properties used as collateral for loans, problems affecting the credit of borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Business and consumer customers of the Bank may be currently experiencing varying degrees of financial distress, which may continue over the coming months and may adversely affect their ability to timely pay interest and principal on their loans and the value of the collateral securing their obligations. This in turn may influence the recognition of credit losses in our loan portfolios and may increase our allowance for credit losses, particularly should more customers draw on their lines of credit or seek additional loans to help finance their businesses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs (in accordance with GAAP), based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we may need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

*Our interest rate risk, liquidity, fair value of securities and profitability are dependent upon the successful management of our balance sheet strategy.*

We implemented a balance sheet strategy for the purpose of enhancing overall profitability by maximizing the use of our capital. The effectiveness of our balance sheet strategy, and therefore our profitability, may be adversely affected by a number of factors, including reduced net interest margin and spread, adverse changes in the market liquidity and fair value of our investment securities and U.S. agency MBS, incorrect modeling results due to the unpredictable nature of MBS prepayments, the length of interest rate cycles and the slope of the interest rate yield curve. In addition, we may not be able to obtain wholesale funding to profitably and properly fund our balance sheet strategy. If our balance sheet strategy is flawed or poorly implemented, we may incur significant losses. See the section captioned "Balance Sheet Strategy" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report for further discussion related to our balance sheet strategy.

*Our process for managing risk may not be effective in mitigating risk or losses to us.*

The objective of our risk management process is to mitigate risk and loss to our organization. We have established procedures that are intended to identify, measure, monitor, report and analyze the types of risks to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, cybersecurity risk, legal and compliance risk and reputational risk, among others. However, as with any risk management process, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. The ongoing developments in the financial institutions industry continue to highlight both the importance and some of the limitations of managing unanticipated risks. If our risk management processes prove ineffective, we could suffer unexpected losses and could be materially adversely affected.

*New lines of business or new products and services may subject us to additional risks.*

From time to time, we may implement new delivery systems, such as internet banking, or offer new products and services within existing lines of business. In developing and marketing new delivery systems and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

*Acquisitions and potential acquisitions may disrupt our business and dilute shareholder value.*

We occasionally evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place, and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and fair values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize expected revenue increases, cost savings, increases in geographic or product presence and/or other projected benefits and synergies from an acquisition could have a material adverse effect on our financial condition and results of operations.

*Our profitability depends significantly on economic conditions in the State of Texas.*

Our success depends primarily on the general economic conditions in the State of Texas and the specific local markets within Texas in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers primarily in the State of Texas and the local markets in which we operate within Texas. The local economic conditions in these areas have a significant impact on the demand for our products and services, as well as the ability of our customers to repay loans, the value of the collateral securing our loans and the stability of our deposit funding sources. Moreover, a substantial percentage of the securities in our municipal bond portfolio were issued by political subdivisions and agencies within the State of Texas. A significant decline in general economic conditions, caused by inflation, recession, crude oil prices, acts of terrorism, pandemics, natural or man-made disasters, outbreak of hostilities or other international or domestic occurrences, unemployment, plant or business closings or downsizing, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on our financial condition and results of operations.

*Funding to provide liquidity may not be available to us on favorable terms or at all.*

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the Bank is necessary to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. Our board of directors establishes liquidity policies and limits. Management and our ALCO regularly monitor the overall liquidity position of the Bank and the Company to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Management and our ALCO also establish policies and monitor guidelines to diversify the Bank's funding sources to avoid concentrations in excess of board-approved policies from any one market source. Funding sources include federal funds purchased, repurchase agreements, noncore deposits and short- and long-term debt. The Bank is also a member of the FHLB System, which provides funding through advance agreements to members that are collateralized with U.S. Treasury securities, MBS, commercial MBS and loans.

We maintain a portfolio of securities that can be used as a secondary source of liquidity. Other sources of liquidity include sales or securitizations of loans, our ability to acquire additional national market, noncore deposits, additional collateralized borrowings such as FHLB advance agreements, the issuance and sale of debt securities and the issuance and sale



of preferred or common securities in public or private transactions. The Bank also can borrow from the FRDW and request advances from the BTFP through March 11, 2024.

We have historically had access to a number of alternative sources of liquidity, but if there is an increase in volatility in the credit and liquidity markets similar to 2008, there is no assurance that we will be able to obtain such liquidity on terms that are favorable to us, or at all. The cost of out-of-market deposits may exceed the cost of deposits of similar maturity in our local market area, making such deposits unattractive sources of funding; financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy in general, and there may not be a viable market for raising equity capital.

If we were unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows and liquidity and level of regulatory-qualifying capital.

*If we fail to maintain an effective system of disclosure controls and procedures, including internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, which could have a material adverse effect on our business, results of operations and financial condition. In addition, current and potential shareholders could lose confidence in our financial reporting, which could harm the trading price of our common stock.*

Management regularly monitors, reviews and updates our disclosure controls and procedures, including our internal control over financial reporting. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the controls will be effective. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Failure to achieve and maintain an effective internal control environment could prevent us from accurately reporting our financial results, preventing or detecting fraud or providing timely and reliable financial information pursuant to our reporting obligations, which could result in a material weakness in our internal controls over financial reporting and the restatement of previously filed financial statements and could have a material adverse effect on our business, financial condition and results of operations. Further, ineffective internal controls could cause our investors to lose confidence in our financial information, which could affect the trading price of our common stock.

*The value of our goodwill and other intangible assets may decline in the future.*

As of December 31, 2023, we had \$204.0 million of goodwill and other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to environmental liability as a result of certain lending activities.*

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. There is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental remediation may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures that require us to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

*We may be adversely affected by declining crude oil prices.*

Since 2022, the market price of a barrel of West Texas Intermediate crude oil fluctuated from a low of approximately \$65 to a high of approximately \$89. To partially mitigate this volatility, oil producers continue to find ways to control production costs. Decreased market oil prices compressed margins for many U.S. and Texas-based oil producers, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. As of December 31, 2023, energy loans comprised approximately 2.09% of our loan portfolio. Energy production and related industries represent a significant part of the economies in our primary markets. Although crude oil prices are not presently depressed, if oil prices were to decline significantly for an extended period, we could experience weaker loan demand from the energy industry and increased losses within our energy portfolio. A prolonged period of low oil prices could also have a negative impact on the

U.S. economy and, in particular, the economies of energy-dominant states such as Texas, which in turn could have a material adverse effect on our business, financial condition and results of operations.

*Severe weather, natural disasters, climate change, acts of war or terrorism, health emergencies, epidemics or pandemics and other external events could significantly impact our business.*

Severe weather, natural disasters, climate change, acts of war or terrorism, health emergencies, epidemics or pandemics and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. For example, because of our location and the location of the market areas we serve, severe weather is more likely than in other areas of the country. Although management has established disaster recovery policies and procedures, there can be no assurance of the effectiveness of such policies and procedures, and the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations.

## RISKS ASSOCIATED WITH THE BANKING INDUSTRY

*We are subject or may become subject to extensive government regulation and supervision.*

Southside Bancshares, Inc., primarily through the Bank, and certain of its nonbank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices and dividend policy and growth, among other things. The statutory and regulatory framework under which we operate has changed substantially as the result of the enactment of the Dodd-Frank Act and the Regulatory Relief Act, and the adoption of the Basel III Capital Rules, the European Union's General Data Protection Regulations and data protection laws enacted by several U.S. states. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection (as implemented through the CFPB), interchange fees, derivatives, lending limits, mortgage lending practices, registration of investment advisors and changes among bank regulatory authorities. In addition, Congress and federal and state regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit deposit fees and other types of fees we charge, limit the types of financial services and products we may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. While we cannot predict the impact of regulatory changes that may arise out of the current financial and economic environment, any regulatory changes or increased regulatory scrutiny could increase costs directly related to complying with new regulatory requirements. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations. While our policies and procedures are designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" in "Item 1. Business" and "Note 13 – Shareholders' Equity" to our consolidated financial statements included in this report.

*We may become subject to increased regulatory capital requirements.*

The capital requirements applicable to Southside Bancshares, Inc. and the Bank are subject to change as a result of future government actions. Each of the federal banking agencies, including the Federal Reserve and the FDIC, has issued substantially similar risk-based and leverage capital guidelines applicable to the banking organizations they supervise. For additional discussion relating to capital adequacy refer to "Item 1. Business - Supervision and Regulation - Capital Adequacy" in this report. The Company believes it will continue to meet the capital guidelines, however complying with new capital rules mandated by the federal banking agencies may affect our operations, including our asset portfolios and financial performance.

*Changes in accounting and tax rules applicable to banks could adversely affect our financial condition and results of operations.*

From time to time, the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements. For a discussion of the reporting and accounting implications to the Company and Southside Bank resulting from recent changes to the tax laws, refer to "Item 1. Business - Supervision and Regulation - Regulatory Examination" in this report.

*Financial services companies depend on the accuracy and completeness of information about customers and counterparties and inaccuracies in such information, including as a result of fraud, could adversely impact our business, financial condition and results of operations.*

In deciding whether to extend credit or enter into other transactions with third parties, we rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors or property appraisers, as to the accuracy and completeness of that information. Such information could be inaccurate, including as a result of fraud on behalf of our customers, counterparties or other third parties. In times of increased economic stress, we are at an increased risk of fraud losses. We cannot assure you that our underwriting and operational controls will prevent or detect such fraud or that we will not experience fraud losses or incur costs or other damages related to such fraud. Our customers may also experience fraud in their businesses which could adversely affect their ability to repay their loans or make use of our services. Our exposure and the exposure of our customers to fraud may increase our financial risk and reputation risk as it may result in unexpected loan losses that exceed those that have been provided for in our allowance for loan losses. Reliance on inaccurate or misleading information from our customers, counterparties and other third parties, including as a result of fraud, could have a material adverse impact on our business, financial condition and results of operations.

*Consumers may decide not to use banks to complete their financial transactions.*

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

*The soundness of other financial institutions could adversely affect us.*

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional customers. Many of these transactions expose us to credit risk in the event of default of our counterparty or customer. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

*We are subject to claims and litigation pertaining to fiduciary responsibility.*

From time to time, customers make claims and take legal action pertaining to the performance of our fiduciary responsibilities. Whether customer claims and legal actions related to the performance of our fiduciary responsibilities are merited, defending claims is costly and diverts management's attention, and if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect our market perception and products and services as well as impact customer demand for those products and services. Any financial liability or reputational damage resulting from claims and legal actions could have a material adverse effect on our business, financial condition and results of operations.

## GENERAL RISK FACTORS

*Our stock price can be volatile.*

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in our results of operations, financial condition or asset quality;
- changes in recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry, including regulatory actions against other financial institutions;
- perceptions in the marketplace regarding us and/or our competitors;
- perceptions in the marketplace regarding the impact of changes in price per barrel of crude oil, real estate values and interest rates on the Texas economy;

- new technology used or services offered by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- future issuances of our common stock or other securities;
- additions or departures of key personnel;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts, health emergencies, epidemics or pandemics.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, inflation, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

*The holders of our subordinated notes and junior subordinated debentures have rights that are senior to those of our common stock shareholders.*

On November 6, 2020, we issued \$100.0 million of 3.875% fixed-to-floating rate subordinated notes, which mature in November 2030. On September 19, 2016, we issued \$100.0 million of 5.50% fixed-to-floating subordinated notes, which we redeemed on September 30, 2021. On September 4, 2003, we issued \$20.6 million of floating rate junior subordinated debentures in connection with a \$20.0 million trust preferred securities issuance by our subsidiary Southside Statutory Trust III. These junior subordinated debentures mature in September 2033. On August 8 and 10, 2007, we issued \$23.2 million and \$12.9 million, respectively, of fixed-to-floating rate junior subordinated debentures in connection with \$22.5 million and \$12.5 million, respectively, trust preferred securities issuances by our subsidiaries Southside Statutory Trust IV and V, respectively. Trust IV matures October 2037 and Trust V matures September 2037. On October 10, 2007, as part of an acquisition, we assumed \$3.6 million of floating rate junior subordinated debentures to Magnolia Trust Company I in connection with \$3.5 million of trust preferred securities issued in 2005 that mature in 2035.

We conditionally guarantee payments of the principal and interest on the trust preferred securities. Our subordinated notes and the junior subordinated debentures are senior to our shares of common stock. We must make payments on the junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock, and in the event of bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of common stock. We have the right to defer distributions on our debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of common stock.

*The trading volume in our common stock is less than that of other larger financial services companies.*

Although our common stock is listed for trading on the NASDAQ Global Select Market, the trading volume for our common stock is low relative to other larger financial services companies, and you are not assured liquidity with respect to transactions in our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock or the expectation of these sales, could cause our stock price to fall.

*We may issue additional securities, which could dilute your ownership percentage.*

In certain situations, our board of directors has the authority, without any vote of our shareholders, to issue shares of our authorized but unissued stock. In the future, we may issue additional securities, through public or private offerings, to raise additional capital or finance acquisitions. Any such issuance would dilute the ownership of current holders of our common stock.

*Securities analyst might not continue coverage on our common stock, which could adversely affect the market for our common stock.*

The trading price of our common stock depends in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these analysts and they may not continue to cover our common stock. If securities analysts do not continue to cover our common stock, the lack of research coverage may adversely affect its market price. If securities analysts continue to cover our common stock and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports

on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

*Provisions of our certificate of formation and bylaws, as well as state and federal banking regulations, could delay or prevent a takeover of us by a third party.*

Our certificate of formation and bylaws could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our common stock. These provisions include, among others, requiring advance notice for raising business matters or nominating directors at shareholders' meetings and staggered board elections.

Any individual, acting alone or with other individuals, who are seeking to acquire, directly or indirectly, 10.0% or more of our outstanding common stock must comply with the CBCA, which requires prior notice to the Federal Reserve for any acquisition. Additionally, any entity that wants to acquire 5.0% or more of our outstanding common stock, or otherwise control us, may need to obtain the prior approval of the Federal Reserve under the BHCA. As a result, prospective investors in our common stock need to be aware of and comply with those requirements, to the extent applicable. These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our shareholders might otherwise receive a premium over the market price of our share.

*An investment in our common stock is not an insured deposit.*

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None

#### ITEM 1C. CYBERSECURITY

##### Risk Management Strategy

Given the increasing reliance on technology and potential of cyber threats, we have integrated a cybersecurity component into our risk management program, which is designed to identify, assess and mitigate risks across various aspects of the Company. We have a dedicated Information Security Department, which is led by our Chief Information Security Officer. The Information Security Department serves to protect the security and confidentiality of customer information, protect against any threats or hazards to the security or integrity of Company information and protect against unauthorized access to, or use of, such information that could result in substantial harm or inconvenience to our customers.

Our information security program strives to protect the confidentiality, integrity and availability of information and information systems and is aligned to the Company's business and risk management strategies. It shares common methodologies, reporting channels and governance processes that apply to other areas of enterprise risk. Key elements of our cybersecurity risk management program include:

- IT risk assessments designed to help identify material cybersecurity risks to our critical systems, information, products, services, and our broader enterprise information technology environment;
- Information Security Department responsible for managing our cybersecurity risk assessment processes, our security controls, and our response to a cybersecurity incident;
- Cybersecurity Assessment Toolkit (developed by the FFIEC) is assessed annually, tracks program maturity, changes in risk profile, and reviews security controls critical to reduce cybersecurity risk. Results are presented to and approved by the Board;
- Ransomware Assessment Toolkit (developed by the Bankers Electronic Crimes Task Force, state bank regulators and the U.S. Secret Service) is assessed biannually to capture any gaps and address any potential control deficiencies;
- training and awareness programs for employees that include periodic and ongoing assessments to drive adoption and awareness of cybersecurity processes and controls;
- the use of external service providers, where appropriate, to assess, test or otherwise assist with aspects of our security controls;
- a cybersecurity incident response plan that includes procedures for responding to a cybersecurity incident; and

- a third-party risk management process for service providers, suppliers, and vendors, including those external service providers we engage in our cybersecurity risk management processes.

Risks from cybersecurity threats are assessed with existing controls and residual risk is monitored. We have not experienced any material cybersecurity incidents that have materially affected, or are reasonably likely to materially affect, the Company, including its business strategy, results of operations or financial condition. We cannot provide full assurance that our cybersecurity risk management processes described will be fully implemented, complied with or effective in protecting our systems and information. While we maintain cybersecurity insurance, the costs related to cybersecurity threats or disruptions may not be fully insured. See “Part I - Item 1A. Risk Factors – Risks Related to Our Business” in this report for a discussion of risks related to cybersecurity.

## Governance

### Management’s Role

Our CISO leads our Information Security Department, is responsible for the information security program, which includes cybersecurity, and reports to the Chief Risk Officer. Our CISO joined the Company in 2012. He has 18 years of experience, involving both information technology and information security. He has a Master of Business Administration in Cybersecurity, graduate studies certificate in cybersecurity and has achieved four certifications, including Certified Information Security Manager, Certified Information Systems Auditor, Certified Data Privacy Solutions Engineer and Cisco Certified Network Associate. The CISO provides an annual report of the information security program and monthly reports to the Audit Committee, including any security incident or notable security event for the period. The CISO also reports to the Company’s Risk Committee on risk assessments annually and key risk indicators at least quarterly.

We also have a trained response team lead by the CISO, consisting of key individuals from our finance, operations, risk, compliance, communications, human resources, banking and information technology departments, that is engaged for cybersecurity related incidents where necessary and as appropriate.

### Board Oversight of Cybersecurity

The Company’s Audit and Risk Committees oversee cybersecurity risk and the information security program which includes overseeing management’s actions to identify, assess, mitigate and remediate or prevent material cybersecurity risks. The Audit Committee receives an annual report of the information security program and monthly reports from the CISO on notable security events for the period. The notable security event briefings by the CISO are intended to create discussion that allows Board members to understand the impact, controls and risk. The Risk Committee receives annual reports from the CISO on risk assessments and reports on key risk indicators at least quarterly. The Company’s Risk Committee receives at least one annual training from the CISO on the information security program, cybersecurity controls or cybersecurity threats.

Both the Bank’s internal Risk Committee and the Company’s Risk Committee review all risk assessments and remediations annually. The information security program includes policies and standards that define the risk assessment procedures, reporting and an incident response plan. The incident response plan defines escalations to senior management and the Board, as well as required notifications and timeframes to customers and regulatory authorities.

## ITEM 2. PROPERTIES

The primary executive offices of Southside are located at 1201 South Beckham Avenue, Tyler, Texas 75701. This site also houses a banking center, a technology center, back office support areas and wealth management and trust services. Additional executive offices are located at 1320 South University Drive, Fort Worth, Texas 76107 in University Center II and at 104 N. Temple, Diboll, Texas 75941. Additional wealth management and trust services are located at 2510 West Frank Street, Lufkin, Texas 75904. All of these locations are owned by Southside. As of December 31, 2023, Southside operated 55 branches which includes traditional full service branches and full service branches within grocery stores. These branches are located in the state of Texas in the Dallas/Fort Worth, East Texas, Southeast Texas, Austin and Houston regions. Of the 55 branches, 36 are owned and 19 are leased. In addition to our branches, Southside also operates drive-thrus, wealth management and trust services or other financial services offices which Southside owns. Southside also owns 73 ATMs/ITMs located throughout our market areas.

For additional information concerning our properties, refer to “Note 6 – Premises and Equipment” and “Note 16 – Leases” to our consolidated financial statements included in this report.

### ITEM 3. LEGAL PROCEEDINGS

We are party to legal proceedings arising in the normal conduct of business. Management believes that such litigation is not material to our financial position, results of operations or cash flows.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### MARKET INFORMATION

Our common stock trades on the NASDAQ Global Select Market under the symbol "SBSI."

#### SHAREHOLDERS

There were approximately 1,400 holders of record of our common stock, the only class of equity securities currently issued and outstanding, as of February 23, 2024.

#### DIVIDENDS

See the section captioned "Item 8. Financial Statements and Supplementary Data - Note 13 – Shareholders' Equity" in our consolidated financial statements included in this report for the amount of cash dividends we paid. Also, see "Item 1 - Business - Supervision and Regulation - Dividends" and "Item 7 - Management's Discussion and Analysis of the Financial Condition and Results of Operations - Capital Resources and Liquidity" for restrictions on our present or future ability to pay dividends, particularly those restrictions arising under federal and state banking laws.

#### ISSUER SECURITY REPURCHASES

On December 13, 2022, our board of directors increased its authorization under the Company's Stock Repurchase Plan, previously authorized in March 2022, by an additional 1.0 million shares, for a total authorization to repurchase up to 2.0 million shares of Southside common stock. During the first six months of 2023, all remaining authorized shares under the Stock Repurchase Plan were repurchased. 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. During 2023, we repurchased a total of 1,435,193 shares at an average price per share of \$31.44.

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 December 31, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	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
October 1, 2023 - October 31, 2023 .....	146,580	\$ 28.54	146,580	641,032
November 1, 2023 - November 30, 2023 .....	—	—	—	641,032
December 1, 2023 - December 31, 2023 .....	—	—	—	641,032
Total .....	<u>146,580</u>	<u>\$ 28.54</u>	<u>146,580</u>	

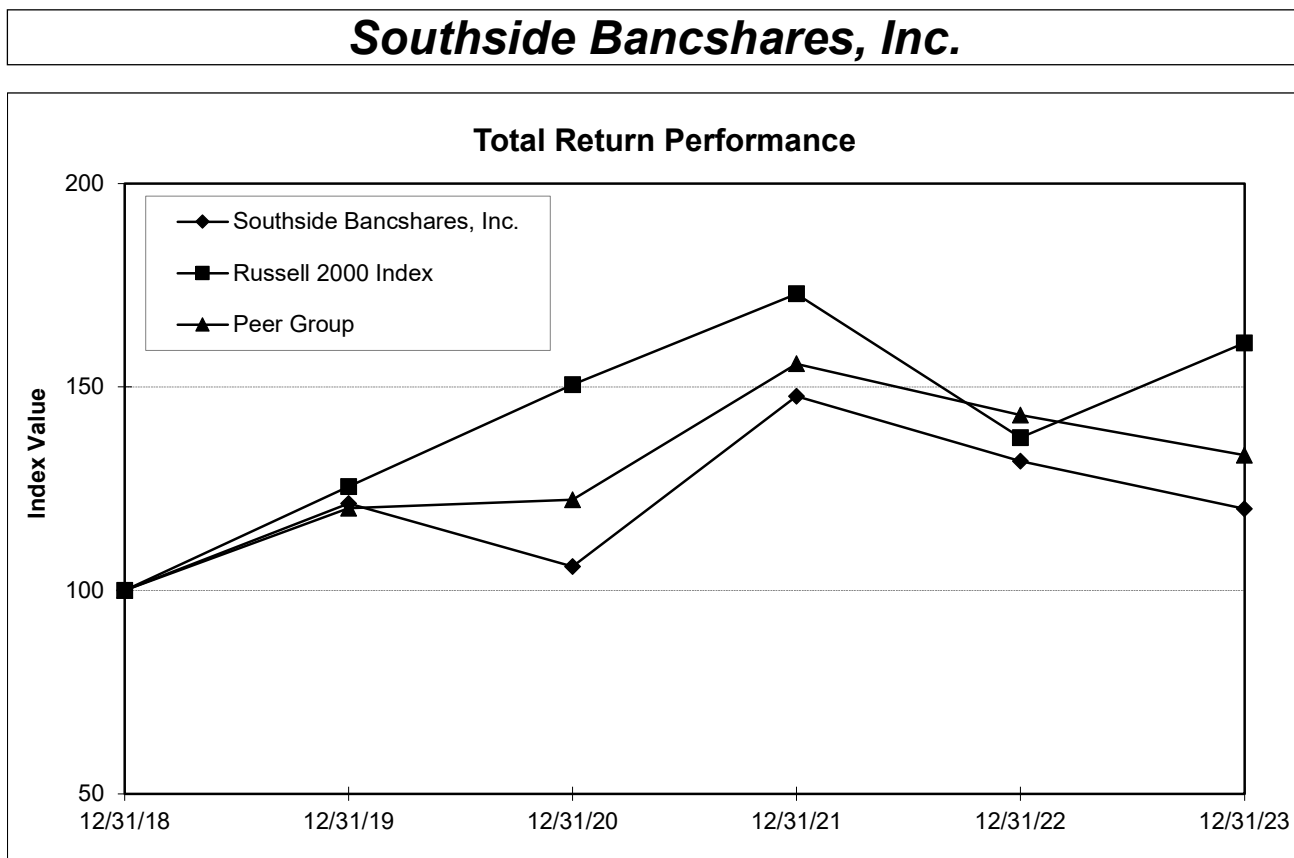
We have not purchased any common stock pursuant to the Stock Repurchase Plan subsequent to December 31, 2023.

#### RECENT SALES OF UNREGISTERED SECURITIES

There were no equity securities sold by us during the years ended December 31, 2023, 2022 or 2021 that were not registered under the Securities Act of 1933.

FINANCIAL PERFORMANCE

The following performance graph compares the returns for the indexes indicated assuming that \$100 was invested on December 31, 2018 and that all dividends are reinvested. The performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.



Index	Period Ending					
	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
Southside Bancshares, Inc.	100.00	121.32	105.86	147.74	131.71	120.00
Russell 2000 Index	100.00	125.53	150.58	172.90	137.56	160.85
SBSI Peer Group*	100.00	120.20	122.26	155.72	143.05	133.25

\*Peer group includes Cullen/Frost Bankers, Inc. (CFR), First Financial Bankshares, Inc. (FFIN), Hilltop Holdings (HTH), Independent Bank Group, Inc. (IBTX), Prosperity Bancshares, Inc. (PB), Texas Capital Bancshares, Inc. (TCBI) and Veritex Holdings, Inc. (VBTX).

Source: S&P Global Market Intelligence

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ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides a comparison of our results of operations for the years ended December 31, 2023 and 2022 and financial condition as of December 31, 2023 and 2022. This discussion should be read in conjunction with the financial statements and related notes included elsewhere in this report. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2022 Form 10-K for a discussion and analysis of the more significant factors that affected periods prior to 2022.

CAUTIONARY NOTICE REGARDING 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 interest rate increases 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;
- 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 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 change or other catastrophic events;
- potential impacts of the 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;
- 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 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 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
- the risks identified in "Part I - Item 1A. Risk Factors – Risks Related to Our Business" in this report.

