

SOUTHSIDE BANCSHARES INC

Form PRE 14A

February 27, 2014

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule
14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Sec.240.14a-12

Southside Bancshares, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1)
and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(3) Filing Party:

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Table of Contents

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS	<u>i</u>
PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS	<u>1</u>
VOTING OF PROXY	<u>1</u>
ELECTION OF DIRECTORS-PROPOSAL 1	<u>3</u>
INFORMATION ABOUT OUR DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS	<u>4</u>
CORPORATE GOVERNANCE	<u>6</u>
COMMITTEES OF THE COMPANY	<u>7</u>
COMMITTEES OF SOUTHSIDE BANK	<u>10</u>
DIRECTOR COMPENSATION	<u>10</u>
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS	<u>13</u>
COMPENSATION COMMITTEE REPORT	<u>14</u>
COMPENSATION DISCUSSION AND ANALYSIS	<u>15</u>
EXECUTIVE COMPENSATION	<u>20</u>
2013 Summary Compensation Table	<u>20</u>
2013 Grants of Plan-Based Awards	<u>21</u>
Outstanding Equity Awards at 2013 Fiscal Year-End	<u>22</u>
2013 Option Exercises and Stock Vested	<u>22</u>
2013 Pension Benefits	<u>23</u>
Equity Compensation Plan Information	<u>27</u>
NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION - PROPOSAL 2	<u>28</u>
RE-APPROVAL OF THE MATERIAL TERMS OF PERFORMANCE GOALS FOR QUALIFIED PERFORMANCE-BASED AWARDS - PROPOSAL 3	<u>29</u>
RESTATE CURRENT ARTICLES OF INCORPORATION - PROPOSAL 4	<u>31</u>
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION	<u>32</u>
TRANSACTIONS WITH DIRECTORS, OFFICERS AND ASSOCIATES	<u>32</u>
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	<u>32</u>
AUDIT COMMITTEE REPORT	<u>33</u>
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	<u>34</u>
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – PROPOSAL 5	<u>35</u>
ANNUAL REPORT TO SHAREHOLDERS	<u>35</u>
SHAREHOLDER PROPOSALS	<u>35</u>
GENERAL	<u>36</u>
APPENDIX A	<u>A-1</u>
PROXY CARD	

Table of Contents

SOUTHSIDE BANCSHARES, INC.
1201 South Beckham Avenue
Tyler, Texas 75701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 1, 2014

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Southside Bancshares, Inc. (the “Company”) to be held at Villa Di Felicita, 7891 Highway 110 North, Tyler, Texas, on Thursday, May 1, 2014, at 4:00 p.m., local time, for the purpose of considering and acting upon the following:

1. the election of five nominees named in this proxy statement as members of the board of directors of the Company (“the Board”) to serve until the Annual Meeting of Shareholders in 2017;
2. a non-binding advisory vote on the compensation of the Company's named executive officers;
3. the re-approval of the material terms of performance goals for qualified performance-based awards under the Southside Bancshares, Inc. 2009 Incentive Plan (the “2009 Incentive Plan”);
4. the approval of a Restated Certificate of Formation in order to conform the Company's Articles of Incorporation to the requirements of the Texas Business Organizations Code and generally update the Company's current Articles of Incorporation;
5. the ratification of the appointment by our Audit Committee of Ernst & Young LLP (“EY”) to serve as the independent registered public accounting firm for the Company for the year ending December 31, 2014; and
6. the transaction of such other business that may properly come before the Annual Meeting or any adjournment thereof.

Management will also report on operations and other matters affecting the Company. After the meeting, the Company’s officers and directors will be available to answer your questions. Representatives from EY, the Company’s independent registered public accounting firm, are expected to be in attendance and available to answer your questions or make a statement if they so desire.

Only holders of common stock registered on the Company’s books as owners of shares at the close of business on March 12, 2014, are entitled to vote at the Annual Meeting.

Your attendance and vote are important. Please sign, date and return the enclosed proxy immediately in the envelope provided or you may vote your shares by telephone or Internet. It is important that you sign and return the proxy or vote by telephone or Internet, even if you actually plan to attend the meeting in person. Your proxy may be revoked prior to the Annual Meeting by notice in writing to the Corporate Secretary at the Company’s principal office at any time, or by advising the Corporate Secretary at the Annual Meeting that you wish to revoke your proxy and vote your shares in person.

By Order of the Board of Directors,

/s/ B. G. HARTLEY
B. G. Hartley

Chairman of the Board

Tyler, Texas
March 27, 2014

Important Notice Regarding the Availability of Proxy Materials
for the Shareholder Meeting to be Held on May 1, 2014:

The Company's Proxy Statement and 2013 Annual Report are available at
<http://www.southside.com/investor/proxymaterials>.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, IT IS REQUESTED THAT YOU PROPERLY EXECUTE AND PROMPTLY RETURN THE ENCLOSED FORM OF PROXY TO OUR TRANSFER AGENT, COMPUTERSHARE INVESTOR SERVICES, IN THE ENCLOSED ADDRESSED ENVELOPE OR VOTE YOUR SHARES BY TELEPHONE OR INTERNET.

i

Table of Contents

SOUTHSIDE BANCSHARES, INC.
1201 South Beckham Avenue
Tyler, Texas 75701

PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 1, 2014

TO OUR SHAREHOLDERS:

This proxy statement is being furnished to holders of the common stock of Southside Bancshares, Inc. (the "Company") in connection with the Company's Annual Meeting of Shareholders (the "Annual Meeting") to be held on Thursday, May 1, 2014, at 4:00 p.m. at Villa Di Felicita, 7891 Highway 110 North, Tyler, Texas, and at any adjournments thereof, for the purpose of considering and acting upon the following:

1. the election of five nominees named in this proxy statement as members of the board of directors of the Company ("the Board") to serve until the Annual Meeting of Shareholders in 2017;
2. a non-binding advisory vote on the compensation of the Company's named executive officers;
3. the re-approval of the material terms of performance goals for qualified performance-based awards under the Southside Bancshares, Inc. 2009 Incentive Plan (the "2009 Incentive Plan");
4. the approval of a Restated Certificate of Formation in order to conform the Company's Articles of Incorporation to the requirements of the Texas Business Organizations Code and generally update the Company's current Articles of Incorporation;
5. the ratification of the appointment by our Audit Committee of Ernst & Young LLP ("EY") to serve as the independent registered public accounting firm for the Company for the year ending December 31, 2014; and
6. the transaction of such other business that may properly come before the Annual Meeting or any adjournment thereof.

