

SOUTHSIDE BANCSHARES INC

Form S-4/A

September 08, 2017

TABLE OF CONTENTS

As filed with the Securities and Exchange Commission on September 8, 2017

Registration No. 333-220051

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

Amendment No. 1  
to  
Form S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

Southside Bancshares, Inc.

(Exact Name of Registrant as Specified in its Charter)

Texas	6022	75-1848732
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1201 South Beckham Avenue

Tyler, Texas 75701

(903) 531-7111

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Lee Gibson

President & Chief Executive Officer

Southside Bancshares, Inc.

1201 South Beckham Avenue

Tyler, Texas 75701

(903) 531-7111

(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

With copies to:

Lesley H. Solomon  
David E. Brown, Jr.  
Alston & Bird, LLP  
1201 West Peachtree Street  
Atlanta, Georgia 30309  
(404) 881-7000

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Austin, Texas 78701  
(512) 583-5900

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and all other conditions to the proposed merger described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting 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. (Check one):

		Non-accelerated filer		
Large accelerated filer	Accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company

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 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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**TABLE OF CONTENTS**

The information in this proxy statement/prospectus is not complete and is subject to change. Southside Bancshares, Inc. may not sell the securities offered by this proxy statement/ prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY — SUBJECT TO COMPLETION — DATED SEPTEMBER 8, 2017  
Proxy Statement/Prospectus

Diboll State Bancshares, Inc.

**MERGER PROPOSED — YOUR VOTE IS VERY IMPORTANT**

To the Shareholders of Diboll State Bancshares, Inc.:

On June 12, 2017, the boards of directors of Southside Bancshares, Inc., or Southside, and Diboll State Bancshares, Inc., or Diboll, each unanimously approved the acquisition of Diboll by Southside. The acquisition will be accomplished pursuant to the terms of an Agreement and Plan of Merger, dated as of June 12, 2017, which we refer to as the merger agreement, by and among Southside, Rocket Merger Sub, Inc., a wholly owned subsidiary of Southside, or Merger Sub, and Diboll. Pursuant to the merger agreement, Merger Sub will merge with and into Diboll, with Diboll as the surviving company, which we refer to as the first merger. Immediately after the first merger, Diboll will merge with and into Southside, with Southside as the surviving company, which we refer to as the second merger. Immediately after the second merger, First Bank & Trust East Texas, or First Bank & Trust, a wholly owned bank subsidiary of Diboll, will merge with and into Southside's wholly owned bank subsidiary, Southside Bank, with Southside Bank as the surviving bank, which we refer to as the bank merger. The first merger, the second merger and the bank merger are collectively referred to as the mergers.

If the first merger is completed, each share of Diboll common stock will be converted into the right to receive: (1) a cash amount, which we refer to as the cash consideration, equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll's closing net book value, divided by (b) the number of shares of Diboll common stock issued and outstanding immediately prior to the effective time of the first merger (after giving effect to any valid exercises of outstanding Diboll equity awards prior to the effective time of the first merger), which we refer to as the Diboll outstanding share number; and (2) a number of shares of Southside common stock, par value \$1.25 per share, equal to the quotient of 5,535,000 divided by the Diboll outstanding share number, which we refer to as the stock consideration, without interest, on the terms and subject to the conditions set forth in the merger agreement. We collectively refer to the stock consideration and the cash consideration as the merger consideration. Diboll shareholders will own approximately 16% of Southside if the first merger is completed.

Diboll will hold a special meeting of its shareholders, referred to as the Diboll special meeting, with respect to the first merger. Diboll shareholders will be asked to consider and vote upon (1) a proposal to approve the merger agreement and the first merger, and (2) a proposal to adjourn the Diboll special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger agreement and the first merger.

The Diboll special meeting will be held at the T.L.L. Temple Memorial Library, 300 Park Street, Diboll, Texas 75941, on October 17, 2017, at 2:00 p.m., Central Time, subject to any adjournment or postponement thereof.

The market value of the merger consideration will fluctuate with the market price of Southside common stock and will not be known at the time Diboll shareholders vote on the merger agreement and the first merger. Southside common stock is currently quoted on the NASDAQ Global Select Market under the symbol "SBSI." On June 12, 2017, the last full trading day before the public announcement of the merger agreement, the last reported sale price of Southside common stock was \$35.01 per share, and, on September 6, 2017, the last reported sale price of Southside common stock was \$32.10 per share. We urge you to obtain current market quotations for the price of Southside common stock. There are no current market quotations for Diboll common stock because Diboll is a privately owned corporation and its common stock is not traded on any established public trading market.

Each of Southside and Diboll expects that the first merger and the second merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended,

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TABLE OF CONTENTS

which we refer to as the Code, with the result that the portion of Diboll common stock exchanged for Southside common stock will generally be tax-free and the portion of the Diboll common stock exchanged for cash will generally be taxable as capital gain.

Your vote is important. Completion of the first merger is subject to the approval of the merger agreement and the first merger by the shareholders of Diboll. Regardless of whether or not you plan to attend the Diboll special meeting, please take the time to authorize a proxy to vote your shares in accordance with the instructions contained in this proxy statement/prospectus. Submitting a proxy now will not prevent you from being able to vote in person at the Diboll special meeting.

The board of directors of Diboll has determined that the merger agreement and the transactions contemplated thereby, including the first merger, are advisable and in the best interests of the shareholders of Diboll, has unanimously approved the merger agreement and the first merger and unanimously recommends that the shareholders of Diboll vote "FOR" the proposal to approve the merger agreement and the first merger and "FOR" the proposal to adjourn the Diboll special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger agreement and the first merger.

This proxy statement/prospectus describes the Diboll special meeting, the mergers, the documents related to the mergers and other related matters. Please carefully read this entire proxy statement/prospectus, including "Risk Factors," beginning on page 28, for a discussion of the risks relating to the proposed mergers. You also can obtain information about Southside from documents that it has filed with the Securities and Exchange Commission.

If you have any questions concerning the mergers, Diboll shareholders should please contact H. J. ("Jay") Shands, III, Chairman of the Board, President and Chief Executive Officer, at (936) 829-4721. We look forward to seeing you at the meeting.

/s/ H. J. Shands, III

H. J. Shands, III

Chairman of the Board, President and Chief Executive Officer Diboll State Bancshares, Inc.

Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, nor any state securities commission or any other bank regulatory agency has approved or disapproved the securities to be issued in the first merger or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The securities to be issued in the first merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either Southside or Diboll, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this proxy statement/prospectus is [•], 2017, and it is first being mailed or otherwise delivered to the Diboll shareholders on or about [•], 2017.

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TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

104 North Temple Drive

Diboll, Texas 75941

(936) 829-4721

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held on October 17, 2017

To the Shareholders of Diboll State Bancshares, Inc.:

A special meeting of the shareholders of Diboll State Bancshares, Inc., or Diboll, will be held at the T.L.L. Temple Memorial Library, 300 Park Street, Diboll, Texas 75941, on October 17, 2017, at 2:00 p.m., Central Time, subject to any adjournment or postponement thereof, for the following purposes:

1.

To consider and vote upon a proposal to approve the Agreement and Plan of Merger, or the merger agreement, dated as of June 12, 2017, by and among Southside Bancshares, Inc., or Southside, Rocket Merger Sub, Inc., a wholly owned subsidiary of Southside, or Merger Sub, and Diboll, pursuant to which Merger Sub will merge with and into Diboll, with Diboll as the surviving company, referred to herein as the first merger, all on and subject to the terms and conditions contained therein; and

2.

To consider and vote upon any proposal to adjourn the special meeting, referred to herein as the Diboll special meeting, to a later date or dates if the board of directors of Diboll determines such an adjournment is necessary to permit solicitation of additional proxies if there are not sufficient votes at the time of the Diboll special meeting to constitute a quorum or to approve the merger agreement and the first merger.

No other business may be conducted at the Diboll special meeting. All holders of shares of common stock of Diboll, or Diboll common stock, of record as of 5:00 p.m. on September 6, 2017, will be entitled to notice of and to vote at the Diboll special meeting and any adjournments thereof. The Diboll special meeting may be adjourned from time to time upon approval of holders of Diboll common stock without any notice other than by announcement at the meeting of the adjournment thereof, and any and all business for which notice is hereby given may be transacted at such adjourned meeting.

Holders of Diboll common stock have the right to dissent from the merger agreement and the first merger and obtain payment in cash of the appraised fair value of their shares of Diboll common stock under applicable provisions of the Texas Business Organizations Code, or TBOC. In order for a holder of Diboll common stock to perfect his, her or its right to dissent, such holder must carefully follow the procedure set forth in the TBOC. A copy of the applicable statutory provisions of the TBOC is included as Annex D to the accompanying proxy statement/prospectus and a summary of these provisions can be found under the caption "The Mergers — Dissenters' Rights," beginning on page 64 of the proxy statement/ prospectus. The first merger may not be completed if the holders of more than 5% of the outstanding shares of Diboll common stock exercise dissenters' rights.

If you have any questions concerning the merger agreement, the first merger, the Diboll special meeting or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus, need a proxy card or need help voting your shares of Diboll common stock, please contact H. J. ("Jay") Shands, III, Chairman of the Board, President and Chief Executive Officer, at (936) 829-4721.

By Order of the Board of Directors,

/s/ H. J. Shands, III

H. J. Shands, III

Chairman of the Board, President and Chief Executive Officer

Diboll, Texas

[•], 2017



**TABLE OF CONTENTS**

The Diboll board of directors unanimously recommends that holders of record of Diboll common stock entitled to vote at the Diboll special meeting vote “FOR” the proposal to approve the merger agreement and the first merger and “FOR” the adjournment of the Diboll special meeting if such adjournment is necessary to permit solicitation of additional proxies if there are not sufficient votes at the time of the Diboll special meeting to constitute a quorum or to approve the merger agreement and the first merger.

**Your Vote is Very Important**

A proxy card is enclosed. Whether or not you plan to attend the Diboll special meeting, if you are a holder of shares of Diboll common stock, please vote by completing, signing and dating the proxy card and promptly mailing it in the enclosed envelope. You may revoke your proxy in the manner described in the proxy statement/prospectus at any time before it is exercised. If you are a holder of shares of Diboll common stock and attend the Diboll special meeting, you may vote in person if you desire, even if you have previously returned your proxy card.

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TABLE OF CONTENTS

ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Southside from documents filed with the Securities and Exchange Commission, or SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by Southside at no cost from the SEC's website at <http://www.sec.gov>. You may also request copies of these documents, including documents incorporated by reference in this proxy statement/prospectus, at no cost by contacting Southside at the following address:

Southside Bancshares, Inc.  
1201 South Beckham Avenue  
Tyler, Texas 75701  
Attention: Secretary  
Telephone: (877) 639-3511

You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of the special meeting, or October 10, 2017. If you are a Diboll shareholder and have any questions about the merger agreement, the first merger, the Diboll special meeting or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus, need a proxy card or need help voting your shares of Diboll common stock, please contact H. J. ("Jay") Shands, III, Chairman of the Board, President and Chief Executive Officer, at (936) 829-4721.

You should rely only on the information contained in or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [•], 2017, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this proxy statement/prospectus from another document is accurate as of the date of such other document. Neither the mailing of this document to Diboll shareholders nor the issuance by Southside of shares of Southside common stock in connection with the first merger will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Diboll has been provided by Diboll and information contained in this document regarding Southside has been provided by Southside. See "Where You Can Find More Information" for more details.

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TABLE OF CONTENTS

TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS</u>	1
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>	7
<u>SUMMARY</u>	9
<u>SELECTED HISTORICAL FINANCIAL INFORMATION OF SOUTHSIDE</u>	17
<u>SELECTED HISTORICAL FINANCIAL INFORMATION OF DIBOLL</u>	19
<u>SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	22
<u>UNAUDITED COMPARATIVE PER SHARE INFORMATION</u>	24
<u>COMPARATIVE MARKET PRICES AND DIVIDENDS</u>	25
<u>RISK FACTORS</u>	28
<u>Risks Related to the Mergers</u>	28
<u>Risks Related to the Combined Company Following the Mergers</u>	31
<u>Risks Related to an Investment in the Combined Company’s Common Stock</u>	32
<u>Risks Related to Tax</u>	33
<u>THE DIBOLL SPECIAL MEETING</u>	34
<u>General</u>	34
<u>Date, Time and Place</u>	34
<u>Purpose of the Diboll Special Meeting</u>	34
<u>Proposal One: Merger Proposal</u>	34
<u>Proposal Two: Adjournment Proposal</u>	34
<u>Recommendation of the Diboll Board of Directors</u>	35
<u>Record Date: Shareholders Entitled to Vote</u>	35
<u>Quorum and Adjournment</u>	35
<u>Vote Required for Approval; Abstentions; Failure to Vote</u>	36
<u>Voting by Diboll Directors and Executive Officers</u>	36
<u>Diboll Common Stock Subject to Voting and Support Agreements</u>	36
<u>Voting on Proxies by Holders of Record; Incomplete Proxies</u>	37
<u>Shares Held in “Street Name;” Broker Non-Votes</u>	37
<u>Revocability of Proxies and Changes to a Diboll Shareholder’s Vote</u>	37
<u>Solicitation of Proxies</u>	38
<u>Attending the Diboll Special Meeting; Voting in Person</u>	38
<u>Adjournments</u>	38
<u>Assistance</u>	39
<u>THE MERGERS</u>	40
<u>General</u>	40
<u>Purchase Price and Purchase Price Adjustments</u>	40
<u>Background of the Mergers</u>	41
<u>Southside’s Reasons for the Mergers</u>	44
<u>Diboll’s Reasons for the Mergers</u>	45
<u>Opinion of Diboll’s Financial Advisor</u>	48

<u>Board Composition and Management of Southside after the Mergers</u>	<u>56</u>
<u>Interests of Diboll's Directors and Executive Officers in the Mergers</u>	<u>56</u>

i

---

**TABLE OF CONTENTS**

<u>Beneficial Ownership of Diboll Common Stock by Management and Principal Shareholders of Diboll</u>	<u>58</u>
<u>Regulatory Approvals Required for the Mergers</u>	<u>59</u>
<u>U.S. Federal Income Tax Considerations</u>	<u>60</u>
<u>Accounting Treatment</u>	<u>64</u>
<u>Dissenters' Rights</u>	<u>64</u>
<u>Exchange of Shares in the First Merger</u>	<u>67</u>
<u>Listing of Southside Common Stock</u>	<u>68</u>
<b><u>THE MERGER AGREEMENT</u></b>	<u>69</u>
<u>Structure of Mergers, Effective Time and Closing</u>	<u>69</u>
<u>Organizational Documents of the Surviving Company</u>	<u>69</u>
<u>Officers of the Surviving Company</u>	<u>69</u>
<u>Board of Directors of the Surviving Company</u>	<u>69</u>
<u>Merger Consideration; Effects of the First Merger</u>	<u>70</u>
<u>Representations and Warranties</u>	<u>71</u>
<u>Definition of "Material Adverse Effect"</u>	<u>73</u>
<u>Covenants and Agreements</u>	<u>73</u>
<u>Conditions to Completion of the Mergers</u>	<u>79</u>
<u>Termination of the Merger Agreement</u>	<u>80</u>
<u>Effect of Termination</u>	<u>81</u>
<u>Termination Fee</u>	<u>81</u>
<u>Miscellaneous Provisions</u>	<u>82</u>
<b><u>ANCILLARY AGREEMENTS</u></b>	<u>83</u>
<u>Voting and Support Agreements</u>	<u>83</u>
<u>Key Employee Retention Agreements</u>	<u>84</u>
<b><u>THE COMPANIES</u></b>	<u>85</u>
<u>Southside Bancshares, Inc.</u>	<u>85</u>
<u>Diboll State Bancshares, Inc.</u>	<u>85</u>
<b><u>DIBOLL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<u>88</u>
<b><u>DESCRIPTION OF CAPITAL STOCK</u></b>	<u>117</u>
<b><u>COMPARISON OF RIGHTS OF SOUTHSIDE SHAREHOLDERS AND DIBOLL SHAREHOLDERS</u></b>	<u>118</u>
<b><u>LEGAL MATTERS</u></b>	<u>126</u>
<b><u>EXPERTS</u></b>	<u>126</u>
<b><u>WHERE YOU CAN FIND MORE INFORMATION</u></b>	<u>127</u>
<b><u>INDEX TO FINANCIAL STATEMENTS</u></b>	<u>F-1</u>
<u>Annex A — Agreement and Plan of Merger</u>	<u>A-1</u>
<u>Annex B — Opinion of Hovde Group, LLC</u>	<u>B-1</u>
<u>Annex C — Form of Stockholder Voting and Support Agreement</u>	<u>C-1</u>
<u>Annex D — Provisions of Texas Business Organizations Code Relating to Dissenters' Rights</u>	<u>D-1</u>



TABLE OF CONTENTS

QUESTIONS AND ANSWERS

The following are answers to some questions that Diboll shareholders may have regarding the proposed transaction between Southside and Diboll and the proposals being considered at the Diboll special meeting. Southside and Diboll urge you to read carefully this entire proxy statement/prospectus, including the Annexes, and the documents incorporated by reference into this proxy statement/prospectus, because the information in this section does not provide all the information that might be important to you.

Unless the context otherwise requires, references in this proxy statement/prospectus to: (1) “Southside” refer to Southside Bancshares, Inc., a Texas corporation, and its affiliates; (2) “Merger Sub” refer to Rocket Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of Southside; and (3) “Diboll” refer to Diboll State Bancshares, Inc., a Texas corporation, and its affiliates.

Q:

Why am I receiving this proxy statement/prospectus?

A:

Southside, Merger Sub and Diboll have entered into an Agreement and Plan of Merger, dated as of June 12, 2017, which we refer to as the merger agreement. Pursuant to the merger agreement, Merger Sub will merge with and into Diboll, with Diboll as the surviving company, which we refer to as the first merger. Immediately after the first merger, Diboll merge with and into Southside, with Southside as the surviving company, which we refer to as the second merger. Immediately after the second merger, First Bank & Trust, a wholly owned subsidiary of Diboll, will merge with and into Southside’s wholly owned subsidiary, Southside Bank, with Southside Bank as the surviving bank, which we refer to as the bank merger. We refer to the first merger, the second merger and the bank merger collectively as the mergers. A copy of the merger agreement is included in this proxy statement/prospectus as Annex A.

The mergers cannot be completed unless, among other things, the holders of at least two-thirds of the outstanding shares of Diboll common stock entitled to vote on the first merger vote in favor of the proposal to approve the merger agreement and the first merger, which we refer to as the merger proposal.

In addition, Diboll is soliciting proxies from its shareholders with respect to a proposal to approve one or more adjournments of the Diboll special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of such adjournment to approve the merger proposal, which we refer to as the adjournment proposal. The completion of the mergers is not conditioned upon shareholder approval of the adjournment proposal.

This proxy statement/prospectus contains important information about the mergers and the proposals being voted on at the Diboll special meeting, and you should read it carefully. This is a proxy statement/prospectus because (1) Diboll is soliciting proxies from the Diboll shareholders and the proxy statement provides important information about the Diboll special meeting to vote on the merger proposal, and (2) Southside will issue shares of Southside common stock to holders of Diboll common stock in connection with the first merger, and the prospectus provides important information about such shares. The enclosed materials allow Diboll shareholders to authorize a proxy to vote their shares without attending the Diboll special meeting.

Your vote is important. We encourage you to authorize your proxy as soon as possible.

Q:

What will I receive in the mergers?

A:

If the first merger is completed, for each share of Diboll common stock that Diboll shareholders hold immediately prior to the first merger, Diboll shareholders will receive, without interest:

(1)

cash consideration equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll’s closing net book value, divided by (b) the number of shares of Diboll common stock issued and outstanding

immediately prior to the effective time of the first merger (after giving effect to any valid exercises of outstanding Dibold equity awards prior to the effective time of the first merger), which we refer to as the Dibold outstanding share number; and

1

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TABLE OF CONTENTS

(2)

a number of shares of Southside common stock equal to the quotient of (a) 5,535,000, divided by (b) the Diboll outstanding share number, which we refer to as the stock consideration.

The stock consideration and the cash consideration are collectively referred to as the merger consideration.

The aggregate amount of the cash consideration will be decreased by the after-tax amount paid by Diboll to holders of options to purchase Diboll common stock who utilize the “cashless exercise” feature of such options and upon such cashless exercise receive payment of an amount in cash equal to the excess of the aggregate fair market value at the time of exercise of the shares of Diboll common stock subject to such options over the aggregate purchase price for such shares.

In addition, the aggregate amount of the cash consideration will be decreased on a dollar-for-dollar basis if Diboll’s closing net book value as of a date that is 15 business days prior to the closing date, which we refer to as the determination date, is less than the target book value of \$100,298,570.

Diboll’s closing net book value will be calculated as the unaudited consolidated net shareholders’ equity of Diboll, determined in accordance with GAAP, but without giving effect to any required purchase accounting adjustments required as a result of the transactions contemplated by the merger agreement. For purposes of calculating the closing net book value, Diboll shall include, without duplication, reductions for: (a) any fees and commissions payable to any broker, finder, financial advisor or investment banking firm in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, on an after-tax basis; (b) any legal and accounting fees incurred in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement and any related SEC and regulatory filings, on an after-tax basis; (c) any amounts paid or payable pursuant to Diboll’s change-in-control bonus pool, on an after-tax basis; (d) except to the extent the aggregate cash consideration has been adjusted for the cashless exercise of Diboll stock options as discussed above, the costs, expenses, payments or other amounts paid or payable pursuant to the vesting of any Diboll stock options and any existing employment, salary continuation, deferred compensation or other similar agreements or severance, noncompetition, or retention arrangements between Diboll or any of its subsidiaries and any other person, on an after-tax basis; (e) the termination costs associated with certain designated contracts, on an after-tax basis; and (f) the amount of any and all dividends permitted to be paid by Diboll pursuant to the merger agreement, to the extent paid, declared or expected to be paid or declared, prior to the effective time of the first merger. Additionally, the closing net book value shall reflect the closing mark-to-market valuation of the securities in Diboll’s investment portfolio. The closing net book value may be further adjusted upon the mutual agreement of the parties.

For example, and for illustration purposes only, assuming that (1) all holders of options to purchase shares of Diboll common stock utilize the cashless exercise feature of such options immediately prior to closing and receive a cash payment therefor and the fair market value of the shares of Diboll common stock subject to such option is deemed to be equal to the merger consideration per share of Diboll common stock; for this example 16,131 stock options are estimated to utilize the cashless exercise feature with an estimated average exercise price of \$134.92 (resulting in a payment to option holders of \$1,654,718, which on an after-tax basis to Diboll is \$1,092,114), (2) Diboll’s closing net book value is at least equal to the target book value, (3) the price per share of the Southside common stock received in the merger is equal to \$32.10, the closing price on September 6, 2017, and (4) the Diboll outstanding share number is 848,776, each share of Diboll common stock would be converted into the right to receive \$28.17 in cash and 6.5212 shares of Southside common stock with a value of \$209.33, or aggregate merger consideration per share of Diboll common stock of \$237.50.

Southside will not issue any fractional shares of Southside common stock in the first merger. Diboll shareholders who would otherwise be entitled to a fractional share of Southside common stock upon the completion of the first merger will instead receive an amount in cash based on the volume weighted average price per share of Southside common stock for the last full trading day immediately preceding the day on which the first merger is completed, which we refer to as the Southside closing share value.

2



TABLE OF CONTENTS

Q:

Will the value of the merger consideration change between the date of this proxy statement/prospectus and the time the first merger is completed?

A:

Yes. The value of the merger consideration may fluctuate between the date of this proxy statement/ prospectus and the completion of the first merger. The value of the stock consideration may fluctuate based upon the market value for Southside common stock. In the first merger, Diboll shareholders will receive a number of shares of Southside common stock for each share of Diboll common stock they hold. Any fluctuation in the market price of Southside common stock after the date of this proxy statement/prospectus will change the value of the shares of Southside common stock that Diboll shareholders will receive. In addition, fluctuations in the market price of Southside common stock will likely affect the determination of the fair market value of the shares of Diboll common stock subject to options, which will impact the amount of cash paid to holders of options who utilize the cashless exercise feature of such options. The amount of cash paid to such option holders will impact the amount of cash consideration available to holders of Diboll common stock. Further, the amount of the cash consideration may be reduced to the extent Diboll's closing net book value, calculated as discussed above, is less than the target book value.

Q:

What will happen to Diboll equity awards in the mergers?

A:

Holders of Diboll stock options must exercise such options prior to the effective time of the first merger to receive any consideration for such options. Pursuant to the Diboll State Bancshares, Inc. Incentive Stock Option 2014 — Plan, or a predecessor plan, and the award agreements for such options, holders have the right to execute a "cashless exercise" and receive the difference between the fair market value for the shares of Diboll common stock at the time of exercise less the purchase price for such shares, which is payable in cash, Diboll common stock or a combination thereof. Additionally pursuant to such plans and award agreements, all unvested options to purchase Diboll common stock become exercisable immediately prior to the effective time of any merger in which Diboll is not the surviving company. All outstanding options that have not been exercised will terminate at the effective time of the first merger for no consideration. Holders of options to purchase shares of Diboll's common stock will not be entitled to receive any merger consideration in exchange for their options.

Q:

How does Diboll's board of directors recommend that I vote at the special meeting?

A:

Diboll's board of directors unanimously recommends that you vote "FOR" the merger proposal and "FOR" the adjournment proposal.

Q:

When and where is the Diboll special meeting?

A:

The Diboll special meeting will be held at the T.L.L. Temple Memorial Library, 300 Park Street, Diboll, Texas 75941, on Tuesday, October 17, 2017, at 2:00 p.m., Central Time.

Q:

What do I need to do now?

A:

After you have carefully read this proxy statement/prospectus and have decided how you wish to vote your shares, please authorize a proxy to vote your shares by promptly completing and returning the enclosed proxy card so that your shares are represented and voted at the Diboll special meeting.

Q:

What constitutes a quorum for the Diboll special meeting?

A:

Holdings representing at least a majority of the shares of Diboll common stock entitled to vote at the Diboll special meeting must be present, in person or represented by proxy, to constitute a quorum. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

3

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TABLE OF CONTENTS

Q:

What is the vote required to approve each proposal?

A:

Approval of the merger proposal requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Diboll common stock entitled to vote on such proposal.

If a quorum is present, approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares entitled to vote on, and who vote for or against, or expressly abstain from voting with respect to such proposal at the Diboll special meeting. If a quorum is not present, approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares entitled to vote and represented, either in person or by proxy, at the Diboll special meeting.

Q:

Why is my vote important?

A:

If you do not submit a proxy or vote in person, it may be more difficult for Diboll to obtain the necessary quorum to hold the special meeting. In addition, your failure to submit a proxy or vote in person, or failure to instruct your bank or broker how to vote, or abstention will have the same effect as a vote against approval of the first merger. The merger proposal must be approved by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Diboll's common stock. Diboll's board of directors unanimously recommends that you vote "FOR" the proposal to approve the merger agreement and the first merger.

Q:

How many votes do I have?

A:

Diboll shareholders are entitled to one vote on each proposal to be considered at the special meeting for each share of Diboll common stock owned as of the close of business on September 6, 2017, which is the record date for the Diboll special meeting.

Q:

How do I vote?

A:

If you are a shareholder of record, you may have your shares of Diboll common stock voted on the matters to be presented at the Diboll special meeting in any of the following ways:

•

by completing, signing, dating and returning the enclosed proxy card in the accompanying prepaid reply envelope; or

•

by attending the special meeting and casting your vote in person.

If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Your bank, brokerage firm or other nominee cannot vote your shares without instructions from you. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must obtain a legal proxy from your bank, brokerage firm or other nominee.

Q:

What if I abstain from voting, fail to authorize a proxy or vote in person or fail to instruct my bank or broker how to vote?

A:

If you mark “ABSTAIN” on your proxy with respect to the merger proposal, fail to authorize a proxy or vote in person at the Diboll special meeting, or fail to instruct your bank or broker how to vote, it will have the same effect as a vote “AGAINST” the proposal.

If a quorum is present, broker non-votes and failures to authorize a proxy or vote in person will not be counted as votes cast with respect to the adjournment proposal and will have no effect on the outcome of such proposal. If a quorum is not present, broker non-votes will have the same effect as a vote against the adjournment proposal but failures to authorize a proxy or vote in person will have no effect on the outcome of the adjournment proposal. Regardless of whether or not a quorum is present at the Diboll special meeting, if you mark “ABSTAIN” on your proxy with respect to the adjournment proposal, it will have the same effect as a vote “AGAINST” the proposal.

4

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TABLE OF CONTENTS

Q:

Can I attend the special meeting and vote my shares in person?

A:

Yes. All Diboll shareholders as of the record date, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the Diboll special meeting. Holders of record of Diboll common stock can vote in person at the Diboll special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Diboll special meeting. If you plan to attend the Diboll special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. Diboll reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the Diboll special meeting is prohibited without express written consent.

Q:

Can I change my vote?

A:

Yes. If you are a holder of record of Diboll common stock, you may revoke any proxy at any time prior to the Diboll special meeting by delivering a written notice of revocation to Charlotte Parish, Corporate Secretary, Diboll State Bancshares, Inc., 104 North Temple Drive, Diboll, Texas 75941, by returning a duly executed proxy card bearing a later date than the date with which your original proxy card was dated, or by attending the Diboll special meeting and voting in person. Your attendance at the Diboll special meeting will not constitute automatic revocation of the proxy unless you deliver your ballot in person at the special meeting or deliver a written revocation to the Diboll Corporate Secretary prior to the voting of such proxy. If you hold your shares in “street name” through a bank or broker, you should contact your bank or broker to revoke your proxy.

Q:

Will Diboll be required to submit the merger proposal to its shareholders even if Diboll’s board of directors has withdrawn, modified or qualified its recommendation?

A:

Yes. Unless the merger agreement is terminated before the Diboll special meeting, Diboll is required to submit the merger proposal to its shareholders even if Diboll’s board of directors has withdrawn, modified or qualified its recommendation.