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. Actual results could differ from those estimates. We consider our critical accounting estimates to include the following:

*Allowance for Credit Losses.* The allowance for credit losses includes credit losses on loans as well as the off-balance-sheet credit exposure, which is reported as a component of other liabilities on our consolidated balance sheets. The allowance for credit losses on loans is estimated and recognized upon origination of the loan based on expected credit losses. The off-balance-sheet credit exposure is evaluated using the expected credit losses using usage given defaults and credit conversion factors depending on the type of commitment and based upon historical usage rates. The CECL model uses historical experience and current conditions for homogeneous pools of loans, and reasonable and supportable forecasts about future events. Management selects models through which historical reserve factor estimates are calibrated to economic forecasts over the reasonable and supportable forecast period based on the projected performance of specific economic variables that statistically correlate with the probability of default and loss given default pools. Loss estimates revert to the long-term trend of each economic variable beyond the forecast period. Management selects economic variables it believes to be most relevant based on the composition of the loan portfolio and customer base, including forecasted levels of employment, gross domestic product, corporate bond and treasury spreads, industrial production levels, consumer and commercial real estate price indices as well as housing statistics. The allowance for credit losses is highly sensitive to the economic forecasts used to develop the estimate. Due to the high level of uncertainty regarding significant assumptions, we evaluate a range of economic scenarios, including a more severe economic forecast scenario, with varying speeds of recovery. Selecting a different forecast could result in a significantly different estimated allowance for credit losses. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

Refer to “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” to our consolidated financial statements included in this report for a detailed description of our estimation process and methodology related to the allowance for loan losses.

## 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).

	Years Ended December 31,		
	2023	2022	2021
Net interest income (GAAP) .....	\$ 215,027	\$ 212,341	\$ 189,557
Tax-equivalent adjustments:			
Loans .....	2,724	2,993	2,920
Tax-exempt investment securities .....	9,939	11,388	10,045
Net interest income (FTE) <sup>(1)</sup> .....	<u>\$ 227,690</u>	<u>\$ 226,722</u>	<u>\$ 202,522</u>
Average earning assets .....	\$ 7,361,199	\$ 6,822,667	\$ 6,402,554
Net interest margin .....	2.92 %	3.11 %	2.96 %
Net interest margin (FTE) <sup>(1)</sup> .....	3.09 %	3.32 %	3.16 %
Net interest spread .....	2.25 %	2.86 %	2.80 %
Net interest spread (FTE) <sup>(1)</sup> .....	2.42 %	3.07 %	3.01 %

(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.

## OVERVIEW

### ECONOMIC CONDITIONS

The economic conditions and growth prospects for our markets, even against the headwinds of inflation and potential recessionary concerns, continue to reflect a solid and positive overall outlook. Ongoing elevated inflation levels and higher 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 \$351.7 million, or 5.7%, to \$6.55 billion at December 31, 2023 from \$6.20 billion at December 31, 2022. At December 31, 2023, we had 180,057 total deposit accounts with an average balance of \$32,000. Our estimated uninsured deposits was 37.5% of total deposits as of December 31, 2023. When excluding affiliate deposits (Southside-owned deposits) and public fund deposits (all collateralized), our total estimated deposits without insurance or collateral was 19.0% of total deposits as of December 31, 2023.

We continued to increase interest rates paid on deposits during the year in order to retain deposits. Our noninterest bearing deposits represent approximately 21.2% of total deposits. Our cost of interest bearing deposits increased 168 basis points, from 0.66% for the year ended December 31, 2022, to 2.34% for the year ended December 31, 2023. Our cost of total deposits increased 129 basis points, from 0.48% for the year ended December 31, 2022, to 1.77% for the year ended December 31, 2023.

### CAPITAL RESOURCES AND LIQUIDITY

Our capital ratios and contingent liquidity sources remain solid. We utilized the Federal Reserve's BTFP to reduce our overall funding costs and to enhance our interest rate risk position. Advances can be requested under the BTFP until March 11, 2024. As of December 31, 2023, our BTFP borrowings of \$117.7 million were at a cost of 4.37%.

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

	December 31, 2023			
	Line of Credit	Borrowings	Total Available for Future Liquidity	Swapped
FHLB advances .....	\$ 2,158,321	\$ 212,648	\$ 1,945,673	\$ 210,000
Federal Reserve discount window .....	513,052	300,000	213,052	—
Correspondent bank lines of credit .....	62,500	—	62,500	—
Federal Reserve Bank Term Funding Program .....	117,718	117,710	8	—
Total liquidity lines .....	<u>\$ 2,851,591</u>	<u>\$ 630,358</u>	<u>\$ 2,221,233</u>	<u>\$ 210,000</u>

### OPERATING RESULTS

During the year ended December 31, 2023, our net income decreased \$18.3 million, or 17.5%, to \$86.7 million from \$105.0 million for the same period in 2022. The decrease in net income was primarily a result of the \$10.3 million increase in noninterest expense, the \$5.9 million increase in the provision for credit losses and the \$5.0 million decrease in noninterest income, partially offset by the \$2.7 million increase in net interest income. Earnings per diluted common share decreased \$0.44, or 13.5%, to \$2.82 for the year ended December 31, 2023, compared to \$3.26 for the same period in 2022.

The following table sets forth selected financial data regarding our results of operations and financial position for, and as of the end of, each of the fiscal years in the three-year period ended December 31, 2023. This information should be read in conjunction with “Item 8. Financial Statements and Supplementary Data,” as set forth in this report (in thousands, except per share data):

	As of and for the Years Ended December 31,		
	2023	2022	2021
<b>Summary Balance Sheet Data</b>			
Securities AFS, at estimated fair value .....	\$ 1,296,294	\$ 1,299,014	\$ 2,764,325
Securities HTM, at carrying value .....	1,307,053	1,326,729	90,780
Loans .....	4,524,510	4,147,691	3,645,162
Total assets .....	8,284,914	7,558,636	7,259,602
Noninterest bearing deposits .....	1,390,407	1,671,562	1,644,775
Interest bearing deposits .....	5,159,274	4,526,457	4,077,552
Total deposits .....	6,549,681	6,198,019	5,722,327
FHLB borrowings .....	212,648	153,358	344,038
Subordinated notes, net of unamortized debt issuance costs .....	93,877	98,674	98,534
Trust preferred subordinated debentures, net of unamortized debt issuance costs .....	60,270	60,265	60,260
Shareholders' equity .....	773,288	745,997	912,172
<b>Summary Income Statement Data</b>			
Interest income .....	\$ 359,741	\$ 252,981	\$ 215,987
Interest expense .....	144,714	40,640	26,430
Provision for (reversal of) credit losses .....	9,154	3,241	(16,964)
Deposit services .....	25,497	25,843	26,368
Net gain (loss) on sale of securities AFS .....	(15,976)	(3,819)	3,862
Noninterest income .....	35,834	40,857	49,336
Noninterest expense .....	140,578	130,326	125,030
Net income .....	86,692	105,020	113,401
<b>Per Common Share Data</b>			
Earnings-basic .....	\$ 2.82	\$ 3.27	\$ 3.48
Earnings-diluted .....	2.82	3.26	3.47
Cash dividends declared and paid .....	1.42	1.40	1.37
Book value .....	25.56	23.65	28.20
<b>Asset Quality</b>			
Allowance for loan losses .....	\$ 42,674	\$ 36,515	\$ 35,273
Allowance for loan losses to total loans .....	0.94 %	0.88 %	0.97 %
Net loan charge-offs .....	\$ 2,750	\$ 696	\$ 771
Net loan charge-offs to average loans .....	0.06 %	0.02 %	0.02 %
Nonperforming assets .....	\$ 4,001	\$ 10,862	\$ 11,609
Nonperforming assets to:			
Total loans .....	0.09 %	0.26 %	0.32 %
Total assets .....	0.05 %	0.14 %	0.16 %
<b>Consolidated Capital Ratios</b>			
Common equity tier 1 capital .....	12.28 %	12.63 %	14.17 %
Tier 1 risk-based capital .....	13.32 %	13.70 %	15.43 %
Total risk-based capital .....	15.73 %	16.11 %	18.15 %
Tier 1 leverage capital .....	9.39 %	9.96 %	10.33 %
Average shareholders' equity to average total assets .....	9.63 %	10.65 %	12.47 %

## FINANCIAL CONDITION

Our total assets increased \$726.3 million, or 9.6%, to \$8.28 billion at December 31, 2023 from \$7.56 billion at December 31, 2022. Our securities portfolio decreased by \$22.4 million, or 0.9%, to \$2.60 billion, compared to \$2.63 billion at December 31, 2022. The decrease in the securities portfolio was due to the sale of municipal bonds, partially offset by purchases of MBS and to a lesser extent, U.S. Treasury Bills during the year ended December 31, 2023. Our FHLB stock increased \$2.7 million, or 29.9%, to \$11.9 million from \$9.2 million at December 31, 2022, due to the increase in our FHLB borrowings during the year ended December 31, 2023.

Loans at December 31, 2023 were \$4.52 billion, an increase of \$376.8 million, or 9.1%, compared December 31, 2022, due to increases of \$230.1 million in construction loans, \$180.7 million in commercial real estate loans and \$33.2 million in 1-4 family residential loans. The increases were partially offset by decreases of \$45.2 million in commercial loans, \$13.1 million in loans to individuals and \$8.9 million in municipal loans. Loans held for sale increased \$10.2 million, or 1,533.3%, to \$10.9 million at December 31, 2023 from \$667,000 at December 31, 2022, due to the transfer of an \$8.1 million commercial real estate loan relationship to loans held for sale that included a write down of \$788,000 to fair value.

Our nonperforming assets at December 31, 2023 decreased \$6.9 million, or 63.2%, to \$4.0 million and represented 0.05% of total assets, compared to \$10.9 million, or 0.14% of total assets, at December 31, 2022. Nonaccruing loans increased \$1.0 million, or 36.6%, to \$3.9 million, and the ratio of nonaccruing loans to total loans was 0.09% and 0.07% at December 31, 2023 and December 31, 2022, respectively. Restructured loans were \$13,000 as of December 31, 2023, compared to \$7.8 million at December 31, 2022. 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 repossessed assets at December 31, 2023 and \$74,000 at December 31, 2022. There was \$99,000 and \$93,000 of OREO at December 31, 2023 and December 31, 2022, respectively.

Our deposits increased \$351.7 million, or 5.7%, to \$6.55 billion at December 31, 2023 from \$6.20 billion at December 31, 2022, which consisted of an increase of \$632.8 million in interest bearing deposits, partially offset by a decrease of \$281.2 million in noninterest bearing deposits. The increase in interest bearing deposits was due to the increase in interest rates we paid during 2023 as well as an increase in our brokered deposits of \$168.8 million, or 25.6%, to fund our cash flow hedge swaps. Additionally, our public fund deposits increased \$305.7 million, or 33.7%, most of which was interest bearing, to \$1.21 billion at December 31, 2023, from \$907.7 million at December 31, 2022.

Total FHLB borrowings increased \$59.3 million, or 38.7%, to \$212.6 million at December 31, 2023, from \$153.4 million at December 31, 2022.

Other borrowings increased \$288.7 million, or 130.5%, to \$509.8 million at December 31, 2023, from \$221.2 million at December 31, 2022, which consisted of an increase of \$112.0 million in borrowings from the FRDW, \$117.7 million in borrowings from the BTFP and an increase of \$59.0 million in repurchase agreements.

Our total shareholders' equity at December 31, 2023 increased 3.7%, or \$27.3 million, to \$773.3 million, or 9.3% of total assets, compared to \$746.0 million, or 9.9% of total assets, at December 31, 2022. The increase in shareholders' equity was the result of net income of \$86.7 million, other comprehensive income of \$24.0 million, stock compensation expense of \$3.6 million, common stock issued under our dividend reinvestment plan of \$1.2 million and net issuance of common stock under employee stock plans of \$485,000, partially offset by the repurchase of \$45.1 million of our common stock and cash dividends paid of \$43.6 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.

## 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 fourth quarter of 2023 with approximately \$213.1 million in available liquidity between the FRDW and the BTFP in addition to the approximately \$1.95 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 December 31, 2023, the estimated deposits, without insurance or collateral, to total deposits, excluding affiliate deposits (Southside-owned deposits) was 19.0%, or \$1.24 billion.

During the year ended December 31, 2023, we entered into \$600 million of additional cash flow hedge swaps, \$100 million of which were terminated in the second quarter. We also replaced \$60 million of brokered deposits with FHLB advances as the funding source for cash flow hedge swaps, bringing this funding source to \$210 million. At December 31, 2023, brokered deposits funded \$800 million of our \$1.01 billion remaining cash flow hedge swaps. As of December 31, 2023, a pre-tax unrealized gain of \$17.3 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. At December 31, 2023, the majority of the securities portfolio was funded by non-maturity deposits, some of which are included in wholesale funding that accounts for approximately 55% of the funding source, of which approximately 69% 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 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 this report 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 7A. Quantitative and Qualitative Disclosures about Market Risk” in this report.

Our securities portfolio decreased slightly from \$2.63 billion at December 31, 2022 to \$2.60 billion at December 31, 2023. The decrease in the securities portfolio was due to sales of securities and principal payments during the year ended December 31, 2023, which more than offset securities purchased.

During the year ended December 31, 2023, 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 is attributable to purchases of U.S. Agency MBS, partially offset by MBS sales and principal payments. During the year ended December 31, 2023, we purchased \$1.43 billion in short-term U.S. Treasury Bills, \$614.1 million in MBS and \$5.8 million in investment grade subordinated corporate debt. Sales during the year ended December 31, 2023, included \$422.3 million in municipal securities, \$372.7 million in U.S. Treasury Bills and \$346.5 million in MBS to align the investment portfolio with the current balance sheet strategy. During the fourth quarter, sales of AFS securities were due to strategic opportunities related to a drop in treasury rates and reinvestment of the proceeds primarily into higher yielding securities and to a lesser extent, into loans. Sales of AFS securities for the year ended December 31, 2023, resulted in a net realized loss of \$16.0 million which was partially offset by the sale of equity securities that resulted in a net gain of \$5.1 million for the year ended December 31, 2023.



At December 31, 2023, securities as a percentage of assets totaled 31.4%, compared to 34.7% at December 31, 2022, due primarily to a \$726.3 million, or 9.6%, increase in the total assets, while cash and cash equivalents increased to 6.77% of total assets at December 31, 2023, compared to 2.64% at December 31, 2022. Our balance sheet management strategy is dynamic and is continually evaluated as market conditions warrant.

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 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 December 31, 2023, hedged securities with a carrying amount of \$460.4 million are included in our AFS securities portfolio in our consolidated balance sheets representing approximately 36% and 81% 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.

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 38.7%, or \$59.3 million, to \$212.6 million at December 31, 2023 from \$153.4 million at December 31, 2022.

As of December 31, 2023, our total wholesale funding as a percentage of deposits, not including brokered deposits, increased to 25.5%, from 18.1% at December 31, 2022.

Our brokered deposits may consist of CDs and non-maturity deposits. We had no brokered CDs at December 31, 2023, compared to \$220.9 million at December 31, 2022. Our brokered non-maturity deposits increased to \$828.0 million at December 31, 2023, of which \$800.0 million are related to our cash flow hedges, from \$438.4 million at December 31, 2022, with a weighted average cost of 323 basis points and 126 basis points, respectively. Our wholesale funding policy currently allows for maximum brokered deposits of the lesser of \$1.20 billion, or 20% of total deposits. Potential higher interest expense and lack of customer loyalty are risks associated with the use of brokered deposits.

In connection with \$1.01 billion 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 \$1.01 billion and \$575.0 million of the agreements outstanding at December 31, 2023 and December 31, 2022, 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 2.75% with a remaining average weighted maturity of 2.3 years at December 31, 2023. 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.

## 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. Refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2022 Form 10-K for a discussion and analysis of the periods prior to 2022.

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

	Years Ended December 31,		
	2023	2022	2021
Interest income:			
Loans .....	\$ 244,803	\$ 170,410	\$ 144,803
Taxable investment securities .....	31,186	18,940	13,312
Tax-exempt investment securities .....	54,629	45,001	37,730
MBS .....	19,450	16,639	19,534
FHLB stock and equity investments .....	1,185	503	530
Other interest earning assets .....	8,488	1,488	78
Total interest income .....	<u>359,741</u>	<u>252,981</u>	<u>215,987</u>
Interest expense:			
Deposits .....	108,157	29,075	9,404
FHLB borrowings .....	6,777	3,291	7,348
Subordinated notes .....	3,920	4,015	8,246
Trust preferred subordinated debentures .....	4,504	2,397	1,390
Repurchase agreements .....	3,431	199	42
Other borrowings .....	17,925	1,663	—
Total interest expense .....	<u>144,714</u>	<u>40,640</u>	<u>26,430</u>
Net interest income .....	<u>\$ 215,027</u>	<u>\$ 212,341</u>	<u>\$ 189,557</u>

### 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 year ended December 31, 2023, the Federal Reserve increased the target federal funds rate by 100 basis points to 5.25% to 5.50% but held the rate steady in December 2023 for the third consecutive meeting and has indicated it may cut rates in 2024. The increase in the federal funds rate has increased our net interest income. However, if the federal funds rate increases further and the yield curve remains inverted, it may be less beneficial to our net interest income.

Net interest income was \$215.0 million for the year ended December 31, 2023, compared to \$212.3 million for the same period in 2022, an increase of \$2.7 million, or 1.3%. The increase in net interest income for the year ended December 31, 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 \$106.8 million, or 42.2%, to \$359.7 million for the year ended December 31, 2023, compared to \$253.0 million for the same period in 2022. Total interest expense increased \$104.1 million, or 256.1%, to \$144.7 million for the year ended December 31, 2023, compared to \$40.6 million for the same period in 2022. Our net interest margin and net interest margin (FTE), a non-GAAP measure, decreased to 2.92% and 3.09%, respectively, for the year ended December 31, 2023, compared to 3.11% and 3.32%, respectively, for the same period in 2022, and our net interest spread and net interest spread (FTE), also a non-GAAP measure, decreased to 2.25% and 2.42%, respectively, compared to 2.86% and 3.07%, respectively, for the same period in 2022. See “Non-GAAP Financial Measures” for more information and for a reconciliation to GAAP.

## 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):

	Year Ended December 31, 2023 Compared to 2022			Year Ended December 31, 2022 Compared to 2021		
	Change Attributable to			Change Attributable to		
	Average Volume	Average Yield/Rate	Total Change	Average Volume	Average Yield/Rate	Total Change
Fully Taxable-Equivalent Basis:						
Interest income on:						
Loans <sup>(1)</sup> .....	\$ 18,139	\$ 55,937	\$ 74,076	\$ 10,475	\$ 15,213	\$ 25,688
Loans held for sale .....	30	18	48	(33)	25	(8)
Taxable investment securities .....	7,482	4,764	12,246	5,201	427	5,628
Tax-exempt investment securities <sup>(1)</sup> .....	(4,287)	12,466	8,179	9,024	(410)	8,614
Mortgage-backed and related securities .....	(917)	3,728	2,811	(8,635)	5,740	(2,895)
FHLB stock, at cost, and equity investments .....	101	581	682	(291)	264	(27)
Interest earning deposits .....	845	3,157	4,002	(3)	287	284
Federal funds sold .....	1,305	1,693	2,998	1,126	—	1,126
Total earning assets .....	<u>22,698</u>	<u>82,344</u>	<u>105,042</u>	<u>16,864</u>	<u>21,546</u>	<u>38,410</u>
Interest expense on:						
Savings accounts .....	(100)	3,895	3,795	173	712	885
CDs .....	3,907	21,340	25,247	(514)	2,538	2,024
Interest bearing demand accounts .....	(120)	50,160	50,040	1,645	15,117	16,762
FHLB borrowings .....	3,446	40	3,486	(8,637)	4,580	(4,057)
Subordinated notes, net of unamortized debt issuance costs .....	(105)	10	(95)	(3,122)	(1,109)	(4,231)
Trust preferred subordinated debentures, net of unamortized debt issuance costs .....	—	2,107	2,107	—	1,007	1,007
Repurchase agreements .....	986	2,246	3,232	19	138	157
Other borrowings .....	15,061	1,201	16,262	1,663	—	1,663
Total interest bearing liabilities .....	<u>23,075</u>	<u>80,999</u>	<u>104,074</u>	<u>(8,773)</u>	<u>22,983</u>	<u>14,210</u>
Net change .....	<u>\$ (377)</u>	<u>\$ 1,345</u>	<u>\$ 968</u>	<u>\$ 25,637</u>	<u>\$ (1,437)</u>	<u>\$ 24,200</u>

(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 year ended December 31, 2023 was attributable to the increase in average yield on interest earning assets to 5.06% from 3.92% for the year ended December 31, 2022, as well as a \$538.5 million, or 7.9%, increase in the average balance of interest earning assets for the year ended December 31, 2023, compared to the year ended December 31, 2022. The increase in average earning assets was primarily the result of the increase in loans and taxable investment securities, partially offset by the decrease in tax-exempt investment securities.

The increase in total interest expense for the year ended December 31, 2023 was primarily attributable to the increase in interest rates on our interest bearing liabilities to 2.64% from 0.85% for the year ended December 31, 2022, and an increase in the average balance of our interest bearing liabilities of \$727.8 million, or 15.3%, when compared to the same period in 2022.

Interest bearing demand, savings and noninterest bearing demand deposits are considered the lowest cost deposits and decreased to 85.9% of total average deposits for the year ended December 31, 2023 from 90.5% for the year ended December 31, 2022.

At December 31, 2023, we had no brokered CDs, compared to brokered CDs being 3.6% of deposits at December 31, 2022. Our brokered non-maturity deposits increased to 12.6% of deposits at December 31, 2023, compared to 7.1% of deposits at December 31, 2022. Our wholesale funding policy currently allows for maximum brokered deposits of the lesser of \$1.20 billion, or 20% of total deposits. Potential higher interest expense and lack of customer loyalty are risks associated with the use of brokered deposits.

## AVERAGE BALANCES WITH AVERAGE YIELDS AND RATES

The following table presents 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 for the years ended December 31, 2023, 2022 and 2021. 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. The information should be reviewed in conjunction with the consolidated financial statements for the same years then ended (dollars in thousands):

	Average Balances with Average Yields and Rates								
	Year Ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Average Balance	Interest	Avg Yield/ Rate	Average Balance	Interest	Avg Yield/ Rate	Average Balance	Interest	Avg Yield/ Rate
<b>ASSETS</b>									
Loans <sup>(1)</sup>	\$4,300,138	\$ 247,431	5.75 %	\$ 3,918,249	\$ 173,355	4.42 %	\$3,668,149	\$ 147,667	4.03 %
Loans held for sale	1,681	96	5.71 %	1,098	48	4.37 %	2,063	56	2.71 %
Securities:									
Taxable investment securities <sup>(2)</sup>	845,907	31,186	3.69 %	627,546	18,940	3.02 %	454,836	13,312	2.93 %
Tax-exempt investment securities <sup>(2)</sup>	1,554,519	64,568	4.15 %	1,675,227	56,389	3.37 %	1,407,231	47,775	3.39 %
Mortgage-backed and related securities <sup>(2)</sup>	470,692	19,450	4.13 %	496,940	16,639	3.35 %	793,300	19,534	2.46 %
Total securities	2,871,118	115,204	4.01 %	2,799,713	91,968	3.28 %	2,655,367	80,621	3.04 %
FHLB stock, at cost, and equity investments	24,971	1,185	4.75 %	21,255	503	2.37 %	37,549	530	1.41 %
Interest earning deposits	83,343	4,364	5.24 %	37,898	362	0.96 %	39,426	78	0.20 %
Federal funds sold	79,948	4,124	5.16 %	44,454	1,126	2.53 %	—	—	—
Total earning assets	7,361,199	372,404	5.06 %	6,822,667	267,362	3.92 %	6,402,554	228,952	3.58 %
Cash and due from banks	107,018			104,602			94,959		
Accrued interest and other assets	397,860			457,782			670,062		
Less: Allowance for loan losses	(37,890)			(35,962)			(43,064)		
Total assets	<u>\$7,828,187</u>			<u>\$7,349,089</u>			<u>\$7,124,511</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Savings accounts	\$ 636,603	5,633	0.88 %	\$ 671,402	1,838	0.27 %	\$ 578,245	953	0.16 %
CDs	862,211	30,906	3.58 %	579,223	5,659	0.98 %	663,789	3,635	0.55 %
Interest bearing demand accounts	3,122,319	71,618	2.29 %	3,139,628	21,578	0.69 %	2,464,670	4,816	0.20 %
Total interest bearing deposits	4,621,133	108,157	2.34 %	4,390,253	29,075	0.66 %	3,706,704	9,404	0.25 %
FHLB borrowings	276,584	6,777	2.45 %	135,926	3,291	2.42 %	665,384	7,348	1.10 %
Subordinated notes, net of unamortized debt issuance costs	96,024	3,920	4.08 %	98,604	4,015	4.07 %	171,857	8,246	4.80 %
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,267	4,504	7.47 %	60,262	2,397	3.98 %	60,258	1,390	2.31 %
Repurchase agreements	91,132	3,431	3.76 %	29,919	199	0.67 %	22,257	42	0.19 %
Other borrowings	345,544	17,925	5.19 %	47,926	1,663	3.47 %	—	—	—
Total interest bearing liabilities	5,490,684	144,714	2.64 %	4,762,890	40,640	0.85 %	4,626,460	26,430	0.57 %
Noninterest bearing deposits	1,485,896			1,712,849			1,516,682		
Accrued expenses and other liabilities	97,509			90,988			93,136		
Total liabilities	7,074,089			6,566,727			6,236,278		
Shareholders' equity	754,098			782,362			888,233		
Total liabilities and shareholders' equity	<u>\$7,828,187</u>			<u>\$7,349,089</u>			<u>\$7,124,511</u>		
Net interest income (FTE)		<u>\$ 227,690</u>			<u>\$ 226,722</u>			<u>\$ 202,522</u>	
Net interest margin (FTE)			<u>3.09 %</u>			<u>3.32 %</u>			<u>3.16 %</u>
Net interest spread (FTE)			<u>2.42 %</u>			<u>3.07 %</u>			<u>3.01 %</u>

(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 December 31, 2023, 2022 and 2021, loans totaling \$3.9 million, \$2.8 million and \$2.5 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.

## PROVISION FOR CREDIT LOSSES

For the year ended December 31, 2023, there was a provision for credit losses of \$9.2 million, compared to \$3.2 million for the year ended December 31, 2022. The increase in provision expense for the year ended December 31, 2023, compared to 2022, was primarily due to increased economic and repricing concerns forecasted in our CECL model.

As of December 31, 2023, and 2022, our reviews of the loan portfolio indicated that loan loss allowances of \$42.7 million and \$36.5 million, respectively, were appropriate to cover expected credit losses in the portfolio. See the section captioned “Allowance for Credit Losses - Loans” elsewhere in this discussion for further analysis of the provision for credit losses for loans.

The balance of the allowance for off-balance-sheet credit exposures at December 31, 2023 and 2022, was \$3.9 million and \$3.7 million, respectively, and is included in other liabilities. See the section captioned “Allowance for Credit Losses - Off-Balance-Sheet Credit Exposures” elsewhere in this discussion for further analysis of the provision for credit losses for off-balance-sheet credit exposures.