This Proxy Statement and a proxy card, as well as the Annual Report of the Company for the year ended December 31, 2013, including financial statements, are first being sent to shareholders on or about March 27, 2014.

You are encouraged to review all of the information contained in the proxy materials before voting.

VOTING OF PROXY

If your proxy is executed and returned, it will be voted as you direct. If no direction is provided, the proxy will be voted in accordance with the Board's recommendations, as follows:

- FOR the election of all the nominees named in this proxy statement as directors;
- FOR the approval of the compensation of the Company's named executive officers;
- FOR the re-approval of the material terms of performance goals for qualified performance-based awards under the 2009 Incentive Plan;

FOR the approval of the restated certificate of formation; and
FOR the ratification of the appointment of EY.

The proxies will use their discretion with respect to voting on any other matters presented for a vote. Additionally, if your proxy is executed and returned, it will be voted to approve the minutes of the last Annual Meeting. This vote will not amount to a ratification of the action taken at that meeting nor will it indicate approval or disapproval of that action.

1

Table of Contents

If your shares are registered in your name as the shareholder of record, you may vote by mail, telephone or Internet by following the instructions below. Voting instructions also appear on your proxy card. If you grant a proxy by telephone or by Internet, please have your proxy card available.

To vote by mail, complete, sign, and return the enclosed proxy card in the envelope provided to: Proxy Services, c/o Computershare Investor Services, P.O. Box 43126, Providence, RI, 02940-5138.

To vote by telephone, call toll free 1-800-652-VOTE (8683) within the United States, U.S. territories and Canada any time on a touch tone telephone and follow the instructions provided by the recorded message. There is NO CHARGE to you for the call.

To vote by Internet, access the voting site at www.investorvote.com/SBSI, or scan the Quick Response code with your smartphone and follow the voting instructions set forth on the secure website.

The telephone and Internet procedures are designed to authenticate the shareholder's identity and to allow shareholders to vote their shares and confirm that their voting instructions have been properly recorded. Shareholders who vote by telephone or Internet do not need to return the proxy card. Proxies submitted by telephone or Internet must be recorded by 6:00 a.m. Central time on May 1, 2014.

If you hold your shares in "street name" in a stock brokerage account or through a bank, trust or other nominee, the broker or other nominee is considered the record holder and you are the beneficial owner of the shares. Beneficial owners vote their street name shares by instructing their broker or other nominee how to vote using the voting instruction form provided by the broker or nominee. Brokers have authority to vote in their discretion on "routine" matters if they do not receive voting instructions from the beneficial owner of the shares.

Please note that the proposal to elect directors, the advisory vote on the compensation of the Company's named executive officers, the proposal for the re-approval of the material terms of performance goals for qualified performance-based awards under the 2009 Incentive Plan, and the proposal to approve the restated certificate of formation are not considered routine matters. Consequently, if you do not give your broker or nominee specific voting instructions with respect to those proposals, your street name shares will be treated as broker non-votes with respect to those proposals (see "Quorum, Voting Rights and Procedures" below).

If you hold your shares in street name and want to vote in person at the Annual Meeting, you must obtain from your broker or nominee a legal proxy issued in your name giving you the right to vote the shares directly at the meeting. You will not be entitled to vote at the meeting unless you present such a proxy to the Company at that time.

REVOCABILITY OF PROXY

Your proxy may be revoked prior to the Annual Meeting by providing notice in writing to the Corporate Secretary at the Company's principal office, located at 1201 South Beckham Avenue, Tyler, Texas 75701, at any time, or by advising the Corporate Secretary at the Annual Meeting that you wish to revoke your proxy and vote your shares in person. Your attendance at the Annual Meeting will not constitute automatic revocation of the proxy.

PERSONS MAKING THE SOLICITATION

The Company's Board is soliciting the proxy. The expense of soliciting your proxy will be borne entirely by the Company and no other person or persons will bear such costs either directly or indirectly. Proxies will be solicited principally by mail, but may also be solicited by personal interview, telephone and email by directors, officers and employees of the Company who will receive no additional compensation. The Alliance Advisors, L.L.C. has been retained by the Company to assist in the solicitation of proxies for a fee of \$6,500, plus expenses.

RECORD DATE AND OUTSTANDING SHARES

The Company's Board has fixed the close of business on March 12, 2014, as the record date for determining the holders of common stock of the Company entitled to notice of and to vote at the Annual Meeting. At the close of business on March 12, 2014, there were approximately _____ shares of common stock outstanding and eligible to be voted on each matter.

QUORUM, VOTING RIGHTS AND PROCEDURES

The approval of all proposals brought before the Annual Meeting requires a quorum be present at the Annual Meeting. The presence, in person or by properly submitted proxy, of the holders of a majority of the shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum. In the event that a quorum is not represented in person or by proxy at the Annual Meeting, a majority of shares represented at that time may adjourn the Annual Meeting to allow the solicitation of additional proxies or other measures to obtain a quorum.

Each shareholder is entitled to one vote on each proposal per share of common stock held as of the record date.

Proposal 1, the election of five directors to serve until the 2017 Annual Meeting, requires approval by a “plurality” of the votes cast by the shares of common stock entitled to vote in the election. This means that the five nominees for director who receive the highest number of properly cast votes will be elected as directors even if those nominees do not receive a majority of the votes cast.

Proposal 2, the advisory vote on the compensation of the Company's named executive officers, Proposal 3, the re-approval of the material terms of performance goals for qualified performance-based awards under the 2009 Incentive Plan, Proposal 5, the ratification of EY as the Company's independent registered public accounting firm, and any other matter that may properly come before the Annual Meeting, require approval by a majority of the shares of common stock entitled to vote on, and voted for or against, or expressly abstained from voting, with respect to the matter.

Proposal 4, the approval of a Restated Certificate of Formation, requires the affirmative vote, in person or by proxy, of the holders of at least two-thirds of the outstanding shares of common stock entitled to vote. Although the advisory vote on Say-on-Pay is non-binding as provided

Table of Contents

by law, the Board will review the results of the votes and take them into account in making future determinations concerning executive compensation.