Q:

What are the U.S. federal income tax consequences of the mergers to Diboll shareholders?

A:

Southside and Diboll each expect that the first merger and the second merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Code, with the result that the portion of Diboll common stock exchanged for Southside shares will generally be tax-free and the portion of the Diboll common stock exchanged for cash will generally be taxable as a capital gain.

For further information, see “The Mergers — U.S. Federal Income Tax Considerations.”

The U.S. federal income tax consequences described above may not apply to all holders of Diboll common stock. Your particular tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of each of the mergers

to you.

Q:

Are Diboll shareholders entitled to exercise dissenters' rights?

A:

Yes. Holders of Diboll common stock are entitled, with respect to the first merger, to exercise rights of dissenting shareholders provided for under Chapter 10, Subchapter H of the Texas Business Organizations Code, as amended, or the TBOC, any successor statute, or any similar appraisal or dissenters' rights. For further information, see "The Mergers — Dissenters' Rights."

Q:

If I am a Diboll shareholder, should I send in my Diboll stock certificates now?

A:

No. Please do not send in your Diboll stock certificates with your proxy. After the first merger, an exchange agent designated by Southside will send you instructions for exchanging Diboll stock certificates for the merger consideration.

TABLE OF CONTENTS

Q:

What should I do if I hold my shares of Diboll common stock in book-entry form?

A:

You are not required to take any specific actions to exchange your shares of Diboll common stock if your shares are held in book-entry form. After the completion of the first merger, shares of Diboll common stock held in book-entry form automatically will be exchanged for the merger consideration, including shares of Southside common stock in book-entry form, the cash consideration and any cash to be paid in lieu of fractional shares in the first merger.

Q:

Whom may I contact if I cannot locate my Diboll stock certificate(s)?

A:

If you are unable to locate your original Diboll stock certificate(s), you should contact Charlotte Parish, Corporate Secretary, Diboll State Bancshares, Inc., at 104 North Temple Drive, Diboll, Texas 75941, or by telephone at (936) 829-4721.

Q:

When do you expect to complete the mergers?

A:

Southside and Diboll expect to complete the mergers in the fourth quarter of 2017. However, neither Southside nor Diboll can assure you when or if the mergers will occur. Southside and Diboll must first obtain the approval of Diboll shareholders for the merger proposal, as well as the necessary regulatory approvals.

Q:

What happens if the mergers are not completed?

A:

If the first merger is not completed, holders of Diboll common stock will not receive any consideration for their shares of Diboll common stock that otherwise would have been received in connection with the first merger. Instead, Diboll will remain an independent private company. If the first merger is completed but, for any reason, the second merger and the bank merger are not completed, it will have no impact on the consideration to be received by holders of Diboll common stock.

Q:

Whom should I call with questions?

A:

If you have any questions concerning the mergers or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus or need help voting your shares of Diboll common stock, please contact: Jay Shands, Chairman of the Board, President and Chief Executive Officer, at (936) 829-4721.

TABLE OF CONTENTS

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this proxy statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements about the financial condition, results of operations, earnings outlook and business plans, goals, expectations and prospects of Southside, Diboll and the combined company following the proposed mergers and statements for the period after the mergers. Words such as “anticipate,” “believe,” “feel,” “expect,” “estimate,” “indicate,” “seek,” “strive,” “plan,” “intend,” “outlook,” “forecast,” “project,” “position,” “target,” “mission,” “contemplate,” “assume,” “potential,” “strategy,” “goal,” “aspiration,” “outcome,” “continue,” “remain,” “maintain,” “trend,” “objective” and variations and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may” or similar expressions, as they relate to Southside, Diboll, the proposed mergers or the combined company following the mergers often identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are predicated on the beliefs and assumptions of management based on information known to management as of the date of this proxy statement/prospectus and do not purport to speak as of any other date. Forward-looking statements may include descriptions of the expected benefits and costs of the transaction; forecasts of revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries; management plans relating to the mergers; the expected timing of the completion of the mergers; the ability to complete the mergers; the ability to obtain any required regulatory, shareholder or other approvals; any statements of the plans and objectives of management for future or past operations, including the execution of integration plans; any statements of expectation or belief and any statements of assumptions underlying any of the foregoing.

The forward-looking statements contained or incorporated by reference in this proxy statement/ prospectus reflect the view of management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, actual results could differ materially from those anticipated by the forward-looking statements or historical results. Such risks and uncertainties include, among others, the following possibilities:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, including a termination of the merger agreement under circumstances that could require Diboll to pay a termination fee to Southside;
- the inability to complete the mergers contemplated by the merger agreement due to the failure to satisfy conditions necessary to close the mergers, including the receipt of the requisite approvals of Diboll shareholders;
- the risk that a regulatory approval that may be required for the mergers is not obtained or is obtained subject to conditions that are not anticipated;
- risks associated with the timing of the completion of the mergers;
- diversion of management time on issues related to the mergers;
- the risk that the businesses of Southside and Diboll will not be integrated successfully, or such integration may be more difficult, time-consuming or costly than expected;
-



potential deposit attrition, higher than expected costs, customer loss and business disruption associated with Southside's integration of Diboll, including, without limitation, potential difficulties in maintaining relationships with key personnel;

- the outcome of any legal proceedings that may be instituted against Southside or Diboll or their respective boards of directors;
  
- general economic conditions, either globally, nationally, in the State of Texas, or in the specific markets in which Southside or Diboll operate;

TABLE OF CONTENTS

- limitations placed on the ability of Southside and Diboll to operate their respective businesses by the merger agreement;
- the effect of the announcement of the mergers on Southside's and Diboll's business relationships, employees, customers, suppliers, vendors, other partners, standing with regulators, operating results and businesses generally;
- the amount of any costs, fees, expenses, impairments and charges related to the mergers;
- fluctuations in the market price of Southside common stock and the related effect on the market value of the merger consideration that Diboll shareholders will receive upon completion of the first merger;
- significant increases in competition in the banking and financial services industry;
- legislation, regulatory changes or changes in monetary or fiscal policy that adversely affect the businesses in which Southside or Diboll are engaged, including potential changes resulting from currently proposed legislation, including the Financial CHOICE Act of 2017;
- credit risk of borrowers, including any increase in those risks due to changing economic conditions;
- changes in consumer spending, borrowing, and savings habits;
- competition among depository and other financial institutions;
- liquidity risk affecting Southside's or Diboll's banks' ability to meet their obligations when they become due;
- interest rate risk involving the effect of a change in interest rates;
- compliance risk resulting from violations of, or nonconformance with, laws, rules, regulations, prescribed practices or ethical standards;
- strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- reputation risk that adversely affects earnings or capital arising from negative public opinion;
- terrorist activities risk that results in loss of consumer confidence and economic disruptions; and

- other risks and uncertainties detailed from time to time in Southside's SEC filings.

Any forward-looking statements made in this proxy statement/prospectus or in any documents incorporated by reference into this proxy statement/prospectus, are subject to the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/ prospectus. Southside and Diboll do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made, unless and only to the extent otherwise required by law. All subsequent written and oral forward-looking statements concerning the mergers or other matters addressed in this proxy statement/prospectus and attributable to Southside, Diboll or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/prospectus.

8

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TABLE OF CONTENTS

SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement/prospectus, including the annexes, and the other documents to which we refer in order to fully understand the mergers. See “Where You Can Find More Information.” Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.

The Companies (page 85)

Southside Bancshares, Inc.

1201 South Beckham Avenue

Tyler, Texas 75701

(903) 531-7111

Southside was incorporated in Texas in 1982 and serves as the bank holding company for Southside Bank, headquartered in Tyler, Texas. Southside Bank has the largest deposit base in the Tyler metropolitan area and is the largest bank, based on asset size, headquartered in East Texas. At June 30, 2017, Southside had consolidated assets of \$5.58 billion, loans of \$2.61 billion, deposits of \$3.62 billion, and shareholders’ equity of \$547.1 million. Additional information about Southside and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. See “Where You Can Find More Information.”

Diboll State Bancshares, Inc.

104 North Temple Drive

Diboll, Texas 75941

(936) 829-4721

Diboll State Bancshares, Inc. was incorporated in Texas in 1980 and owns all of the outstanding shares of common stock of First Bank & Trust East Texas headquartered in Diboll, Texas. At June 30, 2017, Diboll had consolidated assets of \$993.8 million, loans of \$660.9 million, deposits of \$883.6 million, and shareholders’ equity of \$104.6 million.

Additional information about Diboll and its subsidiaries is included below under “The Companies.”

The Mergers

The Merger Agreement (page 69)

Southside, Merger Sub and Diboll entered into an Agreement and Plan of Merger, dated as of June 12, 2017, which we refer to as the merger agreement. The merger agreement governs the mergers. The merger agreement is included in this proxy statement/prospectus as Annex A. All descriptions in this summary and elsewhere in this proxy statement/prospectus of the terms and conditions of the mergers are qualified by reference to the merger agreement. Please read the merger agreement carefully for a more complete understanding of the mergers.

The Mergers (page 40)

Pursuant to the merger agreement, Merger Sub will merge with and into Diboll, with Diboll as the surviving company, which we refer to as the first merger. Immediately after the first merger, Diboll will merge with and into Southside, with Southside as the surviving company, which we refer to as the second merger. Immediately after the second merger, First Bank & Trust, a wholly owned bank subsidiary of Diboll, will merge with and into Southside’s wholly owned bank subsidiary, Southside Bank, with Southside Bank as the surviving bank, which we refer to as the bank merger. We refer to the first merger, the second merger and the bank merger collectively as the mergers.

TABLE OF CONTENTS

Merger Consideration; Effects of the First Merger (page 70)

If the first merger is completed, Diboll shareholders will receive for each share of Diboll common stock that they hold immediately prior to the first merger:

(1)  
cash consideration equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll's closing net book value, divided by (b) the number of shares of Diboll common stock issued and outstanding immediately prior to the effective time of the first merger (after giving effect to any valid exercises of outstanding Diboll equity awards prior to the effective time of the first merger), which we refer to as the Diboll outstanding share number; and

(2)  
a number of shares of Southside common stock equal to the quotient of (a) 5,535,000, divided by (b) the Diboll outstanding share number, which we refer to as the stock consideration, without interest.

The stock consideration and the cash consideration are collectively referred to as the merger consideration. The aggregate amount of the cash consideration will be decreased by the after-tax amount paid by Diboll to holders of options to purchase Diboll common stock who utilize the "cashless exercise" feature of such options and upon such cashless exercise receive payment of an amount in cash equal to the excess of the aggregate fair market value at the time of exercise of the shares of Diboll common stock subject to such options over the aggregate purchase price for such shares.

In addition, the aggregate amount of the cash consideration will be decreased on a dollar-for-dollar basis if Diboll's closing net book value as of a date that is 15 business days prior to the closing date, which we refer to as the determination date, is less than the target book value of \$100,298,570.

Diboll's closing net book value will be calculated as the unaudited consolidated net shareholders' equity of Diboll, determined in accordance with GAAP, but without giving effect to any required purchase accounting adjustments required as a result of the transactions contemplated by the merger agreement. For purposes of calculating the closing net book value, Diboll shall include, without duplication, reductions for: (a) any fees and commissions payable to any broker, finder, financial advisor or investment banking firm in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, on an after-tax basis; (b) any legal and accounting fees incurred in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement and any related SEC and regulatory filings, on an after-tax basis; (c) any amounts paid or payable pursuant to Diboll's change-in-control bonus pool, on an after-tax basis; (d) except to the extent the aggregate cash consideration has been adjusted for the cashless exercise of Diboll stock options as discussed above, the costs, expenses, payments or other amounts paid or payable pursuant to vesting of any Diboll stock options and any existing employment, salary continuation, deferred compensation or other similar agreements or severance, noncompetition, or retention arrangements between Diboll or any of its subsidiaries and any other person, on an after-tax basis; (e) the termination costs associated with certain designated contracts, on an after-tax basis; and (f) the amount of any and all dividends permitted to be paid by Diboll pursuant to the merger agreement, to the extent paid, declared or expected to be paid or declared, prior to the effective time of the first merger. Additionally, the closing net book value shall reflect the closing mark-to-market valuation of the securities in Diboll's investment portfolio. The closing net book value may be further adjusted upon the mutual agreement of the parties.

For example, and for illustration purposes only, assuming that (1) all holders of options to purchase shares of Diboll common stock utilize the cashless exercise feature of such options immediately prior to closing and receive a cash payment therefor and the fair market value of the shares of Diboll common stock subject to such option is deemed to be equal to the merger consideration per share of Diboll common stock; for this example 16,131 stock options are estimated to utilize the cashless exercise feature with an estimated average exercise price of \$134.92 (resulting in a payment to option holders of \$1,654,718, which on an after-tax basis to Diboll is \$1,092,114), (2) Diboll's closing net book value is at least equal to the target book value, (3) the price per share of the Southside common stock received in the merger is equal to



**TABLE OF CONTENTS**

\$32.10, the closing price on September 6, 2017, and (4) the Diboll outstanding share number is 848,776, each share of Diboll common stock would be converted into the right to receive \$28.17 in cash and 6.5212 shares of Southside common stock with a value of \$209.33, or aggregate merger consideration per share of Diboll common stock of \$237.50.

Southside will not issue any fractional shares of Southside common stock in the first merger. Diboll shareholders who would otherwise be entitled to a fractional share of Southside common stock upon the completion of the first merger will instead receive an amount in cash based on the volume weighted average price per share of Southside common stock for the last full trading day immediately preceding the day on which the first merger is completed, which we refer to as the Southside closing share value.

Southside common stock is listed on the NASDAQ Global Select Market under the symbol “SBSI.” Diboll common stock is not listed on an exchange and is not actively traded. The following table sets forth the closing sale prices of Southside common stock as reported on the NASDAQ Global Select Market on June 12, 2017, the last full trading day before the public announcement of the merger agreement, and on September 6, 2017, the latest practicable trading date before the date of this proxy statement/prospectus.

	Southside Common Stock
June 12, 2017	\$ 35.01
September 6, 2017	\$ 32.10

**Ancillary Agreements**

**Voting and Support Agreements (page 83)**

As a condition to Southside entering into the merger agreement, each of the directors, executive officers and significant shareholders of Diboll entered into a voting and support agreement pursuant to which each such person agreed, among other things, (1) to vote the shares of Diboll common stock held of record by such person to approve the merger agreement and the first merger and (2) for a period of two years following the closing the first merger, to not engage in certain competitive activities with Southside, including not soliciting employees and customers of Diboll and not serving as a director or management official of another financial institution in the counties in Texas in which Diboll has branches. The form of voting and support agreement is included in this proxy statement/prospectus as Annex C.

**Key Employee Retention Agreements (page 84)**

In addition, as a condition to Southside entering into the merger agreement, certain employees of Diboll entered into key employee retention agreements with Southside Bank, the effectiveness of which is conditioned upon the completion of the mergers. Pursuant to the key employee retention agreements, Southside has agreed to grant certain equity awards to the key employees and pay certain retention bonuses following the closing, and the employees have agreed, among other things, not to solicit Southside’s customers or employees for a period of one year following a termination of employment with Southside, with certain exceptions.

**Risk Factors Related to the Mergers (page 28)**

You should consider all the information contained in or incorporated by reference into this proxy statement/prospectus in deciding how to vote for the proposals presented in the proxy statement/prospectus. In particular, you should consider the factors under “Risk Factors.”

TABLE OF CONTENTS

The Diboll Special Meeting (page 34)

The special meeting of Diboll shareholders will be held on Tuesday, October 17, 2017, at 2:00 p.m., Central Time, at the T.L.L. Temple Memorial Library, 300 Park Street, Diboll, Texas 75941. At the special meeting, Diboll shareholders will be asked to:

- approve the merger proposal; and
  
- approve the adjournment proposal.

Only holders of record at the close of business on September 6, 2017, the Diboll record date, will be entitled to vote at the Diboll special meeting. Each share of Diboll common stock is entitled to one vote on each proposal to be considered at the Diboll special meeting. As of the Diboll record date, there were 848,776 shares of Diboll common stock entitled to vote at the Diboll special meeting. All of the directors, executive officers and significant shareholders of Diboll have entered into voting and support agreements with Southside, pursuant to which they have agreed, solely in their capacity as Diboll shareholders, to vote all of their shares of Diboll common stock in favor of the proposals to be presented at the Diboll special meeting. As of the Diboll record date, the directors, executive officers and significant shareholders who are parties to the voting and support agreements owned and were entitled to vote an aggregate of approximately 382,158 shares of Diboll common stock, which represented approximately 45.0% of the shares of Diboll common stock outstanding on that date. As of the Diboll record date, the directors and executive officers of Diboll and their affiliates beneficially owned and were entitled to vote 193,723 shares of Diboll common stock, which represented approximately 22.8% of the shares of Diboll common stock outstanding on that date, and held options to purchase 6,864 shares of Diboll common stock. As of the Diboll record date, Southside and its subsidiaries did not hold any shares of Diboll common stock (other than shares held as fiduciary, custodian or agent), and its directors and executive officers or their affiliates did not hold any shares of Diboll common stock.

To approve the merger proposal, the holders of at least two-thirds of the outstanding shares of Diboll common stock entitled to vote on the proposal must vote in favor of the proposal. Your failure to submit a proxy or vote in person at the Diboll special meeting, failure to instruct your bank or broker how to vote, or abstention with respect to the merger proposal will have the same effect as a vote against the proposal.

To approve the adjournment proposal at the Diboll special meeting at which a quorum is present, the holders of a majority of the shares of Diboll common stock entitled to vote on, and who vote for or against, or expressly abstain from voting with respect to such proposal, at the Diboll special meeting must vote in favor of such proposal. If a quorum is present, broker non-votes and failures to authorize a proxy or vote in person at the meeting will not be counted as votes cast and will have no effect on the outcome of the adjournment proposal.

To approve the adjournment proposal at the Diboll special meeting at which a quorum is not present, the holders of a majority of the shares of Diboll common stock entitled to vote and represented, either in person or by proxy, at the Diboll special meeting must vote in favor of such proposal. If a quorum is not present, broker non-votes will have the same effect as a vote against adjournment proposal, but failures to authorize a proxy or vote in person at the meeting will have no effect on the outcome of the adjournment proposal.

Regardless of whether or not a quorum is present at the Diboll special meeting, if you mark “ABSTAIN” on your proxy with respect to the adjournment proposal, it will have the same effect as a vote “AGAINST” the proposal.

Recommendation of the Diboll Board (page 35)

Diboll’s board of directors has determined that the mergers, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Diboll and its shareholders and has unanimously approved the mergers, the merger agreement and the transactions contemplated by the merger agreement. Diboll’s board of directors unanimously recommends that Diboll shareholders vote “FOR” the merger proposal and “FOR” the adjournment proposal. For the factors considered by Diboll’s board of directors in reaching its decision to approve the mergers, see “The Mergers — Diboll’s Reasons for the Mergers.”



TABLE OF CONTENTS

Board Composition and Management of Southside after the Mergers (page 56)

Immediately following the closing, the Southside board of directors will be increased by two, and Southside will appoint two individuals who are currently directors of Diboll to serve on the Southside board of directors, at least one of whom must be an “independent” director of Southside. The two designees will be appointed to serve a term that expires at the Annual Meeting of Shareholders of Southside in 2018, and the Nominating Committee of the Board shall consider in good faith the nomination for re-election of each such director one of whom will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2020 and the other director will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2019.

Each of the executive officers of Southside immediately prior to the effective time of the second merger will continue as the executive officers of the surviving company from and after the effective time of the second merger.

Additionally, immediately following the effective time of the second merger, Diboll executives will assume the following titles: H.J. (“Jay”) Shands, III — Regional President, East Texas; Joe C. (“Trey”) Denman, III — Executive Vice President; and James (“Jim”) Denman — Executive Vice President.

Interests of Diboll Directors and Executive Officers in the Mergers (page 56)

Diboll shareholders should be aware that some of Diboll’s directors and executive officers have interests in the mergers and have arrangements that are different from, or in addition to, those of Diboll shareholders generally. These interests and arrangements may create potential conflicts of interest. Diboll’s board of directors was aware of these interests and considered these interests, among other matters, in adopting and approving the merger agreement and the transactions contemplated by the merger agreement, including the first merger, and in recommending that Diboll shareholders vote in favor of approving the merger agreement and the first merger.

These interests include:

- accelerated vesting of stock options issued to executive officers and directors, which if settled in cash prior to the effective time will reduce the aggregate cash consideration available to all shareholders by approximately \$1.1 million, net of tax;
- in connection with entering into the merger agreement, certain employees of Diboll, including each of its executive officers, entered into key employee retention agreements with Southside Bank, the effectiveness of which is conditioned upon the completion of the mergers. The key employee retention agreements provide for (i) non-qualified stock options having a value equal to 12.5% of the executive’s base salary, (ii) restricted stock units having a value equal to 12.5% of the executive’s base salary and (iii) retention bonuses payable on the 90th day following the closing and on the first and second anniversaries of the closing if such executives continue to remain employees in good standing with Southside Bank; and
- the right to continued indemnification and directors’ and officers’ liability insurance coverage.

For a more complete description of these interests, see “The Mergers — Interests of Diboll’s Directors and Executive Officers in the Mergers” and “The Merger Agreement — Merger Consideration; Effects of the First Merger — Treatment of Diboll Stock Options.”

Dissenters’ Rights in the Mergers (page 64 )

Holders of Diboll common stock are entitled to exercise certain dissenters’ rights in relation to the first merger, as provided for under Chapter 10, Subchapter H of the Texas Business Organizations Code, as amended, or the TBOC, and any successor statute. For further information, see “The Mergers — Dissenters’ Rights.”

TABLE OF CONTENTS

Conditions to Completion of the Mergers (page 79)

Currently, Southside and Diboll expect to complete the mergers in the fourth quarter of 2017. As more fully described in this proxy statement/prospectus and in the merger agreement, the completion of the mergers depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:

- approval of the merger agreement and the first merger by the holders of at least two-thirds of the outstanding shares of Diboll common stock entitled to vote;
- the receipt of all required regulatory approvals for the mergers, without the imposition of any material on-going conditions or restrictions, and any applicable waiting periods shall have expired;
- the absence of any legal restraint (such as an injunction or restraining order) that would prevent the consummation of the mergers;
- the absence of more than five percent of the outstanding shares of Diboll's common stock exercising (or being entitled to exercise) their dissenters' rights
- the authorization for listing the shares of Southside common stock to be issued as part of the merger consideration on the Nasdaq Global Select Market;
- the effectiveness of the registration statement of which this proxy statement/prospectus forms a part;
- each party's receipt of a tax opinion confirming the tax-free treatment of the first merger and the second merger for U.S. federal income tax purposes; and
- the absence of the occurrence of a material adverse effect on Diboll or Southside.

Neither Southside nor Diboll can be certain when, or if, the conditions to the mergers will be satisfied or waived, or that the mergers will be completed.

Regulatory Approvals Required for the Mergers (page 59)

Both Southside and Diboll have agreed to use their commercially reasonable efforts to obtain all regulatory approvals required or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval from the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, the Federal Deposit Insurance Corporation, or the FDIC, and the Texas Department of Banking. Southside and Diboll have submitted applications and notifications to obtain the required regulatory approvals. Although neither Southside nor Diboll knows of any reason why these regulatory approvals cannot be obtained, Southside and Diboll cannot be certain when or if they will be obtained, as the length of the review process may vary based on, among other things, requests by regulators for additional information or materials. As of September 6, 2017, the FDIC had issued conditional approval of the bank merger, and the Texas Department of Banking had completed its initial review of the merger application and accepted the merger application for filing. The Federal Reserve Board is currently conducting its review of the Federal Reserve Form Y-3 application submitted by Southside to acquire Diboll.

Agreement Not to Solicit Other Offers ("No Shop") (page 78)

Under the merger agreement, Diboll has agreed that it will not, and will cause its representatives not to, directly or indirectly, (1) solicit, initiate, assist or knowingly take any other action to facilitate or encourage a competing acquisition proposal (including furnishing non-public information), (2) enter into, continue or otherwise participate in any discussions or negotiations regarding a competing acquisition proposal, or (3) approve, recommend, declare advisable or enter into any agreement providing for a competing acquisition proposal or requiring Diboll to abandon, terminate or breach its obligations under the merger agreement or fail to complete the mergers.

14

---

TABLE OF CONTENTS

However, prior to obtaining Diboll's required shareholder approval, Diboll may, under certain specified circumstances, participate in negotiations or discussions with any third party making an acquisition proposal and provide confidential information to such third party (subject to a confidentiality agreement). Diboll must notify Southside promptly (but in no event later than 48 hours) after the receipt of such acquisition proposal.

Additionally, prior to obtaining Diboll's required shareholder approval, Diboll may, under certain specified circumstances, withdraw its recommendation to its shareholders with respect to the first merger and/or terminate the merger agreement in order to enter into an acquisition agreement with respect to a superior acquisition proposal if it determines in good faith, after consultation with outside legal counsel and financial advisors, that such acquisition proposal is a superior proposal and that failure to take such action would be inconsistent with the directors' fiduciary duties under applicable law. However, Diboll cannot take any of those actions in response to a superior proposal unless it provides Southside with a three-business-day period to negotiate in good faith to enable Southside to adjust the terms and conditions of the merger agreement such that it would cause the superior proposal to no longer constitute a superior proposal.

Termination of the Merger Agreement (page 80)

The merger agreement can be terminated at any time prior to completion of the first merger by mutual consent, or by either party in the following circumstances:

- if the closing of the first merger is not completed within nine months of the date of the merger agreement, or March 12, 2018, which we refer to as the end date;
- if any court or other governmental entity has issued a final and nonappealable judgment, order, injunction, rule or decree, or taken any other action restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the merger agreement;
- if either party receives written notice from or is otherwise advised by a governmental entity that it will not grant any required regulatory approval without imposing a materially burdensome regulatory condition on either party;
- in the event that approval by the shareholders of Diboll is not obtained at a meeting at which a vote was taken; or
- if the other party has breached or is in breach of any representation, warranty, covenant or agreement in any respect, which breach would, individually or together with all such other then-uncured breaches by such party, prevent any closing condition from being satisfied and such breach is not cured by the earlier of (1) the end date and (2) the 30th business day after written notice of such breach.

In addition, Southside may terminate the merger agreement in the following circumstances:

- if Diboll fails to make its required recommendation to shareholders in favor of the first merger, or withdraws, amends, modifies or materially qualifies, in a manner adverse to Southside or Merger Sub, its recommendation, or adopts, approves or publicly recommends any competing acquisition proposal, or makes any public statement inconsistent with its recommendation, which we refer to as an adverse recommendation change;
- if Diboll fails to properly call, give notice of, and convene a meeting of shareholders to vote on the first merger;
-

if there has not been an adverse recommendation change and Diboll fails to use its commercially reasonable efforts to obtain the required shareholder approval; or

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if Diboll fails to comply in all material respects with its obligations pursuant to the no-shop covenant.

15

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**TABLE OF CONTENTS**

In addition, Diboll may terminate the merger agreement if Diboll’s board of directors determines to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the merger agreement but only if Diboll pays to Southside a \$9.0 million termination fee and promptly enters into such definitive agreement. Termination Fee (page 81)

If the merger agreement is terminated under certain circumstances, including circumstances involving a change in recommendation by Diboll’s board of directors, Diboll may be required to pay Southside a termination fee of \$9.0 million. The termination fee could discourage other companies from seeking to acquire or merge with Diboll.

U.S. Federal Income Tax Considerations (page 60)

The first merger and the second merger are intended to qualify as a single “reorganization” within the meaning of Section 368(a) of the Code, and it is a condition to the respective obligations of Southside and Diboll to complete the first merger that each of Southside and Diboll receives a tax opinion to that effect. In addition, counsel has delivered an opinion to each of Southside and Diboll, which is filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part, that the completion of both of the first merger and the second merger will be treated as a “reorganization” within the meaning of Section 368(a) of the Code. Based upon the treatment of the mergers as a single “reorganization” within the meaning of Section 368(a) of the Code, a shareholder of Diboll will not recognize gain or loss with respect to the receipt of the stock consideration. As a result of receiving Southside common stock and cash in exchange for Diboll common stock, in general, shareholders of Diboll will recognize gain, but not loss, equal to the lesser of cash received or gain realized in the first merger and the second merger. The amount of gain realized will equal the amount by which the cash plus the fair market value, at the effective time of the first merger, of the Southside common stock exceeds the relevant shareholder’s adjusted tax basis in its Diboll common stock to be surrendered in exchange therefor. For further information, see “The Mergers — U.S. Federal Income Tax Considerations.”

The U.S. federal income tax consequences described above may not apply to all holders of Diboll common stock.

Your particular tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the mergers to you.

Accounting Treatment of the Mergers (page 64)

Southside will account for the mergers under the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States of America.

Opinion of Diboll’s Financial Advisor (page 48 and Annex B)

On June 12, 2017, Hovde Group, LLC, referred to as Hovde, rendered an opinion to the Diboll board of directors to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Hovde as set forth in such opinion, the merger consideration to be paid in the proposed transaction was fair, from a financial point of view, to Diboll’s shareholders.

The full text of the written opinion of Hovde is attached as Annex B to this document. Diboll shareholders should read the entire opinion for a discussion of, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Hovde in rendering its opinion.

The opinion of Hovde is addressed to the Diboll board of directors, is directed only to the fairness, from a financial point of view, of the merger consideration to be paid to the holders of Diboll stock and does not constitute a recommendation to any Diboll shareholder as to how such shareholder should vote with respect to the first merger or any other matter at the Diboll special meeting.

For further information, please see the section entitled “The Mergers — Opinion of Diboll’s Financial Advisor” beginning on page 48.

**TABLE OF CONTENTS****SELECTED HISTORICAL FINANCIAL INFORMATION OF SOUTHSIDE**

The following selected consolidated financial information for the fiscal years ended December 31, 2012 through December 31, 2016 is derived from audited consolidated financial statements of Southside. The consolidated financial information as of and for the six months ended June 30, 2017 and 2016 is derived from unaudited consolidated financial statements and, in the opinion of Southside's management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data for those dates. The selected consolidated income data for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2017. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with Southside's consolidated financial statements and related notes thereto included in Southside's Annual Report on Form 10-K for the year ended December 31, 2016, and in Southside's Quarterly Report on Form 10-Q for the six months ended June 30, 2017, each of which are incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."