The following table details the provision for (reversal of) loan losses and provision for (reversal of) off-balance-sheet credit exposures for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

	2023	Increase (Decrease)		2022	Increase (Decrease)		2021
Provision for (reversal of) loan losses .....	\$ 8,909	\$ 6,971	359.7 %	\$ 1,938	\$ 14,900	115.0 %	\$ (12,962)
Provision for (reversal of) off-balance-sheet credit exposures .....	<u>245</u>	<u>(1,058)</u>	(81.2)%	<u>1,303</u>	<u>5,305</u>	132.6 %	<u>(4,002)</u>
Total provision for (reversal of) credit losses	<u>\$ 9,154</u>	<u>\$ 5,913</u>	182.4 %	<u>\$ 3,241</u>	<u>\$ 20,205</u>	119.1 %	<u>\$ (16,964)</u>

## NONINTEREST INCOME

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

The following table details the categories included in noninterest income for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

	2023	Increase (Decrease)		2022	Increase (Decrease)		2021
Deposit services.....	\$ 25,497	\$ (346)	(1.3)%	\$ 25,843	\$ (525)	(2.0)%	\$ 26,368
Net gain (loss) on sale of securities AFS .....	(15,976)	(12,157)	(318.3)%	(3,819)	(7,681)	(198.9)%	3,862
Net gain on sale of equity securities .....	5,058	5,058	100.0 %	—	—	—	—
Gain on sale of loans .....	563	32	6.0 %	531	(1,110)	(67.6)%	1,641
Trust fees .....	5,910	(82)	(1.4)%	5,992	33	0.6 %	5,959
BOLI .....	5,823	3,176	120.0 %	2,647	29	1.1 %	2,618
Brokerage services .....	3,305	(30)	(0.9)%	3,335	(48)	(1.4)%	3,383
Other noninterest income .....	5,654	(674)	(10.7)%	6,328	823	15.0 %	5,505
Total noninterest income .....	<u>\$ 35,834</u>	<u>\$ (5,023)</u>	(12.3)%	<u>\$ 40,857</u>	<u>\$ (8,479)</u>	(17.2)%	<u>\$ 49,336</u>

The 12.3% decrease in noninterest income for the year ended December 31, 2023, when compared to the same period in 2022, was due to an increase in net loss on sale of securities AFS and a decrease in other noninterest income, partially offset by a net gain on sale of equity securities and an increase in BOLI income.

During the years ended December 31, 2023 and December 31, 2022, we sold MBS, U.S. Treasury securities and municipal securities that resulted in net losses on sale of AFS securities of \$16.0 million and \$3.8 million, respectively.

During the year ended December 31, 2023, we sold equity securities that resulted in a net gain of \$5.1 million.

The increase in BOLI income for the year ended December 31, 2023, when compared to the same period in 2022, was primarily due to death benefits of \$3.0 million realized during the year ended December 31, 2023 for former covered officers.

Other noninterest income decreased for the year ended December 31, 2023, when compared to the same period in 2022, primarily due to decreases in investment income, mortgage servicing fee income, merchant services income and mortgage derivative income, partially offset by a gain recognized on the repurchase of \$5.0 million of our subordinated notes and an increase in equity investment income.

## 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 for the years ended December 31, 2023, 2022 and 2021 (dollars in thousands):

	2023	Increase (Decrease)		2022	Increase (Decrease)		2021
Salaries and employee benefits .....	\$ 85,625	\$ 2,992	3.6 %	\$ 82,633	\$ 2,741	3.4 %	\$ 79,892
Net occupancy .....	14,694	(436)	(2.9)%	15,130	891	6.3 %	14,239
Advertising, travel & entertainment .....	4,093	663	19.3 %	3,430	1,063	44.9 %	2,367
ATM expense .....	1,351	37	2.8 %	1,314	148	12.7 %	1,166
Professional fees .....	5,351	392	7.9 %	4,959	944	23.5 %	4,015
Software and data processing .....	9,395	2,548	37.2 %	6,847	1,172	20.7 %	5,675
Communications .....	1,469	(427)	(22.5)%	1,896	(337)	(15.1)%	2,233
FDIC insurance .....	3,558	1,613	82.9 %	1,945	138	7.6 %	1,807
Amortization of intangibles .....	1,697	(576)	(25.3)%	2,273	(576)	(20.2)%	2,849
Loss on redemption of subordinated notes .....	—	—	—	—	(1,118)	(100.0)%	1,118
Other noninterest expense .....	13,345	3,446	34.8 %	9,899	230	2.4 %	9,669
Total noninterest expense .....	<u>\$ 140,578</u>	<u>\$ 10,252</u>	7.9 %	<u>\$ 130,326</u>	<u>\$ 5,296</u>	4.2 %	<u>\$ 125,030</u>

The increase in noninterest expense for the year ended December 31, 2023, when compared to the same period in 2022, was primarily due to increases in other noninterest expense, salaries and employee benefits, software and data processing expense, FDIC insurance and advertising, travel and entertainment.

Salaries and employee benefits expense increased during the year ended December 31, 2023, compared to the same period in 2022, due to an increase in direct salary expense, partially offset by decreases in retirement expense and health insurance expense.

Direct salary expense increased \$3.9 million, or 5.5%, for the year ended December 31, 2023, compared to the same period in 2022, primarily due to normal salary increases effective in the first quarter of 2023 and new employees hired during the year.

Retirement expense, included in salaries and employee benefits, decreased \$487,000, or 14.5%, for the year ended December 31, 2023, compared to the same period in 2022. This decrease was primarily due to decreases in our split dollar expense, deferred compensation expense, post-retirement benefits expense, partially offset by an increase in our 401(k) matching expense.

Health and life insurance expense, included in salaries and employee benefits, decreased \$373,000, or 4.3%, for the year ended December 31, 2023, compared to the same period in 2022, primarily due to a decrease in health claims expense. We have a self-insured health plan which is supplemented with a stop loss policy.

Advertising, travel and entertainment expense increased during the year ended December 31, 2023, compared to the same period in 2022, primarily due to increases in media and other advertising expense, travel related expenses, conference registrations fees and donations.

Software and data processing expense increased for the year ended December 31, 2023, compared to the same period in 2022, due to new software contracts and increases in existing contract renewal costs.

Communications expense decreased for the year ended December 31, 2023, when compared to the same period in 2022, driven by a decrease in phone and internet costs due to a change in vendors.

FDIC insurance increased for the year ended December 31, 2023, when compared to the same period in 2022, 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 year ended December 31, 2023, compared to the same period in 2022, 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 year ended December 31, 2023, when compared to the same period in 2022, was in non-service cost retirement expense related to the Retirement Plan. Several additional expenses

increased during the year ended December 31, 2023, including advantage check card losses, online banking expense, security expense, dues and assessments, subscriptions and other losses.

## INCOME TAXES

Pre-tax income for the year ended December 31, 2023 was \$101.1 million, compared to \$119.6 million for the year ended December 31, 2022.

Income tax expense was \$14.4 million for the year ended December 31, 2023 and represented a decrease of \$0.2 million, or 1.2%, from \$14.6 million for the year ended December 31, 2022. The ETR as a percentage of pre-tax income was 14.3% in 2023 and 12.2% in 2022. The increase in the ETR for the year ended December 31, 2023, compared to the same period in 2022, was mainly due to a decrease in tax-exempt income as a percentage of pre-tax income. The decrease in the income tax expense for the year ended December 31, 2023 is primarily due to the decrease in pre-tax income in 2023 offset by an increase in the ETR as compared to the same period in 2022.

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 \$30.4 million at December 31, 2023, as compared to \$34.7 million in 2022. The decrease in the net deferred tax asset is primarily the result of a decrease in unrealized losses in the AFS securities portfolio. See “Note 15 – Income Taxes” to our consolidated financial statements included in this report. No valuation allowance was recorded at December 31, 2023 or December 31, 2022, as management believes it is more likely than not that all of the deferred tax asset items will be realized in future years.

## LENDING ACTIVITIES

One of our main objectives is to seek attractive lending opportunities in Texas, primarily in the market areas in which we operate. 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.

Total loans as of December 31, 2023 increased \$376.8 million, or 9.1%, and the average loan balance outstanding for the year increased \$381.9 million, or 9.7%, compared to 2022.

From December 31, 2022 to December 31, 2023, construction loans increased \$230.1 million, commercial real estate loans increased \$180.7 million and 1-4 family residential loans increased \$33.2 million. The increases were partially offset by decreases of \$45.2 million in commercial loans, \$13.1 million in loans to individuals and \$8.9 million in municipal loans. Loans held for sale increased \$10.2 million, or 1,533.3%, to \$10.9 million at December 31, 2023 from \$667,000 at December 31, 2022, due to the transfer of an \$8.1 million commercial real estate loan relationship to loans held for sale that included a write down of \$788,000 to fair value.

Our greatest concentration of loans is in our real estate portfolio. Management does not consider there to be a concentration of risk in any one industry type. See “Item 1. Business – Market Area.”

The aggregate amount of loans that we are permitted to make under applicable bank regulations to any one borrower, including non-affiliate related entities is 25% of Tier 1 capital. Our legal lending limit at December 31, 2023, was approximately \$209.1 million. Our largest loan relationship at December 31, 2023 was approximately \$133.3 million.

The average yield on loans for the year ended December 31, 2023 increased to 5.75%, compared to 4.42% for the year ended December 31, 2022. This increase was due to the higher interest rate environment during 2023.

## LOAN PORTFOLIO COMPOSITION AND ASSOCIATED RISK

For purposes of this discussion, our loans are divided into real estate loans, commercial loans, municipal loans and loans to individuals.

### REAL ESTATE LOANS

Our real estate loan portfolio consists of construction, 1-4 family residential and commercial real estate loans, and represents our greatest concentration of loans. We attempt to mitigate the amount of risk associated with this group of loans through the type of loans originated and geographic distribution. At December 31, 2023, the majority of our real estate loans were collateralized by properties located in our market areas. Of the \$3.65 billion in real estate loans, \$696.7 million, or 19.1%, represent loans collateralized by residential dwellings that are primarily owner occupied. Historically, the amount of losses suffered on this type of loan has been significantly less than those on other properties. Prior to funding any real estate loan, our loan policy requires an appraisal or evaluation of the property and also outlines the requirements for appraisals on renewals based on the size and complexity of the transaction.



We pursue an aggressive policy of reappraisal on any real estate loan that is in the process of foreclosure and potential exposures are recognized and reserved for or charged off as soon as they are identified. Our ability to liquidate certain types of properties that may be obtained through foreclosure could adversely affect the volume of our nonperforming real estate loans.

#### *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. Historically, we have originated a portion of our residential loans for sale into the secondary market. These loans are reflected on the balance sheet as loans held for sale. Secondary market investors, other than Fannie Mae, typically pay us a service release premium in addition to a predetermined price based on the interest rate of the loan originated. We retain liabilities related to early prepayments, defaults, failure to adhere to origination and processing guidelines and other issues. We have internal controls in place to mitigate many of these liabilities and historically our realized liability has been extremely low. In addition, many of the retained liabilities expire one year from the date a loan is sold. We warehouse these loans until they are transferred to the secondary market investor, which usually occurs within 45 days.

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.

We also make home equity loans, which are included as part of the 1-4 family residential loans, and at December 31, 2023, these loans totaled \$98.5 million. Under Texas law, these loans, when combined with all other mortgage indebtedness for the property, are capped at 80% of appraised value.

#### *Commercial Real Estate Loans*

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. Management does not consider there to be a concentration of risk in any one industry type. 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. Most of our fixed rate commercial real estate loans adjust at least every five years. At December 31, 2023, commercial real estate loans consisted of \$1.79 billion of owner and non-owner occupied real estate loans, \$347.5 million of loans secured by multi-family properties and \$28.6 million of loans secured by farmland.

### 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. Management does not consider there to be a concentration of risk in any one industry type. 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. Commercial loans decreased \$45.2 million, or 11.0%, to \$366.9 million as of December 31, 2023, when compared to 2022.

### MUNICIPAL LOANS

We 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 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. These loans allow us to earn a higher yield than we could if we purchased municipal securities for similar durations. Loans to municipalities and school districts decreased \$8.9 million, or 2.0%, to \$441.2 million as of December 31, 2023, when compared to 2022. Currently, we are not originating municipal loans due to the tight credit spreads and low overall yields. Until municipal loan pricing improves, we do not anticipate originating municipal loans and as a result, expect this portfolio will decline as maturities and scheduled payments occur.

## LOANS TO INDIVIDUALS

Substantially all originations of our loans to individuals are made to consumers in our market areas. At December 31, 2023, loans collateralized by titled equipment, which are primarily automobiles, accounted for approximately \$35.0 million, or 56.8%, of total loans to individuals.

Home equity loans, which are included in 1-4 family residential loans, have replaced some of the traditional loans to individuals. In addition, we make loans for a full range of other consumer purposes, which may be secured or unsecured depending on the credit quality and purpose of the loan.

Consumer 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.

## LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

The following tables represent loan maturities and sensitivity to changes in interest rates for our loans (dollars in thousands). The amounts of these loans outstanding at December 31, 2023, which, based on maturity, are due in (1) one year or less, (2) after one but within five years, (3) after five years but within 15 years, and (4) after 15 years, are shown in the following table. The amounts due after one year are classified according to the sensitivity to changes in interest rates:

	Due in One Year or Less	After One but Within Five Years	After Five Years Within 15 Years	After 15 Years	Total
Real estate loans:					
Construction	\$ 114,989	\$ 541,552	\$ 50,840	\$ 82,363	\$ 789,744
1-4 family residential	3,787	40,324	140,929	511,698	696,738
Commercial	64,172	1,432,778	619,464	52,037	2,168,451
Commercial loans	166,718	169,143	30,774	258	366,893
Municipal loans	3,766	69,910	229,946	137,546	441,168
Loans to individuals	10,379	40,905	10,026	206	61,516
Total loans	<u>\$ 363,811</u>	<u>\$ 2,294,612</u>	<u>\$ 1,081,979</u>	<u>\$ 784,108</u>	<u>\$ 4,524,510</u>

Loans with maturities after one year for which:	Interest Rates are Fixed or Predetermined	Interest Rates are Floating or Adjustable
Real estate loans:		
Construction	\$ 132,822	\$ 541,933
1-4 family residential	575,729	117,222
Commercial	1,027,369	1,076,910
Commercial loans	156,902	43,273
Municipal loans	417,958	19,444
Loans to individuals	50,843	294
Total loans	<u>\$ 2,361,623</u>	<u>\$ 1,799,076</u>

## LOANS TO AFFILIATED PARTIES

In the normal course of business, we make loans to certain of our own executive officers and directors and their related interests. These loans totaled \$13.7 million and \$14.2 million and represented 1.8% and 1.9% of shareholders' equity as of December 31, 2023 and 2022, respectively.

## 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 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.

Total nonperforming assets at December 31, 2023 were \$4.0 million, representing a decrease of \$6.9 million, or 63.2%, from \$10.9 million at December 31, 2022. The decrease in nonperforming assets was primarily due to the adoption of ASU 2022-02 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. From December 31, 2022 to December 31, 2023, nonaccrual loans increased \$1.0 million, or 36.6%, to \$3.9 million with increases in nonaccrual 1-4 family residential loans and commercial loans, partially offset by decreases in nonaccrual construction loans, commercial real estate loans and loans to individuals during the year. Restructured loans decreased \$7.8 million, or 99.8%, to \$13,000. There was \$99,000 in OREO and no repossessed assets as of December 31, 2023. As of December 31, 2022, there was \$93,000 in OREO and \$74,000 in repossessed assets.

The following table sets forth nonperforming assets and selected asset quality ratios for the periods presented (dollars in thousands):

	December 31,		Change (%)
	2023	2022	
Nonaccrual loans <sup>(1)</sup> .....	\$ 3,889	\$ 2,846	36.6 %
Accruing loans past due more than 90 days .....	—	—	—
Restructured loans <sup>(2)</sup> .....	13	7,849	(99.8)%
OREO .....	99	93	6.5 %
Repossessed assets .....	—	74	(100.0)%
Total nonperforming assets .....	<u>\$ 4,001</u>	<u>\$ 10,862</u>	(63.2)%
Total loans .....	\$ 4,524,510	\$ 4,147,691	
Allowance for loan losses at end of period .....	42,674	36,515	
Ratio of nonaccruing loans to:			
Total loans .....		0.09 %	0.07 %
Ratio of nonperforming assets to:			
Total assets .....		0.05 %	0.14 %
Total loans .....		0.09 %	0.26 %
Total loans and OREO .....		0.09 %	0.26 %
Ratio of allowance for loan losses to:			
Nonaccruing loans .....		1,097.30 %	1,283.03 %
Nonperforming assets .....		1,066.58 %	336.17 %
Total loans .....		0.94 %	0.88 %

(1) Includes \$506,000 and \$897,000 of restructured loans as of December 31, 2023 and December 31, 2022, respectively.

(2) 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 December 31, 2023 exclude any loan modifications that are performing but would have previously required disclosure as troubled debt restructures.

Nonperforming assets hinder our ability to earn interest income. Decreases in earnings can result from both the loss of interest income and the costs associated with maintaining the OREO, for taxes, insurance and other operating expenses. We actively market all OREO properties and do not hold them for investment purposes.

We reversed \$89,000 of interest income on nonaccrual loans during the year ended December 31, 2023. We had \$1.0 million of loans on nonaccrual for which there was no related allowance for credit losses as of December 31, 2023.

## ALLOWANCE FOR CREDIT LOSSES – LOANS

The following table presents information regarding changes in the allowance for loan losses for the periods presented (in thousands):

	Years Ended December 31,		
	2023	2022	2021
Balance of allowance for loan losses at beginning of period	\$ 36,515	\$ 35,273	\$ 49,006
Total loan charge-offs	(4,204)	(2,584)	(2,751)
Total recovery of loans previously charged-off	1,454	1,888	(1,980)
Net loan charge-offs	(2,750)	(696)	(771)
Provision for (reversal of) loan losses	8,909	1,938	(12,962)
Allowance for loan losses at end of period	<u>\$ 42,674</u>	<u>\$ 36,515</u>	<u>\$ 35,273</u>

Our allowance for loan losses was \$42.7 million at December 31, 2023, or 0.94% of loans, an increase of \$6.2 million, or 16.9%, compared to \$36.5 million at December 31, 2022. The increase was primarily due to increased economic and repricing concerns forecasted in our CECL model when compared to December 31, 2022.

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 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 increased economic and repricing concerns forecasted in our CECL model as of December 31, 2023.

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, 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.

Our lenders have the primary responsibility for identifying problem loans based on customer financial stress and underlying collateral. These recommendations are reviewed by a senior credit officer, the special assets department and the loan review department on a monthly basis. The loan review department independently reviews the portfolio on an annual basis in compliance with the board-approved annual loan review scope. The loan review scope encompasses a number of considerations including the size of the loan, the type of credit extended, the seasoning of the loan and the performance of the loan. The loan review scope, as it relates to size, focuses more on larger dollar loan relationships, typically aggregate debt of \$500,000 or greater.

At each review, a subjective analysis methodology is used to grade the respective loan. Categories of grading vary in severity from loans that do not appear to have a significant probability of loss at the time of review to loans that indicate a probability that the entire balance of the loan will be uncollectible. If at the time of the review we determine it is probable we will not collect the principal and interest cash flows contractually due on the loan, estimates of future expected cash flows or appraisals of the collateral securing the debt are used to determine the necessary allowance. The internal loan review department maintains a list of all loans or loan relationships that are graded as having more than the normal degree of risk

associated with them. In addition, a list of specifically reserved loans or loan relationships of \$150,000 or more is updated on a quarterly basis in order to properly determine necessary allowances and keep management informed on the status of attempts to correct the deficiencies noted with respect to the loans.

As of December 31, 2023, our review of the loan portfolio indicated that an allowance for loan losses of \$42.7 million was appropriate to cover expected losses in the portfolio. Changes in economic and other conditions, including the application of the CECL model, may require future adjustments to the allowance for loan losses.

Industry and our own experience indicate that a portion of our loans will become delinquent and a portion of our loans will require partial or full charge-off. Regardless of the underwriting criteria utilized, losses may occur as a result of various factors beyond our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit worthiness of the borrower and the ability of the borrower to make payments on the loan. Our determination of the appropriateness of the allowance for loan losses is based on various considerations, including an analysis of the risk characteristics of various classifications of loans, previous loan loss experience, specific loans which have loan loss potential, delinquency trends, estimated fair value of the underlying collateral, current economic conditions and geographic and industry loan concentration.

The following table presents the allocation of allowance for loan losses for the years presented (dollars in thousands):

	December 31,			
	2023		2022	
	Amount	Percent of Loans To Total Loans	Amount	Percent of Loans To Total Loans
Real estate loans:				
Construction .....	\$ 5,287	17.5 %	\$ 3,164	13.5 %
1-4 family residential .....	2,840	15.4 %	2,173	16.0 %
Commercial .....	32,266	47.9 %	28,701	47.9 %
Commercial loans .....	2,086	8.1 %	2,235	9.9 %
Municipal loans .....	19	9.7 %	45	10.9 %
Loans to individuals .....	176	1.4 %	197	1.8 %
Ending balance .....	<u>\$ 42,674</u>	100.0 %	<u>\$ 36,515</u>	100.0 %

The following table presents information regarding the net charge-offs to average amount of loans outstanding by portfolio segment (dollars in thousands):

	Years Ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Net Loans (Charged-off) Recovered	Average Loans Outstanding	Net (Charge-offs) Recoveries to Average Loans Outstanding	Net Loans (Charged-off) Recovered	Average Loans Outstanding	Net (Charge-offs) Recoveries to Average Loans Outstanding	Net Loans (Charged-off) Recovered	Average Loans Outstanding	Net (Charge-offs) Recoveries to Average Loans Outstanding
Real estate loans:									
Construction .....	\$ (90)	\$ 696,204	(0.01)%	\$ 2	\$ 517,570	—	\$ 2	\$ 529,914	—
1-4 family residential .....	(9)	677,485	—	38	650,785	0.01 %	(61)	681,332	(0.01)%
Commercial .....	(787)	2,042,462	(0.04)%	81	1,802,971	—	87	1,445,579	0.01 %
Commercial loans .....	(985)	384,421	(0.26)%	(199)	410,566	(0.05)%	(330)	499,295	(0.07)%
Municipal loans .....	—	432,740	—	—	454,841	—	—	421,761	—
Loans to individuals .....	(879)	66,826	(1.32)%	(618)	81,516	(0.76)%	(469)	90,268	(0.52)%
Total .....	<u>\$ (2,750)</u>	<u>\$4,300,138</u>	<u>(0.06)%</u>	<u>\$ (696)</u>	<u>\$3,918,249</u>	<u>(0.02)%</u>	<u>\$ (771)</u>	<u>\$3,668,149</u>	<u>(0.02)%</u>

For the year ended December 31, 2023, net loan charge-offs increased \$2.1 million, or 295.1%, to \$2.8 million, compared to \$696,000 for the same period in 2022.

See “Note 5 – Loans and Allowance for Loan Losses” in our consolidated financial statements included in this report.

## ALLOWANCE FOR CREDIT LOSSES – OFF-BALANCE-SHEET CREDIT EXPOSURES

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

	Years Ended December 31,		
	2023	2022	2021
Balance at beginning of period .....	\$ 3,687	\$ 2,384	\$ 6,386
Provision for (reversal of) off-balance-sheet credit exposures .....	245	1,303	(4,002)
Balance at end of period .....	<u>\$ 3,932</u>	<u>\$ 3,687</u>	<u>\$ 2,384</u>

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 the year ended December 31, 2023, we recorded a provision for credit losses for off-balance-sheet exposures of \$245,000, compared to \$1.3 million for the year ended December 31, 2022. The decrease for the year ended December 31, 2023 was primarily due to a decrease in the commitments compared to 2022. For additional information regarding our methodology used to estimate the allowance for credit losses on off-balance-sheet credit exposures, see “Note 17 – Off-Balance-Sheet Arrangements, Commitments and Contingencies” to our consolidated financial statements included in this report.

## SECURITIES ACTIVITY

Our securities portfolio plays a primary role in the management of our interest rate sensitivity and liquidity and, therefore, is managed in the context of the overall balance sheet. The securities portfolio generates a substantial percentage of our interest income and serves as a necessary source of liquidity.

Refer to “Note 1 – Summary of Significant Accounting and Reporting Policies” and “Note 4 – Securities” to our consolidated financial statements included in this report for a detailed description of our accounting related to our debt and equity securities.

Management attempts to deploy investable funds into instruments that are expected to provide a reasonable overall return on the portfolio given the current assessment of economic and financial conditions, while maintaining acceptable levels of capital, interest rate and liquidity risk. At December 31, 2023, the combined investment securities, MBS, FHLB stock and other investments as a percentage of total assets was 31.7% compared to loans, which were 54.7% of total assets. For a discussion of our strategy in relation to the securities portfolio, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Balance Sheet Strategy.”

Our MBS are all insured or guaranteed by U.S. government agencies and corporations. Our MBS include CMOs, which were developed in response to investor concerns regarding the uncertainty of cash flows associated with the prepayment option of the underlying mortgages. MBS generally may be prepaid at any time without penalty and can result in significantly increased price and yield volatility. Most of our MBS were purchased at a premium and should they prepay at a faster rate, our yield on these securities will decrease. Conversely, as prepayments slow, the yield on these MBS will increase. The total net unamortized premium for our MBS increased to \$9.5 million at December 31, 2023 compared to \$1.3 million at December 31, 2022.

Our investment securities consist primarily of state and political subdivision (municipal bonds) and to a lesser extent, U.S. Treasury Bills and corporate bonds. Most of our municipal bonds were issued by the State of Texas or political subdivisions or agencies within the State of Texas and are highly rated. Our corporate bonds consist of investment grade bonds, private placement bonds and two bonds totaling approximately \$6.4 million, rated one grade below investment grade.

During 2023, we sold municipal securities, mortgage related securities and U.S. Treasury Bills that resulted in an overall loss of \$16.0 million, which included a net gain of \$6.5 million recorded on the unwind of fair value municipal security hedges in the AFS securities portfolio. The loss on AFS securities was primarily driven by fourth quarter sales of AFS securities with a net loss of \$10.4 million for the three months ended December 31, 2023. The fourth quarter sales of AFS securities were due to strategic opportunities related to a drop in treasury rates and reinvestment of the proceeds primarily into higher yielding securities and to a lesser extent, into loans. During 2022, the sale of AFS securities resulted in an overall net loss of \$3.8 million.

The combined investment securities, MBS, FHLB stock and other investments decreased to \$2.62 billion at December 31, 2023, compared to \$2.65 billion at December 31, 2022, a decrease of \$21.1 million, or 0.8%. The decrease is a result of a decrease in our investment securities portfolio of \$254.9 million, or 11.8%, partially offset by an increase in our MBS of \$232.6 million, or 50.3%, when compared to December 31, 2022.