EFFECT OF WITHHOLD VOTES, ABSTENTIONS AND BROKER NON-VOTES

Shares represented at the Annual Meeting that are withheld or abstained from voting and broker non-votes will be considered present for the purpose of determining a quorum at the Annual Meeting.

For Proposal 1, shares represented by proxies that are marked “withhold” for the election of one or more director nominees will not be counted in determining the number of votes cast for those persons.

For Proposals 2, 3, 4 and 5, and for any other matter that may properly come before the meeting, express abstentions will be included in vote totals and, as such, will have the same effect on those proposals as a vote against such proposals.

For Proposals 1, 2, 3 and 5, and for any other matter that may properly come before the meeting, broker non-votes (i.e., the submission of a proxy by a broker or nominee specifically indicating the lack of discretionary authority to vote on the matter), if any, will not be included in vote totals and, as such, will have no effect on such proposals.

For Proposal 4, the approval of a Restated Certificate of Formation, broker non-votes will have the same effect on the proposal as a vote against such proposal.

**ELECTION OF DIRECTORS
(PROPOSAL 1)**

The Board is classified into three classes, two of which are comprised of five directors and one that is comprised of three directors, for a total of 13 directors. One class of directors is elected each year for a three-year term. At the Annual Meeting five directors are to be elected for a term of three years. Under NASDAQ listing rules, a majority of the Board must be comprised of independent directors. The Board has determined that each director nominated, except for Sam Dawson, is independent under NASDAQ listing rules.

The five nominees identified below are nominees for election at the Annual Meeting for a three-year term expiring at the 2017 Annual Meeting:

Term Expiring 2017

- Lawrence Anderson,
M.D

Sam Dawson

Melvin B. Lovelady, CPA

William Sheehy

Preston L. Smith

Lawrence Anderson, M.D, Sam Dawson, Melvin B. Lovelady, CPA, William Sheehy, and Preston L. Smith are currently directors of the Company and its subsidiary, Southside Bank. All of the nominees were previously elected to the Board by shareholders. For biographical information on the nominees, please see “Information About Our Directors, Nominees and Executive Officers.”

Unless otherwise instructed, proxies received in response to this solicitation will be voted in favor of the election of the persons nominated by the Nominating Committee for directors of the Company. While it is not expected that any of the nominees will be unable to qualify or accept office, if for any reason one or more shall be unable to do so, the proxies will be voted for the substitute nominee(s) selected by the Board of the Company.

The Board of Directors recommends a vote FOR the election of each of the individuals nominated for election as a director.

Table of Contents

INFORMATION ABOUT OUR DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

The following table sets forth information regarding our nominees for director, our continuing directors and our current executive officers. Our Board is divided among three classes, with members of each class serving three-year terms.

NOMINEES FOR DIRECTOR TERMS TO EXPIRE AT THE 2017 ANNUAL MEETING	INITIAL ELECTION TO BOARD
<p>LAWRENCE ANDERSON, M.D. (57) – Dr. Anderson has been the medical director of Dermatology Associates of Tyler since 1996 and has credentials in surgery, teaching and research. He is a graduate of Washington State University and Uniformed Services University of Health Sciences in Bethesda, Maryland. He is the Chairman of the Development Board for the University of Texas at Tyler and a published author, with a number of publications, presentations and lectures to his credit. He is also a 2010 director of Southside Bank having served in that capacity since 2010. Dr. Anderson’s management and leadership skills combined with his knowledge of business and finance, qualify him to be a member of the Board.</p>	2010
<p>SAM DAWSON (66) – Mr. Dawson is Chief Executive Officer (“CEO”) and President of the Company, having served as President and Secretary since 1998 and as CEO since January 2012. He joined Southside Bank in 1974 and is currently President, CEO and a director of Southside Bank. He is a director of East Texas Medical Center (“ETMC”) Hospital, and ETMC Rehabilitation Hospital and serves on the board of directors of the Tyler Junior College Foundation, the Development Board of the University of Texas at Tyler and the Literacy Council. Mr. Dawson has over 39 years of banking experience and has served on this Board since 1997, all of which qualify him to be a member of the Board.</p>	1997
<p>MELVIN B. LOVELADY, CPA (77) – Mr. Lovelady has a BBA with a major in accounting, has been a licensed CPA since 1967, holds a Series 7 license, is a member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants and the East Texas Chapter of the Texas Society of Certified Public Accountants. He was a founding member of Henry & Peters Financial Services, LLC, organized in 2000. He was an officer and shareholder of the accounting firm, Henry & Peters, PC from November 1987 through December 31, 2004. Prior to joining Henry & Peters, PC, he was a partner in the accounting firm of Squyres Johnson Squyres & Co. He is a member of the board of directors of the Tyler Junior College Foundation, the A. W. Riter, Jr. Family Foundation, the Hospice of East Texas, the East Texas Regional Food Bank Foundation and a Trustee of the R. W. Fair Foundation. Mr. Lovelady is a former partner with two accounting firms and a current or prior member of numerous boards, including serving on this Board since 2005, all of which qualify him to be a member of the Board.</p>	2005
<p>WILLIAM SHEEHY (73) – Mr. Sheehy retired December 31, 2006 as senior partner of the law firm of Wilson, Sheehy, Knowles, Robertson & Cornelius PC, where he had practiced law since 1971. Mr. Sheehy received his law license in 1964 and continuously practiced until his retirement. Mr. Sheehy’s practice was primarily in the area of banking and commercial law, as well as, real estate. Within these areas Mr. Sheehy had extensive experience in reorganizations, acquisitions and transactional events. As part of the banking practice Mr. Sheehy had experience in loan structuring and collection issues. Mr. Sheehy is a former director of the Texas Association of Bank Counsel. Mr. Sheehy brings to our Board an extraordinary understanding of our business, history and organization. He was a senior partner of a law firm prior to his retirement and has served on this Board since 1983, all of which qualify him to be a member of the Board.</p>	1983

PRESTON L. SMITH (57) – Mr. Smith has been the President and owner of PSI Production, Inc. since 2009. He is an active member of the Independent Petroleum Association of America and served as its Northeast Texas Representative to the Board of Directors from 1999 to 2005. Mr. Smith serves on the Board of Trustees for All Saints Episcopal School of Tyler, is President of the Texas Rose Festival Association, and is Chairman of the Board of Trinity Mother Frances Health System. Mr. Smith's management and leadership skills, combined with his knowledge of oil and gas and the health care industry qualify him to be a member of the Board.