	As of and for the Six Months Ended June 30,		As of and for the Years Ended December 31,				
	2017	2016	2016	2015	2014(1)(3)	2013	2012
	(unaudited)						
	(in thousands, except share data)						
Selected Consolidated Operating Data:							
Interest income	\$ 90,897	\$ 84,101	\$ 168,913	\$ 154,532	\$ 123,778	\$ 119,602	\$ 116,020
Interest expense	20,193	13,107	29,348	19,854	16,956	17,968	26,895
Net interest income	70,704	70,994	139,565	134,678	106,822	101,634	89,125
Provision for loan losses	2,444	6,084	9,780	8,343	14,938	8,879	10,736
Net interest income after provision for loan losses	68,260	64,910	129,785	126,335	91,884	92,755	78,389
Noninterest income	18,966	20,966	39,411	37,895	24,489	35,245	40,021
Noninterest expense	51,395	55,220	109,522	112,954	97,704	81,713	76,107
Income before income tax expense	35,831	30,656	59,674	51,276	18,669	46,287	42,303
Income tax expense (benefit)	6,361	5,745	10,325	7,279	(2,164)	5,097	7,608
Net income	\$ 29,470	\$ 24,911	\$ 49,349	\$ 43,997	\$ 20,833	\$ 41,190	\$ 34,695
Selected Financial							

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Condition  
Data:

Securities available for sale	\$ 1,397,811	\$ 1,416,335	\$ 1,479,600	\$ 1,460,492	\$ 1,448,708	\$ 1,177,687	\$ 1,424,000
Securities held to maturity	925,538	784,925	937,487	784,296	642,319	667,121	246,540
Loans, net of allowance for loan losses	2,590,957	2,369,413	2,538,626	2,412,017	2,167,841	1,332,396	1,242,300
Total assets	5,578,482	5,034,928	5,563,767	5,161,996	4,807,176	3,445,574	3,237,300
Deposits	3,624,073	3,570,249	3,533,076	3,455,407	3,374,417	2,527,808	2,351,800
Long-term obligations	320,658	559,071	601,464	562,512	660,278	559,571	429,310
Shareholders' equity	547,065	472,300	518,274	444,062	425,243	259,518	257,760

Selected Consolidated Financial Ratios and Other Data:

Per Share  
Data:

Earnings per common share, basic(3)	\$ 1.01	\$ 0.92	\$ 1.82	\$ 1.61	\$ 0.97	\$ 1.94	\$ 1.61
Earnings per common share, diluted(3)	\$ 1.00	\$ 0.92	\$ 1.81	\$ 1.61	\$ 0.97	\$ 1.94	\$ 1.61
Cash dividends paid per common share	\$ 0.53	\$ 0.47	\$ 1.01	\$ 1.00	\$ 0.96	\$ 0.91	\$ 1.11
Weighted average common shares outstanding, basic(2)	29,303	27,002	27,118	27,291	21,562	21,217	21,599
Weighted average common shares outstanding, diluted(2)	29,511	27,099	27,247	27,382	21,669	21,263	21,614
	\$ 18.64	\$ 17.55	\$ 17.72	\$ 16.25	\$ 15.61	\$ 12.20	\$ 12.13



Book value  
per common  
share(2)(3)

Performance  
Ratios:

Return on  
average  
assets

1.06%	0.99%	0.94%	0.90%	0.60%	1.22%	1.05%
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Return on  
average  
equity

11.13%	10.93%	10.54%	10.04%	7.24%	16.50%	12.83%
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Net interest  
margin

3.07%	3.43%	3.26%	3.40%	3.77%	3.69%	3.26%
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17

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**TABLE OF CONTENTS**

	As of and for the Six Months Ended June 30,		As of and for the Years Ended December 31,				
	2017	2016	2016	2015	2014(1)(3)	2013	2012
	(unaudited)						
	(in thousands, except share data)						
Asset Quality Ratios:							
Nonperforming assets to total loans and other real estate(3)	0.35%	1.03%	0.59%	1.34%	0.56%	1.01%	1.16%
Nonaccrual loans to total loans(3)	0.12%	0.49%	0.32%	0.84%	0.19%	0.60%	0.82%
Allowance for loan losses to total loans	0.74%	0.63%	0.70%	0.81%	0.61%	1.40%	1.63%
Allowance for loan losses to nonperforming loans(3)	215.75%	61.48%	121.70%	62.31%	133.27%	157.58%	154.46%
Net charge-offs to average total loans	0.09%	0.90%	0.47%	0.09%	1.44%	0.82%	0.74%
Consolidated Capital Ratios:							
Tier 1 leverage ratio	9.73%	8.60%	9.46%	8.61%	11.35%	9.07%	9.11%
Common equity Tier 1 capital ratio	14.91%	12.58%	14.64%	12.71%	N/A	N/A	N/A
Tier 1 risk-based capital ratio	16.68%	14.47%	16.37%	14.56%	16.12%	20.47%	21.16%
Total risk-based capital ratio	20.40%	15.01%	20.10%	15.27%	16.69%	21.71%	22.42%
Total shareholders' equity to total assets	9.81%	9.38%	9.32%	8.60%	8.85%	7.53%	7.96%

(1) We completed the acquisition of Omni on December 17, 2014. Accordingly, our balance sheet data as of December 31, 2014 reflects the effects of the acquisition of Omni. Income statement data with respect to Omni includes only the results of Omni's operations for December 17 – December 31, 2014.

(2)

On May 4, 2017, Southside declared a 2.5% stock dividend on its common stock, payable to common shareholders of record May 30, 2017, which was paid on June 27, 2017. All prior periods presented have been adjusted to give retroactive recognition to stock dividends.

(3)

The amount reflected for 2014 excludes purchased credit impaired loans measured at fair value at acquisition of Omni.

18

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**TABLE OF CONTENTS****SELECTED HISTORICAL FINANCIAL INFORMATION OF DIBOLL**

The following selected historical consolidated financial information of Diboll as of and for the six months ended June 30, 2017 and 2016, has been derived from Diboll's unaudited financial statements, which Diboll's management believes reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of its financial position and results of operations as of and for the periods ended on such dates, regulatory filings made by Diboll, and from other information provided by Diboll. The following selected historical consolidated financial information of Diboll as of and for each of the five years ended December 31, 2016, has been derived from Diboll's audited financial statements, regulatory filings made by Diboll, and from other information provided by Diboll. You should read the following selected financial information relating to Diboll in conjunction with other information appearing elsewhere in this proxy statement/prospectus, including the information set forth under "Diboll Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 88, and the consolidated financial statements of Diboll and related accompanying notes appearing after page F-1.

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(unaudited)						
	(dollars in thousands except per share)						
<b>Selected Income Statement Data</b>							
Interest income	\$ 18,914	\$ 18,605	\$ 37,179	\$ 35,857	\$ 34,698	\$ 33,134	\$ 32,594
Interest expense	523	522	1,050	1,064	1,096	1,229	1,677
Net interest income	18,391	18,083	36,129	34,793	33,602	31,905	30,917
Provision for loan losses	1,581	600	1,424	843	1,430	739	1,003
Net interest income after provision for loan losses	16,810	17,483	34,705	33,950	32,172	31,166	29,914
Noninterest income	5,528	5,530	11,225	10,481	10,466	10,170	10,814
Noninterest expense	14,453	14,192	28,407	27,568	27,237	28,061	27,934
Income before income tax expense	7,885	8,821	17,523	16,863	15,401	13,275	12,794
Income tax expense	2,487	2,792	5,443	5,298	4,745	3,909	3,730
Net income	\$ 5,398	\$ 6,029	\$ 12,080	\$ 11,565	\$ 10,656	\$ 9,366	\$ 9,064
<b>Per Share Data (Common Stock)(1)</b>							
<b>Earnings:</b>							
Basic(1)	\$ 6.39	\$ 7.16	\$ 14.34	\$ 13.82	\$ 12.76	\$ 11.21	\$ 10.79
Diluted	\$ 6.23	\$ 7.01	\$ 13.99	\$ 13.47	\$ 12.43	\$ 10.92	\$ 10.51
Dividends Per Share (paid)	\$ 4.50	\$ 5.75	\$ 8.25	\$ 6.00	\$ 5.00	\$ 1.25	\$ 11.25
Book value(2)	\$ 123.72	\$ 120.70	\$ 118.88	\$ 112.79	\$ 107.86	\$ 99.37	\$ 94.24
<b>Selected Period End Balance Sheet</b>							

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Data							
Total assets	\$ 993,761	\$ 969,797	\$ 983,940	\$ 981,650	\$ 920,533	\$ 861,666	\$ 853,426
Cash and cash equivalents	58,074	58,514	52,366	74,490	65,967	53,537	71,508
Securities available for sale	251,578	252,376	265,828	257,802	221,819	229,203	239,907
Total loans (gross)	660,932	632,433	642,293	622,517	603,623	554,148	510,792
Allowance for loan losses	7,522	7,581	7,631	7,372	7,093	6,265	6,164
Goodwill and core deposit intangible	7,334	7,334	7,334	7,334	7,334	7,334	7,334
Other real estate owned	1,987	563	263	35	170	836	1,573
Noninterest-bearing deposits	307,878	298,426	302,997	286,732	273,692	258,805	248,547
Interest-bearing deposits	575,698	564,901	576,063	594,281	552,326	516,583	521,755
Total shareholders' equity	104,558	101,634	100,299	94,822	90,497	83,081	79,233
Selected Performance Metrics(3)							
Return on average assets(4)	1.10%	1.25%	1.23%	1.24%	1.18%	1.09%	1.08%
Return on average equity(4)	10.67%	12.31%	12.00%	12.27%	12.37%	11.44%	11.29%
Net interest margin(5)	3.97%	3.96%	3.89%	3.98%	3.96%	3.97%	4.00%
Efficiency ratio(6)	60.76%	59.37%	59.27%	59.75%	60.50%	65.00%	65.97%

19

**TABLE OF CONTENTS**

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(unaudited)						
	(dollars in thousands except per share)						
<b>Credit Quality Ratios</b>							
Nonperforming assets to total assets	0.76%	0.62%	0.86%	0.61%	0.52%	0.30%	0.43%
Nonperforming loans to total loans(7)	0.82%	0.86%	1.26%	0.94%	0.76%	0.30%	0.38%
Allowance for loan losses to nonperforming loans(7)	138.88%	140.20%	94.34%	125.72%	155.53%	374.19%	316.59%
Allowance for loan losses to total loans	1.14%	1.20%	1.19%	1.18%	1.18%	1.13%	1.21%
Net charge-offs to average loans outstanding	0.52%	0.12%	0.18%	0.09%	0.10%	0.12%	0.18%
<b>Capital Ratios</b>							
Common equity Tier 1 capital to risk-weighted assets	13.49%	12.97%	13.27%	12.59%	N/A	N/A	N/A
Tier 1 capital to average assets	9.84%	9.39%	9.35%	9.02%	8.83%	8.62%	8.06%
Tier 1 capital to risk-weighted assets(7)	13.49%	12.97%	13.27%	12.59%	13.31%	12.99%	12.44%
Total capital to risk-weighted assets(8)	14.57%	14.09%	14.39%	13.70%	14.51%	14.12%	13.61%
Tangible equity to total assets	9.78%	9.72%	9.45%	8.91%	9.03%	8.79%	8.42%

(1)

Diboll calculates its diluted earnings per share for each period shown as its net income divided by the weighted-average number of its common shares outstanding during the relevant period adjusted for the dilutive effect

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of outstanding options to purchase shares of its common stock. Earnings per share on a basic and diluted basis were calculated using the following outstanding share amounts:

	As of June 30,		As of December 31,				
	2017	2016	2016	2015	2014	2013	2012
Weighted average shares outstanding – basic	844,190	841,375	842,216	836,956	834,968	835,498	840,020
Weighted average shares outstanding – diluted	866,555	859,720	863,363	858,738	857,160	857,889	862,604

(2)

Book value per share equals Diboll's total shareholders' equity as of the date presented divided by the number of Diboll common shares outstanding as of the date presented. The number of Diboll common shares outstanding as of June 30, 2017 and 2016, was 845,087 and 842,066, respectively, and as of December 31, 2016, 2015, 2014, 2013 and 2012 was 843,667 shares, 840,709 shares, 839,055 shares, 836,052 shares and 840,744 shares, respectively.

The following table presents, as of the dates set forth below, Diboll's total assets, total common equity, total shareholders' equity and tangible common equity:

	As of June 30,		As of December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(dollars in thousands except per share data)						
Total Assets							
Total Assets	\$ 993,761	\$ 969,797	\$ 983,940	\$ 981,650	\$ 920,533	\$ 861,666	\$ 853,426
Tangible Common Equity							
Total shareholders' equity	104,558	101,634	100,299	94,822	90,497	83,081	79,233
Goodwill, net	7,334	7,334	7,334	7,334	7,334	7,334	7,334
Tangible common equity	\$ 97,224	\$ 94,300	\$ 92,965	\$ 87,488	\$ 83,163	\$ 75,747	\$ 71,899
Common shares outstanding(a)	845,087	842,066	843,667	840,709	839,055	836,052	840,744
Book value per common share	\$ 123.72	\$ 120.70	\$ 118.88	\$ 112.79	\$ 107.86	\$ 99.37	\$ 94.24
Total equity to total assets	10.52%	10.48%	10.19%	9.66%	9.83%	9.64%	9.28%
Tangible common equity to total assets	9.78%	9.72%	9.45%	8.91%	9.03%	8.79%	8.42%

(a)

Diboll calculates the common shares outstanding as set forth in note (2) above.

20

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TABLE OF CONTENTS

(3)

The values for the selected performance metrics presented for the six months ended June 30, 2017 and 2016, are annualized.

(4)

Diboll has calculated its return on average assets and return on average equity for a period by dividing net income for that period by its average assets and average equity, as the case may be, for that period. Diboll calculates its average assets and average equity for a period by dividing the sum of its total asset balance or total shareholder's equity balance, as the case may be, as of the close of business on each day in the relevant period and dividing by the number of days in the period.

(5)

Net interest margin for a period represents net interest income for that period divided by average interest-earning assets for that period.

(6)

Efficiency ratio for a period represents noninterest expenses for that period divided by the sum of net interest income and noninterest income for that period, excluding realized gains or losses from sales of investment securities for that period.

(7)

Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and accruing loans modified under troubled debt restructurings.

(8)

Diboll calculates its risk-weighted assets using the standardized method of the Basel III Framework, as implemented by the FDIC.

**TABLE OF CONTENTS****SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following tables show summary unaudited pro forma condensed combined financial information about the combined financial condition and operating results of Southside and Diboll after giving effect to the mergers. The unaudited pro forma financial information assumes that the mergers are accounted for under the acquisition method with Southside treated as the acquirer. The unaudited pro forma condensed combined balance sheet data gives effect to the mergers as if they had occurred on June 30, 2017. The unaudited pro forma condensed combined income statements for the year ended December 31, 2016 and the six months ended June 30, 2017 give effect to the mergers as if they had occurred on January 1, 2016. The unaudited pro forma condensed combined financial statements are provided for informational purposes only. The unaudited pro forma condensed combined financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma condensed combined financial statements and related adjustments required management to make certain assumptions and estimates. The selected unaudited pro forma condensed combined financial information listed below has been derived from and should be read in conjunction with (1) the more detailed unaudited pro forma condensed combined financial information, including the notes thereto, appearing elsewhere in this proxy statement/prospectus and (2) the historical consolidated financial statements and related notes of Southside that are incorporated by reference herein and the and historical consolidated financial statements and related notes of Diboll appearing elsewhere in this proxy statement/ prospectus.

	As of June 30, 2017			
	Historical Southside (in thousands)	Diboll(1)	Pro Forma Adjustments(2)	Pro Forma Combined
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	\$ 235,832	\$ 58,074	\$ (42,734)	\$ 251,172
Securities available for sale	1,397,811	251,408	—	1,649,219
Securities held to maturity	925,538	—	—	925,538
FHLB stock, at cost	61,561	394	—	61,955
Loans	2,610,198	659,801	(11,240)	3,258,759
Less: Allowance for loan losses	(19,241)	(7,522)	7,522	(19,241)
Premises and equipment, net	105,938	14,438	—	120,376
Goodwill	91,520	7,334	95,492	194,346
Other intangible assets, net	3,767	—	11,105	14,872
Total Assets	5,578,482	993,761	63,473	6,635,716
Deposits	3,624,073	883,576	—	4,507,649
Borrowings	1,344,915	—	—	1,344,915
Shareholders' equity	547,065	104,558	63,473	715,096

(1)

Certain historical information reflected in the table has been adjusted from the presentation in the historical consolidated financial statements of Diboll to conform to Southside's presentation and to more accurately portray estimated balances after consummation of the merger.

(2)

Detailed entries associated with the Pro Forma Adjustments are included in the "Index to Financial Statements" beginning on page F-1.



TABLE OF CONTENTS

	For the Six Months Ended June 30, 2017			
	Historical		Pro Forma	Pro Forma
	Southside	Diboll	Adjustments(1)	Combined
	(in thousands)			
Income Statement Data:				
Interest income	\$ 90,897	\$ 18,914	\$ 849	\$ 110,660
Interest expense	20,193	523	—	20,716
Net interest income	70,704	18,391	849	89,944
Provision for loan loss	2,444	1,581	—	4,025
Deposit service income	10,369	2,172	—	12,541
Net gain on sale of securities available for sale	247	2	—	249
Other noninterest income	8,350	3,354	—	11,704
Noninterest expense	51,395	14,453	1,009	66,857
Income before income tax expense (benefit)	35,831	7,885	(160)	43,556
Provision for income tax expense (benefit)	6,361	2,487	(56)	8,792
Net income	\$ 29,470	\$ 5,398	\$ (104)	\$ 34,764
	For the Year Ended December 31, 2016			
	Historical		Pro Forma	Pro Forma
	Southside	Diboll(1)	Adjustments(2)	Combined
	(in thousands)			
Income Statement Data:				
Interest income	\$ 168,913	\$ 37,179	\$ 1,698	\$ 207,790
Interest expense	29,348	1,050	—	30,398
Net interest income	139,565	36,129	1,698	177,392
Provision for loan loss	9,780	1,424	—	11,204
Deposit service income	20,702	3,930	—	24,632
Net gain on sale of securities available for sale	2,836	167	—	3,003
Other noninterest income	15,873	7,128	—	23,001
Noninterest expense	109,522	28,407	2,018	139,947
Income before income tax expense (benefit)	59,674	17,523	(320)	76,877
Provision for income tax expense (benefit)	10,325	5,443	(112)	15,656
Net income	\$ 49,349	\$ 12,080	\$ (208)	\$ 61,221

(1) Detailed entries associated with the Pro Forma Adjustments are included in the “Index to Financial Statements” beginning on page F-1.

TABLE OF CONTENTS

## UNAUDITED COMPARATIVE PER SHARE INFORMATION

The following table shows the historical, unaudited pro forma combined and pro forma equivalent per share financial information for Southside and Diboll as of and for the year ended December 31, 2016 and as of and for the six months ended June 30, 2017. The information presented below should be read together with the historical consolidated financial statements of Southside, including the related notes, filed by Southside with the SEC and incorporated by reference into this proxy statement/prospectus, and the historical consolidated financial statements of Diboll, including the related notes, included elsewhere in this proxy statement/prospectus.

The unaudited pro forma and pro forma per equivalent share information gives effect to the mergers as if the mergers had occurred on December 31, 2016 or June 30, 2017 in the case of the book value data, and as if the mergers had occurred on January 1, 2016, in the case of the earnings per share and the cash dividends data. The unaudited pro forma data combines the historical results of Diboll and First Bank & Trust into Southside's consolidated statement of income. While certain adjustments were made for the estimated impact of fair value adjustments and other acquisition-related activity, they are not necessarily indicative of the financial results of the combined companies had the mergers actually occurred on January 1, 2016.

In addition, the unaudited pro forma data includes adjustments, which are preliminary and may be revised. The unaudited pro forma data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the mergers or consider any potential impacts of current market conditions or the mergers on revenues, expense efficiencies, asset dispositions and share repurchases, among other factors, nor the impact of possible business model changes. As a result, unaudited pro forma data is presented for illustrative purposes only and does not represent an attempt to predict or suggest future results.

	Southside		Diboll	
	Historical	Pro Forma Combined	Historical	Pro Forma Combined Equivalent
As of and for the year ended December 31, 2016				
Income (loss) from continuing operations attributable to common shareholders per common share, basic	\$ 1.82	\$ 1.87	\$ 14.34	\$ 12.23
Income (loss) from continuing operations attributable to common shareholders per common share, diluted	1.81	1.87	13.99	12.18
Cash dividends paid per common share	1.01	1.01	8.25	6.59
Book value per common share	17.71	19.60	118.88	n/a
As of and for the six months ended June 30, 2017				
Income (loss) from continuing operations attributable to common shareholders per common share, basic	1.01	1.00	6.39	6.51
Income (loss) from continuing operations attributable to common shareholders per common share, diluted	1.00	0.99	6.23	6.47
Cash dividends paid per common share	0.53	0.53	4.50	3.46
Book value per common share	18.64	20.50	123.72	n/a

TABLE OF CONTENTS

## COMPARATIVE MARKET PRICES AND DIVIDENDS

## Southside

Southside's common stock is listed on the NASDAQ Global Select Market under the symbol "SBSI." As of September 6, 2017, the latest practicable date prior to this proxy statement/prospectus, there were approximately 1,500 holders of record of Southside common stock. The following table sets forth the high and low reported intra-day sales prices per share of Southside common stock, and the cash dividends declared per share for the periods indicated.

	Southside Common Stock		
	High	Low	Dividend
2015			
First Quarter	\$ 28.79	\$ 23.73	\$ 0.23
Second Quarter	29.17	25.51	0.23
Third Quarter	29.13	23.49	0.23
Fourth Quarter	28.56	23.45	0.31
2016			
First Quarter	\$ 26.57	\$ 19.08	\$ 0.23
Second Quarter	30.69	24.05	0.24
Third Quarter	32.83	29.32	0.24
Fourth Quarter	38.08	30.54	0.30
2017			
First Quarter	\$ 37.32	\$ 30.47	\$ 0.25
Second Quarter	36.11	31.15	0.28
Third Quarter (through September 6, 2017)	36.22	31.62	0.28

On June 12, 2017, the last full trading day before the public announcement of the merger agreement, the closing sale price per share of Southside common stock was \$35.01, and on September 6, 2017, the latest practicable date before the date of this proxy statement/prospectus, the closing sale price per share of Southside common stock was \$32.10. Diboll common stock is not publicly traded.

Diboll shareholders are advised to obtain current market quotations for Southside common stock. The market price of Southside common stock will fluctuate between the date of this proxy statement/prospectus and the date of completion of the first merger. No assurance can be given concerning the market price of Southside common stock before or after the effective date of the first merger. Changes in the market price of Southside common stock prior to the completion of the first merger will affect the market value of the merger consideration that Diboll shareholders will receive.

## Diboll

There is no established public trading market for the shares of Diboll common stock, and no market for Diboll common stock is expected to develop if the first merger does not occur. No registered broker/ dealer makes a market in the Diboll common stock, and no shares of such stock are listed for trading or quoted on any stock exchange or automated quotation system. Diboll acts as the transfer agent and registrar for its own shares. As of the Diboll record date, there were approximately 160 holders of record of Diboll common stock.

TABLE OF CONTENTS

Diboll becomes aware of trades of shares of Diboll common stock as transfer agent of its shares and sometimes the prices at which these trades are made. The following table sets forth the high and low sales prices known to management of Diboll for trades of its common stock for the periods shown:

	Diboll Common Stock			
	High	Low	Number of Trades	Number of Shares Traded
2015				
First Quarter	\$ —	\$ —	—	—
Second Quarter	—	—	—	—
Third Quarter	—	—	—	—
Fourth Quarter	—	—	—	—
2016				
First Quarter	\$ —	\$ —	—	—
Second Quarter	—	—	—	—
Third Quarter	—	—	—	—
Fourth Quarter	152.00	152.00	1	200
2017				
First Quarter	\$ 155.00	\$ 152.00	2	236
Second Quarter	155.00	155.00	1	22
Third Quarter (through September 6, 2017)	155.00	155.00	1	5

The most recent trade of Diboll common stock occurred on July 20, 2017, when 5 shares were traded at a price of \$155.00 per share. There have been other limited transfers of Diboll common stock that are not reflected in the table above, which were excluded as they were transferred between related parties (as gifts or to trusts or estates). Because of limited trading, the prices described above may not be representative of the actual or fair value of the Diboll common stock.

Diboll's general dividend policy is to pay cash dividends on a quarterly basis. During 2015, Diboll declared dividends of \$8.00 per share and paid dividends of \$6.00 per share. During 2016, Diboll declared dividends of \$6.50 per share and paid dividends of \$8.25 per share. For the six months ended June 30, 2017, Diboll declared dividends of \$3.00 per share and paid dividends of \$4.50 per share. Under the terms of the merger agreement, Diboll is permitted to pay dividends of up to \$1.50 per share each calendar quarter before the effective time of the first merger, and Diboll anticipates paying dividends of \$1.50 per share per quarter prior to the effective time of the first merger. Diboll is also permitted to pay a special, one-time dividend to its shareholders if the effective date of the first merger is on or after December 9, 2017, provided that Diboll maintains a Tier 1 leverage ratio of at least 8.75% after giving effect to the payment of all such dividends.

Diboll's shareholders are entitled to receive dividends out of legally available funds when, as and if declared by Diboll's board of directors, in its sole discretion. As a Texas corporation, Diboll is subject to certain restrictions on dividends under the TBOC. Generally, a Texas corporation may pay dividends to its shareholders out of its surplus (the excess of its assets over its liabilities and stated capital) unless the corporation is insolvent or the payment of the dividend would render the corporation insolvent.

Consistent with its policy that bank holding companies should serve as a source of financial strength for their subsidiary banks, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of dividends to shareholders unless its net income available has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition.

Diboll does not engage in separate business activities of a material nature. As a result, Diboll's ability to pay dividends depends upon the dividends received from its subsidiary, First Bank & Trust. As a

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TABLE OF CONTENTS

Texas-chartered banking association, First Bank & Trust’s ability to pay dividends is restricted by certain laws and regulations. Under the Texas Finance Code, First Bank & Trust generally may not pay a dividend that would reduce its capital or surplus without the prior approval of the Texas Department of Banking. All dividends must be paid out of net profits then on hand, after deducting expenses, including losses and provisions for loan losses.

In addition to Texas law restrictions on First Bank & Trust’s ability to pay dividends, under the Federal Deposit Insurance Corporation Improvement Act, First Bank & Trust may not pay any dividend if First Bank & Trust is “undercapitalized” or if the payment of the dividend would cause First Bank & Trust to become undercapitalized. The FDIC may further restrict the payment of dividends by requiring that First Bank & Trust maintain a higher level of capital than would otherwise be required to be “adequately capitalized” for regulatory purposes. Moreover, if, in the opinion of the FDIC, First Bank & Trust is engaged in an unsound practice (which could include the payment of dividends), the FDIC may require that First Bank & Trust cease such practice. The federal bank regulatory agencies have indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe banking practice. Moreover, the federal bank regulatory agencies have issued policy statements providing that insured depository institutions generally should pay dividends only out of current operating earnings.

Under regulatory capital guidelines, First Bank & Trust must maintain a common equity Tier 1 capital to total risk-weighted assets ratio of at least 4.5%, a Tier 1 capital to total risk-weighted assets ratio of 6.0%, a total capital to total risk-weighted assets ratio of 8.0% and a Tier 1 capital to average total assets ratio of 4.0%. As of June 30, 2017, First Bank & Trust had a ratio of common equity Tier 1 capital to total risk-weighted assets of 13.22%, a ratio of Tier 1 capital to total risk-weighted assets of 13.22%, a ratio of total capital to total risk-weighted assets of 14.31%, and a ratio of Tier 1 capital to average total assets of 9.64%. As of that date, First Bank & Trust could have paid a dividend of \$36.1 million and still met the above minimum capital requirements.

27

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## TABLE OF CONTENTS

### RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the section “Cautionary Statement Concerning Forward-Looking Statements,” you should carefully consider the following risk factors in deciding how to vote for the proposals presented in this proxy statement/prospectus. You should also consider the other information in this proxy statement/prospectus and the other documents incorporated by reference into this proxy statement/prospectus. See “Where You Can Find More Information.”

#### Risks Related to the Mergers

The amount of the merger consideration may decrease following the Diboll special meeting.

Upon completion of the first merger, each outstanding share of Diboll common stock will be converted into the right to receive (1) cash consideration equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll’s closing net book value, divided by (b) the Diboll outstanding share number, and (2) a number of shares of Southside common stock equal to the quotient of (a) 5,535,000, divided by (b) the Diboll outstanding share number (and payment in cash in lieu of the issuance of any fractional shares), which we refer to as the stock consideration, without interest.

Pursuant to the terms of the merger agreement, the aggregate cash consideration is subject to downward adjustment, on a dollar-for-dollar basis, in the event Diboll’s closing net book value is less than the target book value of \$100,298,570.

Diboll’s closing net book value will be calculated as the unaudited consolidated net shareholders’ equity of Diboll, determined in accordance with GAAP, but without giving effect to any required purchase accounting adjustments required as a result of the transactions contemplated by the merger agreement. For purposes of calculating the closing net book value, Diboll shall include, without duplication, reductions for: (a) any fees and commissions payable to any broker, finder, financial advisor or investment banking firm in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, on an after-tax basis; (b) any legal and accounting fees incurred in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement and any related SEC and regulatory filings, on an after-tax basis; (c) any amounts paid or payable pursuant to Diboll’s change-in-control bonus pool, on an after-tax basis; (d) except to the extent the aggregate cash consideration has been adjusted for the cashless exercise of Diboll stock options as discussed above, the costs, expenses, payments or other amounts paid or payable pursuant to vesting of any Diboll stock options and any existing employment, salary continuation, deferred compensation or other similar agreements or severance, noncompetition, or retention arrangements between Diboll or any of its subsidiaries and any other person, on an after-tax basis; (e) the termination costs associated with certain designated contracts, on an after-tax basis; and (f) the amount of any and all dividends permitted to be paid by Diboll pursuant to the merger agreement, to the extent paid, declared or expected to be paid or declared, prior to the effective time of the first merger. Additionally, the closing net book value shall reflect the closing mark-to-market valuation of the securities in Diboll’s investment portfolio. The closing net book value may be further adjusted upon the mutual agreement of the parties.