The combined fair value of the AFS and HTM securities portfolio at December 31, 2023 was \$2.46 billion, which represented a net unrealized loss as of that date of \$177.1 million. The net unrealized loss was comprised of \$191.3 million of unrealized losses and \$14.2 million in unrealized gains. The fair value of the AFS securities portfolio at December 31, 2023 was \$1.30 billion, which included a net unrealized loss of \$36.2 million. The net unrealized loss was comprised of \$39.8 million of unrealized losses and \$3.7 million of unrealized gains. The majority of the \$39.8 million of unrealized losses is reflected in our state and political subdivisions. Net unrealized gains and losses on AFS securities, which is also a component of shareholders’ equity on the consolidated balance sheet, can fluctuate significantly as a result of changes in interest rates and is monitored through the use of shock tests on the AFS securities portfolio using an array of interest rate assumptions.

From time to time, we transfer securities from AFS to HTM due to overall balance sheet strategies. 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 AOCI continue to be included in management’s assessment for impairment for each individual security. During the year ended December 31, 2023, we did not transfer any securities from AFS to HTM. There were \$1.25 billion securities transferred from AFS to HTM during the year ended December 31, 2022. 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. There were no sales from the HTM portfolio during the years ended December 31, 2023 or 2022. There were \$1.31 billion and \$1.33 billion of securities classified as HTM at December 31, 2023 and 2022, respectively.



The maturities classified according to the sensitivity to changes in interest rates of the December 31, 2023 AFS and HTM investment securities and MBS portfolio and the weighted yields are presented below (dollars in thousands). Tax-exempt obligations are shown on a taxable-equivalent basis which is a non-GAAP measure. See “Non-GAAP Financial Measures” for more information and a reconciliation to GAAP. MBS are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	MATURING							
	Within 1 Year		After 1 But Within 5 Years		After 5 But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale:								
Investment securities:								
U.S. Treasury .....	\$ 139,725	5.33 %	\$ —	—	\$ —	—	\$ —	—
State and political subdivisions ...	210	7.26 %	4,242	4.39 %	7,596	4.75 %	556,697	3.29 %
Corporate bonds and other .....	—	—	—	—	14,093	6.59 %	—	—
MBS:								
Residential .....	43	5.24 %	1,343	4.65 %	5,833	5.58 %	561,764	6.17 %
Commercial .....	—	—	—	—	4,748	2.72 %	—	—
Total .....	<u>\$ 139,978</u>	5.33 %	<u>\$ 5,585</u>	4.45 %	<u>\$ 32,270</u>	5.40 %	<u>\$1,118,461</u>	4.74 %

	MATURING							
	Within 1 Year		After 1 But Within 5 Years		After 5 But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to Maturity:								
Investment securities:								
State and political subdivisions ...	\$ 130	2.77 %	\$ 909	3.87 %	\$ 13,860	3.79 %	\$1,024,541	3.07 %
Corporate bonds and other .....	15,839	4.86 %	3,959	4.65 %	126,914	3.87 %	—	—
MBS:								
Residential .....	—	—	12	5.81 %	1,516	3.77 %	89,091	2.93 %
Commercial .....	—	—	21,078	2.92 %	9,204	2.75 %	—	—
Total .....	<u>\$ 15,969</u>	4.84 %	<u>\$ 25,958</u>	3.22 %	<u>\$ 151,494</u>	3.79 %	<u>\$1,113,632</u>	3.06 %

At December 31, 2023, there were no holdings of any one issuer, other than the U.S. government, its agencies and its GSEs, in an amount greater than 10% of our shareholders' equity.

## DEPOSITS AND BORROWED FUNDS

We utilize deposits and primarily borrowings from FHLB, FRDW and BTFP to assist with our funding needs. Deposits provide us with our primary source of funds and the following table sets forth average deposits and rates paid by category (dollars in thousands):

	Years Ended December 31,					
	2023		2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Interest bearing demand accounts <sup>(1)</sup> .....	\$ 3,122,319	2.29 %	\$ 3,139,628	0.69 %	\$ 2,464,670	0.20 %
Savings accounts .....	636,603	0.88 %	671,402	0.27 %	578,245	0.16 %
CDs .....	862,211	3.58 %	579,223	0.98 %	663,789	0.55 %
Total interest bearing deposits .....	4,621,133	2.34 %	4,390,253	0.66 %	3,706,704	0.25 %
Noninterest bearing demand deposits .....	1,485,896	N/A	1,712,849	N/A	1,516,682	N/A
Total deposits .....	<u>\$ 6,107,029</u>	1.77 %	<u>\$ 6,103,102</u>	0.48 %	<u>\$ 5,223,386</u>	0.18 %

(1) For the years ended December 31, 2023 and 2022, the average rate on interest bearing demand accounts includes the effect of interest rate swaps.

The table below sets forth the maturity distribution of CDs greater than \$250,000 (in thousands):

	December 31, 2023	December 31, 2022
Time deposits otherwise uninsured with a maturity of:		
Three months or less .....	\$ 105,702	\$ 15,056
Over three to six months .....	96,996	35,158
Over six to twelve months .....	124,530	97,869
Over twelve months .....	44,559	71,614
Total CDs greater than \$250,000 .....	<u>\$ 371,787</u>	<u>\$ 219,697</u>

Estimated amount of uninsured deposits, including related accrued interest were \$2.45 billion and \$2.59 billion at December 31, 2023 and 2022, respectively.

Brokered deposits may consist of CDs and non-maturity deposits. At December 31, 2023, we had no brokered CDs. Brokered non-maturity deposits were \$828.0 million at December 31, 2023 with a weighted average cost of 323 basis points. As of December 31, 2022, we had \$220.9 million in brokered CDs and \$438.4 million in brokered non-maturity deposits. Our current policy allows for maximum brokered deposits of the lesser of \$1.20 billion, or 20% of total deposits. The potential higher interest costs and lack of customer loyalty are risks associated with the use of brokered deposits.

Borrowing arrangements, consisting of FHLB borrowings, repurchase agreements and borrowings from the FRDW and BTFP, increased \$348.0 million, or 92.9%, during 2023 compared to 2022, due to a \$117.7 million increase in borrowings from the BTFP, a \$112.0 million increase in borrowings from the FRDW, a \$59.3 million increase in FHLB borrowings and a \$59.0 million increase in repurchase agreements.

Borrowing arrangements are summarized as follows (dollars in thousands):

	Years Ended December 31,		
	2023	2022	2021
<b>Other borrowings:</b>			
Balance at end of period.....	\$ 509,820	\$ 221,153	\$ 23,219
Average amount outstanding during the period <sup>(1)</sup> .....	436,676	77,845	22,257
Maximum amount outstanding during the period <sup>(2)</sup> .....	1,030,421	316,563	24,549
Weighted average interest rate during the period <sup>(3)</sup> .....	4.9 %	2.4 %	0.2 %
Interest rate at end of period <sup>(4)</sup> .....	5.0 %	4.1 %	0.2 %
<b>FHLB borrowings:</b>			
Balance at end of period.....	\$ 212,648	\$ 153,358	\$ 344,038
Average amount outstanding during the period <sup>(1)</sup> .....	276,584	135,926	665,384
Maximum amount outstanding during the period <sup>(2)</sup> .....	533,242	423,645	723,584
Weighted average interest rate during the period <sup>(3)</sup> .....	2.5 %	2.4 %	1.1 %
Interest rate at end of period <sup>(5)</sup> .....	1.2 %	0.7 %	1.3 %

(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 by the average balance 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.

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, TIB – The Independent Bankers Bank and Comerica Bank for \$40.0 million, \$15.0 million and \$7.5 million, respectively. There were no federal funds purchased at December 31, 2023 or December 31, 2022. To provide more liquidity in response to economic conditions in recent years, the Federal Reserve has encouraged broader use of the discount window. At December 31, 2023, the amount of additional funding the Bank could obtain from the FRDW, collateralized by securities, was approximately \$213.1 million. There were \$300.0 million in borrowings from the FRDW at December 31, 2023, and \$188.0 million at December 31, 2022. 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 December 31, 2023, the amount of additional funding the Bank could obtain from the BTFP, collateralized by securities, was approximately \$8,000. There were \$117.7 million in borrowings from the BTFP at December 31, 2023, with a remaining maturity under three months. Southside Bank has a \$5.0 million line of credit with Frost Bank to be used to issue letters of credit, and at December 31, 2023, 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 \$92.1 million at December 31, 2023 and \$33.2 million at December 31, 2022, and had maturities of less than two years. Repurchase agreements are secured by investment and MBS securities and are stated at the amount of cash received in connection with the transaction.

FHLB borrowings represent borrowings with fixed interest rates ranging from 0.57% to 4.80% and with remaining maturities of 22 days to 4.5 years at December 31, 2023. FHLB borrowings may be collateralized by FHLB stock, nonspecified loans and/or securities. At December 31, 2023, the amount of additional funding Southside Bank could obtain from FHLB, collateralized by securities, FHLB stock and nonspecified loans and securities, was approximately \$1.95 billion, net of FHLB stock purchases required.

## CAPITAL RESOURCES AND LIQUIDITY

Our total shareholders' equity at December 31, 2023 increased 3.7%, or \$27.3 million, to \$773.3 million, or 9.3% of total assets, compared to \$746.0 million, or 9.9% of total assets, at December 31, 2022. The increase in shareholders' equity was the result of net income of \$86.7 million, other comprehensive income of \$24.0 million, stock compensation expense of \$3.6 million, common stock issued under our dividend reinvestment plan of \$1.2 million and net issuance of common stock under employee stock plans of \$485,000, partially offset by the repurchase of \$45.1 million of our common stock and cash dividends paid of \$43.6 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 December 31, 2023 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 December 31, 2023.

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 \$93.9 million of qualified subordinated debt as of December 31, 2023. 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 has been added back to CET1 as of December 31, 2023, representing 50% of the \$8.2 million transitional amount at December 31, 2022.

The FDIA requires bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend on how its capital levels compare to various capital measures and certain other factors, as established by regulation. Prompt corrective action and other discretionary actions could have a direct material effect on our financial statements.

Management believes that, as of December 31, 2023, 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.

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):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Common Equity Tier 1 (to Risk Weighted Assets)						
Consolidated	\$ 690,296	12.28 %	\$ 252,954	4.50 %	N/A	N/A
Bank Only	\$ 836,228	14.88 %	\$ 252,865	4.50 %	\$ 365,249	6.50 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	\$ 748,755	13.32 %	\$ 337,273	6.00 %	N/A	N/A
Bank Only	\$ 836,228	14.88 %	\$ 337,153	6.00 %	\$ 449,537	8.00 %
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 884,095	15.73 %	\$ 449,697	8.00 %	N/A	N/A
Bank Only	\$ 877,691	15.62 %	\$ 449,537	8.00 %	\$ 561,922	10.00 %
Tier 1 Capital (to Average Assets) <sup>(1)</sup>						
Consolidated	\$ 748,755	9.39 %	\$ 318,906	4.00 %	N/A	N/A
Bank Only	\$ 836,228	10.49 %	\$ 318,814	4.00 %	\$ 398,517	5.00 %
December 31, 2022						
Common Equity Tier 1 (to Risk Weighted Assets)						
Consolidated	\$ 687,686	12.63 %	\$ 245,107	4.50 %	N/A	N/A
Bank Only	\$ 823,323	15.12 %	\$ 245,085	4.50 %	\$ 354,012	6.50 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	\$ 746,140	13.70 %	\$ 326,809	6.00 %	N/A	N/A
Bank Only	\$ 823,323	15.12 %	\$ 326,780	6.00 %	\$ 435,707	8.00 %
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 877,281	16.11 %	\$ 435,746	8.00 %	N/A	N/A
Bank Only	\$ 855,790	15.71 %	\$ 435,707	8.00 %	\$ 544,633	10.00 %
Tier 1 Capital (to Average Assets) <sup>(1)</sup>						
Consolidated	\$ 746,140	9.96 %	\$ 299,511	4.00 %	N/A	N/A
Bank Only	\$ 823,323	11.00 %	\$ 299,410	4.00 %	\$ 374,263	5.00 %

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

As of December 31, 2023, 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. See the section captioned “Supervision and Regulation” in “Item 1. Business” included in this report.

The table below summarizes our key equity ratios:

	Years Ended December 31,		
	2023	2022	2021
Return on average assets .....	1.11 %	1.43 %	1.59 %
Return on average shareholders' equity .....	11.50 %	13.42 %	12.77 %
Dividend payout ratio – Basic .....	50.35 %	42.81 %	39.37 %
Dividend payout ratio – Diluted .....	50.35 %	42.94 %	39.48 %
Average shareholders' equity to average total assets .....	9.63 %	10.65 %	12.47 %

## EFFECTS OF INFLATION

Our consolidated financial statements and their related notes have been prepared in accordance with GAAP which requires the measurement of financial position and operating results in terms of historical dollars, without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike many industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services. Inflation can affect the amount of money customers have for deposits, as well as their ability to repay loans.

## 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 December 31, 2023, these investments were 8.9% of total assets, as compared with 2.4% for December 31, 2022. The increase to 8.9% at December 31, 2023 as compared to December 31, 2022, is reflective of increases in interest earning deposits and the short-term investment portfolio, partially offset by the increase in total assets. 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, TIB – The Independent Bankers Bank and Comerica Bank for \$40.0 million, \$15.0 million and \$7.5 million, respectively. There were no federal funds purchased at December 31, 2023 or 2022. To provide more liquidity in response to economic conditions in recent years, the Federal Reserve has encouraged broader use of the discount window. At December 31, 2023, the amount of additional funding the Bank could obtain from the FRDW, collateralized by securities, was approximately \$213.1 million. There were \$300.0 million in borrowings from the FRDW at December 31, 2023 and \$188.0 million at December 31, 2022. 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 December 31, 2023, the amount of additional funding the Bank could obtain from the BTFP, collateralized by securities, was approximately \$8,000. There were \$117.7 million in borrowings from the BTFP at December 31, 2023. At December 31, 2023, the amount of additional funding Southside Bank could obtain from FHLB, collateralized by securities, FHLB stock and nonspecified loans and securities, was approximately \$1.95 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 December 31, 2023, 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.

In the ordinary course of business we have entered into contractual obligations and have made certain other commitments to make future cash payments. Please refer to the accompanying notes to these consolidated financial statements for the expected timing of such cash payments as of December 31, 2023. These include payments related to (i) borrowings presented in “Note 8 - Borrowing Arrangements” and “Note 9 – Long-Term Debt,” (ii) operating leases presented in “Note 16 - Leases,” (iii) time deposits with stated maturity dates presented in “Note 7 – Deposits” and (iv) commitments to extend credit and standby letters of credit as presented in “Note 17 - Off-Balance-Sheet Arrangements, Commitments and Contingencies.”

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 changes during 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.

Rate projections:	Anticipated impact over the next 12 months	
	December 31,	
	2023	2022
Increase:		
100 basis points .....	2.49 %	7.92 %
200 basis points .....	5.49 %	12.90 %
Decrease:		
50 basis points .....	(0.80)%	(2.96)%
100 basis points .....	(1.82)%	(6.16)%
200 basis points .....	(3.85)%	(12.34)%

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.

Economic conditions and growth prospects are currently impacted by record inflation 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 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 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Southside Bancshares, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Southside Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 27, 2024, expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

### ***Allowance for Loan Losses***

*Description of the Matter* The Company's loan portfolio totaled \$4.5 billion as of December 31, 2023, and the allowance for loan losses (ALL) was \$42.7 million. As discussed in Note 1 and Note 5 to the consolidated financial statements, the ALL is an amount which represents management's estimate of credit losses over the expected life of the loans. The ALL is estimated based on historical and expected credit loss patterns within reasonable and supportable forecast periods. Management applies judgement in the assignment of probabilities to economic scenarios included within the modeled forecast periods to estimate the ALL.

Auditing management's estimate of the ALL involved a high degree of subjectivity due to the judgement involved in management's determination of the probabilities assigned to the economic scenarios utilized within the reasonable and supportable forecast periods to estimate the future credit losses within the loan portfolio. Management's evaluation of the future economic conditions could have a significant impact on the ALL.

*How We Addressed the Matter in Our Audit*

Our considerations and procedures performed were reflective of the ALL process for the year and included, but not limited to, the evaluation of the process utilized by management to challenge the model results and determine the best estimate of the ALL as of the balance sheet date. We obtained an understanding of the Company's process for establishing the ALL, including determination of the probabilities assigned to the economic scenarios utilized within the reasonable and supportable forecast periods. We evaluated the design and tested the operating effectiveness of the controls associated with the ALL process, including controls over the reliability and accuracy of data used in the model, management's review and approval of the probabilities assigned to the economic scenarios utilized within the reasonable and supportable forecast periods, the governance of the credit loss methodology, and management's review and approval of the ALL.

We tested the completeness and accuracy of data used by the Company within the model to estimate the ALL and involved an internal specialist to assess the conceptual soundness of the model. We tested the probabilities assigned to the economic scenarios utilized within the model for the reasonable and supportable forecast periods. Within the testing performed, we assessed the impact of the probabilities assigned to the economic scenarios by comparison of key assumptions to external sources. In addition, we evaluated the Company's estimate of the overall ALL, considering the Company's loan portfolio and macroeconomic trends, compared such information to comparable financial institutions and considered whether new or contrary information existed.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2012.

Dallas, Texas  
February 27, 2024

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

	December 31, 2023	December 31, 2022
<b>ASSETS</b>		
Cash and due from banks	\$ 122,021	\$ 106,143
Interest earning deposits	391,719	9,276
Federal funds sold	46,770	83,833
Total cash and cash equivalents	560,510	199,252
Securities:		
Securities AFS, at estimated fair value (amortized cost of \$1,332,467 and \$1,387,874, respectively)	1,296,294	1,299,014
Securities HTM (estimated fair value of \$1,166,162 and \$1,149,156, respectively)	1,307,053	1,326,729
FHLB stock, at cost	11,936	9,190
Equity investments	9,691	11,181
Loans held for sale	10,894	667
Loans:		
Loans	4,524,510	4,147,691
Less: Allowance for loan losses	(42,674)	(36,515)
Net loans	4,481,836	4,111,176
Premises and equipment, net	138,950	141,256
Operating lease ROU assets	14,837	15,314
Goodwill	201,116	201,116
Other intangible assets, net	2,925	4,622
Interest receivable	50,489	49,350
Deferred tax asset, net	30,426	34,695
BOLI	136,330	133,911
Other assets	31,627	21,163
Total assets	<u>\$ 8,284,914</u>	<u>\$ 7,558,636</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing	\$ 1,390,407	\$ 1,671,562
Interest bearing	5,159,274	4,526,457
Total deposits	6,549,681	6,198,019
Other borrowings	509,820	221,153
FHLB borrowings	212,648	153,358
Subordinated notes, net of unamortized debt issuance costs	93,877	98,674
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,270	60,265
Operating lease liabilities	16,704	17,070
Other liabilities	68,626	64,100
Total liabilities	7,511,626	6,812,639
Off-balance-sheet arrangements, commitments and contingencies (Note 17)		
Shareholders' equity:		
Common stock: (\$1.25 par value, 80,000,000 shares authorized, 38,039,706 shares issued at December 31, 2023 and 38,000,822 shares issued at December 31, 2022)	47,550	47,501
Paid-in capital	788,840	784,545
Retained earnings	282,355	239,610
Treasury stock: (shares at cost, 7,790,276 at December 31, 2023 and 6,454,192 at December 31, 2022)	(231,995)	(188,203)
AOCI	(113,462)	(137,456)
Total shareholders' equity	773,288	745,997
Total liabilities and shareholders' equity	<u>\$ 8,284,914</u>	<u>\$ 7,558,636</u>

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data)

	Years Ended December 31,		
	2023	2022	2021
Interest income:			
Loans	\$ 244,803	\$ 170,410	\$ 144,803
Taxable investment securities	31,186	18,940	13,312
Tax-exempt investment securities	54,629	45,001	37,730
MBS	19,450	16,639	19,534
FHLB stock and equity investments	1,185	503	530
Other interest earning assets	8,488	1,488	78
Total interest income	<u>359,741</u>	<u>252,981</u>	<u>215,987</u>
Interest expense:			
Deposits	108,157	29,075	9,404
FHLB borrowings	6,777	3,291	7,348
Subordinated notes	3,920	4,015	8,246
Trust preferred subordinated debentures	4,504	2,397	1,390
Other borrowings	21,356	1,862	42
Total interest expense	<u>144,714</u>	<u>40,640</u>	<u>26,430</u>
Net interest income	215,027	212,341	189,557
Provision for (reversal of) credit losses	9,154	3,241	(16,964)
Net interest income after provision for credit losses	<u>205,873</u>	<u>209,100</u>	<u>206,521</u>
Noninterest income:			
Deposit services	25,497	25,843	26,368
Net gain (loss) on sale of securities AFS	(15,976)	(3,819)	3,862
Net gain on sale of equity securities	5,058	—	—
Gain on sale of loans	563	531	1,641
Trust fees	5,910	5,992	5,959
BOLI	5,823	2,647	2,618
Brokerage services	3,305	3,335	3,383
Other	5,654	6,328	5,505
Total noninterest income	<u>35,834</u>	<u>40,857</u>	<u>49,336</u>
Noninterest expense:			
Salaries and employee benefits	85,625	82,633	79,892
Net occupancy	14,694	15,130	14,239
Advertising, travel & entertainment	4,093	3,430	2,367
ATM expense	1,351	1,314	1,166
Professional fees	5,351	4,959	4,015
Software and data processing	9,395	6,847	5,675
Communications	1,469	1,896	2,233
FDIC insurance	3,558	1,945	1,807
Amortization of intangibles	1,697	2,273	2,849
Loss on redemption of subordinated notes	—	—	1,118
Other	13,345	9,899	9,669
Total noninterest expense	<u>140,578</u>	<u>130,326</u>	<u>125,030</u>
Income before income tax expense	101,129	119,631	130,827
Income tax expense	14,437	14,611	17,426
Net income	<u>\$ 86,692</u>	<u>\$ 105,020</u>	<u>\$ 113,401</u>
Earnings per common share – basic	<u>\$ 2.82</u>	<u>\$ 3.27</u>	<u>\$ 3.48</u>
Earnings per common share – diluted	<u>\$ 2.82</u>	<u>\$ 3.26</u>	<u>\$ 3.47</u>
Cash dividends paid per common share	<u>\$ 1.42</u>	<u>\$ 1.40</u>	<u>\$ 1.37</u>

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

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

	Years Ended December 31,		
	2023	2022	2021
Net income .....	\$ 86,692	\$ 105,020	\$ 113,401
Other comprehensive income (loss):			
Securities AFS and transferred securities:			
Change in unrealized holding gain (loss) on AFS securities during the period	28,782	(179,684)	(37,199)
Change in net unrealized loss on securities transferred from AFS to HTM .....	—	(125,175)	—
Reclassification adjustment for amortization related to AFS and HTM debt securities .....	8,004	4,968	1,363
Reclassification adjustment for net (gain) loss on sale of AFS securities, included in net income .....	15,976	3,819	(3,862)
Derivatives:			
Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives .....	1,222	44,757	13,648
Reclassification adjustment of net (gain) loss related to derivatives designated as cash flow hedges .....	(24,544)	(3,638)	6,395
Retirement plans:			
Amortization of net actuarial loss, included in net periodic benefit cost .....	756	895	1,264
Effect of settlement recognition .....	(16)	—	—
Change in net actuarial gain (loss) .....	192	4,487	6,524
Other comprehensive income (loss), before tax .....	30,372	(249,571)	(11,867)
Income tax (expense) benefit related to items of other comprehensive income (loss) .....	(6,378)	52,410	2,492
Other comprehensive income (loss), net of tax .....	23,994	(197,161)	(9,375)
Comprehensive income (loss) .....	<u>\$ 110,686</u>	<u>\$ (92,141)</u>	<u>\$ 104,026</u>

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

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

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2020 .....	\$ 47,419	\$ 771,511	\$ 111,208	\$(123,921)	\$ 69,080	\$ 875,297
Net income .....	—	—	113,401	—	—	113,401
Other comprehensive income (loss) .....	—	—	—	—	(9,375)	(9,375)
Issuance of common stock for dividend reinvestment plan (34,150 shares) .....	42	1,311	—	—	—	1,353
Purchase of common stock (938,484 shares) .....	—	—	—	(34,148)	—	(34,148)
Stock compensation expense .....	—	3,020	—	—	—	3,020
Net issuance of common stock under employee stock plans (305,212 shares) .....	—	4,659	(227)	2,761	—	7,193
Cash dividends paid on common stock (\$1.37 per share) .....	—	—	(44,569)	—	—	(44,569)
Balance at December 31, 2021 .....	47,461	780,501	179,813	(155,308)	59,705	912,172
Net income .....	—	—	105,020	—	—	105,020
Other comprehensive income (loss) .....	—	—	—	—	(197,161)	(197,161)
Issuance of common stock for dividend reinvestment plan (31,853 shares) .....	40	1,193	—	—	—	1,233
Purchase of common stock (923,775 shares) .....	—	—	—	(33,841)	—	(33,841)
Stock compensation expense .....	—	3,221	—	—	—	3,221
Net issuance of common stock under employee stock plans (86,500 shares) .....	—	(370)	(287)	946	—	289
Cash dividends paid on common stock (\$1.40 per share) .....	—	—	(44,936)	—	—	(44,936)
Balance at December 31, 2022 .....	47,501	784,545	239,610	(188,203)	(137,456)	745,997
Net income .....	—	—	86,692	—	—	86,692
Other comprehensive income (loss) .....	—	—	—	—	23,994	23,994
Issuance of common stock for dividend reinvestment plan (38,884 shares) .....	49	1,175	—	—	—	1,224
Purchase of common stock (1,435,193 shares) .....	—	—	—	(45,074)	—	(45,074)
Stock compensation expense .....	—	3,552	—	—	—	3,552
Net issuance of common stock under employee stock plans (99,109 shares) .....	—	(432)	(365)	1,282	—	485
Cash dividends paid on common stock (\$1.42 per share) .....	—	—	(43,582)	—	—	(43,582)
Balance at December 31, 2023 .....	<u>\$ 47,550</u>	<u>\$ 788,840</u>	<u>\$ 282,355</u>	<u>\$(231,995)</u>	<u>\$ (113,462)</u>	<u>\$ 773,288</u>

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

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

	Years Ended December 31,		
	2023	2022	2021
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 86,692	\$ 105,020	\$ 113,401
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and net amortization	10,577	11,105	11,421
Securities premium amortization (discount accretion), net	4,523	18,261	22,770
Loan (discount accretion) premium amortization, net	400	(52)	(829)
Provision for (reversal of) credit losses	9,154	3,241	(16,964)
Stock compensation expense	3,552	3,221	3,020
Deferred tax expense (benefit)	(2,110)	(89)	4,752
Net (gain) loss on sale of AFS securities	15,976	3,819	(3,862)
Net gain on sale of equity securities	(5,058)	—	—
Loss on impairment of investments	—	38	—
Net loss on premises and equipment	342	576	324
Gross proceeds from sales of loans held for sale	17,161	23,774	45,803
Gross originations of loans held for sale	(19,295)	(22,757)	(43,792)
Net (gain) loss on OREO	(61)	(40)	(174)
(Gain on purchase) loss on redemption of subordinated notes	(587)	—	1,118
Net change in:			
Interest receivable	(1,139)	(10,205)	(437)
Other assets	37,874	(5,447)	(2,672)
Interest payable	7,422	1,378	(2,257)
Other liabilities	(85,559)	94,674	24,482
Net cash provided by (used in) operating activities	<u>79,864</u>	<u>226,517</u>	<u>156,104</u>
<b>INVESTING ACTIVITIES:</b>			
Securities AFS:			
Purchases	(2,046,010)	(708,307)	(692,675)
Sales	1,125,414	460,765	160,498
Maturities, calls and principal repayments	960,614	107,787	315,455
Securities HTM:			
Purchases	—	(1,632)	—
Maturities, calls and principal repayments	22,563	12,002	18,304
Proceeds from sales of equity securities	6,679	—	—
Proceeds from redemption of FHLB stock and equity investments	36,919	46,812	32,174
Purchases of FHLB stock and equity investments	(39,796)	(40,967)	(21,221)
Net loan paydowns (originations)	(388,304)	(503,647)	11,891
Purchases of premises and equipment	(6,904)	(9,301)	(8,365)
Proceeds from (purchases of) BOLI	951	—	(13,000)
Proceeds from sales of premises and equipment	430	1,365	1,861
Net proceeds from sales of OREO	203	220	816
Proceeds from sales of repossessed assets	168	124	254
Net cash provided by (used in) investing activities	<u>(327,073)</u>	<u>(634,779)</u>	<u>(194,008)</u>

(continued)



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

	Years Ended December 31,		
	2023	2022	2021
<b>FINANCING ACTIVITIES:</b>			
Net change in deposits	351,551	475,629	789,968
Net change in other borrowings	288,667	197,934	47
Proceeds from FHLB borrowings	2,019,000	3,321,000	14,998,118
Repayment of FHLB borrowings	(1,959,710)	(3,511,680)	(15,486,607)
Net proceeds from issuance of subordinated notes	—	—	(95)
Purchase/redemption of subordinated notes	(4,365)	—	(100,011)
Proceeds from stock option exercises	1,082	790	7,672
Cash paid to tax authority related to tax withholding on share-based awards	(597)	(501)	(479)
Purchase of common stock	(44,803)	(33,708)	(34,148)
Proceeds from the issuance of common stock for dividend reinvestment plan	1,224	1,233	1,353
Cash dividends paid	(43,582)	(44,936)	(44,569)
Net cash provided by (used in) financing activities	608,467	405,761	131,249
Net increase (decrease) in cash and cash equivalents	361,258	(2,501)	93,345
Cash and cash equivalents at beginning of period	199,252	201,753	108,408
Cash and cash equivalents at end of period	\$ 560,510	\$ 199,252	\$ 201,753

**SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:**

Interest paid	\$ 137,292	\$ 39,262	\$ 28,687
Income taxes paid	\$ 15,750	\$ 11,950	\$ 10,750

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

Loans transferred to other repossessed assets and real estate through foreclosure	\$ 226	\$ 465	\$ 740
Loans transferred from held for investment to held for sale	\$ 8,093	\$ —	\$ —
Transfer of AFS to HTM securities	\$ —	\$ 1,369,639	\$ —
Unsettled trades to purchase securities	\$ —	\$ —	\$ (18,995)
Unsettled trades to repurchase common stock	\$ —	\$ (133)	\$ —

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

**Organization.** Southside Bancshares, Inc., incorporated in Texas in 1982, is a bank holding company for Southside Bank, a Texas state bank headquartered in Tyler, Texas that was formed in 1960. We operate through 55 branches, 13 of which are located in grocery stores. We consider our primary market areas to be East Texas, Southeast Texas, as well as the greater Dallas-Fort Worth, Austin and Houston, Texas areas. We are a community-focused financial institution that offers a full range of financial services to individuals, businesses, municipal entities and nonprofit organizations in the communities that we serve. These services include consumer and commercial loans, deposit accounts, wealth management and trust services, brokerage services and safe deposit services.