DIRECTORS CONTINUING UNTIL THE 2015 ANNUAL MEETING

HERBERT C. BUIE (83) – Mr. Buie has been CEO of Tyler Packing Corporation, Inc., a meat-processing firm, since 1955. He serves on the Boards of Directors of the University of Texas Health Science Center at Tyler, the Development Board of Directors of the University of Texas at Tyler, the East Texas Regional Food Bank, The Salvation Army, Tyler Economic Development Council, the University of Texas at Tyler Foundation and the East Texas State Fair. Mr. Buie brings 1988 to our Board an extraordinary understanding of our business, history and organization, as well as management, leadership and business skills. These skills, combined with his service on numerous boards, including this Board since 1988, qualify him to be a member of the Board.

JOHN R. (BOB) GARRETT (60) – Mr. Garrett is a residential and commercial Real Estate Developer and has served as the President of Fair Oil Company, a Tyler based oil and gas exploration and production company, since 2002. Mr. Garrett is also Vice President of the R. W. Fair Foundation, a member of the Board of Regents of Stephen F. Austin State University and Chairman of the University of Texas Health Science Center at Tyler Development Board. He is a past president of both the Tyler Area Builders Association and the Texas Association of Builders. He is a director of 2009 T.B. Butler Publishing, Inc., a member of the board of the Tyler Economic Development Council, a former member of the Tyler Area Chamber of Commerce and a former director of the Texas National Housing Research Center. Mr. Garrett brings to our Board extensive knowledge in the areas of residential and commercial real estate and oil and gas, as well as management, leadership and business skills and experience serving on numerous boards, all of which qualify him to be a member of the Board.

JOE NORTON (77) – Mr. Norton owns Norton Equipment Company and is a general partner in Norton Leasing Ltd., LLP. Mr. Norton served as President and was a principal shareholder of Norton Companies of Texas, Inc. for 25 years, until 1989. He also owned W. D. Norton, Inc. d/b/a Overhead Door, for 16 years, until 2005. Mr. Norton is past Vice Chairman of the Board of Regents, East Texas State University (Texas A&M-Commerce) and serves on the Board of Trustees for All Saints 1988 Episcopal School of Tyler. Mr. Norton brings to our Board an extraordinary understanding of our business, history and organization, as well as management, business and leadership skills. These skills, combined with serving on this Board since 1988, qualify him to be a member of the Board.

Table of Contents

	INITIAL ELECTION TO BOARD
DIRECTORS CONTINUING UNTIL THE 2016 ANNUAL MEETING	
ALTON CADE (77) – Mr. Cade was the co-owner and President of Cade’s Building Materials from 1975 until his retirement on January 1, 2007. He is the President and owner of Cochise Company, Inc., a real estate and investment company he formed in 1960. In addition, he is the managing partner of a family ranch and investment company. He has served as an Elder/Trustee of Glenwood Church of Christ since 1977. Mr. Cade has served on the Board since 2003 and prior to that on the Board of Southside Bank for over ten years. Mr. Cade’s management and business skills combined with his knowledge of real estate and years of experience on the Board, qualify him to be a member of the Board.	2003
PIERRE DE WET (59) – Mr. de Wet has been a real estate developer for 25 years. He also founded Kiepersol Enterprises, Inc. in 1998 and currently serves as its president. Kiepersol Enterprises, Inc. includes Kiepersol Estates and the KE brand businesses including KE Cellars, a boutique winery, and KE Bushman’s winery and entertainment venue. Mr. de Wet started and chaired Mane Mission, a non-profit event benefiting mentally challenged citizens and he currently serves on the Board of Walnut Grove Water Systems. Mr. de Wet has been a member of the Southside Bank Board since April 2009. Mr. de Wet’s management and leadership skills combined with his knowledge of business and finance qualify him to be a member of the Board.	2010
B. G. HARTLEY (84) Mr. Hartley became Chairman of the Board of the Company in 1982 and previously served as CEO of the Company since its inception until he retired in January 2012. He is also Chairman of the Board of Southside Bank and previously served as Southside Bank’s CEO since its opening in 1960 until he retired in January 2012. He is a former member of the American Bankers Association (“ABA”) Board of Directors, past Chairman of the ABA National BankPac Committee and a past member of the Administrative Committee of the ABA Government Relations Council. He is currently a member of the board of directors of ETMC Regional Healthcare System and past Chairman of the Texas Taxpayers and Research Association. Mr. Hartley has over 60 years of banking experience and has served as Chairman of the Board since its organization in 1982, both of which qualify him to be a member of the Board.	1982
PAUL W. POWELL (80) – Mr. Powell is the former President and CEO of GuideStone Financial Services. He serves as an officer of the Robert M. Rogers Foundation and is a former Chairman of the Board of Trinity Mother Frances Health System. In addition, he served as President and CEO of the Southern Baptist Annuity Board and was also pastor of Green Acres Baptist Church, Tyler. Mr. Powell’s leadership skills in several capacities, his knowledge of the health care industry, his CEO experience with the Southern Baptist Annuity Board, combined with his years of experience on the Board, qualify him to be a member of the Board.	1999
DONALD W. THEDFORD (64) – Mr. Thedford has been the owner and President of Don’s TV & Appliance, Inc. since 1979. He is a member of the National Appliance Retail Dealers Association and the Nationwide Marketing Group. Mr. Thedford serves on the advisory board of the Salvation Army. Mr. Thedford has previously served on the board of directors of the Tyler Area Chamber of Commerce, Better Business Bureau of East Texas, and Retail Dealers Association. Mr. Thedford’s management and leadership skills running his business for over 30 years combined with his overall knowledge of business and finance, qualify him to be a member of the Board.	2009
EXECUTIVE OFFICERS	
LEE R. GIBSON, CPA (57) – Mr. Gibson has served as Senior Executive Vice President and Chief Financial Officer (“CFO”) of the Company since 2009. He has served as an executive and CFO of the Company since 2000. He is also a director of Southside Bank. He joined Southside Bank in 1984 and in addition to being a Senior Executive Vice President and the CFO, is responsible for	

management of the investment portfolio and asset-liability management for the Company. He currently serves as the President of the Board of the East Texas Boy Scout Foundation, President of the Tyler Junior College Foundation and serves on the Executive Board of the East Texas Area Council of Boy Scouts, and the Board of the Tyler Economic Development Council. He is the immediate past Chairman of the board of directors of the Federal Home Loan Bank of Dallas, and Council of Federal Home Loan Banks.