As of the date of this proxy statement/prospectus, Diboll’s net book value, calculated in accordance with the above formula, was greater than the target book value, and if the closing of the merger were to occur on the date of this proxy statement/prospectus, no adjustment to the purchase price would be made based on this calculation. The calculation date for the closing net book value will occur subsequent to the date of the Diboll special meeting, and if the closing net book value is less than the target book value on the determination date, the cash consideration to be received by Diboll shareholders will be adjusted downward.

In addition, the cash consideration may be reduced by the after-tax amount paid by Diboll to holders of options to purchase Diboll common stock who utilize the “cashless exercise” feature of such options and upon such cashless exercise receive payment of an amount in cash equal to the excess of the aggregate fair market value at the time of exercise of the shares of Diboll common stock subject to such options over the

TABLE OF CONTENTS

aggregate purchase price for such shares. Assuming that all holders of Diboll stock options will utilize the cashless exercise feature, based on the closing price of Southside common stock on September 6, 2017, such option exercises would result in a reduction of the aggregate cash consideration by approximately \$1.1 million, net of tax.

Because the market price of Southside common stock will fluctuate, Diboll shareholders cannot be certain of the market value of the merger consideration they will receive.

The market value of the merger consideration may vary from the market value on the date Diboll and Southside announced the mergers, on the date that this proxy statement/prospectus is mailed, on the dates of the Diboll special meeting and on the date the first merger is completed and thereafter due to fluctuations in the market price of Southside common stock. Any change in the market price of Southside common stock prior to the completion of the first merger will affect the market value of the merger consideration that Diboll shareholders will receive following completion of the first merger. Stock price changes may result from a variety of factors that are beyond the control of Southside and Diboll, including but not limited to general market and economic conditions, changes in their respective businesses, operations and prospects and regulatory considerations. Therefore, at the time of the Diboll special meeting, Diboll shareholders will not know the precise market value of the consideration they will receive at the effective time of the first merger. Diboll shareholders should obtain current sale prices for shares of Southside common stock before voting their shares at the Diboll special meeting.

The mergers and related transactions are subject to approval by Diboll shareholders.

The mergers cannot be completed unless the Diboll shareholders approve the merger agreement and the first merger by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Diboll's common stock entitled to vote on the first merger.

The voting power of Diboll shareholders will be diluted by the first merger.

The first merger will result in Diboll shareholders having an ownership stake in the combined company that is smaller than their current stake in Diboll. Upon completion of the first merger, we estimate that continuing Southside shareholders will own approximately 84% of the issued and outstanding shares of common stock of the combined company, and former Diboll shareholders will own approximately 16% of the issued and outstanding shares of common stock of the combined company. Consequently, Diboll shareholders, as a general matter, will have less influence over the management and policies of the combined company after the effective time of the first merger than they currently exercise over the management and policies of Diboll.

Failure to complete the mergers could negatively affect the value of the shares and the future business and financial results of Diboll.

If the mergers are not completed, the ongoing businesses of Diboll could be adversely affected and Diboll will be subject to a variety of risks associated with the failure to complete the mergers, including the following:

- Diboll being required, under certain circumstances, to pay to Southside a termination fee equal to \$9.0 million;
- substantial costs incurred by Diboll in connection with the proposed mergers, such as legal, accounting, financial advisor, filing, printing and mailing fees;
- diversion of management focus and resources from operational matters and other strategic opportunities while working to implement the mergers; and
- reputational harm due to the adverse perception of any failure to successfully complete the mergers.

If the mergers are not completed, these risks could materially affect the business, financial results and the value of Diboll common stock.

TABLE OF CONTENTS

Diboll will be subject to business uncertainties and contractual restrictions while the mergers are pending. Uncertainty about the effect of the mergers on employees and customers may have an adverse effect on Diboll. These uncertainties may impair Diboll's ability to attract, retain and motivate key personnel until the mergers are completed, and could cause customers and others that deal with Diboll to seek to change existing business relationships with Diboll. Retention of certain employees by Diboll may be challenging while the mergers are pending, as certain employees may experience uncertainty about their future roles with Diboll or Southside. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Diboll or Southside, Diboll's business or the business assumed by Southside following the mergers could be harmed. In addition, Diboll has agreed to certain contractual restrictions on the operation of its business prior to closing. See "The Merger Agreement — Covenants and Agreements" on page 73 for a description of the restrictive covenants applicable to Diboll. The merger agreement limits Diboll's ability to pursue an alternative acquisition proposal and requires Diboll to pay a termination fee of \$9.0 million under limited circumstances relating to alternative acquisition proposals. Under the merger agreement, Diboll has agreed not to solicit, initiate or facilitate any alternative business combination transaction or, subject to certain exceptions, participate in discussions or negotiations regarding, or furnish any non-public information relating to, any alternative business combination transaction. See "The Merger Agreement — Covenants and Agreements" on page 73. The merger agreement also provides for Diboll to pay to Southside a termination fee in the amount of \$9.0 million in the event that the merger agreement is terminated for certain reasons. See "The Merger Agreement — Termination Fee" on page 81. These provisions could discourage a potential competing acquirer that might have an interest in acquiring Diboll from considering or making a competing acquisition proposal, even if the potential competing acquirer was prepared to pay consideration with a higher per share cash value than that market value proposed to be received or realized in the first merger, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances under the merger agreement.

The merger agreement contains provisions granting both Diboll and Southside the right to terminate the merger agreement in certain circumstances.

The merger agreement contains certain termination rights, including the right, subject to certain exceptions, of either party to terminate the merger agreement if the first merger is not completed on or prior to March 12, 2018, and the right of Diboll to terminate the merger agreement, subject to certain conditions, to accept a business combination transaction deemed to be superior to the first merger by the Diboll board of directors. If the mergers are not completed, the ongoing business of Diboll could be adversely affected and Diboll will be subject to several risks, including the risks described elsewhere in this "Risk Factors" section.

The first merger is subject to a number of conditions which, if not satisfied or waived in a timely manner, would delay the first merger or adversely impact the companies' ability to complete the transactions.

The completion of the first merger is subject to certain conditions, including, among others, the (1) approval of the first merger by shareholders holding two-thirds of the outstanding shares of Diboll common stock; (2) receipt of all required regulatory approvals for the mergers, without the imposition of any material on-going conditions or restrictions and any applicable waiting periods shall have expired; (3) absence of more than five percent of the outstanding shares of Diboll's common stock exercising (or being entitled to exercise) their dissenters' rights; (4) authorization for listing the shares of Southside common stock to be issued as part of the merger consideration on the Nasdaq Global Select Market; (5) effectiveness of the registration statement of which this proxy statement/prospectus forms a part; (6) each party's receipt of a tax opinion confirming the tax-free treatment of the first merger and the second merger for U.S. federal income tax purposes; (7) absence of the occurrence of a material adverse effect on Diboll or Southside; and (8) other customary closing conditions set forth in the merger agreement. See "The Merger Agreement — Conditions to Completion of the Mergers" on page 79. While it is currently anticipated that the mergers will be completed during the fourth quarter of 2017, there can be no assurance

TABLE OF CONTENTS

that such conditions will be satisfied in a timely manner or at all, or that an effect, event, development or change will not transpire that could delay or prevent these conditions from being satisfied. Accordingly, there can be no guarantee with respect to the timing of the closing of the mergers, whether the mergers will be completed at all and when Diboll shareholders would receive the merger consideration, if at all.

Regulatory approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

Before the transactions contemplated by the merger agreement may be completed, various approvals must be obtained from bank regulatory authorities, which include the Federal Reserve Board, the FDIC and the Texas Department of Banking. These governmental entities may request additional information or materials regarding the regulatory applications and notices submitted by Southside and Diboll, or may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying the completion of the mergers or of imposing additional costs or limitations on the combined company following the mergers. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the mergers that are not anticipated or cannot be met. There can be no assurance as to whether these and other regulatory approvals will be received, the timing of those approvals or whether any conditions will be imposed. See “The Mergers — Regulatory Approvals Required for the Mergers” on page 59. Some of the directors and executive officers of Diboll have interests in seeing the mergers completed that are different from, or in addition to, those of the other Diboll shareholders.

Some of the directors and executive officers of Diboll have arrangements that provide them with interests in the mergers that are different from, or in addition to, those of the shareholders of Diboll generally. These interests and arrangements may create potential conflicts of interest and may influence or may have influenced the directors and executive officers of Diboll to support or approve the mergers. See “The Mergers — Interests of Diboll’s Directors and Executive Officers in the Mergers” beginning on page 56.

The opinion of Diboll’s financial advisor does not reflect changes in circumstances between the date of the signing of the merger agreement and the completion of the mergers.

Diboll’s board of directors received an opinion from its financial advisor as to the fairness of the merger consideration from a financial point of view as of the date of such opinion. Subsequent changes in the operation and prospects of Diboll or Southside, general market and economic conditions and other factors that may be beyond the control of Diboll or Southside, may significantly alter the value of Diboll or Southside or the price of the shares of Southside common stock by the time the mergers are completed. The opinion does not address the fairness of the merger consideration from a financial point of view at the time the mergers are completed, or as of any other date other than the date of such opinion. The opinion of Diboll’s financial advisor is attached as Annex B to this proxy statement/prospectus. For a description of the opinion, see “The Mergers — Opinion of Diboll’s Financial Advisor” on page 48.

**Risks Related to the Combined Company Following the Mergers**

The combined company expects to incur substantial expenses related to the mergers.

The combined company expects to incur substantial expenses in connection with completing the mergers and integrating the business and operations of the two companies. Although Southside and Diboll have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond their control that could affect the total amount or the timing of their integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. As a result, the transaction and integration expenses associated with the mergers could, particularly in the near term, exceed the savings that the combined company expects to achieve from the integration of the businesses following the completion of the mergers.

## TABLE OF CONTENTS

Following the mergers, the combined company may be unable to integrate Diboll's business with Southside successfully and realize the anticipated synergies and other benefits of the mergers or do so within the anticipated timeframe.

The mergers involve the combination of two companies that currently operate as independent companies, as well as the companies' subsidiaries. Although the combined company is expected to benefit from certain synergies, including cost savings, the combined company may encounter potential difficulties in the integration process including:

- the inability to successfully combine Diboll's business with Southside in a manner that permits the combined company to achieve the cost savings anticipated to result from the mergers, which would result in the anticipated benefits of the mergers not being realized in the timeframe currently anticipated or at all;

- the risk of not realizing all of the anticipated operational efficiencies or other anticipated strategic and financial benefits of the mergers within the expected timeframe or at all;

- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the mergers; and

- performance shortfalls as a result of the diversion of management's attention caused by completing the mergers and integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the combined company's management, the disruption of the combined company's ongoing business or inconsistencies in the combined company's operations, any of which could adversely affect the ability of the combined company to maintain relationships with customers and employees or to achieve the anticipated benefits of the mergers, or could otherwise adversely affect the business and financial results of the combined company.

Following the mergers, the combined company may be unable to retain key employees.

The success of the combined company after the mergers will depend in part upon its ability to retain key employees. Simultaneous with the execution of the merger agreement, Southside Bank entered into key employee retention agreements with certain employees of Diboll, the effectiveness of which is conditioned upon the completion of the mergers. However, key employees may depart either before or after the mergers because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the mergers. Accordingly, no assurance can be given that Diboll or Southside or, following the mergers, the combined company will be able to retain key employees.

The mergers will result in changes to the board of directors of the combined company that may affect the strategy of the combined company as compared to that of Southside and Diboll independently.

Immediately following the closing, the Southside board of directors will be increased by two, and Southside will appoint two individuals who are currently directors of Diboll to serve on the Southside board of directors, at least one of whom must be an "independent" director of Southside. The new composition of the board of directors may affect the business strategy and operating decisions of the combined company upon the completion of the mergers.

### Risks Related to an Investment in the Combined Company's Common Stock

The market price of the shares of common stock of the combined company may be affected by factors different from those affecting the price of shares of Southside common stock before the mergers.

The results of operations of the combined company, as well as the market price of shares of the common stock of the combined company after the mergers, may be affected by factors in addition to those currently affecting Southside's or Diboll's results of operations and the market prices of shares of Southside common stock. Accordingly, the historical financial results of Southside and Diboll and the historical market prices of shares of Southside common stock may not be indicative of these matters for the combined company after the mergers. For a discussion of the businesses of

Southside and Diboll and

32

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**TABLE OF CONTENTS**

certain risks to consider in connection with evaluating the proposals to be considered at the Diboll special meeting, see the documents incorporated by reference by Southside into this proxy statement/prospectus referred to under “Where You Can Find More Information” beginning on page 127 and the information contained in Diboll’s historical consolidated financial statements and notes thereto and the section titled “Diboll Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 88.

The market price of the combined company’s common stock may decline as a result of the mergers.

The market price of the combined company’s common stock may decline as a result of the mergers if the combined company does not achieve the perceived benefits of the mergers or the effect of the mergers on the combined company’s financial results is not consistent with the expectations of financial or industry analysts. In addition, upon completion of the first merger, Southside and Diboll shareholders will own interests in a combined company operating an expanded business with a different mix of assets, risks and liabilities. Current Southside and Diboll shareholders may not wish to continue to invest in the combined company, or for other reasons may wish to dispose of some or all of their shares of the combined company.

After the mergers are completed, Diboll shareholders who receive shares of Southside common stock in the first merger will have different rights that may be less favorable than their current rights as Diboll shareholders.

After the closing of the mergers, Diboll shareholders who receive shares of Southside common stock in the first merger will have different rights than they currently have as Diboll shareholders, which may be less favorable than their current rights as Diboll shareholders. For a detailed discussion of the significant differences between the current rights of a shareholder of Diboll and the rights of a shareholder of the combined company following the mergers, see “Comparison of Rights of Southside Shareholders and Diboll Shareholders” beginning on page 118.

The unaudited pro forma condensed combined financial information included elsewhere in this proxy statement/ prospectus may not be representative of the combined company’s results after the mergers, and accordingly, you have limited financial information on which to evaluate the combined company.

The unaudited pro forma condensed combined financial information included elsewhere in this proxy statement/prospectus has been presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that actually would have occurred had the mergers been completed as of the date indicated, nor is it indicative of the future operating results or financial position of the combined company. The unaudited pro forma condensed combined financial information presented elsewhere in this proxy statement/prospectus does not reflect future events that may occur after the mergers. Such information is based in part on certain assumptions regarding the transactions contemplated by the merger agreement that Southside and Diboll believe are reasonable under the circumstances. Southside and Diboll cannot assure you that the assumptions will prove to be accurate over time.

**Risks Related to Tax**

The mergers may have adverse tax consequences.

The parties intend that the first merger and the second merger will be treated as a single “reorganization” within the meaning of Section 368(a) of the Code, and they will receive a legal opinion to that effect. The legal opinion represents the judgment of counsel rendering the opinion and is not binding on the IRS or the courts. If the first merger and the second merger were to fail to qualify as a reorganization within the meaning of Section 368(a) of the Code, then a Diboll shareholder generally would recognize gain or loss, as applicable, equal to the difference between (1) the sum of the fair market value of the shares of Southside common stock and cash in lieu of fractional shares of Southside common stock received by the Diboll shareholder in the first merger; and (2) the Diboll shareholder’s adjusted tax basis in its Diboll common stock. See “The Mergers — U.S. Federal Income Tax Considerations” beginning on page 60.



TABLE OF CONTENTS

THE DIBOLL SPECIAL MEETING

This proxy statement/prospectus is being provided to the holders of Diboll common stock as part of a solicitation of proxies by the Diboll board of directors for use at the Diboll special meeting to be held at the time and place specified below and at any properly convened meeting following an adjournment thereof. This proxy statement/prospectus provides the holders of Diboll common stock with information they need to know to be able to vote or instruct their vote to be cast at the Diboll special meeting.

General

Diboll is furnishing this proxy statement/prospectus to the holders of Diboll common stock as of the record date for use at Diboll's special meeting and any adjournment or postponement of its special meeting.

Date, Time and Place

The Diboll special meeting will be held at the T.L.L. Temple Memorial Library, 300 Park Street, Diboll, Texas 75941, on October 17, 2017, at 2:00 p.m., Central Time, subject to any adjournment or postponement thereof.

Purpose of the Diboll Special Meeting

At the Diboll special meeting, Diboll shareholders will be asked to consider and vote on the following:

- Proposal One: The Merger Proposal — To approve the merger agreement and the first merger, which we refer to as the merger proposal; and

- Proposal Two: The Adjournment Proposal — To approve the adjournment of the Diboll special meeting to a later date or dates, if the Diboll board of directors determines it is necessary, among other things, to permit solicitation of additional proxies if there are not sufficient votes at the time of the Diboll special meeting to approve the merger proposal.

Completion of the first merger is conditioned on, among other things, the approval of the merger agreement and the first merger by the Diboll shareholders.

No other matter can be brought up or voted upon at the Diboll special meeting.

Proposal One: Merger Proposal

Diboll is asking its shareholders to approve the merger proposal. After careful consideration, Diboll's board of directors determined that the mergers, the merger agreement and the transactions contemplated thereby, including the first merger, were advisable and in the best interests of Diboll and Diboll's shareholders.

Diboll shareholders should read carefully this document in its entirety, including the appendices and the documents incorporated by reference, for more detailed information concerning the merger agreement and the mergers. For a detailed discussion of the mergers, including the terms and conditions of the merger agreement, see "The Merger Agreement," beginning on page 69. In addition, Diboll shareholders are directed to the merger agreement, a copy of which is attached as Annex A to this document and incorporated in this document by reference.

Proposal Two: Adjournment Proposal

If, at the Diboll special meeting, the number of shares of Diboll common stock present or represented and voting in favor of the merger proposal is insufficient to approve the merger proposal, Diboll may move to adjourn the Diboll special meeting in order to enable the Diboll board of directors to solicit additional proxies for approval of the merger proposal. In that event, Diboll's shareholders will be asked to vote upon the adjournment proposal and not the merger proposal.

In the adjournment proposal, Diboll is asking its shareholders to authorize the holder of any proxy solicited by its board of directors to vote in favor of granting discretionary authority to the Diboll board of directors to adjourn the Diboll special meeting to another time and place for the purpose of soliciting

TABLE OF CONTENTS

additional proxies. If Diboll's shareholders approve the adjournment proposal, Diboll could adjourn the Diboll special meeting and any adjourned session of the Diboll special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from Diboll shareholders who have previously voted.

Recommendation of the Diboll Board of Directors

On June 12, 2017, the Diboll board of directors unanimously determined that the first merger and the other transactions contemplated by the merger agreement are in the best interests of Diboll and its shareholders and it approved the merger agreement, the first merger and the other transactions contemplated by the merger agreement. Accordingly, the Diboll board of directors unanimously recommends that Diboll shareholders vote as follows:

- "FOR" Proposal One approving the merger agreement and the first merger; and

- "FOR" Proposal Two approving the adjournment of the Diboll special meeting if necessary to permit solicitation of additional proxies.

Holders of Diboll common stock should carefully read this proxy statement/prospectus, including any documents incorporated by reference, and the Appendices in their entirety for more detailed information concerning the merger agreement, first merger and the other transactions contemplated by the merger agreement.

Record Date; Shareholders Entitled to Vote

The record date for the Diboll special meeting is September 6, 2017, which we refer to herein as the Diboll record date. Only record holders of shares of Diboll common stock as of the close of business (5:00 p.m. Central Time), on the Diboll record date are entitled to notice of, and to vote at, the Diboll special meeting or any adjournment thereof. At the close of business on the Diboll record date, the only outstanding securities of Diboll with a right to vote on the proposals were Diboll common stock, with 848,776 shares of Diboll common stock issued and outstanding. Each share of Diboll common stock outstanding on the Diboll record date is entitled to one vote on each proposal.

Quorum and Adjournment

No business may be transacted at the Diboll special meeting unless a quorum is present. Holders representing at least a majority of the shares of Diboll common stock entitled to vote at the Diboll special meeting must be present, in person or represented by proxy, to constitute a quorum. However, the affirmative vote of the holders of at least two-thirds of the outstanding Diboll common stock entitled to vote at the Diboll special meeting is required to approve the merger agreement and the first merger. As a result, if shares representing at least two-thirds of the shares of Diboll common stock outstanding on the close of business on the Diboll record date are not present, in person or represented by proxy, at the Diboll special meeting, the presence of a quorum will still not permit the merger agreement and the first merger to be approved at the Diboll special meeting.

If a quorum is not present, or if fewer shares than are required are voted in favor of the proposal to approve the merger proposal, then the Diboll special meeting may be adjourned to allow for the solicitation of additional proxies. To approve the adjournment proposal at the Diboll special meeting at which a quorum is present, the holders of a majority of shares of Diboll common stock entitled to vote on, and who vote for or against, or expressly abstain from voting with respect to such proposal, at the Diboll special meeting must vote in favor of such proposal. If a quorum is present, broker non-votes and failures to authorize a proxy or vote in person will not be counted as votes cast and will have no effect on the outcome of such proposal.

To approve the adjournment proposal at the Diboll special meeting at which a quorum is not present, the holders of a majority of shares of Diboll common stock entitled to vote and represented, either in person or by proxy, at the Diboll special meeting must vote in favor of such proposal. If a quorum is not present, broker non-votes will have the same effect as a vote against the proposal but failures to authorize a proxy or vote in person will have no effect on the outcome of such proposal.

## TABLE OF CONTENTS

Regardless of whether or not a quorum is present at the Diboll special meeting, if you mark “ABSTAIN” on your proxy with respect to the adjournment proposal, it will have the same effect as a vote “AGAINST” the proposal.

No notice of an adjourned Diboll special meeting need be given unless after the adjournment, a new record date is fixed for the adjourned Diboll special meeting, in which case a notice of the adjourned Diboll special meeting shall be given to each Diboll shareholder of record entitled to vote at the adjourned Diboll special meeting. At any adjourned Diboll special meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the Diboll special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the adjourned Diboll special meeting.

All shares of Diboll common stock represented at the Diboll special meeting, including shares that are represented but that vote to abstain and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum.

### Vote Required for Approval; Abstentions; Failure to Vote

The required votes to approve the Diboll proposals are as follows:

Proposal One: The Merger Proposal — Approving the merger proposal requires the affirmative vote of at least two-thirds of the issued and outstanding shares of Diboll common stock entitled to vote at the Diboll special meeting. Only shares of Diboll common stock are entitled to vote at the Diboll special meeting. Failures to vote, broker non-votes and abstentions will have the same effect as a vote “AGAINST” this proposal.

Proposal Two: The Adjournment Proposal — Approving the adjournment proposal, if necessary, to allow for the solicitation of additional proxies requires the affirmative vote of the holders of a majority of the shares entitled to vote on, and who vote for or against, or expressly abstain from voting with respect to, such proposal at the Diboll special meeting if a quorum is present. If a quorum is not present, approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares entitled to vote and represented, either in person or by proxy, at the Diboll special meeting. If you mark “ABSTAIN” on your proxy with respect to the adjournment proposal, it will have the same effect as a vote “AGAINST” the proposal. Broker non-votes and failures to authorize a proxy or vote in person will have no effect on this proposal if a quorum is present. Broker non-votes will have the same effect as a vote against the proposal if a quorum is not present but failures to authorize a proxy or vote in person will have no effect on this proposal if a quorum is not present.

### Voting by Diboll Directors and Executive Officers

At the close of business on the Diboll record date, Diboll directors and executive officers and their affiliates were entitled to vote 193,723 shares of Diboll common stock, or approximately 22.8% of the shares of Diboll common stock outstanding on that date. Diboll expects that its directors and executive officers and their affiliates will vote their shares in favor of both of the Diboll proposals.

### Diboll Common Stock Subject to Voting and Support Agreements

The directors, executive officers and significant shareholders of Diboll, solely in their capacity as shareholders of Diboll, have entered into voting and support agreements with Southside pursuant to which they have agreed to vote their shares of Diboll common stock in favor of the approval of the merger agreement and the first merger and against the approval or adoption of any proposal made in opposition to the first merger. Under the terms of the voting and support agreements, such persons have also appointed Southside as their proxy for voting their shares of Diboll common stock at the Diboll special meeting. As of the Diboll record date, 382,158 shares of Diboll common stock, or approximately 45.0% of the outstanding shares of Diboll common stock entitled to vote at the Diboll special meeting, are bound by the voting and support agreements.

TABLE OF CONTENTS

Voting on Proxies by Holders of Record; Incomplete Proxies

If you were a record holder of Diboll common stock at the close of business on the Diboll record date, a proxy card is enclosed for your use. Diboll requests that you vote your shares as promptly as possible by submitting your Diboll proxy card by mail using the enclosed return envelope. When the accompanying proxy card is returned properly executed, the shares of Diboll common stock represented by it will be voted at the Diboll special meeting or any adjournment thereof in accordance with the instructions contained in the proxy card.

If a record holder returns an executed proxy card without an indication as to how the shares of Diboll common stock represented by it are to be voted with regard to a particular proposal, the shares of Diboll common stock represented by the proxy will be voted in accordance with the recommendation of the Diboll board of directors and, therefore, such shares will be voted:

- “FOR” Proposal One approving the merger agreement and the first merger; and

- “FOR” Proposal Two approving the adjournment of the Diboll special meeting, if necessary to permit solicitation of additional proxies.

At the date hereof, the Diboll board of directors has no knowledge of any business that will be presented for consideration at the Diboll special meeting and that would be required to be set forth in this proxy statement/prospectus or the related proxy card other than the matters set forth in Diboll’s Notice of Special Meeting of Shareholders.

Your vote is important. Accordingly, if you were a record holder of Diboll common stock on the Diboll record date, please sign and return the enclosed proxy card whether or not you plan to attend the Diboll special meeting in person.

Shares Held in “Street Name;” Broker Non-Votes

Banks, brokers and other nominees who hold shares of Diboll common stock in “street name” for a beneficial owner of those shares typically have the authority to vote in their discretion on “routine” proposals when they have not received instructions from beneficial owners. However, banks, brokers and other nominees are not allowed to exercise their voting discretion with respect to the approval of matters determined to be “non-routine,” without specific instructions from the beneficial owner. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the Diboll special meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal. The merger proposal and the adjournment proposal are non-routine matters. Accordingly, if your broker, bank or other nominee holds your shares of Diboll common stock in “street name,” your broker, bank or other nominee will vote your shares of Diboll common stock with respect to the merger proposal and the adjournment proposal only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement/prospectus.

Revocability of Proxies and Changes to a Diboll Shareholder’s Vote

A Diboll shareholder entitled to vote at the Diboll special meeting may revoke a proxy at any time before such time that the proxy card for any such holders of Diboll common stock must be received at the Diboll special meeting by taking any of the following three actions:

- delivering written notice of revocation to Charlotte Parish, Corporate Secretary, Diboll State Bancshares, Inc., 104 North Temple Drive, Diboll, Texas 75941;

- delivering a proxy card bearing a later date than the proxy that such shareholder desires to revoke; or

- attending the Diboll special meeting and voting in person.

Merely attending the Diboll special meeting will not, by itself, revoke your proxy; a Diboll shareholder must cast a subsequent vote at the Diboll special meeting using forms provided for that purpose. The last valid vote that Diboll receives before the polls close at the Diboll special meeting is the vote that will be counted.

37

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TABLE OF CONTENTS

If you hold your shares in “street name” through a bank, broker or other nominee, you must contact such bank, broker or nominee if you desire to revoke your proxy.

**Solicitation of Proxies**

The Diboll board of directors is soliciting proxies for the Diboll special meeting from holders of its Diboll common stock entitled to vote at the Diboll special meeting. In accordance with the merger agreement, Diboll will pay its own cost of soliciting proxies from its shareholders, including the cost of mailing this proxy statement/prospectus. In addition to solicitation of proxies by mail, proxies may be solicited by Diboll’s officers, directors and regular employees, without additional remuneration, by personal interview, telephone or other means of communication. Diboll will make arrangements with brokerage houses, custodians, nominees and fiduciaries to forward proxy solicitation materials to beneficial owners of Diboll common stock. Diboll may reimburse these brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding the proxy materials.

**Attending the Diboll Special Meeting; Voting in Person**

Only record holders of Diboll common stock on the record date, their duly appointed proxies, and invited guests may attend the Diboll special meeting. However, only holders of Diboll common stock will be entitled to vote. All attendees must present government-issued photo identification (such as a driver’s license or passport) for admittance. The additional items, if any, that attendees must bring to gain admittance to the Diboll special meeting depend on whether they are shareholders of record or proxy holders. A Diboll shareholder who holds shares of Diboll common stock directly registered in such shareholder’s name who desires to attend the Diboll special meeting in person should bring government-issued photo identification.

A shareholder who holds shares in “street name” through a broker, bank, trustee or other nominee (referred to in this proxy statement/prospectus as a “beneficial owner”) who desires to attend the Diboll special meeting in person must bring proof of beneficial ownership as of the record date, such as a letter from the broker, bank, trustee or other nominee that is the record owner of such beneficial owner’s shares, a brokerage account statement or the voting instruction form provided by the broker.

A person who holds a validly executed proxy entitling such person to vote on behalf of a record owner of Diboll common stock who desires to attend the Diboll special meeting in person must bring the validly executed proxy naming such person as the proxy holder, signed by the Diboll shareholder of record, and proof of the signing shareholder’s record ownership as of the record date.

No cameras, recording equipment or other electronic devices will be allowed in the meeting room. Failure to provide the requested documents at the door or failure to comply with the procedures for the Diboll special meeting may prevent Diboll shareholders from being admitted to the Diboll special meeting.