**Basis of Presentation and Consolidation.** The consolidated financial statements are prepared in conformity with U.S. GAAP and include the accounts of Southside Bancshares, Inc., and its wholly-owned subsidiary, Southside Bank and the nonbank subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

We determine if we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a VIE under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities in which we have all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

**Accounting Changes and Reclassifications.** Certain prior period amounts may be reclassified to conform to current period 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.

**Use of Estimates.** In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. These estimates are subjective in nature and involve matters of judgment. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses. The status of contingencies are particularly subject to change.

**Segment Information.** Operating segments are components of a business about which separate financial information is available and that are evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and assess performance. Our chief operating decision-maker uses consolidated results to make operating and strategic decisions. Therefore, we have determined that our business is conducted in one reportable segment.

**Cash Equivalents.** Cash equivalents, for purposes of reporting cash flow, include cash, amounts due from banks and federal funds sold that have an initial maturity of less than 90 days. We maintain deposits with other institutions in amounts that exceed federal deposit insurance coverage. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that we are not exposed to any significant credit risks on cash and cash equivalents.

**Basic and Diluted Earnings per Common Share.** Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in "Note 2 – Earnings Per Share."

Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of comprehensive income include the after tax effect of changes in the fair value of AFS securities, changes in the net unrealized loss on securities transferred to/from HTM, changes in the accumulated gain or loss on effective cash flow hedging instruments and changes in the funded status of defined benefit retirement plans. Comprehensive income is reported in the accompanying consolidated statements of comprehensive income and in "Note 3 – Accumulated Other Comprehensive Income (Loss)."

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost. Amortized cost consists of the outstanding principal balance adjusted for any charge-offs and any unamortized origination fees and unamortized premiums or discounts on purchased loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the life of the loan. A loan is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Substantially all of our individually evaluated loans are collateral-dependent, and as such, are measured for expected credit losses based on the fair value of the collateral.

Loans Held For Sale. Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

From time to time, certain commercial real estate loans are held for sale which are carried at the lower of cost or fair value.

Loan Fees. We treat loan fees, net of direct costs, as an adjustment to the yield of the related loan over its term.

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 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 increased economic and repricing concerns, as based on known and knowable information as of December 31, 2023.

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, 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.

When assessing for credit losses from period to period, the change may be indicative of changes in the estimates of timing or the amount of future cash flows, based on the probability of economic forecast scenarios applied, as well as the passage of time. We have elected to report the entire change in present value as provision for credit losses.

When using the discounted cash flow method to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments, but rather applies separate prepayment factors.

Accrued Interest. Accrued interest for our loans and debt securities, included in interest receivable on our consolidated balance sheets, is excluded from the estimate of allowance for credit losses.

Nonaccrual Assets and Loan Charge-offs. Nonaccrual assets include financial assets 90 days or more delinquent and full collection of both principal and interest is not expected. Financial instruments 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 or interest. When an asset is categorized as nonaccrual, the accrual of interest is discontinued and any accrued balance is reversed for financial statement purposes. Payments received on nonaccrual assets are applied to the outstanding principal balance. Payments of contractual interest are recognized as income only to the extent that full recovery of the principal balance is reasonably certain. Assets are returned to accrual status when all payments contractually due are brought current and future payments are reasonably assured.

Industry and our own experience indicate that a portion of our loans will become delinquent and a portion of our loans will require partial or full charge-off. Regardless of the underwriting criteria utilized, losses may occur as a result of various factors beyond our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit worthiness of the borrower and the ability of the borrower to make payments on the loan. We charge-off loans when deemed uncollectible. Our policy is to charge-off or partially charge-off a retail credit after it is 120 days past due. Charge-offs on commercial credits are determined on a case-by-case basis when a credit loss has been determined.

Restructured Loans. A loan is 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.

OREO and Foreclosed Assets. OREO includes real estate acquired in full or partial settlement of loan obligations. OREO is initially carried at the fair value of the collateral net of estimated selling costs. Prior to foreclosure, the recorded amount of the loan is written down, if necessary, to the appraised fair value of the real estate to be acquired, less selling costs, by charging the allowance for loan losses. Any subsequent reduction in fair value net of estimated selling costs is charged to noninterest expense. Costs of maintaining and operating foreclosed properties are expensed as incurred and included in other expense in our income statement. Expenditures to complete or improve foreclosed properties are capitalized only if expected to be recovered; otherwise, they are expensed.

Other foreclosed assets are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure, by charging the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Foreclosed assets are included in other assets in the accompanying consolidated balance sheets. Expenses from operations and changes in the valuation allowance are included in noninterest expense.

Securities. AFS. Debt securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity or changes in the availability of and the yield on alternative investments are classified as AFS. These assets are carried at fair value with unrealized gains and losses, not related to credit losses, reported as a separate component of AOCI, net of tax. Fair value is determined using quoted market prices as of the close of business on the balance sheet date. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services. AFS securities hedged with qualifying derivatives are carried at fair value with the change in the fair value on both the hedged instrument and the securities recorded in interest income in the consolidated statements of income.

Gains and losses on the sale of securities are recorded in the month of the trade date and are determined using the specific identification method.

HTM. Debt securities that management has the positive intent and ability to hold until maturity are classified as HTM and are carried at their amortized cost which includes the remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Our HTM securities are presented on the consolidated balance sheets net of allowance for credit losses, if any. As of December 31, 2023, there was no allowance for credit losses on our HTM securities portfolio.

Premiums and Discounts. Premiums and discounts on debt securities are generally amortized over the contractual life of the security, except for MBS where prepayments are anticipated and for callable debt securities whose premiums are amortized to the earliest call date in accordance with ASC 310. The amortization of purchased premium or discount is included in interest income on our consolidated statements of income. Gains and losses on the sale of securities are recorded in the month of the trade date and are determined using the specific identification method. Premiums on debt securities are amortized to the earliest call date.

Allowance for Credit Losses – AFS Securities. In accordance with ASC 326, for AFS debt securities in an unrealized loss position where management (i) 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 losses or other factors. Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. If a credit loss is determined to exist, the present value of discounted cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss is recorded, limited by the amount that the fair value is less than the amortized cost. Any impairment that is not recorded through an allowance for credit losses is recognized in other comprehensive income. Any future changes in the allowance for credit losses is recorded as provision for (reversal of) credit losses.

Allowance for Credit Losses – HTM Securities. In accordance with ASC 326, expected credit losses on HTM securities are measured on a collective basis by major security type, when similar risk characteristics exist. Risk characteristics for segmenting HTM debt securities include issuer, maturity, coupon rate, yield, payment frequency, source of repayment, bond payment structure, and embedded options. Upon assignment of the risk characteristics to the major security types, management may further evaluate the qualitative factors associated with these securities to determine the expectation of credit losses, if any.

The major security types within our HTM portfolio include residential and commercial MBS, state and political subdivisions and corporate securities.

Our state and political subdivisions include highly-rated municipal securities with a long history of no credit losses. Our investment policy prohibits bond purchases with a rating less than BAA and limits our entity concentration. We utilize term structures and due to no prior loss exposure on our state and political subdivision securities, we apply third-party average data to model our securities to represent the portion of the asset that would be lost if the issuer were to default. These third-party estimates of recoveries and defaults, adjusted for constant probability over the securities expected life, are used to evaluate the expected loss of the securities. Due to the limited number and the nature of the HTM state and political subdivisions we hold, we do not model these securities as a pool, but on the specific identification method in conjunction with the application of our third-party fair value measurement.

Our residential and commercial MBS are issued and/or guaranteed by U.S. government agencies or GSEs and are collateralized by pools of single- or multi-family mortgages. Our MBS are highly rated securities with a long history of no credit losses which are either explicitly or implicitly backed by the U.S. government agencies, which guarantee the payment of principal and interest to investors. Management has collectively evaluated the characteristics of these securities and has assumed an expectation of zero credit loss.

Our corporate bonds and other investment securities consist of investment grade bonds, private placement bonds with a long history of no credit losses, and two bonds totaling approximately \$6.4 million rated one grade below investment grade.

We reevaluate the characteristics of our major security types at every reporting period and reassess the considerations to continue to support our expectation of credit loss.

Equity Investments. Equity investments with readily determinable fair values are stated at fair value with the unrealized gains and losses reported in other noninterest income in the consolidated statements of income. Equity investments without readily determinable fair values are recorded at cost less impairment, if any.

Securities with Limited Marketability. Securities with limited marketability, such as stock in the FHLB, are carried at cost, which is a reasonable estimate of the fair value of those assets and are assessed for other-than-temporary impairment.

Premises and Equipment. Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful lives of the related assets. Useful lives are estimated to be 15 to 40 years for premises and 3 to 10 years for equipment. Leasehold improvements are generally depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements. Maintenance and repairs are charged to expense as incurred while major improvements and replacements are capitalized.

Leases. We evaluate our contracts at inception to determine if an arrangement is or contains a lease. Operating leases are included in operating lease ROU assets and operating lease liabilities in our consolidated balance sheets. Our operating leases relate primarily to bank branches and office space. The Company has no finance leases. Short-term leases, leases with an initial term of 12 months or less and do not contain a purchase option that is likely to be exercised, are not recorded on the balance sheet.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date

based on the present value of the future lease payments over the lease term. Our leases do not provide an implicit rate, so we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is reevaluated upon lease modification. The operating lease ROU asset also includes any initial direct costs and prepaid lease payments made less any lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

BOLI. The Company has purchased life insurance policies on certain key executives and officers. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income on the consolidated statements of income and are not subject to income taxes.

Goodwill and Other Intangibles. Other intangible assets consist primarily of core deposits and trust relationship intangibles. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Goodwill and intangible assets that have indefinite useful lives are subject to at least an annual impairment test and more frequently if a triggering event occurs. If any such impairment is determined, a write-down is recorded.

We have selected October 1 of each year as the measurement date on which we will complete our annual goodwill impairment assessment. We may elect to perform a quantitative impairment analysis or first conduct a qualitative analysis to determine if a quantitative analysis is necessary. We performed a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors considered include, but are not limited to, macroeconomic and State of Texas economic conditions, industry and market conditions and trends, the Company's financial performance, market capitalization, stock price, and any Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that an impairment exists, no further testing is required; otherwise an impairment test is performed. For the year ended December 31, 2023, the Company's goodwill impairment evaluation, based on its qualitative assessment, indicated there was no impairment. As a result, we did not record any goodwill impairment for the years ended December 31, 2023 or 2022, and we had no cumulative goodwill impairment.

At December 31, 2023, core deposit intangible and trust relationship intangible was \$1.4 million and \$1.5 million, respectively. For the years ended December 31, 2023, 2022 and 2021, amortization expense related to our core deposit intangible and trust relationship intangible was \$1.7 million, \$2.3 million and \$2.8 million, respectively.

Repurchase Agreements. We sell certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of the securities underlying the agreements remains in the asset account. We determine the type of debt securities to pledge which may include investment securities and U.S. agency MBS.

Derivative Financial Instruments and Hedging Activities. Derivative financial instruments are carried on the consolidated balance sheets as other assets or other liabilities, as applicable, at estimated fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative financial instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and, further, by the type of hedging relationship. We present derivative financial instruments at fair value in the consolidated balance sheets on a net basis when a right of offset exists, based on transactions with a single counterparty and any cash collateral paid to and/or received from that counterparty for derivative contracts that are subject to legally enforceable master netting arrangements.

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period of change. Gains and losses on derivative instruments designated as fair value hedges, as well as the change in the fair value on the hedged item, are recorded in interest income in the consolidated statements of income. Gains and losses due to changes in the 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.

During the year ended December 31, 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. 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.

For derivatives designated as hedging instruments at inception, statistical regression analysis is used at inception and for each reporting period thereafter to assess whether the derivative used has been and is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Net hedge ineffectiveness is recorded in other noninterest income on the consolidated statements of income.

Terminated Derivative Financial Instruments. 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 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 not occur, any related gains or losses recorded in AOCI are immediately recognized in earnings.

Further information on our derivative instruments and hedging activities is included in "Note 11 – Derivative Financial Instruments and Hedging Activities."

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures. 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. In accordance with Topic 326, credit losses are not recognized for those credit exposures that are unconditionally cancellable by the Company.

The allowance for credit losses for these off-balance-sheet credit exposures is included in other liabilities on our consolidated balance sheets and is adjusted with a corresponding adjustment to provision for credit losses on our consolidated statements of income.

Revenue Recognition. Our revenue consists of net interest income on financial assets and financial liabilities and noninterest income. The classifications of our revenue are presented in the consolidated statements of income.

In accordance with ASC Topic 606, revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of goods or services. We recognize revenue equal to the amounts for which we have a right to invoice, revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of those goods or services. We generally expense sales commissions when incurred because the amortization period is within one year or less. These costs are recorded within salaries and employee benefits on the consolidated statements of income.

The following summarizes our revenue recognition policies as they relate to revenue from contracts with customers:

- *Deposit services.* Service charges on deposit accounts include fees for banking services provided, overdrafts and non-sufficient funds. Revenue is generally recognized in accordance with published deposit account agreements for retail accounts or contractual agreements for commercial accounts. Our deposit services also include our ATM and debit card interchange revenue that is presented net of the associated costs. Interchange revenue is generated by our deposit customers' usage and volume of activity. Interchange rates are not controlled by the Company, which effectively acts as processor that collects and remits payments associated with customer debit card transactions.
- *Trust income.* Trust income includes fees and commissions from investment management, administrative and advisory services primarily for individuals, and to a lesser extent, partnerships and corporations. Revenue is recognized on an accrual basis at the time the services are performed and when we have a right to invoice and are based on either the market value of the assets managed or the services provided.
- *Brokerage services.* Brokerage services income includes fees and commissions charged when we arrange for another party to transfer brokerage services to a customer. The fees and commissions under this agent relationship are based upon stated fee schedules based upon the type of transaction, volume and value of the services provided.
- *Other noninterest income.* Other noninterest income includes among other things, merchant services income. Merchant services revenue is derived from third-party vendors that process credit card transactions on behalf of our merchant customers. Merchant services revenue is primarily comprised of residual fee income based on the referred merchant's processing volumes and/or margin.

Income Taxes. We file a consolidated federal income tax return. Income tax expense represents the taxes expected to be paid or returned for current year taxes adjusted for the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period the change

occurs. Uncertain tax positions arise when it is more likely than not that the tax position taken will be sustained upon examination by the appropriate tax authority. Any income tax benefit as well as penalties and interest related to income tax expense are recorded as a component of income tax expense. Unrecognized tax benefits were not material as of December 31, 2023 or 2022.

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. 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.

Retirement Plan. Defined benefit pension obligations and the annual pension costs are determined by independent actuaries and through the use of a number of assumptions that are reviewed by management. These assumptions include a compensation rate increase, a discount rate used to determine the current benefit obligation and a long-term expected rate of return on plan assets. Net periodic defined benefit pension expense includes service cost, interest cost based on the assumed discount rate, an expected return on plan assets, amortization of prior service cost and amortization of net actuarial gains or losses. Prior service costs include the impact of plan amendments on the liabilities and are amortized over the future service periods of active employees expected to receive benefits under the retirement plan. Actuarial gains and losses result from experience different from that assumed and from changes in assumptions. Amortization of actuarial gains and losses is included as a component of net periodic defined benefit pension cost. Prior to the freeze of all future benefit accruals and accrual of benefit service as of December 31, 2020, the service cost component was recorded on our consolidated income statement as salaries and employee benefits in noninterest expense. All other components other than service cost are recorded in other noninterest expense.

The retirement plan obligations, related assets and net periodic benefit costs of our defined benefit pension plan are presented in “Note 10 – Employee Benefits.”

Share-Based Awards. Compensation expense for NQSOs and RSUs is based on the fair value on the date of the grant and is recorded over the grant’s vesting period. Compensation expense for PSUs is based on the fair value on the date of the grant and is recorded over the service period of the award based upon the probable number of units expected to vest. Share-based compensation for employees is recognized as compensation cost in the consolidated statements of income. Share-based compensation for non-employee directors is recognized as other noninterest expense in the consolidated statements of income.

Loss Contingencies. Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Wealth Management and Trust Assets. Our wealth management and trust assets, other than cash on deposit at Southside Bank, are not included in the accompanying financial statements, because they are not our assets.

#### Accounting Pronouncements.

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security should not be considered in measuring fair value. It also requires the following disclosures for equity securities subject to the contractual sale restrictions: 1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet; 2) the nature and remaining duration of the restriction(s); and 3) the circumstances that could cause a lapse in the restriction(s). ASU 2022-03 is effective for the fiscal years and interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The guidance should be applied prospectively. We adopted ASU 2022-03 on January 1, 2024. ASU 2022-04 is not expected to have a material impact on our consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, “Disclosure Improvements – Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative.” ASU 2023-06 amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 – Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC’s removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. ASU 2023-06 is not expected to have a material impact on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” ASU 2023-07 requires disclosures of significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment’s profit or loss and assets that are currently required annually. Public entities with a single reportable segment are required to provide the new disclosures and all the disclosures required under ASC 280. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The guidance should be applied retrospectively to all periods presented in the financial statements, unless it is impracticable. We are currently evaluating the potential impact of the pending adoption of ASU 2023-07 on our consolidated financial statements.



In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 enhances the transparency of decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The guidance should be applied prospectively with an option to apply it retrospectively for each period presented. We are currently evaluating the potential impact of the pending adoption of ASU 2023-09 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):

	Years Ended December 31,		
	2023	2022	2021
Basic and Diluted Earnings:			
Net income .....	<u>\$ 86,692</u>	<u>\$ 105,020</u>	<u>\$ 113,401</u>
Basic weighted-average shares outstanding .....	30,704	32,120	32,558
Add: Stock awards .....	55	131	134
Diluted weighted-average shares outstanding .....	<u>30,759</u>	<u>32,251</u>	<u>32,692</u>
Basic earnings per share:			
Net income .....	<u>\$ 2.82</u>	<u>\$ 3.27</u>	<u>\$ 3.48</u>
Diluted earnings per share:			
Net income .....	<u>\$ 2.82</u>	<u>\$ 3.26</u>	<u>\$ 3.47</u>

For the year ended December 31, 2023, there were approximately 570,000 anti-dilutive shares. For the years ended December 31, 2022 and 2021 there were approximately 14,000 and 9,000 anti-dilutive shares, respectively.

### 3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Year Ended December 31, 2023			
	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Retirement Plans	Total
Beginning balance, net of tax	\$ (149,181)	\$ 31,227	\$ (19,502)	\$ (137,456)
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications	28,782	1,222	176	30,180
Reclassification adjustments included in net income	23,980	(24,544)	756	192
Income tax (expense) benefit	(11,080)	4,898	(196)	(6,378)
Net current-period other comprehensive income (loss), net of tax	41,682	(18,424)	736	23,994
Ending balance, net of tax	<u>\$ (107,499)</u>	<u>\$ 12,803</u>	<u>\$ (18,766)</u>	<u>\$ (113,462)</u>

	Year Ended December 31, 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	(304,859)	44,757	4,487	(255,615)
Reclassification adjustments included in net income	8,787	(3,638)	895	6,044
Income tax (expense) benefit	62,175	(8,635)	(1,130)	52,410
Net current-period other comprehensive income (loss), net of tax	(233,897)	32,484	4,252	(197,161)
Ending balance, net of tax	<u>\$ (149,181)</u>	<u>\$ 31,227</u>	<u>\$ (19,502)</u>	<u>\$ (137,456)</u>

	Year Ended December 31, 2021			
	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Retirement Plans	Total
Beginning balance, net of tax	\$ 116,078	\$ (17,091)	\$ (29,907)	\$ 69,080
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications	(37,199)	13,648	6,524	(17,027)
Reclassification adjustments included in net income	(2,499)	6,395	1,264	5,160
Income tax (expense) benefit	8,336	(4,209)	(1,635)	2,492
Net current-period other comprehensive income (loss), net of tax	(31,362)	15,834	6,153	(9,375)
Ending balance, net of tax	<u>\$ 84,716</u>	<u>\$ (1,257)</u>	<u>\$ (23,754)</u>	<u>\$ 59,705</u>

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

	Years Ended December 31,		
	2023	2022	2021
Unrealized gains and losses on securities transferred:			
Amortization of unrealized gains and losses <sup>(1)</sup> .....	\$ (8,004)	\$ (4,968)	\$ (1,363)
Tax benefit .....	1,681	1,043	286
Net of tax .....	<u>\$ (6,323)</u>	<u>\$ (3,925)</u>	<u>\$ (1,077)</u>
Unrealized gains and losses on AFS securities:			
Realized net gain (loss) on sale of securities <sup>(2)</sup> .....	\$ (15,976)	\$ (3,819)	\$ 3,862
Tax (expense) benefit .....	3,355	802	(811)
Net of tax .....	<u>\$ (12,621)</u>	<u>\$ (3,017)</u>	<u>\$ 3,051</u>
Derivatives:			
Realized net gain (loss) on interest rate swap derivatives <sup>(3)</sup> .....	\$ 24,544	\$ 3,638	\$ (6,395)
Tax (expense) benefit .....	(5,154)	(764)	1,343
Net of tax .....	<u>\$ 19,390</u>	<u>\$ 2,874</u>	<u>\$ (5,052)</u>
Amortization of retirement plans:			
Net actuarial loss <sup>(4)</sup> .....	\$ (756)	\$ (895)	\$ (1,264)
Tax benefit .....	159	188	265
Net of tax .....	<u>\$ (597)</u>	<u>\$ (707)</u>	<u>\$ (999)</u>
Total reclassifications for the period, net of tax .....	<u>\$ (151)</u>	<u>\$ (4,775)</u>	<u>\$ (4,077)</u>

(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 10 – Employee Benefits."