PETER M. BOYD (58) – Mr. Boyd currently serves as Regional President, Central Texas having joined Southside Bank in 1998 and is an advisory director of Southside Bank. He is a graduate of the University of Texas at Austin, with over 30 years of commercial lending experience and currently manages the Austin Westlake Branch. He is Vice President of the Church Corporation of The Episcopal Diocese of Texas and a member of the Board of the St. Luke's Episcopal Hospital Charities Board.

Table of Contents

CORPORATE GOVERNANCE

Board Leadership Structure

Our Board of Directors functions in a collaborative fashion that emphasizes active participation by all of its members. Our business is conducted day-to-day by our officers, under the direction of our CEO, Sam Dawson, with oversight from the Board, to enhance the long-term value of the company for its shareholders. Mr. Dawson also serves as a member of the Board, which enables him to communicate the Board's strategic findings and guidance to management. Our Board of Directors determines who to appoint as our Chairman based on the knowledge and experience of the people then serving on our Board of Directors and chooses the person whom it believes best meets the needs of our company. In January 2012, when Mr. B.G. Hartley retired as CEO, our Board of Directors determined that he should continue to serve as Chairman of the Board with Mr. Dawson serving as CEO. These individuals have worked together for over 37 years. As a result, the Board believes there will continue to be consistent communication and coordination throughout the organization and this will continue to result in an effective and efficient implementation of corporate strategy.

Independent Directors

The Company's common stock is listed on the NASDAQ Global Select Market. NASDAQ listing rules require a majority of our directors be "independent directors," as defined in the NASDAQ listing rules. The Board has affirmatively determined that all of the Company's directors, other than Messrs. Hartley, and Dawson, are independent directors under the NASDAQ listing rules.

Shareholder Communication with the Board of Directors

The Company has adopted a procedure by which shareholders may send communications to one or more members of the Board by writing to such director(s) or to the whole Board in care of the Corporate Secretary, Southside Bancshares, Inc., Post Office Box 8444, Tyler, Texas 75711. Any such communications will be promptly distributed by the Corporate Secretary to such individual director(s) or to all directors if addressed to the whole Board.

Code of Ethics

The Company has adopted a Code of Ethics, applicable to all directors and executive officers of the Company. The Code of Ethics is available on the Company's website, www.southside.com/investor, under the topic Corporate Governance. Within the time period required by the Securities and Exchange Commission ("SEC") and the NASDAQ Global Select Market, we will post on our website any amendment to our Code of Ethics and any waiver applicable to any of our directors, executive officers or senior financial officers.

Procedures for Reporting Concerns about Accounting, Internal Accounting Controls or Auditing Matters

Management of the Company has established a Whistle Blower Policy, which includes a fraud hotline. This includes an online reporting system as well as a toll-free, 24-hour, seven-day-a-week hotline. This is a confidential service in which officers and employees can report to an independent company any questionable accounting or auditing matters, including, but not limited to, the following: fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Company; fraud or deliberate error in the recording and maintaining of financial records of the Company; deficiencies in or noncompliance with the Company's internal accounting controls; misrepresentation or false statement to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; or deviation from full and fair reporting of the Company's financial

condition. Any complaints received by the independent company will be reported directly to the Chairman of the Audit Committee and to the head of the Company's Internal Audit department. Complaints will be reviewed by Internal Audit under the direction of the Audit Committee. Complaints submitted will be promptly investigated and appropriate corrective action will be taken, as warranted by the investigation. Management is committed to comply with all applicable securities laws and regulations and therefore, encourage officers and employees to raise concerns regarding any suspected violations of those standards by using the fraud hotline.

Anti-Hedging and Anti-Pledging Policy

The Company maintains an anti-hedging and anti-pledging policy, which prohibits executive officers, directors and employees who receive equity grants from (1) directly or indirectly engaging in any hedging or monetization transactions, such as exchange funds, prepaid variable forward contracts, equity swaps, puts, calls, collars, forward sale contracts and other derivative instruments, through transactions in the Company's securities or through the use of financial instruments designed for such purpose, (2) engaging in short sale transactions in the Company's securities or (3) pledging the Company's securities as collateral for a loan, including through the use of traditional margin accounts with a broker. The company maintains this policy because hedging transactions, which might be considered short-term bets on the movement of the company's securities, could create the appearance that the person is trading based on inside information. In addition, transactions in options may also focus the person's attention on short-term performance at the expense of the Company's long-term objectives. Finally, the Company maintains this policy because a margin sale or foreclosure sale may occur at a time when the pledger is aware of material nonpublic information or otherwise is not permitted to trade in the Company's securities and the margin sale or foreclosure sale of the Company's securities during such time could also create the appearance that the person is trading based on inside information.

Table of Contents

Southside Bancshares, Inc. Board Committees

The Board of the Company has three standing committees:

- Audit Committee;
- Nominating Committee; and
- Compensation Committee.

Southside Bank Board Committees

The board of directors of Southside Bank has five standing committees:

- Executive Committee;
- Loan/Discount Committee;
- Trust Committee;
- Compliance/EDP/CRA Committee; and
- Investment/Asset-Liability Committee.

Board of Directors Meeting Attendance

The Board of Directors and its committees held the following number of meetings during the fiscal year ended December 31, 2013:

Board	14
Audit Committee	19
Nominating Committee	1
Compensation Committee	4

No member of the Board attended less than 75% of the aggregate meetings of the Board and all committees on which such director served during 2013. All of the Company’s directors except Joe Norton were in attendance at the Company’s 2013 Annual Meeting. Although the Company has not adopted a formal written policy with respect to director attendance at meetings, we encourage our directors to attend each annual meeting of shareholders and all meetings of the Board and committees on which the directors serve.

These committees were formed to assist the boards of directors of Southside Bank and the Company in the discharge of their respective responsibilities. The purpose and composition of these committees with respect to persons who are directors of the Company and Southside Bank are described below.