**Adjournments**

If a quorum is not present at the Diboll special meeting, or if a quorum is present at the Diboll special meeting but there are not sufficient votes at the time of the Diboll special meeting to approve the merger proposal, then Diboll shareholders may be asked to vote on a proposal to adjourn the Diboll special meeting so as to permit solicitation of additional proxies. Any adjournment of the Diboll special meeting may be made from time to time by the Diboll shareholders, whether or not a quorum exists, without further notice other than by an announcement made at the Diboll special meeting (unless a new record date is fixed).

To approve the adjournment proposal at the Diboll special meeting at which a quorum is present, the holders of a majority of shares of Diboll common stock entitled to vote on, and who vote for or against, or expressly abstain from voting with respect to such proposal, at the Diboll special meeting must vote in favor of such proposal. If a quorum is present, broker non-votes and failures to authorize a proxy or vote in person at the meeting will not be counted as votes cast and will have no effect on the outcome of such proposal.

TABLE OF CONTENTS

To approve the adjournment proposal at the Diboll special meeting at which a quorum is not present, the holders of a majority of shares of Diboll common stock entitled to vote and represented, either in person or by proxy, at the Diboll special meeting must vote in favor of such proposal. If a quorum is not present, broker non-votes will have the same effect as a vote against the proposal but failures to authorize a proxy or vote in person at the meeting will have no effect on the outcome of such proposal.

Regardless of whether or not a quorum is present at the Diboll special meeting, if you mark “ABSTAIN” on your proxy with respect to the adjournment proposal, it will have the same effect as a vote “AGAINST” the proposal.

Assistance

If you need assistance in completing your proxy card, have questions regarding the Diboll special meeting or would like additional copies of this proxy statement/prospectus, please contact H. J. (“Jay”) Shands, III, Chairman of the Board, President and Chief Executive Officer, at (936) 829-4721.

39

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TABLE OF CONTENTS

THE MERGERS

The following discussion contains certain information about the mergers. The discussion is subject, and qualified in its entirety by reference, to the merger agreement attached as Annex A to this proxy statement/ prospectus. We urge you to read carefully this entire proxy statement/prospectus, including the merger agreement attached as Annex A, for a more complete understanding of the mergers.

General

Each of Southside and Diboll's respective boards of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement. The merger agreement provides for the acquisition of Diboll by Southside pursuant to the merger of Merger Sub with and into Diboll, with Diboll as the surviving company, which we refer to as the first merger. Immediately after the first merger, Diboll will merge with and into Southside, with Southside as the surviving company, which we refer to as the second merger. Immediately after the second merger, First Bank & Trust, a wholly owned subsidiary of Diboll prior to the first merger, will be merged with and into Southside Bank, a wholly owned subsidiary of Southside, with Southside Bank as the surviving bank, which we refer to as the bank merger. We collectively refer to the first merger, the second merger and the bank merger as the mergers.

Purchase Price and Purchase Price Adjustments

At the effective time of the first merger, each share of Diboll common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time of the first merger, except for specified shares of Diboll common stock held by Southside or Diboll, will be converted into the right to receive:

(1)

cash consideration equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll's closing net book value, divided by (b) the number of shares of Diboll common stock issued and outstanding immediately prior to the effective time of the first merger (after giving effect to any valid exercises of outstanding Diboll equity awards prior to the effective time of the first merger), which we refer to as the Diboll outstanding share number; and

(2)

a number of shares of Southside common stock equal to the quotient of (a) 5,535,000, divided by (b) the Diboll outstanding share number, which we refer to as the stock consideration, without interest.

The stock consideration and the cash consideration are collectively referred to as the merger consideration.

The aggregate amount of the cash consideration will be decreased by the after-tax amount paid by Diboll to holders of options to purchase Diboll common stock who utilize the "cashless exercise" feature of such options and upon such cashless exercise receive payment of an amount in cash equal to the excess of the aggregate fair market value at the time of exercise of the shares of Diboll common stock subject to such options over the aggregate purchase price for such shares.

In addition, the aggregate amount of the cash consideration will be decreased on a dollar-for-dollar basis if Diboll's closing net book value as of a date that is 15 business days prior to the closing date, which we refer to as the determination date, is less than the target book value of \$100,298,570.

Diboll's closing net book value will be calculated as the unaudited consolidated net shareholders' equity of Diboll, determined in accordance with GAAP, but without giving effect to any required purchase accounting adjustments required as a result of the transactions contemplated by the merger agreement. For purposes of calculating the closing net book value, Diboll shall include, without duplication, reductions for: (a) any fees and commissions payable to any broker, finder, financial advisor or investment banking firm in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, on an after-tax basis; (b) any legal and accounting fees incurred in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement and any related SEC and regulatory filings, on an after-tax basis; (c) any amounts paid or payable pursuant to Diboll's change-in-control bonus pool, on an after-tax basis; (d) except to the extent the aggregate cash consideration has been adjusted for the cashless exercise of Diboll stock options as discussed above, the





**TABLE OF CONTENTS**

costs, expenses, payments or other amounts paid or payable pursuant to vesting of any Diboll stock options and any existing employment, salary continuation, deferred compensation or other similar agreements or severance, noncompetition, or retention arrangements between Diboll or any of its subsidiaries and any other person, on an after-tax basis; (e) the termination costs associated with certain designated contracts, on an after-tax basis; and (f) the amount of any and all dividends permitted to be paid by Diboll pursuant to the merger agreement, to the extent paid, declared or expected to be paid or declared, prior to the effective time of the first merger. Additionally, the closing net book value shall reflect the closing mark-to-market valuation of the securities in Diboll's investment portfolio. The closing net book value may be further adjusted upon the mutual agreement of the parties.

For example, and for illustration purposes only, assuming that (1) all holders of options to purchase shares of Diboll common stock utilize the cashless exercise feature of such options immediately prior to closing and receive a cash payment therefor and the fair market value of the shares of Diboll common stock subject to such option is deemed to be equal to the merger consideration per share of Diboll common stock; for this example 16,131 stock options are estimated to utilize the cashless exercise feature with an estimated average exercise price of \$134.92 (resulting in a payment to option holders of \$1,654,718, which on an after-tax basis to Diboll is \$1,092,114), (2) Diboll's closing net book value is at least equal to the target book value, (3) the price per share of the Southside common stock received in the merger is equal to \$32.10, the closing price on September 6, 2017, and (4) the Diboll outstanding share number is 848,776, each share of Diboll common stock would be converted into the right to receive \$28.17 in cash and 6.5212 shares of Southside common stock with a value of \$209.33, or aggregate merger consideration per share of Diboll common stock of \$237.50.

Southside will not issue any fractional shares of Southside common stock in the first merger. Diboll shareholders who would otherwise be entitled to a fractional share of Southside common stock upon the completion of the first merger will instead receive an amount in cash based on the volume weighted average price per share of Southside common stock for the last full trading day immediately preceding the day on which the first merger is completed, which we refer to as the Southside closing share value.

Diboll shareholders are being asked to approve the merger agreement and the first merger. See "The Merger Agreement" for additional and more detailed information regarding the legal documents that govern the mergers, including information about the conditions to the completion of the first merger and the provisions for terminating or amending the merger agreement.

**Background of the Mergers**

The Diboll board of directors and management of Diboll regularly review Diboll's future prospects for earnings and asset growth as well as the implementation and viability of Diboll's strategic initiatives. From time to time, the Diboll board of directors and management of Diboll will review and discuss Diboll's long-term objectives and consider ways to enhance shareholder value. These strategic discussions have focused on, among other things, the business environment facing financial institutions in general and Diboll in particular, as well as conditions and ongoing consolidation in the financial services industry and ways in which to enhance Diboll's competitive position.

As a result of an ongoing desire to provide shareholder liquidity and a perceived recent improvement in market pricing for larger community bank franchises in Texas, in September 2016, H.J. ("Jay") Shands, III, Chairman of the Board, President and Chief Executive Officer of Diboll, contacted representatives of Hovde to discuss potential business combination opportunities, including the prospect of merging Diboll into a larger institution, and to identify potential strategic merger partners. As part of these discussions, Mr. Shands expressed the desire to enhance Diboll shareholder value and provide opportunities for shareholder liquidity.

Diboll management and representatives of Hovde met several times during the fourth quarter of 2016 to further discuss these strategic objectives. As a result of these meetings, Diboll management and Hovde identified three institutions with which to initiate discussions regarding a potential business combination, as well as planned a course of action for determining the interest of each institution in such a transaction. The three institutions identified were Southside, a second institution (hereafter referred to as "Bank A"), and a third institution (hereafter referred to as "Bank B").

TABLE OF CONTENTS

On December 15, 2016, Mr. Shands visited with the Chief Executive Officer of Bank A and disclosed that Diboll was working with Hovde to evaluate Diboll's strategic alternatives and to expect to visit with Hovde regarding the discussion of a potential business combination. Shortly after this visit, Hovde spoke with the Chief Executive Officer of Bank A and scheduled a meeting for Hovde to visit with management of Bank A regarding the possibility of a business combination with Diboll.

On January 4, 2017, Hovde met with management of Southside to discuss Southside's interest in pursuing a merger with Diboll and whether or not Southside would have an interest in visiting with management of Diboll. Lee Gibson, President and Chief Executive Officer of Southside, expressed an interest in visiting with Diboll's management team. Hovde communicated Mr. Gibson's interest to Mr. Shands and coordinated dates for Messrs. Gibson and Shands to meet. On January 16, 2017, Mr. Gibson met with Mr. Shands in Lufkin, Texas to discuss the cultures and operations of their respective institutions and the potential for a strategic business combination. After the meeting, Hovde visited with Mr. Gibson, who indicated that Southside would have an interest in pursuing further discussions with Diboll with respect to a potential business combination. Hovde communicated to Mr. Gibson that Diboll would be in regulatory examinations during January and February of 2017 and that Hovde would follow up with Mr. Gibson regarding advancing discussion with Diboll in February 2017.

On January 20, 2017, Hovde met with management from Bank A to discuss the operations of Diboll generally and to evaluate Bank A's interest regarding a potential business combination with Diboll. Bank A informed Hovde that it was interested in pursuing a transaction with Diboll and requested additional due diligence information regarding Diboll. In addition, management of Bank A requested that Hovde compile an informational memorandum on Diboll to further assist Bank A in evaluating the opportunity.

On January 23, 2017, Diboll formally engaged Hovde to act as its exclusive financial advisor and to explore business combination opportunities with Southside, Bank A and Bank B.

On January 25, 2017, representatives of Bank B met with management of Diboll in Diboll, Texas. Bank B informed Diboll that it was interested in exploring a business combination with Diboll, but that it would not be in a position to pursue a transaction or conduct due diligence until the fourth quarter of 2017. Diboll considered the advantages and disadvantages of suspending its evaluation of potential merger partners until such time that Bank B was in a position to consider a transaction. Diboll determined that waiting for Bank B created potential risk for Diboll, both in terms of lost opportunities to partner with Southside or Bank A and potential changes in general economic and market conditions that could adversely affect the viability of a potential transaction with Southside or Bank A. Due to Diboll's considerations of these factors, among others, including the expressed interest of both Southside and Bank A to initiate due diligence and negotiation of a definitive agreement as soon as possible, Diboll proceeded to advance discussions with Southside and Bank A rather than suspend such discussions until Bank B could be fully considered as a merger partner.

On February 14, 2017, Southside entered into a non-disclosure agreement with Hovde to begin sharing non-public information regarding Diboll with Southside to assist Southside in its due diligence investigation of Diboll and to further evaluate the possibility of a business combination with Diboll.

On February 21, 2017, management of Diboll met with management of Southside in Tyler, Texas to further explore the respective cultures and operations of the organizations, potential challenges of combining and integrating the businesses, assets and workforces of the institutions, the potential economies of scale and increased efficiencies of operations, including the realization of synergies and cost savings, and each party's respective interest in pursuing a transaction. Upon adjourning the meeting, Mr. Gibson expressed Southside's interest in pursuing a transaction with Diboll and verbally indicated that Southside would consider offering merger consideration with a value of at least \$200 million.

On February 24, 2017, Bank A executed a non-disclosure agreement with Hovde. Hovde provided Bank A with non-public information on Diboll, including an informational memorandum that Bank A requested to assist Bank A in evaluating a proposed business combination with Diboll. Shortly after executing the non-disclosure agreement with Hovde, on March 5, 2017, management of Bank A met with management of Diboll in Lufkin, Texas to discuss a potential strategic combination of the institutions.

TABLE OF CONTENTS

On March 16, 2017, Southside submitted a written non-binding letter of interest (the “Southside LOI”) to Hovde and Diboll, which indicated a proposal for aggregate merger consideration ranging between \$200-\$210 million in exchange for all of the issued and outstanding shares of Diboll common stock. The Southside LOI also indicated that 87.5% of the merger consideration would consist of Southside common stock and 12.5% of the merger consideration would consist of cash. The Southside LOI also indicated that two members of the Diboll board of directors would be invited to join the Southside board of directors after the closing of the transaction. The letter included an exclusivity period of 45 days for due diligence and the negotiation of a definitive agreement.

On March 24, 2017, Bank A submitted a written non-binding letter of interest (the “Bank A LOI”) to Hovde and Diboll, which indicated a proposal for aggregate merger consideration of \$210 million in exchange for all of the issued and outstanding shares of Diboll common stock. The Bank A LOI also indicated that 80% of the merger consideration would consist of Bank A common stock and 20% of the merger consideration would consist of cash. The Bank A LOI did not offer Diboll any seats on Bank A’s board of directors. The Bank A LOI included an exclusivity period that extended to September 30, 2017 for due diligence and negotiation of a definitive agreement.

On March 31, 2017, Hovde met with the Diboll board of directors. At this meeting, Hovde provided the Diboll board of directors with its analyses of the financial terms of the Southside and Bank A offers, as well as an overview of the respective terms of Southside LOI and the Bank A LOI. As part of its evaluation of Southside and Bank A offers, the Diboll board of directors considered, among other factors, the financial, business and legal terms of the Southside LOI and the Bank A LOI, historical payments and rates of cash and stock dividends on outstanding common stock of each organization, historical trading multiples and performance of each organization’s common stock, the timetable for completing the transaction and exclusivity period proposed by each organization, and the potential economies of scale and increased efficiencies of operations that could result from a combination with each entity. After due consideration of these and other factors, and further deliberations, the Diboll board of directors determined that it was advisable and in the best interest of Diboll and its shareholders to execute the Southside LOI and pursue a transaction with Southside generally based on the terms of the Southside LOI, provided that Southside agree to pay merger consideration at or near the high end of the range set forth in the Southside LOI.

Between March 31 and April 11, 2017, Hovde and Southside further negotiated the terms of the Southside LOI. On April 11, 2017, Southside provided Hovde and Diboll with the revised Southside LOI, which indicated aggregate merger consideration of 5,400,000 shares of Southside common stock and \$25,000,000 in cash, subject to certain adjustments. After further deliberation by the Diboll board of directors, Diboll executed the Southside LOI.

Upon the execution of the Southside LOI, Hovde established a virtual electronic data room to facilitate due diligence investigations. From April 11 to June 12, 2017, Southside and Diboll conducted reciprocal due diligence on each other’s businesses, including with respect to regulatory, litigation, tax, financial and other matters.

Diboll received the initial draft of the merger agreement from Southside on May 9, 2017 and the parties negotiated the terms of the merger agreement until the document was executed on June 12, 2017. During the due diligence and negotiation period, Southside declared a 2.5% stock dividend. As a result, the stock portion of the merger consideration was adjusted upward to 5,535,000 shares of Southside common stock to reflect the increase in Southside shares outstanding. During the negotiation period, the parties also agreed that the \$25,000,000 of cash consideration would be reduced (i) to the extent that Diboll’s closing net book value was less than Diboll’s target book value, which is equal to Diboll’s shareholders’ equity as of December 31, 2016 and (ii) by the after-tax amount of cash paid to holders of Diboll stock options to settle their options in cash prior to closing. The parties also agreed that Diboll would be permitted to pay a special dividend to its shareholders if the time between executing a definitive agreement and closing exceeded six months so long as the payment of such dividend, along with any other permitted dividends did not cause Diboll’s Tier 1 leverage ratio to drop below 8.75%.

On June 12, 2017, the Diboll board of directors met with Diboll’s legal and financial advisors to consider and discuss the merger agreement, which was in substantially final form. At this meeting, Hovde reviewed the financial aspects of the mergers. At the conclusion of its presentation and after responding to

TABLE OF CONTENTS

questions from the Diboll board of directors, Hovde rendered to the Diboll board of directors its oral opinion that the aggregate merger consideration to be received by Diboll shareholders from Southside in the first merger, which consisted of 5,535,000 shares of Southside common stock and \$25,000,000 in cash, subject to adjustment as provided in the merger agreement, was fair to the shareholders of Diboll from a financial point of view. Hovde's oral opinion was subsequently confirmed by delivery of its written opinion, dated June 12, 2017, to the Diboll board of directors. Also at this meeting, Fenimore, Kay, Harrison & Ford, LLP, Diboll's legal counsel, reviewed the material legal terms of the merger agreement and ancillary legal documents to the merger agreement, including the provisions of the merger agreement that permit the Diboll board of directors to terminate the merger agreement under certain circumstances in order for the Diboll board of directors to comply with its fiduciary duties as directors of Diboll. Diboll's legal counsel also reviewed in detail the business points, contingencies and timing considerations related to the Mergers. The Diboll board of directors asked a series of questions to Diboll's advisors regarding the terms and conditions of the merger agreement and engaged in a full discussion regarding the proposed transaction.

Based upon the Diboll board of directors' review and discussion of the merger agreement, the opinion of Hovde and other relevant factors, the Diboll board of directors unanimously approved and authorized the merger agreement, the first merger and the other transactions contemplated by the merger agreement, and authorized Diboll's management to execute and deliver the merger agreement.

Also on June 12, 2017, the Southside board of directors held a special meeting to review and discuss the merger agreement and the transactions contemplated by the merger agreement, including the first merger. At this meeting, the Southside board of directors received a presentation from Southside's legal counsel, Alston & Bird LLP. Also at this meeting, Southside's financial advisor, Keefe, Bruyette & Woods, Inc., discussed financial aspects of the proposed transaction. The Southside board of directors engaged in a full discussion regarding the proposed transaction. Following this discussion, the Southside board of directors unanimously approved and authorized the merger agreement, the first merger and the other transactions contemplated by the merger agreement, and authorized Southside's management to execute and deliver the merger agreement.

On June 12, 2017, Diboll and Southside executed the merger agreement, and the directors, executive officers and certain shareholders of Diboll delivered to Southside their voting and support agreements. Southside issued a press release announcing the proposed transaction after the close of trading markets on June 12, 2017.

Southside's Reasons for the Mergers

In reaching its decision to approve and adopt the merger agreement, the mergers and the other transactions contemplated by the merger agreement, including the issuance of Southside common stock as part of the merger consideration, the Southside board of directors considered a number of factors, including the following material factors:

- each of Southside's and Diboll's business, operations, financial condition, asset quality, earnings and prospects;
- the strategic fit of the businesses of the two companies, including their complementary markets, business lines and loan and deposit profiles;
- the anticipated pro forma impact of the transaction on the combined company, including the expected impact on financial metrics including earnings and tangible book value and regulatory capital levels, as well as the future impact the transaction could have on Southside's earning asset mix to more heavily weight loans and reduce the percentage of the securities portfolio;
- its understanding of the current and prospective environment in which Southside and Diboll operate, including national, state and local economic conditions, the competitive environment for financial institutions generally, and the likely effect of these factors on Southside both with and without the proposed transaction;



TABLE OF CONTENTS

- its review and discussions with Southside's management concerning the due diligence investigation of Diboll, including its review of Diboll's financial condition, results of operation, asset quality, market areas, growth potential (projected potential accretion to earnings per share and the projected payback period of the estimated decrease in tangible book value) and quality of senior management;

- the perceived compatibility of the corporate cultures of the two companies, which management believes should facilitate integration and implementation of the transaction;

- the structure of the transaction as a combination in which the combined company would operate under the Southside brand and Southside's board of directors and management would have substantial participation in the combined company;

- the regulatory and other approvals required in connection with the mergers and the expectation that such regulatory approvals will be received in a timely manner and without the imposition of unacceptable conditions; and

- the financial and other terms of the merger agreement, including the merger consideration, expected tax treatment, the deal protection and termination fee provisions, and restrictions on the conduct of Diboll's business between the date of the merger agreement and the date of completion of the mergers.

Southside's board of directors also considered potential risks relating to the mergers including the following:

- Southside management's attention and Southside resources may be diverted from the operation of Southside's business and towards the completion of the mergers;

- Southside may not realize all of the anticipated benefits of the mergers, including cost savings, maintenance of existing customer and employee relationships, and minimal disruption in the integration of the Diboll's operations with Southside;

- the nature and amount of payments and other benefits to be received by Diboll management in connection with the mergers pursuant to existing Diboll plans and compensation arrangements and the merger agreement and the key employee retention agreements executed in connection with the execution of the merger agreement;

- the substantial costs that Southside will incur in connection with the mergers even if they are not consummated; and

- approvals from regulatory authorities could impose conditions that could have the effect of delaying completion of the mergers or imposing additional costs.

The foregoing discussion of the factors considered by the Southside board of directors is not intended to be exhaustive, but, rather, includes the material factors considered by the Southside board of directors. In reaching its decision to approve and adopt the merger agreement, the mergers and the other transactions contemplated by the merger agreement, including the issuance of Southside common stock as part of the merger consideration, the

Southside board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The Southside board of directors considered all these factors as a whole and overall considered the factors to be favorable to, and to support, its determination.

Diboll's Reasons for the Mergers

The Diboll board of directors has unanimously approved the merger agreement and the first merger and unanimously recommends that the Diboll shareholders vote "FOR" the merger proposal.

45

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TABLE OF CONTENTS

In reaching its decision to approve the merger agreement and the transactions contemplated thereby, including the first merger, and recommend the merger agreement and the first merger to its shareholders, the Diboll board of directors evaluated the mergers and the merger agreement, in consultation with Diboll's management, as well as its legal and financial advisors, and considered a number of positive factors, including the following material factors:

- the Diboll board of directors' familiarity with and review of information concerning the business, results of operations, asset quality, financial condition, competitive position and future prospects of Diboll;
- the current and prospective environment in which Diboll operates, including national, regional and local economic conditions and the interest rate environment, increased operating costs resulting from regulatory initiatives and compliance mandates, the competitive environment for banks, thrifts and other financial institutions generally and the increased regulatory burdens on financial institutions generally, evolving trends in technology, the trend toward consolidation in the banking industry and in the financial services industry, and the likely effects of these factors on Diboll's potential for growth, development, productivity, profitability and strategic options;
- the complementary aspects of Diboll's and Southside's respective businesses, including customer focus, geographic coverage, business orientation and compatibility of the companies' management and operating styles;
- the results that Diboll could expect to obtain if it continued to operate independently, and the likely benefits to shareholders of that course of action, as compared with the value of the merger consideration offered by Southside and Diboll's belief that a merger with Southside would allow Diboll shareholders to participate in the future performance of a combined company that would have better future prospects than Diboll was likely to achieve on a stand-alone basis or through other strategic alternatives;
- the limited liquidity that Diboll shareholders have with respect to their investment in Diboll, for which there is no active public market, and that shareholders of Diboll will receive merger consideration in shares of Southside common stock, which is publicly traded on NASDAQ, which would be expected to provide such shareholders with increased liquidity of their investment;
- the financial presentation of Hovde and the opinion of Hovde dated as of June 12, 2017, that, as of the date of such opinion, and subject to the assumptions, limitations and qualifications set forth in the opinion, the aggregate merger consideration to be received by the holders of Diboll common stock was fair, from a financial point of view, to the holders of Diboll common stock (see "The Mergers — Opinion of Diboll's Financial Advisor," beginning on page 48);
- the treatment of the first merger as a "reorganization" within the meaning of Section 368(a) of the Code with respect to Diboll common stock exchanged for Southside common stock;
- the ability of Southside to pay the aggregate merger consideration without a financing contingency and without the need to obtain financing to close the transaction;
- the regulatory and other approvals required in connection with the mergers and the likelihood that the approvals needed to complete the mergers will be obtained within a reasonable time and without unacceptable conditions;

- the merger with a larger holding company would provide the opportunity to realize economies of scale, increase efficiencies of operations and enhance the development of new products and services;
- the agreement of Southside to honor certain existing employee benefits; and
- the Diboll stock options may be exercised by the holders thereof or settled in cash pursuant to the Diboll State Bancshares, Inc. Incentive Stock Option 2014 — Plan, or a predecessor plan, prior to closing.

TABLE OF CONTENTS

The Diboll board of directors also considered potential risks and potentially negative factors concerning the first merger in connection with its deliberations of the proposed transaction, including the following material factors:

- the challenges of combining the businesses, assets and workforces of two financial institutions;
- the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the mergers;
- the risks and costs to Diboll if the first merger is not completed;
- the fact that the merger consideration, a large component which consists of shares of Southside common stock, provides less certainty of value to Diboll shareholders compared to a transaction in which they would receive only cash consideration;
- the fact that gains from the cash component of the merger consideration would generally be taxable to Diboll's U.S. shareholders for U.S. federal income tax purposes;
- the potential for unintended delays in the regulatory approval process;
- the fact that the merger agreement prohibits Diboll from soliciting acquisition proposals or, subject to certain exceptions, engaging in negotiations concerning or providing nonpublic information to any person relating to an acquisition proposal, and the fact that Diboll would be obligated to pay a termination fee following the termination of the merger agreement under certain circumstances;
- that some of Diboll's directors and executive officers have other financial interests in the mergers in addition to their interests as Diboll shareholders, including financial interests that are the result of existing compensation arrangements with Diboll and/or prospective compensation arrangements with Southside and the manner in which such interests would be affected by the mergers;
- the requirement that Diboll conduct its business in the ordinary course and other restrictions on the conduct of Diboll's business before completion of the mergers, which may delay or prevent Diboll from undertaking business opportunities that may arise before completion of the mergers;
- the risk that the anticipated benefits of the mergers, including the realization of synergies and cost savings, may not be realized or may take longer than expected to be realized; and
- the possible effects of the pendency or completion of the transactions contemplated by the merger agreement, including any suit, action or proceeding initiated in respect of the mergers.

The foregoing discussion of the factors considered by the Diboll board of directors is not intended to be exhaustive but does include all material factors considered by the Diboll board of directors in approving the first merger. In reaching its determination, the Diboll board of directors did not assign any relative or specific weights to different factors, and individual directors may have given different weights to different factors. Based on the reasons stated, the Diboll board of directors believed that the first merger was in the best interest of Diboll's shareholders, and therefore the Diboll board of directors unanimously approved the merger agreement and the transactions contemplated thereby, including the first merger. In addition, all members of the Diboll board of directors and executive officers have entered into voting and support agreements requiring them to vote their shares of Diboll common stock over which they have voting authority in favor of the merger proposal.

For the reasons set forth above, the Diboll board of directors has approved the merger agreement and the transactions contemplated thereby, and recommends that Diboll shareholders vote "FOR" the merger proposal and "FOR" the adjournment proposal (if necessary or appropriate).

47

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TABLE OF CONTENTS

Opinion of Diboll's Financial Advisor

The fairness opinion and a summary of the underlying financial analyses of Diboll's financial advisor, Hovde Group, LLC, or Hovde, is described below. The description contains projections, estimates and other forward-looking statements about the future earnings or other measures of the future performance of Diboll. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. You should not rely on any of these statements as having been made or adopted by Diboll or Southside. You should review the copy of the fairness opinion, which is attached as Annex B.

Hovde has acted as Diboll's financial advisor in connection with the proposed mergers. Hovde is a nationally recognized investment banking firm with substantial experience in transactions similar to the first merger and is familiar with Diboll and its operations. As part of its investment banking business, Hovde is continually engaged in the valuation of businesses and their securities in connection with, among other things, mergers and acquisitions. Hovde reviewed the financial aspects of the proposed first merger with the Diboll board of directors and, on June 12, 2017, delivered a written opinion to the Diboll board of directors that the merger consideration to be received by the shareholders of Diboll in connection with the first merger is fair to the shareholders of Diboll.

The full text of Hovde's written opinion is included in this proxy statement/prospectus as Annex B and is incorporated herein by reference. You are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Hovde. The summary of the Hovde's opinion included in this proxy statement/ prospectus is qualified in its entirety by reference to the full text of such opinion. Hovde's opinion was directed to the Diboll board of directors and addresses only the fairness of the merger consideration to be paid to Diboll shareholders in connection with the first merger. Hovde did not opine on any individual stock, cash, or other components of consideration payable in connection with the mergers. Hovde's opinion does not address the underlying business decision to proceed with the mergers and does not constitute a recommendation to any of the shareholders as to how such shareholder should vote at the Diboll special meeting on the mergers or any related matter.

During the course of its engagement and for the purpose of rendering its opinion, Hovde:

- reviewed the merger agreement, as provided to Hovde by Diboll;
- reviewed unaudited financial statements for Southside, Southside Bank, Diboll and First Bank & Trust as of and for the three-month period ending March 31, 2017;
- reviewed certain historical annual reports of each of Southside, Southside Bank, Diboll and First Bank & Trust including audited annual reports as of and for the year ending December 31, 2016;
- reviewed certain historical publicly available business and financial information concerning each of Southside, Southside Bank, Diboll and First Bank & Trust;
- reviewed certain internal financial statements and other financial and operating data concerning Southside, Southside Bank, Diboll and First Bank & Trust;
- reviewed financial projections prepared by certain members of senior management of Diboll and First Bank & Trust;
-

discussed with certain members of senior management of Southside and Diboll, the business, financial condition, results of operations and future prospects of Southside, Southside Bank, Diboll and First Bank & Trust; the history and past and current operations of Southside, Southside Bank, Diboll and First Bank & Trust; Southside's, Southside Bank's, Diboll's and First Bank & Trust's historical financial performance; and their assessment of the rationale for the mergers;

TABLE OF CONTENTS

- reviewed and analyzed materials detailing the mergers prepared by or on behalf of Southside and Diboll including the estimated amount and timing of the cost savings and related expenses, purchase accounting adjustments and synergies expected to result from the mergers (the “Synergies”);
- assessed general economic, market and financial conditions;
- analyzed the pro forma financial impact of the mergers on the combined company’s earnings, tangible book value, financial ratios and other such metrics we deemed relevant, giving effect to the mergers based on assumptions relating to the Synergies;
- evaluated the contribution of assets, deposits, equity and earnings of Southside and Diboll to the combined company;
- reviewed certain S&P CapIQ consensus income and balance sheet estimates for Southside for 2017 and for 2018;
- reviewed the terms of recent merger, acquisition and control investment transactions, to the extent publicly available, involving financial institutions and financial institution holding companies that were considered relevant;
- reviewed historical market prices and trading volumes of Southside’s common stock;
- took into consideration our experience in other similar transactions and securities valuations as well as our knowledge of the banking and financial services industry;
- reviewed certain publicly available financial and stock market data relating to selected public companies deemed relevant to our analysis; and
- performed such other analyses and considered such other factors as deemed appropriate.