#### 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 December 31, 2023 and 2022 are reflected in the tables below (in thousands):

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>AVAILABLE FOR SALE</b>				
Investment securities:				
U.S. Treasury .....	\$ 139,706	\$ 19	\$ —	\$ 139,725
State and political subdivisions .....	603,913	362	35,530	568,745
Corporate bonds and other .....	14,569	31	507	14,093
MBS: <sup>(1)</sup>				
Residential .....	569,039	3,202	3,258	568,983
Commercial .....	5,240	44	536	4,748
<b>Total</b> .....	<b>\$ 1,332,467</b>	<b>\$ 3,658</b>	<b>\$ 39,831</b>	<b>\$ 1,296,294</b>
<b>HELD TO MATURITY</b>				
Investment securities:				
State and political subdivisions .....	\$ 1,039,440	\$ 10,070	\$ 126,233	\$ 923,277
Corporate bonds and other .....	146,712	488	15,738	131,462
MBS: <sup>(1)</sup>				
Residential .....	90,619	13	7,263	83,369
Commercial .....	30,282	—	2,228	28,054
<b>Total</b> .....	<b>\$ 1,307,053</b>	<b>\$ 10,571</b>	<b>\$ 151,462</b>	<b>\$ 1,166,162</b>
	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>AVAILABLE FOR SALE</b>				
Investment securities:				
State and political subdivisions .....	\$ 1,039,453	\$ 956	\$ 75,557	\$ 964,852
Corporate bonds and other .....	8,692	26	14	8,704
MBS: <sup>(1)</sup>				
Residential .....	328,400	250	13,623	315,027
Commercial .....	11,329	50	948	10,431
<b>Total</b> .....	<b>\$ 1,387,874</b>	<b>\$ 1,282</b>	<b>\$ 90,142</b>	<b>\$ 1,299,014</b>
<b>HELD TO MATURITY</b>				
Investment securities:				
State and political subdivisions .....	\$ 1,037,556	\$ 3,969	\$ 163,283	\$ 878,242
Corporate bonds and other .....	152,552	575	7,993	145,134
MBS: <sup>(1)</sup>				
Residential .....	93,796	21	8,343	85,474
Commercial .....	42,825	—	2,519	40,306
<b>Total</b> .....	<b>\$ 1,326,729</b>	<b>\$ 4,565</b>	<b>\$ 182,138</b>	<b>\$ 1,149,156</b>

(1) All MBS 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 year ended December 31, 2023. We transferred securities from AFS to HTM with an estimated fair value of \$1.25 billion during the year ended December 31, 2022. The remaining net unamortized, unrealized loss on the transferred securities included in AOCI in the accompanying balance sheets totaled \$113.5 million (\$89.7 million, net of tax) at December 31, 2023 and \$121.5 million (\$96.0 million, net of tax) at December 31, 2022. 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 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 \$2.28 billion and \$1.82 billion were pledged as of December 31, 2023 and December 31, 2022, 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 December 31, 2023 and December 31, 2022, the amount of excess collateral at the FRDW was \$213.1 million and \$339.6 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 December 31, 2023 or 2022, segregated by major security type and length of time in a continuous loss position (in thousands):

	December 31, 2023					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>AVAILABLE FOR SALE</b>						
Investment securities:						
State and political subdivisions .....	\$ 26,371	\$ 297	\$ 516,520	\$ 35,233	\$ 542,891	\$ 35,530
Corporate bonds and other .....	8,103	319	5,071	188	13,174	507
MBS:						
Residential .....	150,865	549	36,864	2,709	187,729	3,258
Commercial .....	—	—	2,484	536	2,484	536
Total .....	<u>\$ 185,339</u>	<u>\$ 1,165</u>	<u>\$ 560,939</u>	<u>\$ 38,666</u>	<u>\$ 746,278</u>	<u>\$ 39,831</u>
<b>HELD TO MATURITY</b>						
Investment securities:						
State and political subdivisions .....	\$ 16,549	\$ 123	\$ 713,499	\$ 126,110	\$ 730,048	\$ 126,233
Corporate bonds and other .....	9,956	1,135	114,787	14,603	124,743	15,738
MBS:						
Residential .....	—	—	82,747	7,263	82,747	7,263
Commercial .....	—	—	28,054	2,228	28,054	2,228
Total .....	<u>\$ 26,505</u>	<u>\$ 1,258</u>	<u>\$ 939,087</u>	<u>\$ 150,204</u>	<u>\$ 965,592</u>	<u>\$ 151,462</u>
<b>December 31, 2022</b>						
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>AVAILABLE FOR SALE</b>						
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 .....	306,294	13,623	—	—	306,294	13,623
Commercial .....	5,613	318	2,545	630	8,158	948
Total .....	<u>\$ 1,174,855</u>	<u>\$ 82,638</u>	<u>\$ 29,165</u>	<u>\$ 7,504</u>	<u>\$ 1,204,020</u>	<u>\$ 90,142</u>
<b>HELD TO MATURITY</b>						
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	8,343
Commercial .....	40,306	2,519	—	—	40,306	2,519
Total .....	<u>\$ 672,739</u>	<u>\$ 83,876</u>	<u>\$ 340,055</u>	<u>\$ 98,262</u>	<u>\$ 1,012,794</u>	<u>\$ 182,138</u>

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 December 31, 2023 and December 31, 2022, 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 December 31, 2023, we had 373 AFS debt securities in an unrealized loss position. 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 AFS 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. 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 investment grade corporates, private placement bonds with a long history of no credit losses, and two bonds rated one grade below investment grade, no credit loss should be recognized for these securities for the year ended December 31, 2023 or 2022.

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 December 31, 2023, accrued interest receivable on AFS and HTM debt securities totaled \$15.4 million and \$13.7 million, respectively. As of December 31, 2022, accrued interest receivable on AFS and HTM debt securities totaled \$16.9 million and \$13.6 million, respectively. No HTM debt securities were past-due or on nonaccrual status as of December 31, 2023 or 2022.

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

	Years Ended December 31,		
	2023	2022	2021
U.S. Treasury .....	\$ 11,331	\$ 271	\$ 615
State and political subdivisions .....	67,355	57,663	46,296
Corporate bonds and other .....	7,129	6,007	4,131
MBS .....	19,450	16,639	19,534
Total interest income on securities .....	<u>\$ 105,265</u>	<u>\$ 80,580</u>	<u>\$ 70,576</u>

There was a \$16.0 million net realized loss as a result of sales from the AFS securities portfolio for the year ended December 31, 2023, which consisted of \$24.5 million in realized losses on sales of AFS securities and \$2.0 million in realized gains on sales of AFS securities, offset by a net gain of \$6.5 million on the unwind of fair value municipal security hedges in the AFS securities portfolio. There was a \$3.8 million net realized loss as a result of sales from the AFS securities portfolio for the year ended December 31, 2022, which consisted of \$4.4 million in realized losses and \$584,000 in realized gains. There was a \$3.9 million net realized gain from the AFS securities portfolio for the year ended December 31, 2021, which consisted of \$4.1 million in realized gains and \$218,000 in realized losses. There were no sales from the HTM portfolio during the year ended December 31, 2023, 2022 or 2021. 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.

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

	December 31, 2023	
	Amortized Cost	Fair Value
<b>AVAILABLE FOR SALE</b>		
Investment securities:		
Due in one year or less .....	\$ 139,916	\$ 139,935
Due after one year through five years .....	4,260	4,242
Due after five years through ten years .....	22,203	21,689
Due after ten years .....	591,809	556,697
	758,188	722,563
MBS: .....	574,279	573,731
Total .....	<u>\$ 1,332,467</u>	<u>\$ 1,296,294</u>
	December 31, 2023	
	Amortized Cost	Fair Value
<b>HELD TO MATURITY</b>		
Investment securities:		
Due in one year or less .....	\$ 15,969	\$ 15,092
Due after one year through five years .....	4,868	4,739
Due after five years through ten years .....	140,774	126,474
Due after ten years .....	1,024,541	908,434
	1,186,152	1,054,739
MBS: .....	120,901	111,423
Total .....	<u>\$ 1,307,053</u>	<u>\$ 1,166,162</u>

### *Equity Investments*

Equity investments on our consolidated balance sheets include CRA funds with a readily determinable fair value as well as equity investments without readily determinable fair values. At December 31, 2023 and 2022, we had equity investments recorded in our consolidated balance sheets of \$9.7 million and \$11.2 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 year ended December 31, 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):

	Years Ended December 31,		
	2023	2022	2021
Net gains (losses) recognized during the period on equity investments .....	\$ 5,131	\$ (685)	\$ (174)
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 still held at the reporting date .....	<u>\$ 73</u>	<u>\$ (685)</u>	<u>\$ (174)</u>



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 December 31, 2023.

#### *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 December 31, 2023, our FHLB stock was not impaired and thus was not considered to be other-than-temporarily impaired.

## 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Real estate loans:		
Construction .....	\$ 789,744	\$ 559,681
1-4 family residential .....	696,738	663,519
Commercial .....	2,168,451	1,987,707
Commercial loans .....	366,893	412,064
Municipal loans .....	441,168	450,067
Loans to individuals .....	61,516	74,653
Total loans .....	<u>4,524,510</u>	<u>4,147,691</u>
Less: Allowance for loan losses .....	42,674	36,515
Net loans .....	<u>\$ 4,481,836</u>	<u>\$ 4,111,176</u>

#### *Loans to Affiliated Parties*

In the normal course of business, we make loans to certain of our executive officers and directors and their related interests. As of December 31, 2023 and 2022, these loans totaled \$13.7 million and \$14.2 million, respectively. These loans represented 1.8% and 1.9% of shareholders' equity as of December 31, 2023 and 2022, respectively.

#### *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 December 31, 2023 consisted of \$1.79 billion of owner and non-owner occupied real estate, \$347.5 million of loans secured by multi-family properties and \$28.6 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*

We 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 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. 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.

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

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	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
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 <sup>(1)</sup>	\$ 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 <sup>(1)</sup>	\$ 2,427	\$ 586	\$ 105	\$ 46	\$ 818	\$ 222	\$ —	\$ 4,204

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

December 31, 2022	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2022	2021	2020	2019	2018	Prior		
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 December 31, 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.

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

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
Real estate loans:						
Construction	\$ 474	\$ —	\$ 29	\$ 503	\$ 789,241	\$ 789,744
1-4 family residential	4,638	774	1,700	7,112	689,626	696,738
Commercial	621	34	40	695	2,167,756	2,168,451
Commercial loans	1,693	347	127	2,167	364,726	366,893
Municipal loans	27	—	—	27	441,141	441,168
Loans to individuals	107	1	10	118	61,398	61,516
Total	<u>\$ 7,560</u>	<u>\$ 1,156</u>	<u>\$ 1,906</u>	<u>\$ 10,622</u>	<u>\$ 4,513,888</u>	<u>\$ 4,524,510</u>
	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
Real estate loans:						
Construction	\$ 43	\$ 21	\$ —	\$ 64	\$ 559,617	\$ 559,681
1-4 family residential	3,529	368	214	4,111	659,408	663,519
Commercial	105	153	415	673	1,987,034	1,987,707
Commercial loans	515	277	247	1,039	411,025	412,064
Municipal loans	—	—	—	—	450,067	450,067
Loans to individuals	203	3	40	246	74,407	74,653
Total	<u>\$ 4,395</u>	<u>\$ 822</u>	<u>\$ 916</u>	<u>\$ 6,133</u>	<u>\$ 4,141,558</u>	<u>\$ 4,147,691</u>

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

	December 31, 2023	December 31, 2022
Nonaccrual loans:		
Real estate loans:		
Construction	\$ 29	\$ 405
1-4 family residential	2,093	848
Commercial	528	762
Commercial loans	1,208	757
Loans to individuals	31	74
Total nonaccrual loans <sup>(1)</sup>	<u>3,889</u>	<u>2,846</u>
Accruing loans past due more than 90 days	—	—
Restructured loans <sup>(2)</sup>	13	7,849
OREO	99	93
Reposessed assets	—	74
Total nonperforming assets	<u>\$ 4,001</u>	<u>\$ 10,862</u>

(1) Includes \$506,000 and \$897,000 of restructured loans as of December 31, 2023 and December 31, 2022, respectively.

(2) 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 December 31, 2023 exclude any loan modifications that are performing but would have previously required disclosure as troubled debt restructures.

We reversed \$89,000 and \$36,000 of interest income on nonaccrual loans during the years ended December 31, 2023 and 2022, respectively. We had \$1.0 million and \$1.6 million of loans on nonaccrual for which there was no related allowance for credit losses as of December 31, 2023 and 2022, 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 December 31, 2023 and 2022, we had \$7.5 million and \$8.1 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 \$1.0 million loans secured by 1-4 family residential properties for which formal foreclosure proceedings were in process as of December 31, 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.

#### *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 year ended December 31, 2023 were not significant.

The following table sets forth the recorded balance of restructured loans and type of modification by class of loans during the periods presented (dollars in thousands):

	Year Ended December 31, 2023					
	Amortization Period Extension	Interest Rate Reduction	Combination	Total Modifications	Number of Loans	Percent of Total Class
Commercial loans .....	\$ 603	\$ —	\$ 64	\$ 667	5	0.18 %
Total .....	<u>\$ 603</u>	<u>\$ —</u>	<u>\$ 64</u>	<u>\$ 667</u>	<u>5</u>	

There were three restructured loans totaling \$506,000 included in our nonaccrual loans in nonperforming assets as of December 31, 2023.

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 December 31, 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 December 31, 2023, there were no commitments to lend additional funds to borrowers whose loans had been restructured.

## Allowance for Loan Losses

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

Year Ended December 31, 2023							
	Real Estate			Commercial Loans	Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial				
Balance at beginning of period	\$ 3,164	\$ 2,173	\$ 28,701	\$ 2,235	\$ 45	\$ 197	\$ 36,515
Loans charged-off <sup>(1)</sup>	(92)	(119)	(788)	(1,283)	—	(1,922)	(4,204)
Recoveries of loans charged-off	2	110	1	298	—	1,043	1,454
Net loans (charged-off) recovered	(90)	(9)	(787)	(985)	—	(879)	(2,750)
Provision for (reversal of) loan losses	2,213	676	4,352	836	(26)	858	8,909
Balance at end of period	<u>\$ 5,287</u>	<u>\$ 2,840</u>	<u>\$ 32,266</u>	<u>\$ 2,086</u>	<u>\$ 19</u>	<u>\$ 176</u>	<u>\$ 42,674</u>
Year Ended December 31, 2022							
	Real Estate			Commercial Loans	Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial				
Balance at beginning of period	\$ 3,787	\$ 1,866	\$ 26,980	\$ 2,397	\$ 47	\$ 196	\$ 35,273
Loans charged-off	—	(69)	—	(792)	—	(1,723)	(2,584)
Recoveries of loans charged-off	2	107	81	593	—	1,105	1,888
Net loans (charged-off) recovered	2	38	81	(199)	—	(618)	(696)
Provision for (reversal of) loan losses	(625)	269	1,640	37	(2)	619	1,938
Balance at end of period	<u>\$ 3,164</u>	<u>\$ 2,173</u>	<u>\$ 28,701</u>	<u>\$ 2,235</u>	<u>\$ 45</u>	<u>\$ 197</u>	<u>\$ 36,515</u>
Year Ended December 31, 2021							
	Real Estate			Commercial Loans	Municipal Loans	Loans to Individuals	Total
	Construction	1-4 Family Residential	Commercial				
Balance at beginning of period	\$ 6,490	\$ 2,270	\$ 35,709	\$ 4,107	\$ 46	\$ 384	\$ 49,006
Loans charged-off	—	(136)	—	(1,004)	—	(1,611)	(2,751)
Recoveries of loans charged-off	2	75	87	674	—	1,142	1,980
Net loans (charged-off) recovered	2	(61)	87	(330)	—	(469)	(771)
Provision for (reversal of) loan losses	(2,705)	(343)	(8,816)	(1,380)	1	281	(12,962)
Balance at end of period	<u>\$ 3,787</u>	<u>\$ 1,866</u>	<u>\$ 26,980</u>	<u>\$ 2,397</u>	<u>\$ 47</u>	<u>\$ 196</u>	<u>\$ 35,273</u>

(1) Included in charge-offs for the year ended December 31, 2023 is a \$788,000 write down to fair value an \$8.1 million commercial real estate loan relationship transferred to held for sale.

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 December 31, 2023 and December 31, 2022, the accrued interest on our loan portfolio was \$21.3 million and \$18.8 million, respectively.

## 6. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2023 and 2022 are summarized as follows (in thousands):

	December 31,	
	2023	2022
Premises .....	\$ 189,643	\$ 185,588
Furniture and equipment .....	44,719	44,126
	234,362	229,714
Less: Accumulated depreciation .....	95,412	88,458
Total .....	<u>\$ 138,950</u>	<u>\$ 141,256</u>

Assets with accumulated depreciation of \$1.5 million and \$1.9 million were written off for the years ended December 31, 2023 and 2022, respectively.

Depreciation expense was \$8.4 million, \$8.6 million and \$8.2 million for the years ended December 31, 2023, 2022 and 2021, respectively.



## 7. DEPOSITS

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

	December 31, 2023	December 31, 2022
Noninterest bearing demand deposits:		
Private accounts .....	\$ 1,322,793	\$ 1,607,952
Public accounts .....	67,614	63,610
Total noninterest bearing demand deposits .....	<u>1,390,407</u>	<u>1,671,562</u>
Interest bearing deposits:		
Private accounts:		
Savings accounts .....	602,050	672,676
Money market demand accounts .....	356,506	424,676
Platinum money market accounts .....	421,505	421,826
Interest bearing checking accounts .....	1,897,017	1,496,784
NOW demand accounts .....	14,507	13,601
CDs of \$250,000 or more .....	232,343	120,387
CDs under \$250,000 .....	489,584	532,409
Total private accounts .....	<u>4,013,512</u>	<u>3,682,359</u>
Public accounts:		
Savings accounts .....	2,000	1,949
Money market demand accounts .....	31,808	33,871
Platinum money market accounts .....	498,079	365,720
Interest bearing checking accounts .....	75,573	89,320
NOW demand accounts .....	370,752	234,027
CDs of \$250,000 or more .....	161,194	113,810
CDs under \$250,000 .....	6,356	5,401
Total public accounts .....	<u>1,145,762</u>	<u>844,098</u>
Total interest bearing deposits .....	<u>5,159,274</u>	<u>4,526,457</u>
Total deposits .....	<u>\$ 6,549,681</u>	<u>\$ 6,198,019</u>

For the years ended December 31, 2023, 2022 and 2021, interest expense on CDs of \$250,000 or more was \$13.0 million, \$2.1 million and \$1.4 million, respectively.

At December 31, 2023, the scheduled maturities of CDs, including public accounts, were as follows (in thousands):

2024 .....	\$ 758,980
2025 .....	113,907
2026 .....	6,256
2027 .....	3,627
2028 .....	6,707
2029 and thereafter .....	—
	<u>\$ 889,477</u>

Brokered deposits may consist of CDs and non-maturity deposits. At December 31, 2023, we had no brokered CDs. Brokered non-maturity deposits were \$828.0 million at December 31, 2023 with a weighted average cost of 323 basis points. As of December 31, 2022, we had \$220.9 million in brokered CDs and \$438.4 million in brokered non-maturity deposits. Our current policy allows for maximum brokered deposits of the lesser of \$1.20 billion or 20% of total deposits.

At December 31, 2023 and 2022, we had approximately \$9.8 million and \$11.0 million, respectively, in deposits from related parties, including directors and named executive officers.

The aggregate amount of demand deposit overdrafts that have been reclassified as loans were \$1.3 million and \$1.2 million at December 31, 2023 and 2022, respectively.

## 8. BORROWING ARRANGEMENTS

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

	December 31, 2023	December 31, 2022
Other borrowings:		
Balance at end of period	\$ 509,820	\$ 221,153
Average amount outstanding during the period <sup>(1)</sup>	436,676	77,845
Maximum amount outstanding during the period <sup>(2)</sup>	1,030,421	316,563
Weighted average interest rate during the period <sup>(3)</sup>	4.9 %	2.4 %
Interest rate at end of period <sup>(4)</sup>	5.0 %	4.1 %
FHLB borrowings:		
Balance at end of period	\$ 212,648	\$ 153,358
Average amount outstanding during the period <sup>(1)</sup>	276,584	135,926
Maximum amount outstanding during the period <sup>(2)</sup>	533,242	423,645
Weighted average interest rate during the period <sup>(3)</sup>	2.5 %	2.4 %
Interest rate at end of period <sup>(5)</sup>	1.2 %	0.7 %

(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 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 December 31, 2023 are as follows (in thousands):

	Payments Due by Period						Total
	Less than 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter	
Other borrowings	\$ 503,387	\$ 6,433	\$ —	\$ —	\$ —	\$ —	\$ 509,820
FHLB borrowings	210,740	772	484	406	246	—	212,648
Total obligations	<u>\$ 714,127</u>	<u>\$ 7,205</u>	<u>\$ 484</u>	<u>\$ 406</u>	<u>\$ 246</u>	<u>\$ —</u>	<u>\$ 722,468</u>

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, TIB – The Independent Bankers Bank and Comerica Bank for \$40.0 million, \$15.0 million and \$7.5 million, respectively. There were no federal funds purchased at December 31, 2023 or 2022. To provide more liquidity in response to economic conditions in recent years, the Federal Reserve has encouraged broader use of the discount window. At December 31, 2023, the amount of additional funding the Bank could obtain from the FRDW, collateralized by securities, was approximately \$213.1 million. There were \$300.0 million in borrowings from the FRDW at December 31, 2023, and \$188.0 million at December 31, 2022. 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 December 31, 2023, the amount of additional funding the Bank could obtain from the BTFP, collateralized by securities, was approximately \$8,000. There were \$117.7 million in borrowings from the BTFP at December 31, 2023, with a remaining maturity under three months. Southside Bank has a \$5.0 million line of credit with Frost Bank to be used to issue letters of credit, and at December 31, 2023, 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 \$92.1 million at December 31, 2023 and \$33.2 million at December 31, 2022, and had maturities of less than two years. Repurchase

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

FHLB borrowings represent borrowings with fixed interest rates ranging from 0.57% to 4.80% and with remaining maturities of 22 days to 4.5 years at December 31, 2023. FHLB borrowings may be collateralized by FHLB stock, nonspecified loans and/or securities. At December 31, 2023, the amount of additional funding Southside Bank could obtain from FHLB, collateralized by securities, FHLB stock and nonspecified loans and securities, was approximately \$1.95 billion, net of FHLB stock purchases required.

## 9. LONG-TERM DEBT

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Subordinated notes: <sup>(1)</sup>		
3.875% Subordinated notes, net of unamortized debt issuance costs <sup>(2)</sup> .....	\$ 93,877	\$ 98,674
Total Subordinated notes .....	<u>93,877</u>	<u>98,674</u>
Trust preferred subordinated debentures: <sup>(3)</sup>		
Southside Statutory Trust III, net of unamortized debt issuance costs <sup>(4)</sup> .....	20,578	20,573
Southside Statutory Trust IV .....	23,196	23,196
Southside Statutory Trust V .....	12,887	12,887
Magnolia Trust Company I .....	<u>3,609</u>	<u>3,609</u>
Total Trust preferred subordinated debentures .....	<u>60,270</u>	<u>60,265</u>
Total Long-term debt .....	<u>\$ 154,147</u>	<u>\$ 158,939</u>

- (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 \$1.1 million at December 31, 2023 and \$1.3 million at December 31, 2022.
- (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 \$41,000 at December 31, 2023 and \$46,000 at December 31, 2022.

As of December 31, 2023, the details of the subordinated notes and the trust preferred subordinated debentures are summarized below (dollars in thousands):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Fixed or Floating Rate</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
3.875% Subordinated Notes <sup>(1)</sup> .....	November 6, 2020	\$ 100,000	Fixed-to-Floating	3.875%	November 15, 2030
Southside Statutory Trust III <sup>(2)</sup> .....	September 4, 2003	\$ 20,619	Floating	3 month SOFR + 3.20%	September 4, 2033
Southside Statutory Trust IV <sup>(2)</sup> .....	August 8, 2007	\$ 23,196	Floating	3 month SOFR + 1.56%	October 30, 2037
Southside Statutory Trust V <sup>(2)</sup> .....	August 10, 2007	\$ 12,887	Floating	3 month SOFR + 2.51%	September 15, 2037
Magnolia Trust Company I <sup>(2)(3)</sup> .....	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 \$100.0 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 debentures, due to the fact that LIBOR ceased to be published as of June 30, 2023.

(3) 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.

## 10. EMPLOYEE BENEFITS

### Deferred Compensation Agreements

Southside Bank has deferred compensation agreements with 33 of its executive officers, which generally provide for payment of an aggregate amount of \$10.1 million over a maximum period of 15 years after retirement or death. Of the 33 executives included in the agreements, payments have commenced to 11 former executives and/or their beneficiaries. Deferred compensation expense was \$86,000, \$310,000 and \$457,000 for the years ended December 31, 2023, 2022 and 2021, respectively. At December 31, 2023 and 2022, the deferred compensation plan liability totaled \$3.2 million and \$3.5 million, respectively.

### Health Insurance

We provide accident and health insurance for substantially all employees through a self-funded insurance program. The cost of health care benefits was \$8.1 million, \$8.4 million and \$8.6 million for the years ended December 31, 2023, 2022 and 2021, respectively. Our healthcare plan provides health insurance coverage for any retiree having 50 years of service with the Company. In addition, the eligible retiree must have Medicare coverage, including part A, part B and part D. There was one retiree participating in the health insurance plan as of December 31, 2023, 2022 and 2021.

### Employee Stock Ownership Plan

We have an ESOP which covers substantially all employees. Contributions to the ESOP are at the sole discretion of the board of directors. We contributed \$1.0 million to the ESOP for the years ended December 31, 2023, 2022 and 2021. At December 31, 2023 and 2022, the ESOP owned 366,791 and 345,847 shares of common stock, respectively. These shares are treated as externally held shares for dividend and earnings per share calculations.

### Long-term Disability

We have an officer's long-term disability income policy which provides coverage in the event they become disabled as defined under its terms. Individuals are automatically covered under the policy if they (a) have been elected as an officer, (b) have been an employee of Southside Bank for three years and (c) receive earnings of \$50,000 or more on an annual basis. The policy provides, among other things, that should a covered individual become totally disabled he would receive two-thirds of his

current salary, not to exceed \$15,000 per month. The benefits paid out of the policy are limited by the benefits paid to the individual under the terms of our other Company-sponsored benefit plans.

#### Split Dollar Agreements

We originally entered into split dollar agreements with eight of our executive officers. The agreements provide we will be the beneficiary of BOLI insuring the executives' lives. The agreements provide the executives the right to designate the beneficiaries of the death benefits guaranteed in each agreement. The agreements originally provided for death benefits of an initial aggregate amount of \$4.5 million. Prior to an executive's retirement, their individual amount is increased annually on the anniversary date of the agreement by inflation adjustment factors of either 3% or 5%. As of December 31, 2023, three of the executives remained actively employed with us. Death benefits under this agreement were paid during 2018 for one retired covered officer and during 2013 for one active covered officer. As of December 31, 2023, the estimated death benefits for the seven executives totaled \$5.8 million. The agreements also state that after the executive's retirement, we shall also pay an annual gross-up bonus to the executive in an amount sufficient to enable the executive to pay federal income tax on both the economic benefit and on the gross-up bonus. A credit to expense of \$95,000 was required to record the post retirement liability associated with the split dollar post retirement bonus for the year ended December 31, 2023. For the years ended December 31, 2022 and 2021 the expense was \$27,000 and \$87,000, respectively. For the years ended December 31, 2023 and 2022, the split dollar liability totaled \$1.6 million and \$1.9 million, respectively.

#### 401(k) Plan

We have a 401(k) Plan covering substantially all employees that permits each participant to make before- or after-tax contributions subject to certain limits imposed by the Internal Revenue Code. Beginning January 1, 2017, eligible employees may participate in the 401(k) Plan after they have worked at least 30 days with the Company. For the years ended December 31, 2023, 2022 and 2021, expense attributable to the 401(k) Plan totaled \$2.2 million, \$2.0 million and \$2.2 million, respectively.

#### Retirement Plans

We have a defined benefit pension plan pursuant to which participants are entitled to benefits based on final average monthly compensation and years of credited service determined in accordance with plan provisions.

We have a nonfunded supplemental retirement plan for our employees whose benefits under the principal retirement plan are reduced because of compensation deferral elections or limitations under federal tax laws.