Board Oversight of Risk

The Company’s Board of Directors recognizes that, although day-to-day risk management is primarily the responsibility of the Company’s management team, the Board plays a critical role in the oversight of risk. The Board believes that an important part of its responsibilities is to assess the major risks the Company faces and review the Company’s options for monitoring and controlling these risks. The Board assumes responsibility for the Company’s overall risk assessment. The Audit Committee has specific responsibility for oversight of risks associated with financial accounting and audits, as well as internal control over financial reporting. This includes the Company’s risk assessment and management policies, the Company’s major financial risk exposure and the steps taken by management to monitor and mitigate such exposure. The Compensation Committee oversees the risks relating to the Company’s compensation policies and practices, as well as management development and leadership succession, in the Company’s

various business units. The Board as a whole examines specific business risks including but not limited to credit risk, interest rate risk and operations risk, in its regular strategic reviews on a company-wide basis.

In addition to periodic reports from the Audit Committee and Compensation Committee about the risks over which they have oversight, the Board receives presentations throughout the year from management that include discussions of significant risks specific to their area as necessary. Periodically, at Board meetings, management discusses matters of particular importance or concern, including any significant areas of risk requiring Board attention. We believe our risk oversight structure is also supported by our current Board leadership structure, with the Chairman of the Board working together with the independent Audit Committee and other standing committees.

COMMITTEES OF THE COMPANY

Audit Committee of Southside Bancshares, Inc.

The Audit Committee of the Board was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and consists of six directors, Messrs. Lovelady (Chairman), Cade, Garrett, Norton, Sheehy, and Thedford. Each member of the Audit Committee is an independent director as defined by the current NASDAQ listing rules and applicable SEC rules. In addition, the Nominating Committee of the Board has unanimously determined that Mr. Lovelady, a CPA, qualifies as an “audit committee financial expert”

Table of Contents

as defined by the SEC. The Nominating Committee of the Board has also unanimously determined that all Audit Committee members are financially literate under the current NASDAQ listing rules.

The Audit Committee is primarily responsible for the engagement of the independent registered public accounting firm, oversight of the Company's financial statements and controls, assessing and ensuring the independence, qualifications, and performances of the independent registered public accounting firm, approving the services and fees of the independent registered public accounting firm and reviewing and approving the annual audited financial statements for the Company before issuance, subject to the approval of the Board. The Audit Committee manages the Company's relationship with its independent registered public accounting firm, who report directly to the Audit Committee. The Audit Committee also monitors the internal audit function, internal accounting procedures and assures compliance with all appropriate statutes and regulations. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties, with funding from the Company for such advice and assistance. No members of the Audit Committee received any compensation from the Company during the last fiscal year other than directors' fees. The Audit Committee met 19 times during 2013.

Audit Committee Charter

The Board has adopted a formal written Audit Committee charter that outlines the purpose of the Audit Committee, sets forth the membership requirements and addresses the key responsibilities of the Audit Committee. A copy of the Audit Committee charter may be obtained at the Company's website, www.southside.com/investor, under the topic Corporate Governance.

Nominating Committee of Southside Bancshares, Inc.

The Nominating Committee is responsible for identifying, screening and nominating candidates for election to the Board. The Committee is comprised of Messrs. Buie (Chairman), Cade, Norton, Powell and Sheehy, each of whom is an independent director of the Company, as defined by the current NASDAQ listing rules, and a director of Southside Bank. The Nominating Committee met one time in 2013.

The Nominating Committee seeks to create a Board that is, as a whole, strong in its collective knowledge and diversity of skills and experience and background with respect to accounting and finance, management and leadership, business judgment, industry knowledge and corporate governance. When the Nominating Committee reviews a potential new candidate, it looks specifically at the candidate's qualifications in light of the needs of the Board and the Company at that time, given the then-current mix of director attributes.

The Company's Board of Directors has established the following process for the identification and selection of candidates for director. The Nominating Committee, in consultation with the Chairman of the Board, annually reviews the appropriate experience, skills and characteristics required of Board members in the context of the current membership of the Board to determine whether the Board would be better enhanced by the addition of one or more directors. In considering board of director candidates, the Nominating Committee takes into consideration all factors that it deems appropriate, including, but not limited to, the individual's character, education, experience, knowledge, skills and ownership of the Company's stock. The Nominating Committee will also consider the extent of the individual's experience in business, education or public service, his or her ability to bring a desired range of skills, diverse perspectives and experience to the Board and whether the individual possesses high ethical standards, a strong sense of professionalism and is capable of serving the interests of shareholders. A candidate should possess a working knowledge of the Company's current local market areas. Additionally, the Nominating Committee will consider the number of boards the candidate currently serves on when assessing whether the candidate has the appropriate amount of time to devote to serving on the Company's Board. The Nominating Committee, when considering diversity, gives

strong consideration to a wide range of diversity factors as a matter of practice when evaluating candidates to the Board and incumbent directors, but the Committee does not have a formal policy regarding Board diversity.

The Nominating Committee identifies candidates to the Board by introduction from management, members of the Board, employees or other sources, and shareholders that satisfy the Company's policy regarding shareholder recommended candidates. The Nominating Committee does not evaluate director candidates recommended by shareholders differently than director candidates recommended by other sources. Shareholders wishing to submit recommendations for the 2015 Annual Meeting should write to the Nominating Committee in care of the Assistant Corporate Secretary, Southside Bancshares, Inc., Post Office Box 8444, Tyler, Texas 75711. Any such shareholder must follow the procedures set forth in the Company's bylaws and the Nominating Committee charter. Our bylaws provide that proposals that comply with all rules and requirements of the SEC and are included in our proxy statement are deemed to comply with the advance notice procedures in our bylaws. Recommendations must be filed with the Assistant Corporate Secretary, on or before November 27, 2014, in order to be included in the proxy statement for the 2015 Annual Meeting. See "Shareholder Proposals." The Nominating Committee is not obligated to nominate any individual for election. No shareholder recommendations or nominations have been received by the Company for this Annual Meeting. Accordingly, no rejections or refusals of such candidates have been made by the Company.

In addition, the Nominating Committee is responsible for identifying, screening, and nominating candidates for election to the Compensation Committee and Audit Committee and designating individuals, if any, as an "audit committee financial expert." These nominations are then submitted to the Board for final approval.