Hovde also conducted meetings and had discussions with members of senior management of Diboll, First Bank & Trust, Southside and Southside Bank for purposes of reviewing the business, financial condition, results of operations and future prospects of Diboll, First Bank & Trust, Southside and Southside Bank; the history and past and current operations of Diboll, First Bank & Trust, Southside and Southside Bank; and Diboll’s, First Bank & Trust’s, Southside’s and Southside Bank’s historical financial performance. Hovde discussed with management of Diboll, First Bank & Trust, Southside and Southside Bank their assessment of the rationale for the mergers. Hovde also performed such other analyses and considered such other factors as Hovde deemed appropriate, and took into account its experience in other similar transaction and securities valuations, as well as its knowledge of the banking and financial services industry.

Hovde assumed, without independent verification, that the representations as well as the financial and other information provided to Hovde by Diboll and Southside or included in the merger agreement, which has formed a substantial basis for this opinion, are true and complete. Hovde relied upon the management of Diboll and First Bank & Trust as to the reasonableness and achievability of the financial forecasts and projections (and the assumptions and

bases therein) provided to Hovde by Diboll and First Bank & Trust, and Hovde assumed such forecasts and projections have been reasonably prepared by Diboll, and First Bank & Trust on a basis reflecting the best currently available information and Diboll's and First Bank & Trust's judgments and estimates. Hovde assumed that such forecasts and projections would be realized in the amounts and at the times contemplated thereby, and Hovde does not in any respect assume any responsibility for the accuracy or reasonableness thereof. Hovde has been authorized by Diboll to rely upon such forecasts and projections and other information and data, including without limitation the projections, and Hovde expresses no view as to any such forecasts, projections or other information or data, or the bases or assumptions on which they were prepared.

In performing its review, Hovde relied upon the accuracy and completeness of all of the financial and other information that was available to Hovde from public sources, that was provided to Hovde by Diboll, First Bank & Trust, Southside and Southside Bank or their respective representatives or that was otherwise reviewed by Hovde and assumed such accuracy and completeness for purposes of rendering its opinion. Hovde has further relied on the assurances of the respective managements of Diboll, First Bank & Trust,

49

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TABLE OF CONTENTS

Southside and Southside Bank that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Hovde has not been asked to and has not undertaken an independent verification of any of such information and Hovde does not assume any responsibility or liability for the accuracy or completeness thereof. Hovde assumed that each party to the merger agreement would advise them promptly if any information previously provided to them became inaccurate or was required to be updated during the period of Hovde's review. Hovde is not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect thereto. Hovde assumed that such allowances for Diboll, First Bank & Trust, Southside and Southside Bank are, in the aggregate, adequate to cover such losses, and will be adequate on a pro forma basis for the combined entity. Hovde was not requested to make, and did not make, an independent evaluation, physical inspection or appraisal of the assets, properties, facilities, or liabilities (contingent or otherwise) of Diboll, First Bank & Trust, Southside and Southside Bank, the collateral securing any such assets or liabilities, or the collectability of any such assets and, Hovde was not furnished with any such evaluations or appraisals, nor did Hovde review any loan or credit files of Diboll, First Bank & Trust, Southside and Southside Bank.

Hovde has assumed that the mergers will be consummated substantially in accordance with the terms set forth in the merger agreement, without any waiver of material terms or conditions by Diboll or any other party to the merger agreement and that the final merger agreement will not differ materially from the draft Hovde reviewed. Hovde has assumed that the mergers will be consummated in compliance with all applicable laws and regulations. Diboll has advised Hovde that Diboll is not aware of any factors that would impede any necessary regulatory or governmental approval of the mergers. Hovde has assumed that the necessary regulatory and governmental approvals as granted will not be subject to any conditions that would be unduly burdensome on Diboll, First Bank & Trust, Southside and Southside Bank or would have a material adverse effect on the contemplated benefits of the mergers.

Diboll engaged Hovde on January 23, 2017, to serve as a financial advisor to Diboll in connection with the proposed mergers and to issue a fairness opinion to the Diboll board of directors in connection with such proposed transaction. Pursuant to the terms of the engagement, Diboll paid a fee of \$75,000 to Hovde for the issuance of the fairness opinion, and at the time the first merger is completed, Diboll will pay Hovde a completion fee of approximately \$2 million, which is contingent upon the completion of the first merger. Pursuant to the engagement agreement, in addition to its fees and regardless of whether the first merger is consummated, Diboll has agreed to reimburse Hovde for certain reasonable out-of-pocket expenses incurred in performing its services and to indemnify Hovde against certain claims, losses and expenses arising out of the mergers or Hovde's engagement.

In performing its analyses, Hovde made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Hovde, Diboll, First Bank & Trust, Southside and Southside Bank. Hovde's opinion was necessarily based on financial, economic, market and other conditions and circumstances as they existed on, and on the information made available to Hovde as of, the dates used in its opinion. Any estimates contained in the analyses performed by Hovde are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities may be sold or the prices at which any securities may trade at any time in the future. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. Hovde's opinion does not address the relative merits of the mergers as compared to any other business combination in which Diboll might engage. In addition, Hovde's fairness opinion was among several factors taken into consideration by the Diboll board of directors in making its determination to approve the merger agreement and the mergers. Consequently, the analyses described below should not be viewed as solely determinative of the decision of the Diboll board of directors or Diboll's management with respect to the fairness of the merger consideration to be received by Diboll's shareholders in connection with the first merger.

The following is a summary of the material analyses prepared by Hovde and delivered to the Diboll board of directors on June 12, 2017, in connection with the delivery of its fairness opinion. This summary is not a complete description of the analyses underlying the fairness opinion or the presentation prepared by Hovde, but it summarizes the material analyses performed and presented in connection with such

TABLE OF CONTENTS

opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Hovde did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The analyses and the summary of the analyses must be considered as a whole and selecting portions of the analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying the analyses and opinion of Hovde. The tables alone are not a complete description of the financial analyses.

## Market Approach — Comparable Transactions.

As part of its analysis, Hovde reviewed publicly available information related to two comparable groups (a “Regional Group” and a “Nationwide Group”) of select acquisition transactions of banks. The Regional Group consisted of acquisition transactions of banks in the Southern Region of the United States (consisting of the states of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, and West Virginia) announced since January 1, 2015, in which the sellers’ total assets were between \$500 million and \$2.0 billion, last-twelve-months (“LTM”) return on average assets (“ROAA”) was more than 0.75%, and nonperforming assets were less than 2.0% of total assets. The Nationwide Group consisted of acquisition transactions of banks in the United States announced since January 1, 2016, in which the sellers’ total assets were between \$500 million and \$2.0 billion, LTM ROAA was more than 0.75%, and nonperforming assets were less than 2.0% of total assets. In each case, for which financial information was available, no transaction that fit the selection criteria was excluded. Information for the target institutions was based on balance sheet data, and income statement data, for the twelve months preceding the most recent quarter prior to announcement of the transactions. The resulting two groups consisted of the following transactions (14 transactions for the Regional Group and 18 transactions for the Nationwide Group):

## Regional Group:

Buyer (State)	Target (State)
SmartFinancial, Inc. (TN)	Capstone Bancshares, Inc. (AL)
TowneBank (VA)	Paragon Commercial Corporation (NC)
Heartland Financial USA, Inc. (IA)	Citywide Banks of Colorado, Inc. (CO)
Collins Family Trust (TX)	Inter National Bank (TX)
CenterState Banks, Inc. (FL)	Platinum Bank Holding Company (FL)
South State Corporation (SC)	Southeastern Bank Financial Corporation (GA)
Simmons First National Corporation (AR)	Citizens National Bank (TN)
Guaranty Bancorp (CO)	Home State

TowneBank (VA)	Bancorp (CO) Monarch Financial Holdings, Inc. (VA)
Park Sterling Corporation (NC)	First Capital Bancorp, Inc. (VA)
BNC Bancorp (NC)	Southcoast Financial Corporation (SC)
Prosperity Bancshares, Inc. (TX)	Tradition Bancshares, Inc. (TX)
Pinnacle Financial Partners, Inc. (TN)	Magna Bank (TN)
Pinnacle Financial Partners, Inc. (TN)	CapitalMark Bank & Trust (TN)
Nationwide Group:	
Buyer (State)	Target (State)
SmartFinancial, Inc. (TN)	Capstone Bancshares, Inc. (AL)
TowneBank (VA)	Paragon Commercial Corporation (NC)
First Busey Corporation (IL)	Mid Illinois Bancorp, Inc. (IL)
First Merchants Corporation (IN)	Independent Alliance Banks, Inc. (IN)

TABLE OF CONTENTS

## Nationwide Group:

Buyer (State)	Target (State)
Heartland Financial USA, Inc. (IA)	Citywide Banks of Colorado, Inc. (CO)
First Busey Corporation (IL)	First Community Financial Partners, Inc. (IL)
Bryn Mawr Bank Corporation (PA)	Royal Bancshares of Pennsylvania, Inc. (PA)
Pacific Premier Bancorp, Inc. (CA)	Heritage Oaks Bancorp (CA)
Collins Family Trust (TX)	Inter National Bank (TX)
CenterState Banks, Inc. (FL)	Platinum Bank Holding Company (FL)
Cathay General Bancorp (CA)	SinoPac Bancorp (CA)
South State Corporation (SC)	Southeastern Bank Financial Corporation (GA)
QCR Holdings, Inc. (IL)	Community State Bank (IA)
Simmons First National Corporation (AR)	Citizens National Bank (TN)
WesBanco, Inc. (WV)	Your Community Bankshares, Inc. (IN)
Guaranty Bancorp (CO)	Home State Bancorp (CO)
Horizon Bancorp (IN)	La Porte Bancorp, Inc. (IN)
OceanFirst Financial Corp. (NJ)	Cape Bancorp, Inc. (NJ)

For each precedent transaction, Hovde compared the implied ratio of deal value to certain financial characteristics of Diboll as follows:

- the multiple of the purchase consideration to the acquired company's tangible common book value (the "Price-to-Tangible Common Book Value Multiple");
- the multiple of the purchase consideration to the acquired company's adjusted tangible common book value based upon tangible common book value equivalent to 8% of tangible assets with the purchase consideration being adjusted for any amount of excess (shortfall) in tangible common book value (the "Price-to-Adjusted Tangible Common Book Value Multiple");
- the multiple of the purchase consideration to the acquired company's LTM net earnings per share (the "Price-to-LTM Earnings Multiple"); and
- the multiple of the difference between the purchase consideration and the acquired company's tangible book value to the acquired company's core deposits (the "Premium-to-Core Deposits Multiple").

The results of the analysis are set forth in the table below. Transaction multiples for the merger were derived from the estimated merger consideration of \$219,937,838 for Diboll and were based on March 31, 2017 financial results of Diboll.

Implied Value for Diboll Based On:	Price-to-Tangible Common Book Value Multiple	Price-to-“Adjusted”		Premium-to-Core Deposits Multiple
		Tangible Common Book Value Multiple	Price-to-LTM Earnings Multiple	
Total Deal Value	232%	255%	18.9x	15.0%

Precedent Transactions Regional

Group:

Median	176%	179%	18.3x	9.4%
Minimum	103%	106%	14.9x	1.0%
Maximum	237%	256%	23.4x	16.8%

Precedent Transactions Nationwide

Group:

Median	170%	179%	18.7x	10.5%
Minimum	103%	106%	13.5x	1.0%
Maximum	265%	279%	32.6x	22.6%

52

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TABLE OF CONTENTS

Using publicly available information, Hovde compared the financial performance of Diboll with that of the median of the precedent transactions from both the Regional and Nationwide Groups. The performance highlights are based on March 31, 2017 financial results of Diboll.

	Tangible Equity/ Tangible Assets	Core Deposits	LTM ROAA(1)	LTM ROAE(2)	Efficiency Ratio	NPAs/ Assets(3)	ALLL/ NPLs(4)
Diboll	9.42%	91.9%	1.20%	11.94%	58.9%	0.82%	120.2%
Precedent Transactions Regional Group:							
Median	9.86%	81.4%	0.93%	8.96%	66.9%	0.73%	191.8%
Precedent Transactions Nationwide Group:							
Median	9.51%	88.8%	0.94%	8.37%	66.4%	0.82%	142.6%

(1)

Last twelve months return on average assets.

(2)

Last twelve months return on average equity.

(3)

Non-performing assets as a percent of total assets.

(4)

Allowance for loan and lease losses as a percentage of non-performing loans.

No company or transaction used as a comparison in the above transaction analyses is identical to Diboll, and no transaction was consummated on terms identical to the terms of the merger agreement. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies. The resulting median values of the Precedent Transactions Regional Group indicated an implied aggregate valuation ranging between \$158.6 million and \$212.8 million compared to the proposed merger consideration of \$219.9 million. The resulting median values of the Precedent Transactions Nationwide Group indicated an implied aggregate valuation ranging between \$158.6 million and \$218.1 million compared to the proposed merger consideration of \$219.9 million.

Income Approach — Discounted Cash Flow Analysis.

Taking into account various factors including, but not limited to, Diboll's recent performance, the current banking environment and the local economy in which Diboll operates, Hovde determined, in consultation with and based on information provided by management of Diboll, earnings estimates for Diboll over a forward looking five year period, and Diboll management developed the forward-looking projections and key assumptions, which formed the basis for the discounted cash flow analyses. The resulting projected net income numbers used for the analysis were \$12.4 million for 2017, \$13.7 million for 2018, \$14.5 million for 2019, \$16.0 million for 2020, and \$17.1 million for 2021. To determine present values of Diboll based on these projections, Hovde utilized two discounted cash flow models, each of which capitalized terminal values using a different methodology: (1) Terminal Price/ Earnings Multiple ("DCF Terminal P/E Multiple"); and (2) Terminal Price/Tangible Book Value Multiple ("DCF Terminal P/TBV Multiple").

In the DCF Terminal P/E Multiple analysis, an estimated value of Diboll's common stock was calculated based on the present value of Diboll's after-tax net income based on Diboll management's forward-looking projections. Hovde utilized a terminal value at the end of 2021 by applying a range of price-to-earnings multiples of 16.3x to 20.3x, with a midpoint of 18.3x, which is based around the median price-to-earnings multiple derived from transactions in the Regional Group. The present value of Diboll's projected dividends, plus the terminal value was then calculated assuming a range of discount rates between 12.25% and 14.25%, with a midpoint of 13.25%. This range of discount rates was chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of Diboll's common stock. The resulting aggregate values of Diboll's common stock of the DCF Terminal P/E Multiple ranged between \$180.4 million and \$234.9 million, with a midpoint of \$206.7 million.

53

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**TABLE OF CONTENTS**

In the DCF Terminal P/TBV Multiple model, the same earnings estimates and projected net income were used; however, in arriving at the terminal value at the end of 2021, Hovde applied a range of price-to-tangible book value multiples of 1.56x to 1.96x with the midpoint being 1.76x, which is based around the median price-to-tangible book value multiple derived from transactions in the Regional Group. The present value of projected dividends, plus the terminal value, was then calculated assuming a range of discount rates between 12.25% and 14.25%, with a midpoint of 13.25%. The resulting aggregate values of Diboll's common stock of the DCF Terminal P/TBV Multiple ranged between \$134.0 million and \$173.4 million, with a midpoint of \$153.0 million.

These analyses and their underlying assumptions yielded a range of values for Diboll, which are outlined in the table below:

Implied Value for Diboll Based On:	Price-to-Tangible Book Value Multiple	Price-to-LTM Earnings Multiple	Premium-to-Core Deposits Multiple
Total Deal Value	232%	18.9x	15.0%
DCF Analysis – Terminal P/E Multiple			
Midpoint	218%	17.8x	13.4%
DCF Analysis – Terminal P/TBV Multiple			
Midpoint	162%	13.1x	7.0%

Hovde noted that while the discounted cash flow present value analysis is a widely used valuation methodology, it relies on numerous assumptions, including asset and earnings growth rates, projected dividend payouts, terminal values and discount rates. Hovde's analysis does not purport to be indicative of the actual values or expected values of Diboll's common stock.

**Southside Comparable Companies Analysis**

Hovde used publicly available information to compare selected financial and trading information for Southside and a group of 10 publicly-traded financial institutions selected by Hovde which was based on publicly-traded banks in the Southwest United States with total assets between \$2.0 billion and \$15.0 billion and LTM ROAA greater than 0.75%:

Allegiance Bancshares, Inc.	Hilltop Holdings Inc.
BancFirst Corporation	Independent Bank Group, Inc.
CoBiz Financial Inc.	LegacyTexas Financial Group, Inc.
First Financial Bankshares, Inc.	Southwest Bancorp, Inc.
Guaranty Bancorp	Triumph Bancorp, Inc.

The analysis compared publicly available financial and market trading information for Southside and the data for the 10 financial institutions identified above as of and for the most recent twelve-month period which was publicly available. The table below compares the data for Southside and the median data for the 10 financial institutions identified above, with pricing data as of June 9, 2017.

	Market Cap (\$M)	Price/Tangible Book Value	Price/LTM EPS	Price/2017E EPS	Dividend Yield	YTD/Price Change	Two Year Total Return
Southside	\$ 1,044	239.6%	19.5x	15.7x	3.07%	(3.0)%	46.3%
Comparable Companies:							
Median	\$ 1,164	236.3%	20.8x	18.5x	1.36%	(4.7)%	46.5%

Southside fell within the range of pricing metrics of comparable companies. No company used as a comparison in the above analyses is identical to Southside. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of



the companies.

54

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**TABLE OF CONTENTS****Diboll Comparable Companies Analysis**

Hovde compared selected financial information and the merger consideration of Diboll to selected publicly available financial and trading information for a group of 9 publicly-traded financial institutions selected by Hovde which was based on publicly-traded banks in the Southwest United States with total assets of less than and \$5.0 billion and LTM ROAA greater than 0.75%:

Allegiance Bancshares, Inc.	People's Utah Bancorp
CoBiz Financial Inc.	Southwest Bancorp, Inc.
First Guaranty Bancshares, Inc.	Triumph Bancorp, Inc.
Guaranty Bancorp	Veritex Holdings, Inc.
Home Bancorp, Inc.	

The analysis compared the merger consideration for Diboll to publicly available financial and market trading information for the 9 financial institutions identified above as of and for the most recent twelve-month period which was publicly available. The table below compares the data for Diboll and the median data for the 9 financial institutions identified above, with pricing data as of June 9, 2017.

	Market Cap (\$M)	Price/ Tangible Book Value	Price/ LTM EPS	Price/ 2017E EPS	Dividend Yield	YTD/ Price Change	Two Year Total Return
Merger Consideration	\$ 219.9	232.0%	18.9x	17.7x	NA	NA	NA
Comparable Companies:							
Median	\$ 486.8	191.9%	20.6x	19.0x	1.34%	1.1%	72.2%

Diboll fell within the range of pricing metrics of comparable companies. No company used as a comparison in the above analyses is identical to Diboll. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

**Accretion/Dilution Analysis**

Hovde performed pro forma merger analyses that combined projected income statement and balance sheet information of Diboll and Southside. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the mergers would have on certain projected financial results of Southside. In the course of this analysis, Hovde used the median S&P CapIQ consensus estimates for earnings estimates for Southside for the years ending December 31, 2017 and December 31, 2018 and used earnings estimates provided by Diboll's management for Diboll for the years ending December 31, 2017 and December 31, 2018. This analysis indicated that the mergers are expected to be accretive by 13 cents per share to Southside's consensus estimated earnings per share of \$2.20 in 2018. The analysis also indicated that the mergers are expected to be dilutive to tangible book value per share for Southside by 59 cents per share in 2018 and that Southside would maintain capital ratios in excess of those required for Southside to be considered well-capitalized under existing regulations. For all of the above analyses, the actual results achieved by Diboll and Southside prior to and following the mergers will vary from the projected results, and the variations may be material.

**Other Factors and Analyses.**

Hovde took into consideration various other factors and analyses, including but not limited to: current market environment; merger and acquisition environment; movements in the common stock valuations of selected publicly-traded banking companies; and movements in the S&P 500 Index.

**Conclusion.**

Based upon the foregoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, Hovde determined that the merger consideration to be paid in connection with the first merger is fair from a financial point of view to Diboll's shareholders. Each shareholder is

encouraged to read Hovde's fairness opinion in its entirety. The full text of this fairness opinion is included as Annex B to this proxy statement/prospectus.

55

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TABLE OF CONTENTS

Board Composition and Management of Southside after the Mergers

Immediately following the closing, the Southside board of directors will be increased by two, and Southside will select two individuals who are currently directors of Diboll to serve on the Southside board of directors, at least one whom must be an “independent” director of Southside. The two designees will be appointed to serve a term that expires at the Annual Meeting of Shareholders of Southside in 2018, and the Nominating Committee of the Southside board of directors shall consider in good faith the nomination for re-election of each such director one of which will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2020 and the other director will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2019.

Each of the officers of Southside immediately prior to the effective time of the second merger will be the officers of the surviving company from and after the effective time of the second merger. Additionally, immediately following the effective time of the second merger, Diboll executives will assume the following titles: Jay Shands — Regional President, East Texas; Trey Denman — Executive Vice President; Jim Denman — Executive Vice President.

Interests of Diboll’s Directors and Executive Officers in the Mergers

In considering the recommendation of Diboll’s board of directors to vote for the proposal to approve the merger agreement and the first merger, Diboll shareholders should be aware that certain directors and officers of Diboll have interests in the first merger that are in addition to, or different from, their interests as shareholders of Diboll. The Diboll board of directors was aware of these interests and considered them in approving the merger agreement and the transactions contemplated by the merger agreement, including the first merger, and the decision to recommend that the Diboll shareholders approve the merger agreement and the first merger. These interests are described below.

Stock Options

As of the Diboll record date, the Diboll executive officers owned, in the aggregate, options to purchase 6,864 shares of Diboll common stock granted under the Diboll State Bancshares, Inc. Incentive Stock Option 2014 — Plan or a predecessor plan, with exercise prices ranging between \$107.00 to \$150.00 per share. At the effective time of the first merger, each outstanding option to purchase shares of Diboll common stock will automatically expire and will thereafter be null and void. Holders of Diboll stock options will have the opportunity to exercise their options prior the effective time of the first merger and receive the merger consideration in exchange for the shares of Diboll common stock they receive upon such exercise. Alternatively, such option holders may elect to settle their Diboll stock options in cash prior to the effective time of the first merger. The amount of cash to be paid in exchange for each share of Diboll common stock in the first merger and, thus, the aggregate cash consideration received by the Diboll shareholders in the first merger, will be reduced by the after-tax amount of any payments made to the holders of Diboll stock options who elect to settle their options in cash.

The following tables sets forth, for each of the Diboll executive officers, the number and value of outstanding stock options held as of September 6, 2017. The value of the outstanding stock options has been calculated, on a pre-tax basis, by multiplying (a) the number of shares of Diboll common stock subject to the options by (b) the excess of an assumed aggregate merger consideration per share of Diboll common stock of \$237.50 over the weighted average exercise price of the stock options. The aggregate merger consideration per share of Diboll common stock of \$237.50 was calculated assuming that (1) all holders of options to purchase shares Diboll common stock utilize the cashless exercise feature of such options immediately prior to closing and receive a cash payment therefor and the fair market value of the shares of Diboll common stock subject to such option is deemed to be equal to the merger consideration per share of Diboll common stock; for this example 16,131 stock options are estimated to utilize the cashless exercise feature with an estimated average exercise price of \$134.92 (resulting in a payment to option holders of \$1,654,718, which on an after-tax basis to Diboll is \$1,092,114), (2) Diboll’s closing net book value is at least equal to the target book value, (3) the price per share of the Southside common stock received in the merger is equal to \$32.10, the closing price on September 6, 2017, and (4) the Diboll outstanding share number is 848,776. Under such assumptions, each share of Diboll common stock would be converted into the right to receive \$28.17 in cash and 6.5212 shares of Southside common stock with a value of \$209.33, or an aggregate merger consideration per share of Diboll common stock of \$237.50.

TABLE OF CONTENTS

Executive Officer	Number of Stock Options	Value of Stock Options
James (“Jim”) Denman	3,084	\$ 332,062
Joe C. (“Trey”) Denman, III	1,770	\$ 166,425
H. J. (“Jay”) Shands, III	2,010	\$ 179,625

Indemnification of Directors and Officers

Southside has agreed to indemnify Diboll’s directors and officers following the effective time of the first merger to the same extent and subject to the conditions set forth in the certificate of formation and bylaws of Diboll. Southside has also agreed to maintain in effect a directors’ and officers’ liability insurance and fiduciary insurance policy for a period of six years after the effective time of the first merger with respect to claims arising from facts, events or actions which occurred prior to the effective time of the first merger and covering persons who are currently covered by such insurance. The obligation of Southside to maintain such insurance policy is subject to a cap of 250% of the annual premium amount that Diboll paid for insurance in effect on the date of the merger agreement.

Service on Southside’s Board of Directors

Upon completion of the mergers, Southside will increase the size of its board of directors and appoint two of the then-current directors of Diboll to serve as directors of Southside. At least one of the Diboll directors designated by Southside must be “independent” as determined in accordance with the rules and regulations of NASDAQ, applicable regulations promulgated by the SEC and the standards established by Southside. Such new directors will be appointed to serve a term that expires at Southside’s 2018 annual shareholders’ meeting. At the expiration of the initial term, Southside’s nominating committee will consider in good faith the nomination for re-election of both directors, with one of the directors to be considered for re-election for a term that expires at Southside’s 2019 annual shareholders’ meeting and the other to be considered for re-election for a term that expires at Southside’s 2020 annual shareholders’ meeting.

Key Employee Retention Agreements

Concurrently with the execution of the merger agreement, Southside Bank entered into Key Employee Retention Agreements with each of Jay Shands, Diboll’s current Chairman of the Board, President and Chief Executive Officer, Trey Denman, Diboll’s current Director and Executive Vice President, and Jim Denman, Diboll’s current Vice President and Treasurer, and certain other officers and employees of Diboll. Pursuant to the Key Employee Retention Agreements, Messrs. Shands, T. Denman and J. Denman will serve as Regional President, East Texas, Executive Vice President and Executive Vice President, respectively, of Southside Bank, effective upon completion of the mergers. Under the terms of the Key Employee Retention Agreements, within 60 days after the effective time of the second merger, Southside will grant to each of Messrs. Shands, T. Denman and J. Denman equity incentive awards consisting of (i) non-qualified stock options to purchase shares of Southside common stock having a value equal to 12.5% of the employee’s base salary in effect as of the effective date of the mergers (based on Black-Scholes option modeling), which stock options will have an exercise price equal to the closing price of Southside common stock on the date of grant, will vest in four equal installments on the first four anniversaries of the grant date, and will have a ten-year term, and (ii) restricted stock units having a value equal to 12.5% of the employee’s base salary in effect as of the effective date of the mergers (based on the closing price of the Southside common stock on the effective date of the mergers), each representing the right to receive a share of Southside common stock, which will vest in four equal installments on the first four anniversaries of the grant date. Under the terms of the Key Employee Retention Agreements, each of Messrs. Shands, T. Denman and J. Denman is also entitled to receive a cash bonus payment following the employee’s continuous, good standing employment with Southside Bank through each of the 90th day following the effective date of the mergers and the first and second anniversaries of the effective date of the mergers. The aggregate amount of such cash bonus payments payable to Messrs. Shands, T. Denman and J. Denman are \$280,500, \$193,000 and \$185,000, respectively. For more information regarding the Key Employee Retention Agreements, please see the section entitled “Ancillary Agreements — Key Employee Retention Agreements” beginning on page 84.

**TABLE OF CONTENTS****Voting and Support Agreements**

Concurrently with the execution of the merger agreement, Southside entered into a voting and support agreement with the directors, executive officers and significant shareholders of Diboll, solely in their capacity as shareholders of Diboll, pursuant to which such shareholders agreed, among other things, to vote their shares of Diboll common stock in favor of the approval of the merger agreement and the first merger and against the approval or adoption of any proposal made in opposition to the first merger. Pursuant to the voting and support agreements, such Diboll directors, executive officers and shareholders also agreed not to sell or otherwise dispose of any Diboll common stock, subject to limited exceptions, until the earlier of (i) the termination of the merger agreement and (ii) the effective date of the first merger. As of the Diboll record date, the Diboll shareholders who signed voting and support agreements collectively owned 382,158 shares of Diboll common stock, or approximately 45.0% of the outstanding shares of Diboll common stock entitled to vote at the Diboll special meeting. The voting and support agreements also provide that the Diboll directors, executive officers and shareholders who are parties thereto will not, for a period of two years following the effective time of the first merger, compete with Southside, solicit or induce certain employees to terminate employment with Southside or solicit, divert or take away certain customers of Southside for the purpose of selling any product provided by Southside. The voting and support agreements will terminate automatically upon the earlier of (i) the termination of the merger agreement and (ii) the effective date of the first merger. A copy of the form of the voting and support agreement is attached to this proxy statement/prospectus as Annex C and incorporated by reference. For more information regarding the voting and support agreements, please see the section entitled “Ancillary Agreements — Voting and Support Agreements” beginning on page 83.