Entrance into the Retirement Plan by new employees was frozen effective December 31, 2005. Employees hired after December 31, 2005 are not eligible to participate in the Retirement Plan. All remaining participants in the Retirement Plan are fully vested. Benefits are payable monthly commencing on the later of age 65 or the participant's date of retirement. Eligible participants may retire at reduced benefit levels after reaching age 55. We contribute amounts to the pension fund sufficient to satisfy funding requirements of the Employee Retirement Income Security Act. Effective December 31, 2020, all future benefit accruals and accrual of benefit service, including consideration of compensation increases, were frozen. No further benefits have been or will be earned by employees since that date.

Retirement Plan assets included 240,666 shares of our stock at December 31, 2023 and December 31, 2022. Our stock included in the Retirement Plan assets was purchased at fair value. During 2023, our funded status improved, and at December 31, 2023, we had a funded status of \$8.4 million compared to a funded status of \$6.9 million at December 31, 2022. The improvement in the funded status was a result of a greater than expected return on the fair value of plan assets since December 31, 2022, partially offset by a decrease in the discount rate to better reflect the current market conditions at December 31, 2023 compared to December 31, 2022.

In connection with the acquisition of Omni, we acquired the OmniAmerican Bank Defined Benefit Plan which was remeasured at fair value. The Acquired Retirement Plan originally called for benefits to be paid to eligible employees at retirement based primarily upon years of service and the compensation levels at retirement. As of December 31, 2006, the benefits under the Acquired Retirement Plan were frozen by Omni. No further benefits have been or will be earned by employees since that date. In addition, no new participants may be added to the Acquired Retirement Plan after December 31, 2006. During 2023, our funded status improved and at December 31, 2023, we had a funded status of \$839,000 compared to a funded status of \$749,000 at December 31, 2022. The improvement in the funded status was a result of a greater than expected return on the fair value of plan assets since December 31, 2022, partially offset by a decrease in the discount rate to better reflect the current market conditions at December 31, 2023 compared to December 31, 2022.

We use a measurement date of December 31 for our plans.

Activity in our defined benefit pension plans and restoration plan were as follows (in thousands):

	Years Ended December 31,								
	2023			2022			2021		
	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan
	(in thousands)								
Change in Projected Benefit Obligation:									
Benefit obligation at end of prior year .....	\$ 69,869	\$ 2,379	\$ 15,463	\$ 94,170	\$ 3,483	\$ 19,321	\$ 96,848	\$ 3,704	\$ 18,789
Interest cost .....	3,771	126	831	2,741	102	578	2,570	92	520
Actuarial (gain) loss .....	3,856	201	555	(22,997)	(1,076)	(3,763)	(1,381)	(155)	684
Benefits paid .....	(4,218)	(61)	(673)	(3,950)	(60)	(673)	(3,734)	(59)	(672)
Expenses paid .....	(113)	(88)	—	(95)	(70)	—	(133)	(99)	—
Settlements .....	—	(311)	—	—	—	—	—	—	—
Benefit obligation at end of year .....	<u>73,165</u>	<u>2,246</u>	<u>16,176</u>	<u>69,869</u>	<u>2,379</u>	<u>15,463</u>	<u>94,170</u>	<u>3,483</u>	<u>19,321</u>
Change in Plan Assets:									
Fair value of plan assets at end of prior year .....	76,735	3,128	—	97,439	3,871	—	90,419	3,613	—
Actual return .....	9,147	417	—	(16,659)	(613)	—	10,887	416	—
Employer contributions .....	—	—	673	—	—	673	—	—	672
Benefits paid .....	(4,218)	(61)	(673)	(3,950)	(60)	(673)	(3,734)	(59)	(672)
Expenses paid .....	(113)	(88)	—	(95)	(70)	—	(133)	(99)	—
Settlements .....	—	(311)	—	—	—	—	—	—	—
Fair value of plan assets at end of year .....	<u>81,551</u>	<u>3,085</u>	<u>—</u>	<u>76,735</u>	<u>3,128</u>	<u>—</u>	<u>97,439</u>	<u>3,871</u>	<u>—</u>
(Un)Funded status at end of year .....	<u>8,386</u>	<u>839</u>	<u>(16,176)</u>	<u>6,866</u>	<u>749</u>	<u>(15,463)</u>	<u>3,269</u>	<u>388</u>	<u>(19,321)</u>
Accrued benefit (liability) asset recognized .....	<u>\$ 8,386</u>	<u>\$ 839</u>	<u>\$ (16,176)</u>	<u>\$ 6,866</u>	<u>\$ 749</u>	<u>\$ (15,463)</u>	<u>\$ 3,269</u>	<u>\$ 388</u>	<u>\$ (19,321)</u>
Accumulated benefit obligation at end of year .....	<u>\$ 73,165</u>	<u>\$ 2,246</u>	<u>\$ 16,176</u>	<u>\$ 69,869</u>	<u>\$ 2,379</u>	<u>\$ 15,463</u>	<u>\$ 94,170</u>	<u>\$ 3,483</u>	<u>\$ 19,321</u>

Amounts related to our defined benefit pension plans and restoration plan recognized as a component of other comprehensive income (loss) were as follows (in thousands):

	Years Ended December 31,								
	2023			2022			2021		
	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan
Recognition of net loss .....	\$ 726	\$ —	\$ 30	\$ 640	\$ —	\$ 255	\$ 1,002	\$ 6	\$ 256
Recognition of gain due to settlement .....	—	(16)	—	—	—	—	—	—	—
Net gain (loss) occurring during the year .....	718	29	(555)	493	231	3,763	6,848	361	(685)
	1,444	13	(525)	1,133	231	4,018	7,850	367	(429)
Deferred tax (expense) benefit .....	(303)	(3)	110	(238)	(48)	(844)	(1,648)	(77)	90
Other comprehensive income (loss), net of tax .....	\$ 1,141	\$ 10	\$ (415)	\$ 895	\$ 183	\$ 3,174	\$ 6,202	\$ 290	\$ (339)

The noncash adjustment to the employee benefit plan assets and/or liabilities, consisting of changes in net loss, was \$948,000 and \$5.4 million for the years ended December 31, 2023 and 2022, respectively.

Net amounts recognized in net periodic benefit cost and other comprehensive income (loss) were as follows (in thousands):

	December 31, 2023			December 31, 2022		
	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan
Net loss .....	\$ 726	\$ —	\$ 30	\$ 640	\$ —	\$ 255
Deferred tax expense .....	(153)	—	(6)	(134)	—	(54)
Accumulated other comprehensive income (loss), net of tax .....	\$ 573	\$ —	\$ 24	\$ 506	\$ —	\$ 201

Amounts recognized as a component of accumulated other comprehensive income (loss) were as follows (in thousands):

	December 31, 2023			December 31, 2022		
	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan
Net gain (loss) .....	\$ (21,356)	\$ 113	\$ (2,511)	\$ (22,800)	\$ 100	\$ (1,986)
Deferred tax (expense) benefit .....	4,485	(24)	527	4,788	(21)	417
Accumulated other comprehensive income (loss), net of tax .....	<u>\$ (16,871)</u>	<u>\$ 89</u>	<u>\$ (1,984)</u>	<u>\$ (18,012)</u>	<u>\$ 79</u>	<u>\$ (1,569)</u>

Net periodic pension cost and postretirement benefit cost included the following components (in thousands):

	Years Ended December 31,		
	2023	2022	2021
<b>Retirement Plan:</b>			
Interest cost .....	\$ 3,771	\$ 2,741	\$ 2,570
Expected return on assets .....	(4,573)	(5,845)	(5,420)
Net loss amortization .....	726	640	1,002
Net periodic benefit cost (income) .....	<u>\$ (76)</u>	<u>\$ (2,464)</u>	<u>\$ (1,848)</u>
<b>Acquired Retirement Plan:</b>			
Interest cost .....	\$ 126	\$ 102	\$ 92
Expected return on assets .....	(187)	(232)	(211)
Net loss amortization .....	—	—	6
Gain recognized due to settlement .....	(16)	—	—
Net periodic benefit cost (income) .....	<u>\$ (77)</u>	<u>\$ (130)</u>	<u>\$ (113)</u>
<b>Restoration Plan:</b>			
Interest cost .....	\$ 831	\$ 578	\$ 520
Net loss amortization .....	30	255	256
Net periodic benefit cost .....	<u>\$ 861</u>	<u>\$ 833</u>	<u>\$ 776</u>

The Retirement Plan and Acquired Retirement Plan assets, which consist primarily of marketable equity and debt instruments, are valued using market quotations in active markets for identical assets, market quotations for similar assets in active or non-active markets or the net asset value provided by the plan administrator. The Retirement Plans' obligations and the annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Key assumptions in measuring the Retirement Plans' obligations include the discount rate and the estimated future return on plan assets.

In determining the discount rate, we utilized a cash flow matching analysis to determine a range of appropriate discount rates for the defined benefit pension plans and restoration plan. In developing the cash flow matching analysis, we had our actuaries construct a portfolio of high quality noncallable bonds to match as closely as possible the timing of future benefit payments of the Retirement Plans at December 31, 2023. We utilized a bond selection-settlement approach that selects a portfolio of bonds from a universe of high quality corporate bonds rated AA by at least half of the rating agencies available. Based on the results of this cash flow matching analysis, we were able to determine an appropriate discount rate.

The expected long-term rate of return assumption reflects the average return expected based on the investment strategies and asset allocation of the assets invested to provide for the Retirement Plans' liabilities. We considered broad equity and bond indices, long-term return projections and actual long-term historical Plan performance when evaluating the expected long-term rate of return assumption.



The assumptions used to determine the benefit obligation were as follows:

	December 31, 2023			December 31, 2022		
	Retirement Plan	Acquired Retirement Plan	Restoration Plan	Retirement Plan	Acquired Retirement Plan	Restoration Plan
Discount rate .....	5.13 %	5.13 %	5.13 %	5.46 %	5.46 %	5.46 %

The assumptions used to determine net periodic pension cost and postretirement benefit cost were as follows:

	Years Ended December 31,		
	2023	2022	2021
<b>Retirement Plan:</b>			
Discount rate .....	5.46 %	2.95 %	2.65 %
Expected long-term rate of return on plan assets .....	6.13 %	6.13 %	6.13 %
<b>Acquired Retirement Plan:</b>			
Discount rate .....	5.46 %	2.95 %	2.65 %
Expected long-term rate of return on plan assets .....	6.13 %	6.13 %	6.13 %
<b>Restoration Plan:</b>			
Discount rate .....	5.46 %	2.95 %	2.65 %

During the three months ended June 30, 2021, we updated our expected long-term rate of return on plan assets for the Retirement Plan and the Acquired Retirement Plan from 6.50% to 6.125%.

Material changes in pension benefit costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the number of Plan participants, changes in the level of benefits provided, changes in the discount rates, changes in the expected long-term rate of return, changes in the level of contributions to the Retirement Plan and other factors.

The major categories of assets in the Plan and the Acquired Retirement Plan are presented in the following table (in thousands). Assets are segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 “Fair Value Measurements and Disclosures,” utilized to measure fair value (see “Note 12 – Fair Value Measurement”). Our Restoration Plan is unfunded.

	December 31, 2023		December 31, 2022	
	Retirement Plan	Acquired Retirement Plan	Retirement Plan	Acquired Retirement Plan
Level 1:				
Cash .....	\$ 1,428	\$ —	\$ 605	\$ —
Equity securities:				
U.S. large cap <sup>(1)</sup> .....	28,506	1,055	23,032	1,103
U.S. mid cap <sup>(2)</sup> .....	4,323	125	3,594	135
U.S. small cap <sup>(3)</sup> .....	11,907	64	12,447	66
International developed <sup>(4)</sup> .....	9,317	—	8,161	—
International emerging <sup>(2)</sup> .....	1,964	—	1,841	—
International <sup>(5)</sup> .....	—	540	—	547
Fixed income securities:				
Corporate bonds <sup>(6)</sup> .....	—	1,078	—	1,027
U.S. government treasuries <sup>(6)</sup> .....	148	—	233	—
Real estate <sup>(7)</sup> .....	—	223	—	250
Level 2:				
Cash Equivalents .....	5,957	—	8,543	—
Fixed income securities:				
Corporate bonds <sup>(6)</sup> .....	1,893	—	1,979	—
U.S. government agencies <sup>(6)</sup> .....	4,871	—	4,380	—
Municipal bonds <sup>(6)</sup> .....	11,119	—	11,774	—
U.S. agency MBS <sup>(8)</sup> .....	118	—	146	—
Total fair value of plan assets .....	<u>\$ 81,551</u>	<u>\$ 3,085</u>	<u>\$ 76,735</u>	<u>\$ 3,128</u>

- (1) For the Retirement Plan, this category is comprised of broadly diversified “passive” and “active” mutual funds. The Acquired Retirement Plan assets in this category consist of pooled separate accounts invested in mutual funds and domestic stocks.
- (2) For the Retirement Plan, this category is comprised of broadly diversified “active” mutual funds. The Acquired Retirement Plan assets in this category consist of pooled separate accounts invested in mutual funds.
- (3) For the Retirement Plan, this category is comprised of broadly diversified “passive” and “active” mutual funds and shares of Southside Bancshares stock. The Acquired Retirement Plan assets in this category consist of pooled separate accounts invested in mutual funds.
- (4) This category is comprised of a broadly diversified “passive” and “active” mutual funds.
- (5) This category is comprised of pooled separate accounts invested in mutual funds and international stocks.
- (6) For the Retirement Plan, this category is comprised of individual investment grade securities that are generally HTM. The Acquired Retirement Plan assets in this category consist of pooled separate accounts invested in mutual funds, bonds and fixed income securities.
- (7) This category is comprised of a pooled separate account invested in commercial real estate and includes mortgage loans which are backed by the associated properties.
- (8) This category is comprised of individual securities that are generally not HTM.

We did not have any plan assets with Level 3 input fair value measurements at December 31, 2023 or 2022.

Our overall investment strategy is to realize long-term growth of the Retirement Plan within acceptable risk parameters, while funding benefit payments from dividend and interest income, to the extent possible. The target allocations for plan assets are 64.0% equities, 35.0% fixed income and 1.0% cash equivalents. Equity securities are diversified among U.S. and international (both developed and emerging), large, mid and small caps, value and growth securities and REITs. The investment objective of equity funds is long-term capital appreciation with current income. Fixed income securities include government agencies, CDs, corporate bonds, municipal bonds and MBS. The investment objective of fixed income funds is to maximize investment return while preserving investment principal. Mutual funds are primarily used for equity and REITs because of the superior

diversification they provide. Subsequent to December 31, 2023, we began the liquidation and reinvestment of the assets in the Retirement Plan using a liability-driven investment strategy.

As of December 31, 2023, expected future benefit payments related to the Retirement Plan, the Acquired Retirement Plan and the Restoration Plan were as follows (in thousands):

	Retirement Plan	Acquired Retirement Plan	Restoration Plan
2024.....	\$ 4,415	\$ 85	\$ 694
2025.....	4,616	92	818
2026.....	4,930	92	1,156
2027.....	5,115	128	1,406
2028.....	5,210	373	1,420
2029 through 2033.....	26,495	564	7,137
	<u>\$ 50,781</u>	<u>\$ 1,334</u>	<u>\$ 12,631</u>

We expect to contribute \$725,000 to our Restoration Plan in 2024. We do not expect to make additional contributions to the Retirement Plan or the Acquired Retirement Plan in 2024.

### Share-based Incentive Plans

#### *2017 Incentive Plan*

On May 10, 2017, our shareholders approved the 2017 Incentive Plan, which is a stock-based incentive compensation plan. A total of 2,460,000 shares of our common stock were reserved and available for issuance pursuant to awards granted under the 2017 Incentive Plan. This amount includes a number of additional shares (not to exceed 410,000) underlying awards outstanding as of May 10, 2017 under the Company's 2009 Incentive Plan that thereafter terminate or expire unexercised, or are cancelled, forfeited or lapse for any reason. Under the 2017 Incentive Plan, we are authorized to grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and qualified performance-based awards or any combination thereof to selected employees, officers, directors and consultants of the Company and its affiliates. As of December 31, 2023, there were 1,033,423 shares remaining available for grant for future awards.

All share data has been adjusted to give retroactive recognition to stock dividends, where applicable. Reference to incentive plans refers to the 2017 Incentive Plan and predecessor incentive plans.

As of December 31, 2023, 2022 and 2021, there were 201,315, 277,600 and 368,447 unvested awards outstanding, respectively. For the years ended December 31, 2023, 2022 and 2021, there was \$3.2 million, \$2.9 million and \$2.7 million of share-based compensation expense for employees related to the incentive plans, respectively, and \$671,000, \$605,000 and \$570,000 of income tax benefit related to the stock compensation expense, respectively. Director stock compensation expense was \$359,000, \$342,000, and \$306,000 for the years ended December 31, 2023, 2022 and 2021 respectively, and \$75,000, \$72,000 and \$64,000 of income tax benefit related to the director stock compensation expense, respectively.

As of December 31, 2023, 2022 and 2021, there was \$5.7 million, \$7.4 million and \$6.2 million of unrecognized compensation cost related to the incentive plans, respectively. The remaining cost at December 31, 2023 is expected to be recognized over a weighted-average period of 2.3 years.

The fair value of each NQSO is estimated on the date of grant using a Black-Scholes option pricing model. There were no NQSO grants during the years ended December 31, 2023, 2022 or 2021. The NQSOs have contractual terms of 10 years and vest in equal annual installments over either a three- or four-year period.

The fair value of each RSU is the ending stock price on the date of grant. RSUs granted to employees vest in equal annual installments over a period of between three and four years. Director RSUs vest after a period of one year. Directors may elect to defer the receipt of shares and instead receive them on a specified anniversary of grant date or upon the termination of their service on the Board.

The fair value of each PSU is the ending stock price on the date of grant. PSUs granted to executive officers will cliff vest on the third anniversary of the grant date, subject to the grantee's continued service on such date, and will be earned based on the Company's ROATCE related to ROATCE of the KBW Nasdaq Regional Bank Index (NASDAQ: KRX), over a 3 year performance period. The PSUs may be earned between a minimum payout of 50%, based on a ROATCE performance threshold of 25th percentile of the Peer Group, a target payout of 100%, based on a ROATCE performance threshold of 50th percentile, and a maximum payout of 150%, based on a performance threshold of 75th percentile or greater. Share payout for performance between the minimum threshold, target and maximum is calculated on a straight line basis, and performance below the minimum threshold results in no share payout.

Each award is evidenced by an award agreement that specifies the option price, if applicable, the duration of the award, the number of shares to which the award pertains and such other provisions as the board of directors determines. Historically, shares issued in connection with stock compensation awards have been issued from available authorized shares. Beginning in the second quarter of 2017, shares were issued from available treasury shares.

Shares issued in connection with stock compensation awards along with other related information are presented in the following table (in thousands, except share amounts):

	Years Ended December 31,		
	2023	2022	2021
New shares issued from available treasury shares	99,109	86,500	305,212
Proceeds from stock option exercises	\$ 1,082	\$ 790	\$ 7,672
Intrinsic value of stock options exercised	\$ 229	\$ 421	\$ 3,005

A combined summary of activity in our share-based plans as of December 31, 2023 is presented below. Performance stock units outstanding are presented assuming attainment of the maximum payout rate as set forth by the performance criteria:

	Restricted Stock Units Outstanding				Stock Options Outstanding		
	Service Based		Performance Based		Number of Shares	Weighted-Average Exercise Price	Weighted-Average Grant-Date Fair Value
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value			
Balance, January 1, 2023	225,928	\$ 36.60	13,514	\$ 41.74	673,011	\$ 33.45	\$ 6.49
Granted	57,966	30.14	15,140	38.89	—	—	—
Stock options exercised	—	—	—	—	(38,556)	28.03	6.77
Stock awards vested	(74,698)	36.57	—	—	—	—	—
Forfeited	(11,253)	36.30	—	—	(3,682)	34.83	5.89
Canceled/expired	—	—	—	—	(10,267)	34.12	6.37
Balance, December 31, 2023	<u>197,943</u>	\$ 34.76	<u>28,654</u>	\$ 40.18	<u>620,506</u>	\$ 33.76	\$ 6.47

Other information regarding options outstanding and exercisable as of December 31, 2023 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Number of Shares	Weighted-Average Exercise Price
\$ 23.66 - \$ 25.00	6,153	\$ 23.66	1.02	6,153	\$ 23.66
25.01 - 30.00	86,226	26.61	1.48	86,226	26.61
30.01 - 35.00	451,962	34.67	5.06	451,962	34.67
35.01 - 37.28	76,165	37.28	2.87	76,165	37.28
Total	<u>620,506</u>	\$ 33.76	4.25	<u>620,506</u>	\$ 33.76

The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options was \$453,000 for both at December 31, 2023. The weighted-average remaining contractual life of options exercisable at December 31, 2023 was 4.3 years.

## 11. 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 interest expense in the same periods that the hedged cash flows impact earnings. 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 \$1.01 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 are probable of not 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 December 31, 2023, hedged securities with a carrying amount of \$460.4 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. During 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.

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Amortized cost of hedged assets - Securities AFS.....	\$ 487,486	\$ 804,224
Cumulative amount of fair value hedging adjustments included in the carrying amount of the hedged items	13,642	21,562

### 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 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 December 31, 2023 and 2022, net derivative assets included \$46.8 million and \$82.1 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 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):

	December 31, 2023			December 31, 2022		
	Estimated Fair Value			Estimated Fair Value		
	Notional Amount <sup>(1)</sup>	Asset Derivative	Liability Derivative	Notional Amount <sup>(1)</sup>	Asset Derivative	Liability Derivative
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps-Cash Flow Hedge-Financial institution counterparties	\$ 1,010,000	\$ 24,223	\$ 6,910	\$ 575,000	\$ 39,527	\$ —
Swaps-Fair Value Hedge-Financial institution counterparties	453,440	13,658	16	742,675	21,733	171
Derivatives designated as non-hedging instruments						
Interest rate contracts:						
Swaps-Financial institution counterparties	248,073	18,249	509	223,124	21,046	—
Swaps-Customer counterparties	248,073	509	18,249	223,124	—	21,046
Gross derivatives		56,639	25,684		82,306	21,217
Offsetting derivative assets/liabilities		(7,435)	(7,435)		(171)	(171)
Cash collateral received/posted		(46,760)	—		(82,135)	—
Net derivatives included in the consolidated balance sheets <sup>(2)</sup>		<u>\$ 2,444</u>	<u>\$ 18,249</u>		<u>\$ —</u>	<u>\$ 21,046</u>

(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. 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. At December 31, 2022, we had no credit exposure related to interest rate swaps with financial institutions and none 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 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 December 31, 2023 and December 31, 2022:

	December 31, 2023				December 31, 2022			
	Weighted Average				Weighted Average			
	Notional Amount	Remaining Maturity (in years)	Receive Rate	Pay Rate	Notional Amount	Remaining Maturity (in years)	Receive Rate	Pay Rate
Swaps-Cash Flow hedge								
Financial institution counterparties	\$1,010,000	2.3	5.44 %	2.65 %	\$575,000	2.3	4.44 %	1.13 %
Swaps-Fair Value hedge								
Financial institution counterparties	453,440	5.4	5.37 %	3.13 %	742,675	6.3	3.42 %	3.21 %
Swaps-Non-hedging								
Financial institution counterparties	248,073	7.4	5.84 %	2.88 %	223,124	9.0	4.83 %	2.69 %
Customer counterparties	248,073	7.4	2.88 %	5.84 %	223,124	9.0	2.69 %	4.83 %

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

	Years Ended December 31,		
	2023	2022	2021
Derivatives designated as hedging instruments			
Swaps-Cash Flow hedge			
Gain (loss) included in interest expense on deposits	\$ 15,225	\$ 2,917	\$ (103)
Gain (loss) included in interest expense on FHLB borrowings	8,432	721	(6,292)
Gain (loss) included in interest expense on other borrowings	887	—	—
	24,544	3,638	(6,395)
Swaps-Fair Value hedge			
Gain (loss) included in interest income on tax-exempt investment securities	12,834	422	—
Derivatives designated as non-hedging instruments			
Swaps-Non-hedging			
Other noninterest income	352	472	813

## 12. 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.

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 December 31, 2023 and 2022.

*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 December 31, 2023 and 2022, 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.



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):

December 31, 2023

	Fair Value Measurements at the End of the Reporting Period Using			
	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				
Investment securities:				
U.S. Treasury .....	\$ 139,725	\$ 139,725	\$ —	\$ —
State and political subdivisions .....	568,745	—	568,745	—
Corporate bonds and other .....	14,093	—	14,093	—
MBS: <sup>(1)</sup>				
Residential .....	568,983	—	568,983	—
Commercial .....	4,748	—	4,748	—
Equity investments:				
Equity investments .....	5,308	5,308	—	—
Derivative assets:				
Interest rate swaps .....	56,639	—	56,639	—
Total asset recurring fair value measurements .....	<u>\$ 1,358,241</u>	<u>\$ 145,033</u>	<u>\$ 1,213,208</u>	<u>\$ —</u>
Derivative liabilities:				
Interest rate swaps .....	\$ 25,684	\$ —	\$ 25,684	\$ —
Total liability recurring fair value measurements .....	<u>\$ 25,684</u>	<u>\$ —</u>	<u>\$ 25,684</u>	<u>\$ —</u>
Nonrecurring fair value measurements				
Foreclosed assets .....	\$ 99	\$ —	\$ —	\$ 99
Collateral-dependent loans <sup>(2)</sup> .....	7,000	—	—	7,000
Total asset nonrecurring fair value measurements .....	<u>\$ 7,099</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,099</u>

December 31, 2022

## Fair Value Measurements at the End of the Reporting Period Using

	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				
Investment securities:				
State and political subdivisions .....	\$ 964,852	\$ —	\$ 964,852	\$ —
Corporate bonds and other .....	8,704	—	8,704	—
MBS: <sup>(1)</sup>				
Residential .....	315,027	—	315,027	—
Commercial .....	10,431	—	10,431	—
Equity investments:				
Equity investments .....	5,235	5,235	—	—
Derivative assets:				
Interest rate swaps .....	82,306	—	82,306	—
Total asset recurring fair value measurements .....	<u>\$ 1,386,555</u>	<u>\$ 5,235</u>	<u>\$ 1,381,320</u>	<u>\$ —</u>
Derivative liabilities:				
Interest rate swaps .....	\$ 21,217	\$ —	\$ 21,217	\$ —
Total liability recurring fair value measurements .....	<u>\$ 21,217</u>	<u>\$ —</u>	<u>\$ 21,217</u>	<u>\$ —</u>
Nonrecurring fair value measurements				
Foreclosed assets .....	\$ 167	\$ —	\$ —	\$ 167
Collateral-dependent loans <sup>(2)</sup> .....	7,815	—	—	7,815
Total asset nonrecurring fair value measurements .....	<u>\$ 7,982</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,982</u>

(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.