Table of Contents

Nominating Committee Charter

The Board has adopted a formal written Nominating Committee charter which outlines the purpose of the Nominating Committee, sets forth the membership requirements and addresses the key responsibilities of the Nominating Committee. A copy of the Nominating Committee charter may be found on the Company's website, www.southside.com/investor, under the topic Corporate Governance.

Compensation Committee of Southside Bancshares, Inc.

The Compensation Committee of the Board reviews the Company's general compensation philosophy, and oversees the development of compensation and benefit programs. The Compensation Committee recommends the compensation for the executive officers of the Company, all of whom are also executive officers of Southside Bank. The boards of directors of the Company and Southside Bank consider the recommendations of the Compensation Committee and approve the compensation of the executive officers. Additional information regarding the Compensation Committee's processes and procedures for consideration of executive compensation is provided in the Compensation Discussion and Analysis below.

The Compensation Committee consists of Messrs. Buie, Garrett, Lovelady, Norton (Chairman), Powell and Sheehy, each of whom is a non-employee, independent director of the Company, as defined by the current NASDAQ listing rules, and a director of Southside Bank. The Committee met four times in 2013.

Compensation Committee Charter

The Board has adopted a formal written Compensation Committee charter which outlines the purpose of the Compensation Committee, sets forth the membership requirements and addresses the key responsibilities of the Compensation Committee. A copy of the Compensation Committee charter may be found on the Company's website, www.southside.com/investor, under the topic Corporate Governance

Table of Contents

COMMITTEES OF SOUTHSIDE BANK

Executive Committee and Loan/Discount Committee of Southside Bank

The Executive Committee is authorized to act on behalf of the board of directors of Southside Bank between scheduled meetings of the Board, subject to certain limitations. The committee is comprised of Messrs. Anderson, Buie, Cade, de Wet, Garrett, Hartley (Chairman), Lovelady, Norton, Powell, Sheehy, Smith and Thedford, who are directors of Southside Bank and the Company but are not officers or employees of either Southside Bank or the Company. Also serving are Mr. Dawson who is a director and officer of the Company and Southside Bank and Mr. Gibson who is an officer of the Company and Southside Bank and director of Southside Bank. In addition, the members of the Executive Committee comprise the Loan/Discount Committee of Southside Bank. It is the Loan/Discount Committee's responsibility to monitor credit quality, review extensions of credit and approve selected credits in accordance with the loan policy. The Executive Committee and the Loan/Discount Committee of Southside Bank met weekly to discharge responsibilities of both committees at a combined meeting and met fifty-two times in 2013.

Trust Committee of Southside Bank

The Trust Committee of Southside Bank is responsible for the oversight of the operations and activities of the Trust Department. Messrs. Buie, Cade, Garrett, Hartley, Powell, Sheehy, Smith, Thedford, and Dawson (Chairman), directors of the Company and Southside Bank, serve on this committee. Dr. John Walker is an advisory director of Southside Bank and serves as a member of the Trust Committee. Lee Gibson serves as an advisory member and is an officer of the Company and Southside Bank and director of Southside Bank. Doug Bolles, Raymond Cozby, and Kathy Hayden, officers of Southside Bank, also serve on this committee. George Hall and Cayla Washburn, officers of Southside Bank, are advisory members of the Trust Committee. Messrs. Buie, Cade, Garrett, Hartley, Powell, Sheehy, Smith, Thedford and Walker are not officers or employees of the Company or Southside Bank. The Trust Committee met thirteen times in 2013.

Compliance, Electronic Data Processing (EDP) and Community Reinvestment Act (CRA) Committee of Southside Bank

The Compliance/EDP/CRA Committee of Southside Bank is responsible for ensuring compliance with all appropriate statutes and reviews electronic data processing and community reinvestment activities. The Compliance/EDP/CRA Committee is comprised solely of persons who are directors of the Company and Southside Bank who are not officers or employees. Those directors are Messrs. Cade, Garrett, Lovelady (Chairman), Norton, Sheehy and Thedford. The Compliance/EDP/CRA Committee met twelve times in 2013.

Investment/Asset-Liability Committee (ALCO) of Southside Bank

The Investment/Asset-Liability Committee is responsible for reviewing Southside Bank's overall asset and funding mix, asset-liability management policies and investment policies. The members of the Committee are Messrs. Anderson, Buie, de Wet, Garrett, Hartley, Lovelady, Norton, Powell and Smith who are directors of the Company and Southside Bank, and Hoyt N. Berryman, Jr. who is an advisory director of Southside Bank and an advisory member of ALCO. None of the foregoing individuals are officers or employees of the Company or Southside Bank. Mr. Dawson, an officer and director of the Company and Southside Bank, serves with Mr. Gibson (Chairman) an officer of the Company and Southside Bank and director of Southside Bank. Also serving on the committee are Tim Alexander, Peter Boyd, Bill Clawater, Jane Coker, George Hall, Randal Hendrix and Lonny Uzzell, officers and advisory directors of Southside Bank. Suni Davis, Brian McCabe, Mike Northcutt, and Cayla Washburn, each

officers of Southside Bank also serve on the committee. The Investment/Asset-Liability Committee met twelve times in 2013.

DIRECTOR COMPENSATION

The Company pays its non-employee directors and the Chairman of the Audit Committee monthly fees of \$4,750 and \$5,750, respectively, other than its Chairman of the Board, to whom it pays \$25,000 per month. In addition, non-employee directors, who are also directors of Southside Bank, other than the Chairman of the Board, are paid \$500 per regular Southside Bank board meeting. In addition, during 2013, the Company and Southside Bank paid non-employee directors a bonus of \$10,000 and \$1,500, respectively.

Sam Dawson, the Company's CEO and President, is not included in the table below, as he is an officer of the Company, and thus received no compensation for his service as a director of the Company. The compensation received by Mr. Dawson is shown in the Summary Compensation table under Executive Compensation.

Table of Contents

2013 DIRECTOR COMPENSATION

The table below summarizes the compensation paid by the Company to directors for the year ended December 31, 2013.