**Beneficial Ownership of Diboll Common Stock by Management and Principal Shareholders of Diboll**

The following table sets forth certain information regarding the beneficial ownership of Diboll common stock as of September 6, 2017, by (1) each director and executive officer of Diboll, (2) each person who is known by Diboll to own beneficially 5% or more of the Diboll common stock, and (3) all directors and executive officers of Diboll as a group. Unless otherwise indicated, based on information furnished by such shareholders, management of Diboll believes that each person has sole voting and dispositive power over the shares indicated as owned by such person.

Name of Beneficial Owner	Number of Shares of Diboll Common Stock	Percentage Beneficially Owned(1)
<b>Principal Shareholders:</b>		
Charlotte A. Temple	139,796(2)	16.5%
Mary K. Grum	48,639(3)	5.7%
<b>Directors and Executive Officers:</b>		
James (“Jim”) Denman	5,310(4)	*
Joe C. (“Trey”) Denman, III	36,894(5)	4.3%
H. J. (“Jay”) Shands, III	45,035(6)	5.3%
Ellen C. Temple	102,972(7)	12.1%
M. Richard Warner	6,726	*
All Directors and Executive Officers as a Group (5 persons)	196,937	23.2%

\*

Indicates ownership that does not exceed 1.00%.

(1)

Ownership percentage is based on 848,776 shares of Diboll common stock outstanding as of September 6, 2017, plus shares of Diboll common stock which may be acquired by the beneficial owner within 60 days of September 6, 2017,

through the exercise of options, which are identified in the footnotes to this table. Ownership percentage reflects the ownership percentage assuming that such person, but no other person, exercises all options to acquire shares of Diboll common stock held by such person that are currently exercisable. The ownership percentage of all directors and executive officers, as a group, assumes that all five persons, but no other persons, exercise all options to acquire shares of Diboll common stock held by such persons that are currently exercisable.

TABLE OF CONTENTS

(2)

Includes 8,352 shares held individually by Ms. Temple, 49,020 shares held by the Charlotte Ann Temple Generation Skipping Trust UTA 12-8-90, for which Ms. Temple serves as co-trustee, 33,243 shares held by the Mary Temple Denman Trust U/A DTD 05/23/1963, for which Ms. Temple serves as co-trustee, 32,560 shares held by The Charlotte Temple Family Trust, for which Ms. Temple serves as trustee, and 16,621 shares held by the Charlotte Temple & Arthur Temple Family Trust LTD Partnership, for which Ms. Temple serves as general partner.

(3)

Includes 48,639 shares held by the Mary K. and Clifford Grum Foundation, for which Ms. Grum serves as trustee.

(4)

Includes options to purchase 2,134 shares of Diboll common stock, which are exercisable within 60 days of September 6, 2017.

(5)

Includes 24,084 shares held individually by Mr. Denman, 11,990 shares held jointly with Mr. Denman's spouse, and options to purchase 820 shares of Diboll common stock, which are exercisable within 60 days of September 6, 2017.

(6)

Includes options to purchase 260 shares of Diboll common stock, which are exercisable within 60 days of September 6, 2017.

(7)

Includes 10,471 shares held by the Ellen C. Temple Marital Trust for Ellen Clarke Temple TTEE, for which Ms. Temple serves as co-trustee, 38,287 shares held by the Arthur Temple, III Family Trust, for which Ms. Temple serves as co-trustee, 49,020 shares held by the Arthur Temple, III Appointment Trust for Ellen Temple, for which Ms. Temple serves as trustee, and 5,194 shares held by the John Clark Hurst, Jr. Living Trust, for which Ms. Temple serves as trustee.

**Regulatory Approvals Required for the Mergers**

Completion of the mergers is subject to prior receipt of all approvals required to be obtained from applicable governmental and regulatory authorities. Subject to the terms and conditions of the merger agreement, Diboll and Southside have agreed to use their commercially reasonable efforts and cooperate to prepare and file, as promptly as possible, all necessary documentation and to obtain as promptly as practicable all regulatory approvals required or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval from the Federal Reserve Board, the FDIC and the Texas Department of Banking. Southside and Diboll have filed applications and notifications to obtain the required regulatory approvals.

**Federal Reserve Board**

The merger of Diboll with Southside must be approved by the Federal Reserve Board under Section 3 of the Bank Holding Company Act of 1956, or the BHC Act, and its implementing regulations. In considering the approval of a transaction such as the merger, the BHC Act and related laws require the Federal Reserve Board to review, with respect to the financial holding companies and the bank concerned: (1) the competitive impact of the transaction; (2) financial, managerial and other supervisory considerations, including capital positions and managerial resources of the subject entities; (3) the record of the insured depository institution subsidiaries of the bank holding companies under the Community Reinvestment Act and fair lending laws; (4) the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system; and (5) additional public benefits of the proposal, such as the benefits to the customers of the subject entities. By letter dated August 23, 2017, the Federal Reserve Board notified Southside that it removed delegated authority from the Federal Reserve Bank of Dallas, and assumed decision-making authority itself on Southside's Form Y-3 application; the Federal Reserve Board is expected to make its decision with regard to the mergers on or prior to October 23, 2017.



Federal Deposit Insurance Corporation

The merger of First Bank & Trust with and into Southside Bank must be approved by the FDIC under the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), commonly known as the Bank Merger Act. An application for approval of the bank merger was filed with the FDIC on July 12, 2017. In evaluating an

59

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TABLE OF CONTENTS

application filed under the Bank Merger Act, the FDIC generally considers: (1) the competitive impact of the transaction; (2) financial and managerial resources of the banks party to the bank merger or mergers; (3) the convenience and needs of the community to be served and the record of the banks under the Community Reinvestment Act; (4) the banks' effectiveness in combating money-laundering activities; and (5) the extent to which the bank merger or mergers would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. On August 25, 2017, the FDIC issued its conditional approval of the bank merger.

Texas Department of Banking

The bank merger must be approved by the Texas Department of Banking. In determining whether to approve the transaction, the Texas Department of Banking will consider factors similar to those considered by the FDIC in its review of the application submitted pursuant to the Bank Merger Act. Among other things, this will include a review of financial, managerial and supervisory considerations, as well as the likely competitive impacts and public benefits of the proposed transaction. As of September 6, 2017, the Texas Department of Banking had completed its initial review of the merger application, and had accepted it for filing.

Southside and Diboll believe that the mergers do not raise substantial antitrust or other significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals. However, neither Southside nor Diboll can assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any such approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. The parties have agreed that Southside will not be required, and Diboll and its subsidiaries will not be permitted, to take any action or commit to take any action or agree to any condition or restrictions in connection with the regulatory approvals that, individually or in the aggregate, would have or would be reasonably likely to have a material adverse effect on Southside and its subsidiaries or Diboll and its subsidiaries as of and following the completion of the mergers.

The parties' obligation to complete the mergers is conditioned upon the receipt of all required regulatory approvals. Southside and Diboll will use their respective commercially reasonable efforts to resolve any objections that may be asserted by any regulatory authority with respect to the merger agreement or the mergers or the other transactions contemplated by the merger agreement.

Neither Southside nor Diboll is aware of any material governmental approvals or actions that are required for completion of the mergers other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

U.S. Federal Income Tax Considerations

The following is a general discussion of material U.S. federal income tax consequences to U.S. holders (as defined below) of Diboll common stock that exchange their shares of Diboll common stock for shares of Southside common stock and cash in the first merger. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any U.S. federal laws other than those pertaining to the income tax nor does it address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010. This discussion is based upon the Code, the U.S. Federal Income Tax Regulations promulgated under the Code and court and administrative rulings and decisions, all as in effect on the date of this proxy statement/prospectus, and all of which are subject to change, potentially retroactively, which could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those U.S. holders of Diboll common stock that hold their shares of Diboll common stock as a "capital asset" within the meaning of Section 1221 of the Code (generally, property held for investment). Importantly, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder in light of that U.S. holder's individual circumstances or to a U.S. holder that is subject to special treatment under the U.S. federal income tax laws, including, without limitation, a U.S. holder that is:

TABLE OF CONTENTS

- a financial institution;
- a tax-exempt organization;
- a regulated investment company;
- a real estate investment trust;
- an S corporation or other pass-through entity (or an investor in an S corporation or other pass-through entity);
- an insurance company;
- a mutual fund;
- a controlled foreign corporation or passive foreign investment company;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects to use the mark-to-market method of accounting;
- a holder of Diboll common stock subject to the alternative minimum tax provisions of the Code;
- a holder of Diboll common stock that received Diboll common stock through the exercise of an employee stock option, through a tax qualified retirement plan or otherwise as compensation;
- a holder of Diboll common stock that has a functional currency other than the U.S. dollar;
- a holder of Diboll common stock that holds Diboll common stock as part of a hedge, straddle, constructive sale, conversion or other integrated transaction;
- a person that is not a U.S. holder; or
- a U.S. expatriate or certain former citizens or long-term residents of the United States.

For purposes of this discussion, the term “U.S. holder” means a beneficial owner of Diboll common stock that is for U.S. federal income tax purposes: (a) an individual citizen or resident of the United States; (b) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof or the District of Columbia; (c) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) such trust was in existence on August 20, 1996, and has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes; or (d) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

If an entity or an arrangement treated as a partnership for U.S. federal income tax purposes holds Diboll common stock, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Any entity treated as a partnership for U.S. federal income tax purposes that holds Diboll common stock, and any partners in such partnership, should consult their own independent tax advisors.

Determining the actual tax consequences of the mergers to a U.S. holder is complex and can depend, in part, on the U.S. holder’s specific situation. Each U.S. holder should consult its own independent tax advisor as to the tax consequences of the mergers in its particular circumstance, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

#### Tax Consequences of the Mergers Generally

In connection with the filing with the SEC of the registration statement of which this proxy statement/ prospectus forms a part, Alston & Bird LLP has rendered its tax opinion to Southside and Diboll addressing the U.S. federal income tax consequences of the first merger and the second merger as described below. A copy of this tax opinion is attached as Exhibit 8.1 to the registration statement of which this proxy statement/prospectus forms a part. In addition, the obligations of the parties to complete the first merger is conditioned on, among other things, the receipt by Southside and Diboll of an opinion from Alston & Bird

TABLE OF CONTENTS

LLP, dated the closing date of the first merger, to the effect that for U.S. federal income tax purposes the first merger and the second merger will be treated as a single reorganization within the meaning of Section 368(a) of the Code. The conditions relating to receipt of such closing opinion may be waived by both Southside and Diboll. Neither Southside nor Diboll currently intends to waive the conditions related to the receipt of the closing opinion. However, if these conditions were waived, Diboll would re-solicit the approval of its shareholders prior to completing the first merger. In addition, the obligation of Alston & Bird LLP to deliver such closing opinion is conditioned on the mergers satisfying the continuity of proprietary interest requirement. That requirement generally will be satisfied if Southside common stock constitutes at least 40% of the value of the total merger consideration. The determination by tax counsel as to whether the first merger and the second merger will be treated as a “reorganization” within the meaning of Section 368(a) of the Code is based on the facts and law existing as of the closing date of these mergers.

These opinions are and will be subject to customary qualifications and assumptions, including assumptions regarding the absence of changes in existing facts and the completion of the mergers strictly in accordance with the merger agreement and the registration statement of which this proxy statement/ prospectus forms a part. In rendering its legal opinion, Alston & Bird LLP relied and will rely upon representations and covenants, including those contained in certificates of officers of Southside and Diboll, reasonably satisfactory in form and substance to each such counsel, and will assume that these representations are true, correct and complete without regard to any knowledge limitation, and that these covenants will be complied with. If any of these assumptions or representations are inaccurate in any way, or any of the covenants are not complied with, this opinion could be adversely affected. The opinion represents counsel’s best legal judgment, but have no binding effect or official status of any kind, and no assurance can be given that contrary positions will not be taken by the Internal Revenue Service or a court considering the issues. In addition, neither Diboll nor Southside have requested nor do they intend to request a ruling from the Internal Revenue Service as to the U.S. federal income tax consequences of the mergers. Accordingly, there can be no assurances that the Internal Revenue Service will not assert, or that a court will not sustain, a position contrary to any of the tax consequences set forth below or any of the tax consequences described in the tax opinions.

Except as otherwise indicated, the following discussion assumes that the first merger and the second merger qualify as a single “reorganization” within the meaning of Section 368(a) of the Code.

**U.S. Holders that Receive a Combination of Southside Common Stock and Cash**

If a U.S. holder’s adjusted tax basis in the Diboll common stock surrendered is less than the sum of the fair market value of the shares of Southside common stock and the amount of cash (other than cash received in lieu of a fractional share of Southside common stock) received by the U.S. holder pursuant to the first merger, then the U.S. holder will recognize gain in an amount equal to the lesser of (a) the sum of the amount of cash (other than cash received in lieu of a fractional share of Southside common stock) and the fair market value of the Southside common stock received, minus the U.S. holder’s adjusted tax basis of the shares of Diboll common stock surrendered in exchange therefor, and (b) the amount of cash received by the U.S. holder (other than cash received in lieu of a fractional share of Southside common stock). However, if a U.S. holder’s adjusted tax basis in the shares of Diboll common stock surrendered is greater than the sum of the amount of cash (other than cash received in lieu of a fractional share of Southside common stock) and the fair market value of the Southside common stock received, the U.S. holder’s loss will not be currently allowed or recognized for U.S. federal income tax purposes. If a U.S. holder of shares of Diboll common stock acquired different blocks of shares of Diboll common stock at different times or different prices, the U.S. holder should consult the U.S. holder’s independent tax advisor regarding the manner in which gain or loss should be determined for each identifiable block of Diboll shares. Any recognized gain generally will be long-term capital gain if, as of the effective date of the first merger, the U.S. holder’s holding period with respect to the Shares of Diboll common stock surrendered exceeds one year.

The aggregate tax basis of the Southside common stock received (including any fractional share interests deemed received and redeemed for cash as described below under “Cash In Lieu of a Fractional Share”) by a U.S. holder that exchanges its shares of Diboll common stock for a combination of Southside common stock and cash as a result of the first merger will be the same as the aggregate tax basis of the

**TABLE OF CONTENTS**

shares of Diboll common stock surrendered in exchange therefor, reduced by the amount of cash received on the exchange (excluding cash received in lieu of a fractional share of Southside common stock) plus the amount of any gain recognized upon the exchange (excluding any gain recognized as a result of any cash received in lieu of a fractional share of Southside common stock). The holding period of the Southside common stock received (including any fractional share deemed received and redeemed) will include the holding period of the shares of Diboll common stock surrendered. A U.S. holder receiving a combination of Southside common stock and cash should consult its own independent tax advisor regarding the manner in which cash and Southside common stock should be allocated among the U.S. holder's shares of Diboll common stock and the manner in which the above rules would apply in the holder's particular circumstance.

**Cash In Lieu of a Fractional Share**

If a U.S. holder receives cash in lieu of a fractional share of Southside common stock, the U.S. holder will be treated as having received a fractional share of Southside common stock pursuant to the first merger and then as having exchanged the fractional share of Southside common stock for cash in a redemption by Southside. As a result, the U.S. holder generally will recognize gain or loss equal to the difference between the amount of cash received and the portion of the U.S. holder's aggregate tax basis (calculated in the manner as set forth above under "U.S. Holders that Receive a Combination of Southside Common Stock and Cash") allocable to the fractional share of Southside common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the first merger, the U.S. holder's holding period with respect to the fractional share (including the holding period of the Diboll common stock surrendered therefor) exceeds one year. The deductibility of capital losses is subject to limitations.

**Dissenters**

Upon its exercise of dissenters' rights, a U.S. holder of Diboll common stock will exchange all of its Diboll common stock for cash. Such a dissenting U.S. holder will recognize gain or loss equal to the difference between the amount of cash received and such U.S. holder's aggregate tax basis in its Diboll common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the U.S. holder's holding period with respect to the Diboll common stock surrendered therefor exceeds one year. The deductibility of capital losses is subject to limitations. If a U.S. holder of Diboll shares acquired different blocks of Diboll shares at different times or different prices, the U.S. holder should consult the U.S. holder's independent tax advisor regarding the manner in which gain or loss should be determined for each identifiable block of Diboll shares.

**Material U.S. Federal Income Tax Consequences if the Diboll Mergers Fail to Qualify as Reorganizations**

If the first merger and the second merger do not qualify as a "reorganization" within the meaning of Section 368(a) of the Code, then each U.S. holder of Diboll common stock will recognize capital gain or loss equal to the difference between (a) the sum of the fair market value of the shares of Southside common stock, as of the effective date of the first merger, received by such U.S. holder pursuant to the first merger and the amount of any cash received by such U.S. holder pursuant to the first merger and (b) its adjusted tax basis in the shares of Diboll common stock surrendered in exchange therefor. Gain or loss will be computed separately with respect to each identified block of Diboll common stock exchanged in the first merger.

**Backup Withholding**

If a U.S. holder is a non-corporate holder of Diboll common stock, the U.S. holder may be subject, under certain circumstances, to information reporting and backup withholding on any cash payments that the U.S. holder receives. A U.S. holder generally will not be subject to backup withholding, however, if the U.S. holder:

- furnishes a correct taxpayer identification number, certifying that it is not subject to backup withholding on IRS Form W-9 or successor form included in the letter of transmittal that the U.S. holder will receive and otherwise complies with all the applicable requirements of the backup withholding rules; or

TABLE OF CONTENTS

- provides proof that it is otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules are not an additional tax and will generally be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, if the U.S. holder timely furnishes the required information to the Internal Revenue Service.

Certain Reporting Requirements

If a U.S. holder that receives Southside common stock in the first merger is considered a "significant holder," such U.S. holder will be required (a) to file a statement with its U.S. federal income tax return providing certain facts pertinent to the mergers, including such U.S. holder's tax basis in, and the fair market value of, the Diboll common stock surrendered by such U.S. holder, and (b) to retain permanent records of these facts relating to the mergers. A "significant holder" is any Diboll shareholder that, immediately before the first merger, (y) owned at least 5% (by vote or value) of the outstanding stock of Diboll or (z) owned Diboll securities with a tax basis of \$1.0 million or more. This discussion of certain material U.S. federal income tax consequences is for general information only and is not intended to be tax advice. Holders of Diboll common stock are urged to consult their independent tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

Accounting Treatment

The mergers will be accounted for under the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States of America. Under this method, Diboll's assets and liabilities as of the date of the mergers will be recorded at their respective fair values. Any difference between the purchase price for Diboll and the fair value of the identifiable net assets acquired (including core deposit intangibles) will be recorded as goodwill. In accordance with ASC Topic 805, "Business Combinations," the goodwill resulting from the mergers will not be amortized to expense, but instead will be reviewed for impairment at least annually and to the extent goodwill is impaired, its carrying value will be written down to its implied fair value and a charge will be made to earnings. Core deposit and other intangibles with definite useful lives recorded by Southside in connection with the mergers will be amortized to expense in accordance with such rules. The consolidated financial statements of Southside issued after the mergers will reflect the results attributable to the acquired operations of Diboll beginning on the date of completion of the mergers.

Dissenters' Rights

General

If you hold one or more shares of Diboll common stock, you are entitled to dissenters' rights under Texas law and have the right to dissent from the merger and have the appraised fair value of your shares of Diboll common stock paid to you in cash. The appraised fair value may be more or less than the value of the consideration you would receive under the merger agreement. If you are contemplating exercising your right to dissent, we urge you to read carefully the provisions of Chapter 10, Subchapter H of the Texas Business Organizations Code (§§ 10.351-10.368), which are attached to this proxy statement/prospectus as Annex D, and to consult with your legal counsel before electing or attempting to exercise these rights. The following discussion describes the steps you must take if you want to exercise your right to dissent. You should read this summary and the full text of the law carefully.

How to Exercise and Perfect Your Right to Dissent

To be eligible to exercise your right to dissent to the merger:

- you must, prior to the Diboll special meeting, provide Diboll with a written objection to the first merger that states that your right to dissent will be exercised if the first merger is completed and that provides an address to which a notice of effectiveness of the first merger should be delivered or mailed to you if the first merger is completed;

TABLE OF CONTENTS

- you must vote your shares of Diboll common stock against approval of the first merger at the Diboll special meeting in person or by proxy;

- you must, not later than the 20th day after Southside (which will be the ultimate successor to Diboll) sends you notice that the first merger was completed, deliver to Southside a written demand for payment of the fair value of your shares of Diboll common stock and the number of shares of Diboll common stock that you own, your estimate of the fair value of such shares of Diboll common stock and an address to which a notice relating to the dissent and appraisal procedures may be sent; and

- you must, not later than the 20th day after you make your demand for payment to Southside as described above, submit your certificate representing your shares of Diboll common stock to Southside.

If you intend to exercise your right to dissent from the first merger, prior to the special meeting, you must send the notice of objection to Diboll, addressed to:

Diboll State Bancshares, Inc.

104 North Temple Drive

Diboll, Texas 75941

Attention: President and Secretary

If you fail (i) to send your written objection to the first merger in the proper form prior to the Diboll special meeting, (ii) to vote your shares of Diboll common stock at the Diboll special meeting against the approval of the first merger or (iii) to submit your demand for payment in the proper form on a timely basis, you will lose your rights to dissent from the first merger. If you fail to submit the certificates representing your shares of Diboll common stock to Southside on a timely basis after you have submitted the demand for payment as described above, Southside will have the option to terminate your right to dissent. In any instance of a termination or loss of your right of dissent, you will instead receive the merger consideration. If you comply with items (i) and (ii) above and the first merger is completed, Southside will send you a written notice advising you that the first merger has been completed. Southside must deliver this notice to you within ten days after the first merger is completed.

Your written demand must include a demand for payment for your shares of Diboll common stock for which rights of dissent and appraisal are sought and must state the number of shares of Diboll common stock that you own and your estimate of the fair value of your shares of Diboll common stock and an address to which a notice relating to the dissent and appraisal procedures may be sent. This written demand must be delivered to Southside within 20 days of the date on which Southside sends to you the notice of the effectiveness of the first merger. If your written demand for payment in proper form is not received by Southside within that 20-day period, you will be bound by the first merger and you will not be entitled to receive a cash payment representing the fair value of your shares of Diboll common stock.

**Delivery of Stock Certificates**

If you have satisfied the requirements for the exercise of your right to dissent described above, including the delivery of the written demand for payment to Southside as described above, you must, not later than the 20th day after you make your written demand for payment to Southside, submit to Southside your certificate or certificates representing the shares of Diboll common stock that you own. You may submit those certificates with your demand for payment if you prefer. In accordance with the provisions of the TBOC, Southside will note on each such certificate that you have demanded payment of the fair value of the shares of Diboll common stock that were represented by such certificate under the provisions of the TBOC relating to the rights of dissenting owners. After making those notations on those certificates, Southside will return each such certificate to you at your request. If you fail to submit all of the certificates representing the shares of Diboll common stock for which you have exercised the right of dissent in a timely fashion, Southside will have the right to terminate your rights of dissent and appraisal with respect to all of your shares of Diboll common stock unless a court, for good cause shown, directs Southside not to terminate those



rights.

65

---

**TABLE OF CONTENTS**

**Southside's Actions Upon Receipt of Your Demand for Payment**

Within 20 days after Southside receives your demand for payment and your estimate of the fair value of your shares of Diboll common stock, Southside must send you written notice stating whether it accepts your estimate of the fair value of your shares claimed in the demand or rejects the demand.

If Southside accepts your estimate, Southside will notify you that it will pay the amount of your estimated fair value within 90 days of the first merger being completed. Southside will make this payment to you if and only if you have surrendered the certificates representing your shares of Diboll common stock, duly endorsed for transfer to Southside. If Southside does not accept your estimate, Southside will notify you of this fact and will make an offer of an alternate estimate of the fair value of your shares that it is willing to pay you. You will have 90 days from the date of the completion of the first merger to accept or decline Southside's offer. If you accept the offer, Southside must pay the agreed amount within 120 days of the first merger being completed, but only if you have surrendered the certificates representing your shares of Diboll common stock, duly endorsed for transfer to Southside.

**Payment of the Fair Value of Your Shares of Diboll Common Stock Upon Agreement of an Estimate**

If you and Southside have reached an agreement on the fair value of your shares of Diboll common stock within 90 days of the effective date of the first merger, Southside must pay you the agreed amount within 120 days after the effective date of the first merger, provided that you have surrendered the stock certificates representing your shares of Diboll common stock duly endorsed for transfer to Southside.

**Commencement of Legal Proceedings if a Demand for Payment Remains Unsettled**

If you and Southside have not reached an agreement as to the fair market value of your shares of Diboll common stock within 90 days after the effective date of the merger, you or Diboll may, within 60 days after the expiration of the 90-day period, commence proceedings in Smith County, Texas, asking the court to determine the fair value of your shares of Diboll common stock. The court will determine if you have complied with the provisions of the TBOC regarding your right of dissent and if you have become entitled to receive payment for your shares of Diboll common stock. The court will appoint one or more qualified persons to act as appraisers to determine the fair value of your shares in the manner prescribed by the TBOC. The appraisers will determine the fair value of your shares and will report this value to the court. Once the appraisers' report is filed with the court, you will receive a notice from the court indicating that the report has been filed. You will be responsible for obtaining a copy of the report from the court. If you or Diboll objects to the report or any part of it, the court will hold a hearing to determine the fair value of your shares of Diboll common stock. Both you and Southside may address the court about the report. The court will determine the fair value of your shares and direct Southside to pay that amount, plus interest, which will begin to accrue 91 days after the first merger is completed. The court may require you to share in the court costs relating to the matter to the extent the court deems it fair and equitable that you do so.

**Rights as a Shareholder**

If you have made a written demand on Southside for payment of the fair value of your shares of Diboll common stock, you will not thereafter be entitled to vote or exercise any other rights as a shareholder of Diboll, but will only have the right to receive payment for your shares as described herein and the right to maintain an appropriate action to obtain relief on the ground that the first merger would be or was fraudulent. In the absence of fraud in the transaction, your right under the dissent provisions described herein is the exclusive remedy for the recovery of the value of your shares of Diboll common stock or money damages with respect to the mergers.

**Withdrawal of Demand**

If you have made a written demand on Southside for payment of the fair value of your Diboll common stock, you may withdraw such demand at any time before payment for your shares has been made or before a petition has been filed with a court for determination of the fair value of your shares. If you

## TABLE OF CONTENTS

withdraw your demand and are otherwise unsuccessful in asserting your dissenters' rights, you will be bound by the first merger and you will have the same rights to receive the merger consideration with respect to your shares of Diboll common stock as you would have had if you had not made a demand for payment as to those shares, as well as the right to participate to the appropriate extent in any dividends or distributions on the shares of Diboll common stock that may have been paid to Southside shareholders after the effective date of the mergers. Such rights will, however, be subject to any change in or adjustment to those shares made because of an action taken after the date of your demand for payment.

### Beneficial Owners

Persons who beneficially own shares of Diboll common stock that are held of record in the name of another person, such as a broker, bank, trustee or other nominee, and who wish to have the right of dissent exercised as to those shares, must act promptly to cause the record holder of those shares to take the actions required under Texas law to exercise the dissenters' rights with respect to those shares. Only the persons in whose names shares of Diboll common stock are registered on the share transfer records of Diboll may exercise the right of dissent and appraisal discussed above.

### U.S. Federal Income Tax Consequences

See "U.S. Federal Income Tax Considerations — Dissenters" beginning on page 63 for a discussion on how the federal income tax consequences of your action will change if you elect to dissent from the first merger.

You should remember that if you return a signed proxy card, but fail to provide instructions as to how your shares of Diboll common stock are to be voted, you will be considered to have voted in favor of the merger and you will not be able to assert dissenters' rights. You should also remember that if you otherwise vote at the special meeting in favor of the first merger, you will not be able to assert dissenters' rights.

### Exchange of Shares in the First Merger

The conversion of Diboll common stock into the right to receive the merger consideration will occur automatically at the effective time of the first merger. After completion of the first merger, the exchange and paying agent will exchange certificates representing shares of Diboll common stock for the merger consideration to be received pursuant to the terms of the merger agreement.

### Letter of Transmittal

As soon as reasonably practicable after the effective time of the first merger, but no later than five business days after the effective time, the exchange and paying agent will mail appropriate transmittal materials and instructions to those persons who were holders of Diboll common stock immediately prior to the completion of the first merger. These materials will contain instructions on how to surrender shares of Diboll common stock in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

If a certificate for Diboll common stock has been lost, stolen or destroyed, the exchange and paying agent will issue the merger consideration upon receipt of (1) an affidavit of that fact by the claimant and (2) if reasonably required, such bond as Southside or the exchange and paying agent may determine is necessary as indemnity against any claim that may be made against it with respect to such lost, stolen or destroyed certificate.

After completion of the first merger, there will be no further transfers on the stock transfer books of Diboll other than to settle transfers of Diboll common stock that occurred prior to the effective time of the first merger.

### Withholding

Southside and the exchange and paying agent will be entitled to deduct and withhold from the consideration otherwise payable to any Diboll shareholder the amounts they are required to deduct and withhold under any applicable federal, state, local or foreign tax law. If any such amounts are withheld, these amounts will be treated for all purposes of the merger agreement as having been paid to the shareholders from whom they were withheld.

TABLE OF CONTENTS

Dividends and Other Distributions

Whenever a dividend or other distribution is declared by Southside on Southside common stock, the record date for which is after the effective time of the first merger, the declaration will include dividends or other distributions on all shares of Southside common stock issuable under the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered his, her or its Diboll stock certificates.

Listing of Southside Common Stock

It is a condition to the completion of the first merger that the shares of Southside common stock issuable in connection with the first merger be approved for listing on the NASDAQ Global Select Market, subject to official notice of issuance.

68

---

TABLE OF CONTENTS

THE MERGER AGREEMENT

The following describes certain aspects of the mergers, including certain material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this proxy statement/prospectus as Annex A and is incorporated by reference into this proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing the mergers.