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.

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):

December 31, 2023	Carrying Amount	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	\$ 560,510	\$ 560,510	\$ 560,510	\$ —	\$ —
Investment securities:					
HTM, at carrying value	1,186,152	1,054,739	—	1,054,739	—
MBS:					
HTM, at carrying value	120,901	111,423	—	111,423	—
FHLB stock, at cost	11,936	11,936	—	11,936	—
Equity investments	4,383	4,383	—	4,383	—
Loans, net of allowance for loan losses	4,481,836	4,198,879	—	—	4,198,879
Loans held for sale	10,894	10,894	—	10,894	—
Financial Liabilities:					
Deposits	\$ 6,549,681	\$ 6,534,929	\$ —	\$ 6,534,929	\$ —
Other borrowings	509,820	510,242	—	510,242	—
FHLB borrowings	212,648	202,750	—	202,750	—
Subordinated notes, net of unamortized debt issuance costs	93,877	86,285	—	86,285	—
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,270	57,480	—	57,480	—
December 31, 2022	Carrying Amount	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 199,252	\$ 199,252	\$ 199,252	\$ —	\$ —
Investment securities:					
HTM, at carrying value	1,190,108	1,023,376	—	1,023,376	—
MBS:					
HTM, at carrying value	136,621	125,780	—	125,780	—
FHLB stock, at cost	9,190	9,190	—	9,190	—
Equity investments	5,946	5,946	—	5,946	—
Loans, net of allowance for loan losses	4,111,176	3,880,664	—	—	3,880,664
Loans held for sale	667	667	—	667	—
Financial liabilities:					
Deposits	\$ 6,198,019	\$ 6,158,517	\$ —	\$ 6,158,517	\$ —
Other borrowings	221,153	221,153	—	221,153	—
FHLB borrowings	153,358	140,976	—	140,976	—
Subordinated notes, net of unamortized debt issuance costs	98,674	91,357	—	91,357	—
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,265	60,594	—	60,594	—

### 13. SHAREHOLDERS' EQUITY

Cash dividends declared and paid were \$1.42, \$1.40 and \$1.37 per share for the years ended December 31, 2023, 2022 and 2021, respectively. Future dividends will depend on our earnings, financial condition and other factors which the board of directors considers to be relevant. Our dividend policy requires that any cash dividend payments made may not exceed consolidated earnings for that year.

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and Total Capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 Capital (as defined) to average assets (as defined). At December 31, 2023, we exceeded all regulatory minimum capital requirements.

As of December 31, 2023, the most recent notification from the FDIC categorized us as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized we must maintain minimum Common Equity Tier 1 risk-based, Tier 1 risk-based, Total risk-based and Tier 1 leverage ratios as set forth in the following table (dollars in thousands). There are no conditions or events since that notification that management believes have changed our category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Common Equity Tier 1 (to Risk Weighted Assets)						
Consolidated	\$ 690,296	12.28 %	\$ 252,954	4.50 %	N/A	N/A
Bank Only	\$ 836,228	14.88 %	\$ 252,865	4.50 %	\$ 365,249	6.50 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	\$ 748,755	13.32 %	\$ 337,273	6.00 %	N/A	N/A
Bank Only	\$ 836,228	14.88 %	\$ 337,153	6.00 %	\$ 449,537	8.00 %
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 884,095	15.73 %	\$ 449,697	8.00 %	N/A	N/A
Bank Only	\$ 877,691	15.62 %	\$ 449,537	8.00 %	\$ 561,922	10.00 %
Tier 1 Capital (to Average Assets) <sup>(1)</sup>						
Consolidated	\$ 748,755	9.39 %	\$ 318,906	4.00 %	N/A	N/A
Bank Only	\$ 836,228	10.49 %	\$ 318,814	4.00 %	\$ 398,517	5.00 %
December 31, 2022						
Common Equity Tier 1 (to Risk Weighted Assets)						
Consolidated	\$ 687,686	12.63 %	\$ 245,107	4.50 %	N/A	N/A
Bank Only	\$ 823,323	15.12 %	\$ 245,085	4.50 %	\$ 354,012	6.50 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	\$ 746,140	13.70 %	\$ 326,809	6.00 %	N/A	N/A
Bank Only	\$ 823,323	15.12 %	\$ 326,780	6.00 %	\$ 435,707	8.00 %
Total Capital (to Risk Weighted Assets)						
Consolidated	\$ 877,281	16.11 %	\$ 435,746	8.00 %	N/A	N/A
Bank Only	\$ 855,790	15.71 %	\$ 435,707	8.00 %	\$ 544,633	10.00 %
Tier 1 Capital (to Average Assets) <sup>(1)</sup>						
Consolidated	\$ 746,140	9.96 %	\$ 299,511	4.00 %	N/A	N/A
Bank Only	\$ 823,323	11.00 %	\$ 299,410	4.00 %	\$ 374,263	5.00 %

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

Our payment of dividends is limited under regulation. The amount that can be paid in any calendar year without prior approval of our regulatory agencies cannot exceed the lesser of net profits (as defined) for that year plus the net profits for the preceding two calendar years or retained earnings.

#### 14. DIVIDEND REINVESTMENT AND COMMON STOCK REPURCHASE PLAN

We have in effect a DRIP which allows enrolled shareholders to reinvest dividends paid to them by the Company into new shares of our stock. The DRIP is funded by stock authorized but not yet issued. For the year ended December 31, 2023, 38,884 shares were issued under this plan at an average price per share of \$31.48, reflective of other trades at the time of each sale. For the years ended December 31, 2022 and December 31, 2021, 31,853 and 34,150 shares, respectively, were issued under this plan at an average price per share of \$38.70 and \$39.64, respectively, reflective of other trades at the time of each sale.

We repurchased 1,435,193 shares of our common stock at a cost of \$45.1 million during the year ended December 31, 2023, 923,775 shares of common stock at a cost of \$33.8 million during the year ended December 31, 2022, and 938,484 shares of common stock at a cost of \$34.1 million during the year ended December 31, 2021. Repurchased shares are designated as treasury shares and are available for general corporate purposes, which may include possible use in connection with our share-based incentive plans and other distributions. Our board of directors continually evaluates the Company's capital needs and those of the Bank and may, at its discretion, initiate, modify or discontinue an authorized repurchase plan without notice.

#### 15. INCOME TAXES

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

	Years Ended December 31,		
	2023	2022	2021
Current income tax expense.....	\$ 16,547	\$ 14,700	\$ 12,674
Deferred income tax expense (benefit).....	(2,110)	(89)	4,752
Income tax expense.....	<u>\$ 14,437</u>	<u>\$ 14,611</u>	<u>\$ 17,426</u>

The components of the net deferred tax asset/liability as of December 31, 2023 and 2022 are summarized below (in thousands):

	Assets	Liabilities
Allowance for loan losses	\$ 8,962	\$
Retirement and other benefit plans		2,529
Premises and equipment		8,852
Operating lease liabilities	3,508	
Operating lease ROU assets		3,116
Core deposit intangible		292
Unrealized losses on securities AFS	31,820	
Effective hedging derivatives		6,268
Fair value adjustment on loans	436	
Unfunded status of defined benefit plan	4,988	
State business tax credit	181	
Stock-based compensation	1,294	
Other	294	
Gross deferred tax assets/liabilities	<u>51,483</u>	<u>21,057</u>
Net deferred tax asset at December 31, 2023	<u>\$ 30,426</u>	
Allowance for loan losses	\$ 7,668	\$
Retirement and other benefit plans		2,435
Premises and equipment		9,269
Operating lease liabilities	3,585	
Operating lease ROU assets		3,216
Core deposit intangible		548
Unrealized losses on securities AFS	44,299	
Effective hedging derivatives		12,829
Fair value adjustment on loans	500	
Unfunded status of defined benefit plan	5,184	
State business tax credit	242	
Stock-based compensation	1,177	
Other	337	
Gross deferred tax assets/liabilities	<u>62,992</u>	<u>28,297</u>
Net deferred tax asset at December 31, 2022	<u>\$ 34,695</u>	

A reconciliation of tax at statutory rates and total tax expense is as follows (dollars in thousands):

	Years Ended December 31,					
	2023		2022		2021	
	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income
Statutory tax expense	\$ 21,237	21.0 %	\$ 25,123	21.0 %	\$ 27,474	21.0 %
Increase (decrease) in taxes from:						
Tax exempt interest	(6,107)	(6.0)%	(10,345)	(8.6)%	(9,636)	(7.4)%
BOLI	(1,222)	(1.2)%	(555)	(0.5)%	(549)	(0.4)%
Share-based compensation	89	0.1 %	(93)	(0.1)%	(392)	(0.3)%
State business tax	353	0.3 %	312	0.3 %	366	0.3 %
Other, net	87	0.1 %	169	0.1 %	163	0.1 %
Income tax expense	<u>\$ 14,437</u>	<u>14.3 %</u>	<u>\$ 14,611</u>	<u>12.2 %</u>	<u>\$ 17,426</u>	<u>13.3 %</u>

We file income tax returns in the U.S. federal jurisdiction 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. No valuation allowance was recorded at December 31, 2023 or 2022 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 December 31, 2023 or 2022.



## 16. LEASES

We lease certain retail- and full-service branch locations, ATM locations and certain equipment. Short-term leases, leases with an initial term of 12 months or less and do not contain a purchase option that is likely to be exercised, are not recorded on the balance sheet. Operating lease cost, which is comprised of the amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is included in net occupancy expense on our consolidated statements of income. We evaluate the lease term by assuming the exercise of options to extend that are reasonably assured and those option periods covered by an option to terminate the lease, if deemed not reasonably certain to be exercised. The lease term is used to determine the straight-line expense and limits the depreciable life of any related leasehold improvements. Certain leases require us to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises. These expenses are classified in net occupancy expense on our consolidated statements of income, consistent with similar costs for owned locations, but is not included in operating lease cost below.

Our leases have remaining lease terms ranging from 1 month to 16.7 years, some of which include options to extend for up to 10 years, and some of which include options to terminate within 90 days. We calculate the lease liability using a discount rate that represents our incremental borrowing rate at the lease commencement date.

Balance sheet information related to leases was as follows (in thousands):

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Operating leases:		
Operating lease ROU assets .....	\$ 14,837	\$ 15,314
Operating lease liabilities .....	\$ 16,704	\$ 17,070

The components of lease cost were as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating lease cost .....	\$ 1,802	\$ 1,773	\$ 1,811

Supplemental cash flow information related to leases was as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of the lease liabilities:			
Operating cash flows for operating leases .....	\$ 1,716	\$ 1,644	\$ 2,016
ROU assets obtained in exchange for new operating lease liabilities <sup>(1)</sup> .....	\$ 809	\$ 1,531	\$ 1,330

(1) For the year ended December 31, 2021, the ROU assets obtained were primarily due to one lease that commenced in January 2021 with an initial ROU asset of \$1.1 million.

Additional information related to leases was as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Weighted average remaining lease term (in years) .....	13.0	13.8
Weighted average discount rate .....	3.27 %	2.98 %

Future minimum rental commitments due under non-cancelable operating leases at December 31, 2023 were as follows (in thousands):

Year ending December 31,	
2024 .....	\$ 1,607
2025 .....	1,754
2026 .....	1,737
2027 .....	1,616
2028 .....	1,581
2029 and thereafter .....	12,281
Total lease payments <sup>(1)</sup> .....	<u>20,576</u>
Less: Interest .....	(3,872)
Present value of lease liabilities .....	<u>\$ 16,704</u>

(1) Excludes \$422,000 of lease payments for a lease executed but not yet commenced. Lease will commence in 2024 with a lease term of 5.4 years.

We also lease certain of our owned facilities or portions thereof to third parties. Our primary leased facility is a 202,000 square-foot office building in Fort Worth, Texas that is used for a branch location and certain bank operations. We occupy approximately 39,000 square feet of the building and lease the remaining space to various tenants. Some of these leases contain options to extend and options to terminate at the discretion of the tenant.

Operating lease income received from tenants who rent our properties is reported as a reduction to occupancy expense on our consolidated statements of income. The underlying assets associated with these operating leases are included in premises and equipment on our consolidated balance sheets.

Gross rental income from these leases were as follows (in thousands):

	Years Ended December 31,		
	2023	2022	2021
Gross rental income .....	\$ 3,584	\$ 3,173	\$ 3,288

At December 31, 2023, non-cancelable operating leases with future minimum lease payments are as follows (in thousands):

Year ending December 31,	
2024 .....	\$ 2,962
2025 .....	2,297
2026 .....	1,964
2027 .....	1,197
2028 .....	509
2029 and thereafter .....	794
Total lease payments .....	<u>\$ 9,723</u>

## 17. 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):

	Years Ended December 31,		
	2023	2022	2021
Balance at beginning of period .....	\$ 3,687	\$ 2,384	\$ 6,386
Provision for (reversal of) off-balance-sheet credit exposures .....	245	1,303	(4,002)
Balance at end of period .....	<u>\$ 3,932</u>	<u>\$ 3,687</u>	<u>\$ 2,384</u>

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):

	December 31, 2023	December 31, 2022
Commitments to extend credit .....	\$ 1,082,327	\$ 1,296,773
Standby letters of credit .....	10,823	26,844
Total .....	<u>\$ 1,093,150</u>	<u>\$ 1,323,617</u>

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.

*Securities.* In the normal course of business we buy and sell securities. At December 31, 2023 and December 31, 2022, 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 December 31, 2023 or December 31, 2022.

*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.

## 18. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Although we have a diversified loan portfolio, a significant portion of our loans are collateralized by real estate. Repayment of these loans is in part dependent upon the economic conditions in the market area. Our market areas primarily include East and Southeast Texas, as well as the greater Dallas-Fort Worth, Austin and Houston, Texas areas. Part of the risk associated with real estate loans has been mitigated since 19.1% of this group represents loans collateralized by residential dwellings that are primarily owner occupied. Losses on this type of loan have historically been less than those on speculative properties. Many of the remaining real estate loans are collateralized primarily with non-owner occupied commercial real estate.

The MBS we hold consist exclusively of U.S. agency securities which are either directly or indirectly backed by the full faith and credit of the U.S. Government or guaranteed by GSEs. The GNMA MBS are backed by the full faith and credit of the U.S. Government. The Fannie Mae and Freddie Mac U.S. agency GSE guaranteed MBS are not backed by the full faith and credit of the U.S. government.

## 19. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for Southside Bancshares, Inc. (parent company only) was as follows (in thousands, except share amounts):

CONDENSED BALANCE SHEETS	December 31,	
	2023	2022
<b>ASSETS</b>		
Cash and due from banks .....	\$ 5,097	\$ 20,235
Investment in bank subsidiaries at equity in underlying net assets .....	917,035	879,449
Investment in nonbank subsidiaries at equity in underlying net assets .....	1,826	1,826
Other assets .....	4,765	4,411
Total assets .....	<u>\$ 928,723</u>	<u>\$ 905,921</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Subordinated notes, net of unamortized debt issuance costs .....	\$ 93,877	\$ 98,674
Trust preferred subordinated debentures, net of unamortized debt issuance costs .....	60,270	60,265
Other liabilities .....	1,288	985
Total liabilities .....	<u>155,435</u>	<u>159,924</u>
Shareholders' equity:		
Common stock: (\$1.25 par value, 80,000,000 shares authorized, 38,039,706 shares issued at December 31, 2023 and 38,000,822 shares issued at December 31, 2022) .....	47,550	47,501
Paid-in capital .....	788,840	784,545
Retained earnings .....	282,355	239,610
Treasury stock: (shares at cost, 7,790,276 at December 31, 2023 and 6,454,192 at December 31, 2022) .....	(231,995)	(188,203)
AOCI .....	<u>(113,462)</u>	<u>(137,456)</u>
Total shareholders' equity .....	<u>773,288</u>	<u>745,997</u>
Total liabilities and shareholders' equity .....	<u>\$ 928,723</u>	<u>\$ 905,921</u>

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2023	2022	2021
Income			
Dividends from subsidiary .....	\$ 85,000	\$ 85,000	\$ 100,000
Interest income .....	135	72	42
Other .....	587	—	—
Total income .....	<u>85,722</u>	<u>85,072</u>	<u>100,042</u>
Expense			
Interest expense .....	8,424	6,412	9,636
Other .....	3,319	3,148	4,162
Total expense .....	<u>11,743</u>	<u>9,560</u>	<u>13,798</u>
Income before income tax expense .....	73,979	75,512	86,244
Income tax benefit .....	2,314	1,992	2,889
Income before equity in undistributed earnings of subsidiaries .....	<u>76,293</u>	<u>77,504</u>	<u>89,133</u>
Equity in undistributed earnings of subsidiaries .....	10,399	27,516	24,268
Net income .....	<u>\$ 86,692</u>	<u>\$ 105,020</u>	<u>\$ 113,401</u>

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net Income .....	\$ 86,692	\$ 105,020	\$ 113,401
Adjustments to reconcile net income to net cash provided by operations:			
Amortization .....	159	145	277
Stock compensation expense .....	360	342	306
Equity in undistributed earnings of subsidiaries .....	(10,399)	(27,516)	(24,268)
(Gain on purchase) loss on redemption of subordinated notes .....	(587)	—	1,118
Net change in other assets .....	(354)	(27)	348
Net change in other liabilities .....	303	204	(1,732)
Net cash provided by operating activities .....	<u>76,174</u>	<u>78,168</u>	<u>89,450</u>
INVESTING ACTIVITIES:			
Net cash used in investing activities .....	—	—	—
FINANCING ACTIVITIES:			
Net proceeds from issuance of subordinated long-term debt .....	—	—	(95)
Purchase/redemption of subordinated notes .....	(4,365)	—	(100,011)
Purchase of common stock .....	(45,074)	(33,708)	(34,148)
Proceeds from issuance of common stock .....	1,709	1,522	8,546
Cash dividends paid .....	(43,582)	(44,936)	(44,569)
Net cash (used in) provided by financing activities .....	<u>(91,312)</u>	<u>(77,122)</u>	<u>(170,277)</u>
Net increase (decrease) in cash and cash equivalents .....	(15,138)	1,046	(80,827)
Cash and cash equivalents at beginning of period .....	20,235	19,189	100,016
Cash and cash equivalents at end of period .....	<u>\$ 5,097</u>	<u>\$ 20,235</u>	<u>\$ 19,189</u>

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. 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 of December 31, 2023. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

The Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2023.

#### *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 last fiscal quarter of the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *Management’s Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, is a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel 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 and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (“2013 framework”).

Based on this assessment, management concluded that we maintained effective internal control over financial reporting as of December 31, 2023.

The effectiveness of our internal control over financial reporting as of December 31, 2023 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears in this Item under the heading “Attestation Report of Independent Registered Public Accounting Firm.”

Southside Bancshares, Inc.  
February 27, 2024

**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Southside Bancshares, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited Southside Bancshares, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Southside Bancshares, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and our report dated February 27, 2024 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas  
February 27, 2024

## ITEM 9B. 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 December 31, 2023.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### 1. Financial Statements

The information required by this item is set forth in Part II. See Part II—Item 8. Financial Statements and Supplementary Data.

#### 2. Financial Statement Schedules

All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

#### 3. Exhibits

The following exhibits listed in the Exhibit Index (following ITEM 16 in this report) are filed with, or incorporated by reference in, this report.

### ITEM 16. FORM 10-K SUMMARY

Not applicable.



INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				
		Filed Herewith	Exhibit	Form	Filing Date	File No.
<b>(3)</b>	<b>Articles of Incorporation and Bylaws</b>					
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
<b>(4)</b>	<b>Instruments defining the rights of security holders, including indentures</b>					
4.1	Description of Securities of the Registrant Registered Under Section 12.		4.1	10-K	02/28/2020	0-12247
4.2	Indenture, dated as of November 6, 2020, by and between the Company and UMB Bank, National Association, as Trustee, including the form of the Notes attached as Exhibit A-2 thereto.		4.1	8-K	11/9/2020	0-12247
4.3	Management agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any other agreements or instruments of Southside Bancshares, Inc. and its subsidiaries defining the rights of holders of any long-term debt whose authorization does not exceed 10% of total assets.					
<b>(10)</b>	<b>Material Contracts</b>					
10.1	Officers Long-term Disability Income Plan effective June 25, 1990 (as filed with the Registrant's Form 10-K for the year ended June 30, 1990).		**10 (b)	10-K	1991	
10.2	Retirement Restoration Plan for the subsidiaries of SoBank, Inc. (now named Southside Bancshares, Inc.).		**10 (c)	10-K	1993	
10.3	Deferred Compensation Agreement dated June 30, 1994 by and between Southside Bank and Lee Gibson, as amended October 15, 1997.		**10 (f)	10-K	03/30/1998	0-12247
10.4	Deferred Compensation Agreement dated January 15, 2009, by and between Southside Bank and Julie Shamburger.		**10.4	10-K	02/26/2021	0-12247
10.5	First Amendment to Deferred Compensation Agreement dated February 25, 2021, by and between Southside Bank and Julie Shamburger.		**10.5	10-K	02/26/2021	0-12247
10.6	Deferred Compensation Agreement dated December 12, 2008, by and between Southside Bank and Tim Alexander.		**10.2	10-Q	04/28/2017	0-12247
10.7	Deferred Compensation Agreement dated January 12, 2009, by and between Southside Bank and Brian McCabe.		**10.7	10-K	02/28/2018	0-12247
10.8	Split Dollar Agreement dated September 7, 2004 with Lee R. Gibson, III.		**10 (i)	8-K	10/19/2004	3-17203
10.9	Split Dollar Agreement dated February 25, 2021 with Julie Shamburger.		**10.9	10-K	02/26/2021	0-12247

10.10	Employment Agreement dated October 22, 2007, by and between Southside Bank and Lee R. Gibson.	**10 (1)	8-K	10/26/2007	3-17203
10.11	Employment Agreement dated June 4, 2008, by and between Southside Bank and Julie Shamburger.	**10.1	10-Q	04/28/2017	0-12247
10.12	Employment Agreement dated November 17, 2008, by and between Southside Bank and Brian McCabe.	**10.14	10-K	02/28/2018	0-12247
10.13	Employment Agreement dated April 28, 2014, by and between Southside Bank, Southside Bancshares, Inc., and T.L. Arnold.	**10.5	S-4	07/18/2014	3-196817
10.14	First Amendment to Employment Agreement dated as of October 25, 2018, by and between Southside Bank and Julie Shamburger.	**10.1	10-Q	10/26/2018	0-12247
10.15	Southside Bancshares, Inc. 2009 Incentive Plan.	**99.1	8-K	04/20/2009	3-17203
10.16	Form of Southside Bancshares, Inc. Nonstatutory Stock Option Award Certificate for grant of Options pursuant to the Southside Bancshares, Inc. 2009 Incentive Plan.	**10.1	10-Q	08/08/2011	3-17203
10.17	Southside Bancshares, Inc. 2017 Incentive Plan.	**10.1	8-K	05/12/2017	0-12247
10.18	Form of Southside Bancshares, Inc. Restricted Stock Unit Award Certificate for grant of Units pursuant to the Southside Bancshares, Inc. 2017 Incentive Plan.	**10.2	10-Q	10/27/2017	0-12247
10.19	Form of Southside Bancshares, Inc. Nonstatutory Stock Option Award Certificate for grant of Options pursuant to the Southside Bancshares, Inc. 2017 Incentive Plan.	**10.3	10-Q	10/27/2017	0-12247
10.20	Form of Note Purchase Agreement, dated as of November 6, 2020, by and among the Company and the Purchasers.	10.1	8-K	11/9/2020	0-12247
10.21	Form of Registration Rights Agreement, dated as of November 6, 2020, by and among the Company and the Purchasers.	10.2	8-K	11/9/2020	0-12247
10.22	Southside Bancshares, Inc. Annual Incentive Program.	**10.1	8-K	06/21/2021	0-12247
10.23	Form of Southside Bancshares, Inc. Performance-Based Restricted Stock Unit Award Agreement for grant of Units pursuant to the Southside Bancshares, Inc. 2017 Incentive Plan.	**10.1	10-Q	04/28/2022	0-12247

<b>(21)</b>	<b>Subsidiaries of the registrant</b>	
21	Subsidiaries of the Registrant.	X
<b>(23)</b>	<b>Consents of experts and counsel</b>	
23.1	Consent of Independent Registered Public Accounting Firm.	X
<b>(31)</b>	<b>Rule 13a-14(a)/15d-14(a) Certifications</b>	
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
<b>(32)</b>	<b>Section 1350 Certification</b>	
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<b>(97)</b>	<b>Policy Relating to Recovery of Erroneously Awarded Compensation</b>	
97	Compensation Recoupment Policy	X
<b>(101)</b>	<b>Interactive Data File</b>	
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	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).	X

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\*\*Compensation plan, benefit plan or employment contract or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 27, 2024

BY: /s/ Lee R. Gibson

\_\_\_\_\_  
Lee R. Gibson, CPA

President and Chief Executive Officer

(Principal Executive Officer)

DATE: February 27, 2024

BY: /s/ Julie N. Shamburger

\_\_\_\_\_  
Julie N. Shamburger, CPA

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ <u>John R. (Bob) Garrett</u> John R. (Bob) Garrett	Chairman of the Board and Director	February 27, 2024
/s/ <u>Donald W. Thedford</u> Donald W. Thedford	Vice Chairman of the Board and Director	February 27, 2024
/s/ <u>Lee R. Gibson</u> Lee R. Gibson	President, Chief Executive Officer and Director	February 27, 2024
/s/ <u>Lawrence Anderson</u> Lawrence Anderson	Director	February 27, 2024
/s/ <u>S. Elaine Anderson</u> S. Elaine Anderson	Director	February 27, 2024
/s/ <u>Michael J. Bosworth</u> Michael J. Bosworth	Director	February 27, 2024
/s/ <u>Herbert C. Buie</u> Herbert C. Buie	Director	February 27, 2024
/s/ <u>Patricia A. Callan</u> Patricia A. Callan	Director	February 27, 2024
/s/ <u>Shannon Dacus</u> Shannon Dacus	Director	February 27, 2024
/s/ <u>Alton L. Frailey</u> Alton L. Frailey	Director	February 27, 2024
/s/ <u>George H. (Trey) Henderson, III</u> George H. (Trey) Henderson, III	Director	February 27, 2024
/s/ <u>Tony K. Morgan</u> Tony K. Morgan	Director	February 27, 2024
/s/ <u>John F. Sammons, Jr.</u> John F. Sammons, Jr.	Director	February 27, 2024
/s/ <u>H. J. Shands, III</u> H. J. Shands, III	Director	February 27, 2024
/s/ <u>Preston L. Smith</u> Preston L. Smith	Director	February 27, 2024

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**CONTACT INFORMATION**

Southside Bancshares, Inc.  
Post Office Box 1079  
Tyler, TX 75710-1079  
903.531.7111

**MEDIA INQUIRIES**

[pr@southside.com](mailto:pr@southside.com)

**INVESTOR INQUIRIES**

[ir@southside.com](mailto:ir@southside.com)