Name	Fees Earned or Paid in Cash (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$ (6))	Total (\$)
Herbert C. Buie ⁽¹⁾	\$75,000	\$—	\$—	\$75,000
Alton Cade ⁽¹⁾	75,000	—	—	75,000
John R. (Bob) Garrett ⁽¹⁾	75,000	—	—	75,000
B.G. Hartley ⁽²⁾	310,000	—	156,985	466,985
Melvin B. Lovelady, CPA ⁽³⁾	87,000	—	—	87,000
Joe Norton ⁽⁴⁾	74,500	—	—	74,500
Paul W. Powell ⁽¹⁾	75,000	—	—	75,000
William Sheehy ⁽¹⁾	75,000	—	—	75,000
Robbie N. Edmonson ⁽⁵⁾	—	—	43,970	43,970
Preston Smith ⁽¹⁾	75,000	—	—	75,000
Donald W. Thedford ⁽¹⁾	75,000	—	—	75,000
Lawrence Anderson, M.D. ⁽⁴⁾	74,500	—	—	74,500
Pierre de Wet ⁽¹⁾	75,000	—	—	75,000

(1) Compensation includes \$8,000 and \$67,000 for serving as director of Southside Bank and the Company, respectively.

Mr. Hartley received \$310,000 as Chairman of the Board of the Company. Mr. Hartley received payments of \$108,000 from his deferred compensation agreement, \$260,416 from his Retirement Agreement and \$53,978 from (2) the Restoration Plan. The changes in pension values under the deferred compensation agreement, Retirement Agreement, Pension Plan and the Restoration Plan were \$(39,416), \$(222,235), \$(79,284) and \$(28,148), respectively.

(3) Compensation includes \$8,000 and \$79,000 for serving as director of Southside Bank and the Company, respectively.

(4) Compensation includes \$7,500 and \$67,000 for serving as director of Southside Bank and the Company, respectively.

Robbie N. Edmonson served as the Company's Vice Chairman of the Board, an officer and director of Southside Bank and the Company until May 2013 and received no compensation for his service as director of Southside Bank (5) or the Company. Mr. Edmonson received payments of \$21,000 pursuant to his deferred compensation agreement and \$2,285 in payments from the Restoration Plan. The changes in pension values under the deferred compensation agreement, Pension Plan and the Restoration Plan were \$(3,857), \$(178,927) and \$(5,463), respectively.

(6) Amounts included in this column for 2013 are as follows:

	Hartley	Edmonson
Salary and Bonus (a)	\$—	\$37,591
Life Insurance (b)	42,006	—
Company Provided Automobile (c)	104,596	5,016
Club Dues (d)	6,354	1,363
Insurance Premiums (e)	4,029	—
Total	\$156,985	\$43,970

(a)

Mr. Edmonson received salary and bonus of \$35,741 and \$1,850, respectively, in his capacity as an officer of Southside Bank.

(b) Mr. Hartley was paid a tax gross-up bonus of \$42,006 in accordance with the terms of his split dollar agreement once he retired. The Board has discontinued the payment of any tax gross-up bonuses for officers as well as taking them out of future agreements related to retirement. This was a legacy agreement and not reflective of current Board policy.

(c) Mr. Hartley has use of a Company-provided automobile. The incremental cost to the Company during 2013 included fuel, maintenance cost, and insurance. Mr. Hartley received an automobile in 2013 with a net purchase price of \$97,178. Mr. Edmonson received an automobile allowance of \$5,016.

(d) The incremental cost of the Company-provided club dues to the directors.

(e) Mr. Hartley received \$4,029 for Medicare Part B Insurance premiums.

Deferred Compensation Agreement with Mr. Hartley

The Company entered into a deferred compensation agreement with Mr. Hartley effective February 13, 1984. Mr. Hartley's deferred compensation agreement provides that upon a termination of employment by reason of death, retirement or an involuntary termination by the Company other than for cause, he will be entitled to receive \$468,412 in a lump sum and \$800,000 payable monthly over 15 years, plus an additional \$4,000 per month payable until death. Mr. Hartley retired on January 5, 2012, and consistent with his deferred compensation agreement, he began receiving payments in January 2012.

Table of Contents

Retirement Agreement with Mr. Hartley

On November 7, 2008, the Company, Southside Bank and Mr. Hartley, entered into a Retirement Agreement (which replaced a previous retirement arrangement with Mr. Hartley).

The Retirement Agreement provides that if Mr. Hartley voluntarily retired as an employee and officer of the Company, he would simultaneously retire as an employee and officer of Southside Bank, although the parties expected that he would continue his service on the boards of directors of the Company and Southside Bank.

The Retirement Agreement provides that in each of the five years after his “separation from service” (as defined under Section 409A of the Internal Revenue Code of 1986), regardless of whether the separation is by reason of retirement, death or otherwise, the Company shall pay Mr. Hartley \$250,000 per year, subject to a 5% increase per year after the first year. The Company shall continue to make payments to Mr. Hartley’s estate or beneficiaries in the event of his death during the five year period. In addition, Mr. Hartley shall be entitled to participate in all plans, programs, practices and policies maintained by the Company at that time with respect to retirement or termination of employment.

Mr. Hartley retired on January 5, 2012, and in accordance with this agreement, Mr. Hartley began receiving monthly payments on August 1, 2012.

Director Stock Ownership Policy

To help promote the alignment of the personal interests of the Company’s directors with the interests of our shareholders, the Company established in February 2014, a stock ownership policy for all non-employee directors. Under this policy, each non-employee director is required to acquire at least 5,000 shares of the Company’s common stock within five years after the date he or she is first elected as a director. The acquisition period is measured using the calendar year. For current directors, the policy requires that they accumulate these shares over the five years beginning on January 1, 2014. For any new directors, their five-year accumulation period will begin on January 1 of the year following their election. To the extent a director is not in compliance with the policy after the five year accumulation period, any compensation paid to that director must be in the form of stock compensation and the director is required to retain 50% of these stock awards.

The following table shows the stock ownership as of February 20, 2014 of our non-employee directors serving on that date and the percentage of the ownership guideline they have reached.

Director	Number of Shares Held (#)	Stock Held as % of Ownership Guideline
Lawrence Anderson, M.D.	14,533	>100%
Herbert C. Buie	572,415	>100%
Alton Cade	60,654	>100%
Pierre de Wet	31,721	>100%
John R. (Bob) Garrett	6,458	>100%
B. G. Hartley	161,355	>100%
Melvin B. Lovelady	12,764	>100%
Joe Norton	214,936	>100%
Paul W. Powell	56,912	>100%

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William Sheehy	126,012	>100%
Preston Smith	2,362	47%
Donald W. Thedford	7,927	>100%