Structure of the Mergers, Effective Time and Closing

Each of Southside's board of directors and Diboll's board of directors has unanimously approved the merger agreement and the transactions contemplated thereby. The merger agreement provides for the acquisition of Diboll by Southside pursuant to the merger of Merger Sub with and into Diboll, which we refer to as the first merger. Immediately after the first merger, Diboll will merge with and into Southside, with Southside as the surviving company, which we refer to as the second merger. Immediately after the second merger, First Bank & Trust, a wholly owned subsidiary of Diboll, will merge with and into Southside's wholly owned bank subsidiary, Southside Bank, with Southside Bank as the surviving bank, which we refer to as the bank merger. We refer to the first merger, the second merger and the bank merger collectively as the mergers.

The first merger will be completed only if all conditions to the first merger discussed in this proxy statement/prospectus and set forth in the merger agreement are either satisfied or waived. See “— Conditions to Completion of the Mergers.”

The first merger will become effective upon the date and time specified in the certificate of merger for the first merger filed with the Secretary of State of the State of Texas in accordance with the Texas Business Organizations Code. The second merger will become effective upon the date and time specified in the certificate of merger filed with the Secretary of State of the State of Texas. The closing of the transactions contemplated by the merger agreement will occur at 10:00 a.m., Central time on a date no later than three business days after the satisfaction or waiver of the conditions specified in the merger agreement, or such other date as mutually agreed to by the parties. It currently is anticipated that the completion of the mergers will occur in the fourth quarter of 2017, subject to the receipt of regulatory approvals and other customary closing conditions, but neither Southside nor Diboll can guarantee when or if the mergers will be completed.

Organizational Documents of the Surviving Company

At the effective time of the second merger, the restated certificate of formation and amended and restated bylaws of Southside in effect immediately prior to the effective time of the second merger will be the certificate of formation and bylaws of the surviving company until thereafter amended in accordance with their respective terms and applicable law.

Officers of the Surviving Company

Each of the officers of Southside immediately prior to the effective time of the second merger will be the officers of the surviving company from and after the effective time of the second merger. Additionally, immediately following the closing of the mergers, the following Diboll executives will assume the following titles at Southside Bank: Jay Shands — Regional President, East Texas; Trey Denman — Executive Vice President; Jim Denman — Executive Vice President

Board of Directors of the Surviving Company

Immediately following the closing of the mergers, the Southside board of directors will be increased by two, and Southside will select two individuals who are currently directors of Diboll to serve on the Southside board of directors, at least one of whom must be an “independent” director of Southside. The two designees will be appointed to serve a term that expires at the Annual Meeting of Shareholders of Southside in 2018, and the Nominating Committee of the Board shall consider in good faith the

TABLE OF CONTENTS

nomination for re-election of each such director one of which will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2020 and the other director will be considered for re-election for a term that expires at the Annual Meeting of Shareholders in 2019.

Merger Consideration; Effects of the First Merger

If the first merger is completed, at the effective time of the first merger, each share of Diboll common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time of the first merger, except for specified shares of Diboll common stock held by Southside or Diboll, will be converted into the right to receive:

(1)

cash consideration equal to the quotient of (a) up to \$25,000,000, less the after-tax amount paid by Diboll upon the cashless exercise of stock options for cash prior to the closing of the first merger and subject to adjustment based on Diboll's closing net book value, divided by (b) the number of shares of Diboll common stock issued and outstanding immediately prior to the effective time of the first merger (after giving effect to any valid exercises of outstanding Diboll equity awards prior to the effective time of the first merger), which we refer to as the Diboll outstanding share number; and

(2)

a number of shares of Southside common stock equal to the quotient of (a) 5,535,000, divided by (b) the Diboll outstanding share number, which we refer to as the stock consideration, without interest.

The aggregate amount of the cash consideration will be decreased by the after-tax amount paid by Diboll to holders of options to purchase Diboll common stock who utilize the "cashless exercise" feature of such options and upon such cashless exercise receive payment of an amount in cash equal to the excess of the aggregate fair market value at the time of exercise of the shares of Diboll common stock subject to such options over the aggregate purchase price for such shares.

In addition, the aggregate amount of the cash consideration will be decreased on a dollar-for-dollar basis if Diboll's closing net book value as of a date that is 15 business days prior to the closing date, which we refer to as the determination date, is less than the target book value of \$100,298,570.

Diboll's closing net book value will be calculated as the unaudited consolidated net shareholders' equity of Diboll, determined in accordance with GAAP, but without giving effect to any required purchase accounting adjustments required as a result of the transactions contemplated by the merger agreement. For purposes of calculating the closing net book value, Diboll shall include, without duplication, reductions for: (a) any fees and commissions payable to any broker, finder, financial advisor or investment banking firm in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, on an after-tax basis; (b) any legal and accounting fees incurred in connection with the merger agreement, the mergers and the other transactions contemplated by the merger agreement and any related SEC and regulatory filings, on an after-tax basis; (c) any amounts paid or payable pursuant to Diboll's change-in-control bonus pool, on an after-tax basis; (d) except to the extent the aggregate cash consideration has been adjusted for the cashless exercise of Diboll stock options as discussed above, the costs, expenses, payments or other amounts paid or payable pursuant to vesting of any Diboll stock options and any existing employment, salary continuation, deferred compensation or other similar agreements or severance, noncompetition, or retention arrangements between Diboll or any of its subsidiaries and any other person, on an after-tax basis; (e) the termination costs associated with certain designated contracts, on an after-tax basis; and (f) the amount of any and all dividends permitted to be paid by Diboll pursuant to the merger agreement, to the extent paid, declared or expected to be paid or declared, prior to the effective time of the first merger. Additionally, the closing net book value shall reflect the closing mark-to-market valuation of the securities in Diboll's investment portfolio. The closing net book value may be further adjusted upon the mutual agreement of the parties.

For example, and for illustration purposes only, assuming that (1) all holders of options to purchase shares Diboll common stock utilize the cashless exercise feature of such options immediately prior to closing and receive a cash payment therefor and the fair market value of the shares of Diboll common stock subject to such option is deemed to be equal to the merger consideration per share of Diboll common stock; for this example 16,131 stock options are estimated to utilize the cashless exercise feature with an



**TABLE OF CONTENTS**

estimated average exercise price of \$134.92 (resulting in a payment to option holders of \$1,654,718, which on an after-tax basis to Diboll is \$1,092,114), (2) Diboll's closing net book value is at least equal to the target book value, (3) the price per share of the Southside common stock received in the merger is equal to \$32.10, the closing price on September 6, 2017, and (4) the Diboll outstanding share number is 848,776 each share of Diboll common stock would be converted into the right to receive \$28.17 in cash and 6.5212 shares of Southside common stock with a value of \$209.33, or aggregate merger consideration per share of Diboll common stock of \$237.50.

If the number of shares of common stock of Southside or Diboll changes before the first merger is completed as a result of any reclassification, recapitalization, stock split (including a reverse stock split) or subdivision or combination or readjustment of shares, or any stock dividend or stock distribution with a record date during such period, then the merger consideration will be proportionately adjusted.

**Fractional Shares**

Southside will not issue any fractional shares of Southside common stock in the first merger. Diboll shareholders who would otherwise be entitled to a fractional share of Southside common stock upon the completion of the first merger will instead receive an amount in cash based on the volume weighted average price per share of Southside common stock for the last full trading day immediately preceding the day on which the first merger is completed, which we refer to as the Southside closing share value.

**Treatment of Diboll Stock Options**

Holders of Diboll stock options must exercise such options prior to the effective time of the first merger to receive any consideration for such options. Pursuant to the Diboll State Bancshares, Inc. Incentive Stock Option 2014 — Plan, or a predecessor plan, and the award agreements for such options, holders have the right to execute a "cashless exercise" and receive the difference between the fair market value for the shares of Diboll common stock at the time of exercise less the purchase price for such shares, which is payable in cash, Diboll common stock or a combination thereof.

Additionally pursuant to such plans and award agreements, all unvested options to purchase Diboll common stock become exercisable immediately prior to the effective time of any merger in which Diboll is not the surviving company. All outstanding options that have not been exercised will terminate at the effective time for no consideration. Holders of options to purchase shares of Diboll's common stock will not be entitled to receive any merger consideration in exchange for their options.

**Representations and Warranties**

The representations, warranties and covenants described below and included in the merger agreement were made only for purposes of the merger agreement and as of specific dates, are solely for the benefit of Southside and Diboll, may be subject to limitations, qualifications or exceptions agreed upon by the parties, including those included in confidential disclosures made for the purposes of, among other things, allocating contractual risk between Southside and Diboll rather than establishing matters as facts, and may be subject to standards of materiality that differ from those standards relevant to investors. You should not rely on the representations, warranties, covenants or any description thereof as characterizations of the actual state of facts or condition of Southside, Diboll or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in public disclosures by Southside or Diboll. The representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this proxy statement/prospectus and in the documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."



TABLE OF CONTENTS

The merger agreement contains customary representations and warranties of Southside and Diboll relating to their respective businesses, including the following:

- the corporation organization, existence, qualification, and corporate power and authority of the companies;
- the status of subsidiaries;
- the capitalization of the companies;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the mergers;
- the required governmental and other regulatory filings and consents and approvals in connection with the mergers;
- absence of knowledge of any reasons why all required regulatory approvals should not be obtained on a timely basis;
- the filing of reports to regulatory authorities;
- the accuracy of financial statements and books and records, the effectiveness of internal controls and the absence of significant deficiencies, material weaknesses and “off-balance sheet arrangements;”
- the absence of certain changes or events;
- the absence of certain legal proceedings;
- the filing of tax returns, payment of taxes and other tax matters by each party;
- compliance with applicable laws;
- employee benefit matters;
- intellectual property matters;
- environmental matters;
-

related party transactions;

- broker's fees payable in connection with the mergers;
- the accuracy of information supplied for inclusion in this proxy statement/prospectus and other similar documents;  
and
- access to information and absence of additional representations.

Diboll also has made additional representations and warranties to Southside with respect to (among other things):

- absence of undisclosed liabilities;
- labor matters;
- certain material contracts;
- agreements with regulatory authorities;
- investment securities;
- derivative instruments and transactions;
- insurance matters;
- real and personal property;
- loan matters;
- inapplicability of takeover statutes;

TABLE OF CONTENTS

- receipt of a financial opinion from Diboll’s financial advisor; and
- transaction expenses.

Southside has also made an additional representation to Diboll about the availability of funds to complete the mergers.  
Definition of “Material Adverse Effect”

Certain representations and warranties of Southside and Diboll are qualified as to “materiality” or “material adverse effect.” For purposes of the merger agreement, a “material adverse effect,” when used in reference to either Southside or Diboll, means any event, circumstance, development, change or effect that, individually or in the aggregate is, or is reasonably likely to be, material and adverse to (i) the business, financial condition, assets, liabilities or results of operations of such party and its subsidiaries, taken as a whole, or (ii) the ability of such party to timely consummate the transactions contemplated by the merger agreement. For purposes of clause (i) only, the definition of “material adverse effect” excludes the following:

- changes in GAAP or regulatory accounting requirements;
- changes in laws of general applicability to companies in the financial services industry;
- changes in global or national (or any state or territory thereof) political, general economic or market conditions generally affecting other companies in the financial services industry, including changes in the credit markets, any downgrades in the credit markets, or adverse credit events or changes in prevailing interest rates, currency exchange rates, or price levels or trading volumes in the United States and including changes to any previously correctly applied asset marks resulting therefrom;
- any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism;
- actions or omissions taken with the prior written consent of the other party;
- any failure, in and of itself, to meet internal or other estimates, projections, or forecasts (it being understood that the facts or circumstances giving rise or contributing to the failure to meet estimates, projections or forecasts may be taken into account in determining whether there has been a material adverse effect, except to the extent such facts or circumstances are themselves excepted from the definition of material adverse effect pursuant to any other clause of this definition); or
- the execution or public disclosure of the merger agreement or the transactions contemplated thereby or the consummation of the transactions, including the impacts thereof on relationship with customers and employees;

except, with respect to the first four bullets, if the effects of such change disproportionately affect such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate.

Covenants and Agreements

Conduct of Businesses Prior to the Completion of the First Merger

Diboll has agreed that, prior to the effective time of the first merger, it will, and will cause each of its subsidiaries to, conduct its business in the usual, regular and ordinary course consistent with past practice, use commercially reasonable efforts to maintain and preserve intact its business organization, rights, franchises and other authorizations issued by governmental entities and its current relationships. In addition, each of Southside and Diboll has agreed that, prior to the effective time of the first merger, it will, and will cause each of its respective subsidiaries to take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of Southside or Diboll to obtain any required regulatory approvals or to perform their respective obligations under the merger agreement or to consummate the transactions contemplated by the merger agreement.

73

---

TABLE OF CONTENTS

Additionally, Diboll has agreed that prior to the effective time of the first merger, except as expressly required by the merger agreement or with the prior written consent of Southside, Diboll will not, and will not permit any of its subsidiaries to, subject to certain exceptions, undertake the following actions:

- create or incur any indebtedness for borrowed money (other than (i) acceptance of deposits, (ii) purchases of Federal funds, (iii) Federal Home Loan Bank borrowings of no more than \$25,000,000 in the aggregate and with maturity dates of no more than five (5) years, which are used solely to fund new loans, (iv) sales of certificates of deposit, (v) issuances of commercial paper, (vi) entering into repurchase agreements, and (vii) indebtedness with maturities of less than 3 months to replace expiring indebtedness, each in the ordinary course of business consistent with past practice);

- assume, guarantee, endorse or otherwise become responsible for the obligations of any other individual, corporation or other entity, except in connection with (i) issuances of letters of credit or similar facilities in the ordinary course of business and (ii) presentation of items for collection in the ordinary course of business consistent with past practice or in connection with indebtedness incurred pursuant to the prior bullet point; provided that Diboll shall consult with Southside in good faith with respect to any sales of brokered or internet certificates of deposit with a term that exceeds six (6) months;

- adjust, split, combine or reclassify any capital stock or other equity interests;

- set any record or payment dates for the payment of any dividends or other distributions on its capital stock or other equity interest or make, declare or pay any dividend or other distribution (except for dividends paid in the ordinary course of business by any direct or indirect wholly-owned subsidiary of Diboll) or make any other distribution on shares of its capital stock or other equity interest (other than regular quarterly dividends on its common stock in an amount not in excess of \$1.50 per share per quarter) or redeem, purchase or otherwise acquire any securities or obligations convertible into or exchangeable for any shares of its capital stock or other equity interest; provided that if the closing of the first merger is on or after December 9, 2017, Diboll may, but shall not be obligated to, declare and pay a special one-time cash dividend on the shares of Diboll common stock in an amount that, together with any other dividend permitted by the merger agreement, would not cause Diboll's tier 1 leverage ratio to drop below 8.75%;

- grant any stock appreciation rights, options, restricted stock, restricted stock units, awards based on the value of Diboll's capital stock or other equity-based compensation or grant to any individual, corporation or other entity any right to acquire any shares of its capital stock;

- issue or commit to issue any additional shares of capital stock of Diboll or sell, lease, transfer, mortgage, encumber or otherwise dispose of any capital stock in any subsidiary of Diboll other than in connection with the issuance of shares of Diboll common stock upon the exercise of stock options outstanding as of the date of the merger agreement;

- enter into any agreement, understanding or arrangement with respect to the sale or voting of its capital stock, except with respect to the mergers or the other transactions contemplated by the merger agreement;

- sell, lease, transfer, mortgage, encumber or otherwise dispose of any of its property or assets to any person other than a wholly-owned subsidiary, except (i) sales of loans, loan participations and investment securities in the ordinary course of business consistent with past practice to third parties who are not affiliates of Diboll and (ii) as expressly

required by contracts or agreements in force at the date of the merger agreement and disclosed in the Diboll disclosure schedule;

•

acquire direct or indirect control of any businesses or assets of any other entity, or make any investment or acquire any property or assets of any other person, other than foreclosures of collateral (or conveyance of such collateral in lieu of foreclosure) taken in connection with collection of a loan in the ordinary course of business consistent with past practices and with respect to loans made to third parties who are not affiliates of Diboll;

TABLE OF CONTENTS

- hire, transfer or promote any employee who has (or with respect to hiring, will have) target annual compensation of \$100,000 or more;
- terminate the employment of any employee who has target annual compensation of \$100,000 or more other than a termination for cause in the ordinary course of business consistent with past practices;
- enter into, adopt, amend or terminate any employment, bonus, severance, change-of-control or retirement contract or plan;
- enter into, adopt, amend or terminate or commence participation in, or agree to enter into, adopt or terminate or commence participation in any employee benefit plan, program or policy for the benefit or welfare of any current or former employee, officer, director or consultant of Diboll or its subsidiaries;
- amend any employee benefit plan, program or policy for the benefit or welfare of any current or former employee, officer, director or consultant of Diboll or its subsidiaries in a manner that would result in any increase in cost to Southside, Company or any of their respective subsidiaries, other than as required by law and de minimis amendments in the ordinary course of business consistent with past practice;
- increase or agree to increase the compensation or benefits to any current or former employee, officer, director or consultant of Diboll or its subsidiaries;
- enter into any new, amend or commence participation in any existing collective bargaining agreement or similar agreement with respect to Diboll or any of its subsidiaries;
- cause the funding of any rabbi trust or similar arrangement or take any action to fund or in any other way secure the payment of compensation or benefits under any Diboll benefit plan;
- grant any awards or, except as contemplated by the merger agreement, accelerate the vesting of or lapsing of restrictions with respect to any stock-based compensation or other long-term incentive compensation under any Diboll benefit plans, except in the ordinary course of business consistent with past practice;
- settle any claim, action or proceeding other than in the ordinary course of business consistent with past practice involving solely money damages not in excess of \$100,000 individually or \$200,000 in the aggregate, or waive, compromise, assign, cancel or release any material rights or claims;
- agree or consent to the issuance of any injunction, decree, order or judgment restricting or otherwise affecting its business or operations;
-

pay, discharge or satisfy any claims, liabilities or obligations other than in the ordinary course of business consistent with past practice (subject to the limitations above);

- change any accounting methods or systems of internal accounting controls or the manner in which Diboll accrues for liabilities (except as required by regulatory agencies or GAAP, as concurred in by Briggs & Veselka Co.);
- except as required by GAAP and in the ordinary course of business consistent with past practice, revalue in any material respect any of its assets, including writing-off notes or accounts receivable;
- make, change or revoke any tax election, change an annual tax accounting period, adopt or change any tax accounting method, file any amended tax return, enter into any closing agreement with respect to taxes, or settle any tax claim, audit, assessment or dispute or surrender any right to claim a refund of taxes;
- amend the organizational documents of Diboll or any subsidiary;
- materially restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;



TABLE OF CONTENTS

- invest in any mortgage-backed or mortgage related securities which would be considered “high-risk” securities under applicable regulatory pronouncements;
- without previously notifying and consulting with Southside, purchase or otherwise acquire any debt security with a remaining term as of the date of such purchase or acquisition of greater than 15 years for Diboll’s own account or any Diboll subsidiary’s own account;
- enter into, modify, amend or terminate any material contract (other than in the ordinary course of business consistent with past practice);
- other than as determined to be necessary or advisable by Diboll in the good faith exercise of its discretion based on changes in market conditions, change in any material respect its credit policies and collateral eligibility requirements and standards;
- fail to use commercially reasonable efforts to take any action that is required by a regulatory agreement, or take any action that violates a regulatory agreement;
- except as required by applicable law, regulation or policies imposed by any governmental entity, enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management, interest rate or fee pricing with respect to depository accounts, hedging and other material banking and operating policies or practices;
- permit the commencement of any construction of new structures or facilities upon, or purchase or lease any real property in respect of any branch or other facility, or file any application, or otherwise take any action, to establish, relocate or terminate the operation of any banking office;
- make, or commit to make, any material capital expenditures other than as disclosed in Diboll’s capital expenditure budget;
- without previously notifying and consulting with Southside (i) renew or extend an existing commitment for any loan relationship having total credit exposure to the applicable borrower in excess of \$2,000,000 (other than as set forth on the Diboll disclosure schedule), or (ii) make or acquire any loan or issue a commitment (or amend, renew, restructure or modify in any material respect any existing loan relationship), that would result in total credit exposure to the applicable borrower in excess of \$1,000,000;
- take any action that is intended to, would or would be reasonably likely to result in any of the closing conditions set forth in the merger agreement not being satisfied or prevent or materially delay the consummation of the transactions contemplated in the merger agreement except as may be required by law;
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knowingly take any action, or fail to take any action, which action or failure to act prevents or impedes, or could reasonably be expected to prevent or impede, the mergers from qualifying as a “reorganization” under the Internal Revenue Code; or

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agree to, or make any commitment to, take, or adopt any resolutions of the board of directors of Diboll in support of, any of the actions prohibited above.

Southside has agreed to a more limited set of restrictions on its business prior to the completion of the first merger. Specifically, Southside has agreed that prior to the effective time of the first merger, except as expressly contemplated or permitted by the merger agreement or with the prior written consent of Diboll, Southside will not, and will not permit any of its subsidiaries to, subject to certain exceptions, undertake the following actions:

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amend the organizational documents of Southside, Merger Sub or Southside Bank in a manner that would materially and adversely affect the economic benefits of the first merger to the holders of Diboll common stock;

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take any action that is intended to, would or would be reasonably likely to result in any of the conditions to closing of the mergers set forth in the merger agreement not being satisfied or prevent or materially delay the consummation of the transactions contemplated by the merger agreement, except, in every case, as may be required by applicable law;

TABLE OF CONTENTS

- knowingly take any action, or fail to take any action, which action or failure to act prevents or impedes, or could reasonably be expected to prevent or impede, the mergers from qualifying as a “reorganization” under the Internal Revenue Code;

- acquire direct or indirect control of any businesses or assets of any other entity, or make any investment or acquire any property or assets of any other person, other than (i) foreclosures of collateral (or conveyance of such collateral in lieu of foreclosure) taken in connection with collection of a loan in the ordinary course of business consistent with past practices and with respect to loans made to third parties who are not affiliates of Southside, or (ii) if such transaction, together with all other such transactions, is not material to Southside and its subsidiaries, taken as a whole, and would not reasonably be expected to present a material risk that the closing of the mergers will be materially delayed or that the required regulatory approvals will be more difficult to obtain;

- adopt or enter into a plan of liquidation or dissolution with respect to Southside, Southside Bank or Merger Sub; or

- agree to, or make any commitment to, take, or adopt any resolutions of the board of directors of Southside in support of, any of the actions prohibited above.

Regulatory Matters

Southside and Diboll have agreed to use their respective commercially reasonable efforts to take all actions that are necessary, proper or advisable to comply promptly with all legal requirements with respect to the transactions contemplated by the merger agreement and to obtain any action, non-action, permit, consent, authorization, order, clearance, waiver or approval of, or any exemption by, any regulatory authority required or advisable in connection with the mergers and the other transactions contemplated by the merger agreement. However, in no event will Southside be required, and will Diboll and its subsidiaries be permitted (without Southside’s written consent in its sole discretion), to take any action, or commit to take any action, or agree to any condition or restriction if such action, condition or restriction would have, or would be reasonably likely to have, individually or in the aggregate, a material adverse effect on Southside and its subsidiaries, taken as a whole, or Diboll and its subsidiaries, taken as a whole (in each case measured on a scale relative to Diboll and its subsidiaries, taken as a whole) (including any determination by a regulatory authority that the bank merger may not be completed as contemplated in the merger agreement (and without material on-going conditions or restrictions)). Southside and Diboll have also agreed, to furnish each other, upon request, with all information reasonably necessary in connection with any statement, filing, notice or application made by or on behalf of Southside, Diboll or any of their respective subsidiaries to any governmental entity in connection with the transactions contemplated by the merger agreement, as well as to keep each other apprised of the status of matters related to the completion of the transactions contemplated by the merger agreement.

Employee Matters

The merger agreement requires Southside to provide to employees of Diboll and its subsidiaries from the closing of the mergers through December 31, 2017, so long as they continue to be employed by Southside, life insurance, accidental death and dismemberment, long-term disability, and medical benefit plans that provide benefits that are no less favorable in the aggregate than the life insurance, accidental death and dismemberment, long-term disability, and medical benefits that are generally made available to similarly situated employees of Diboll and its subsidiaries. If the closing occurs after November 1, 2017, or such later date as may be administratively feasible, Southside will also continue to provide Diboll employees with substantially similar life insurance, accidental death and dismemberment, long-term disability, and medical benefit plans in 2018 as they had with Diboll, but such employees will otherwise be on the same plans as similarly situated employees of Southside.

The merger agreement further provides that until the one year anniversary of the closing of the mergers, each Diboll employee that continues to be employed by Southside will be eligible to receive benefits upon qualifying terminations

of employment that are consistent with First Bank & Trust's severance plan in effect immediately prior to the closing of the mergers.

77

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## TABLE OF CONTENTS

Diboll is required to terminate the First Bank & Trust East Texas 401(k) Profit Sharing Plan effective immediately prior to the effective time of the first merger. In addition, as soon as feasible after the closing of the first merger, Diboll employees will be eligible to participate in the Southside 401(k) Plan on the same terms and conditions applicable to employees of Southside or its subsidiaries and will be permitted to roll their accounts from the First Bank & Trust East Texas 401(k) Profit Sharing Plan into Southside's 401(k) Plan, assuming receipt of a favorable determination letter from the Internal Revenue Service. Southside must also give Diboll employees credit for purposes of eligibility, vesting and benefit accrual under benefits plans applicable to such employees following closing.

### Director and Officer Indemnification and Insurance

The merger agreement provides that after the completion of the mergers, Southside will indemnify and hold harmless all present and former directors and officers of Diboll against all judgments, penalties, fines or settlements (and reasonable expenses incurred in connection therewith) in connection with any claim arising out of acts or omissions occurring at or prior to the closing, to the fullest extent permitted by Diboll's charter and bylaws and any existing indemnification contract.

In addition, for a period of six years after the closing of the mergers, Southside must maintain in effect, or substitute policies comparable to, Diboll's current directors' and officers' liability insurance covering each person currently covered by Diboll's directors' and officers' liability insurance policy for claims arising from facts, events or actions occurring prior to the closing of the mergers. However, Southside is not obligated to provide such coverage to the extent that the premiums associated with such coverage exceed 250% of the current annual premium.

### Certain Additional Covenants

The merger agreement also contains additional covenants, including covenants relating to the filing of this proxy statement/prospectus, the listing of the shares of Southside common stock to be issued in the first merger, access to information of the other company, notification of certain matters, exemption from takeover laws and public announcements with respect to the transactions contemplated by the merger agreement.

### Agreement Not to Solicit Other Offers ("No Shop")

The merger agreement restricts Diboll's ability to solicit other potential acquisition proposals. Specifically, the merger agreement provides that Diboll will not, and will cause its subsidiaries and its and their respective representatives not to, directly or indirectly:

- solicit, initiate, assist or knowingly take any other action to facilitate or encourage a competing acquisition proposal (including furnishing non-public information);
- enter into, continue or otherwise participate in any discussions or negotiations regarding a competing acquisition proposal; or
- approve, recommend, declare advisable or enter into any agreement providing for a competing acquisition proposal or requiring Diboll to abandon, terminate or breach its obligations under the merger agreement or fail to consummate the mergers.

However, prior to obtaining Diboll's required shareholder approval, Diboll may participate in negotiations or discussions with any third party making a bona fide, unsolicited acquisition proposal and provide confidential information to such third party (subject to a confidentiality agreement), if (i) Diboll's board of directors determines in good faith, after consultation with outside legal counsel and Diboll's financial advisor, that the acquisition proposal is reasonably likely to result in a superior proposal (defined below), (ii) Diboll's board of directors determines in good faith, after consultation with outside legal counsel, that the failure to take such action would reasonably be expected to cause Diboll's board of directors to be in breach of its fiduciary duties and (iii) Diboll has notified Southside of the receipt of such acquisition proposal.

TABLE OF CONTENTS

Further, the merger agreement provides that, at any time prior to obtaining Diboll’s required shareholder approval, Diboll’s board may, if it determines in good faith (after consultation with outside legal counsel) that the failure to do so would be inconsistent with its fiduciary duties under applicable law, (i) make an adverse recommendation change in response to (a) a bona fide, unsolicited acquisition proposal made after the date hereof that it determines in good faith (after consultation with outside counsel and its financial advisor) is a superior proposal or (b) an intervening event or (ii) cause or permit Diboll to terminate the merger agreement and promptly thereafter enter into an acquisition agreement with respect to a superior proposal. However, Diboll cannot take any of those actions in response to a competing acquisition proposal or an intervening event, unless (1) it has given Southside at least three business days’ prior written notice of its intention to take such action, (2) prior to taking such action, it has negotiated in good faith with Southside during that three-business day period to enable Southside to adjust the terms and conditions of the merger agreement such that it would cause the superior proposal to no longer constitute a superior proposal or to cause the adverse recommendation change in response to the intervening event to no longer be necessary and (3) at the end of the three-business-day period, Diboll’s board of directors determines in good faith (after consultation with outside legal counsel and financial advisors) that such superior proposal has not been withdrawn and continues to constitute a superior proposal or that the intervening event continues to necessitate an adverse recommendation change, as applicable.

The merger agreement defines an “acquisition proposal” as a proposal or offer from, or indication of interest in making a proposal or offer by, any person (other than Southside or its subsidiaries), relating to, or that is reasonably likely to lead to, any (i) direct or indirect acquisition of assets of Diboll or its subsidiaries (including any voting equity interests of subsidiaries) equal to 20% or more of the fair market value of Diboll’s consolidated assets or to which 20% or more of Diboll’s net revenues or net income on a consolidated basis are attributable, (ii) direct or indirect acquisition of 20% or more of the voting equity interests of Diboll, (iii) tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more of the voting equity interests of Diboll, (iv) merger, consolidation, other business combination or similar transaction involving Diboll pursuant to which such person would own 20% or more of the consolidated assets, net revenues or net income of Diboll, taken as a whole, or (v) liquidation or dissolution of Diboll or the declaration or payment of an extraordinary dividend by Diboll.

The merger agreement defines a “superior proposal” as a bona fide written “acquisition proposal” (with 20% as used in that definition increased to a majority) that Diboll’s board of directors reasonably determines in good faith (after consultation with outside legal counsel and its financial advisor), taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal is more favorable from a financial point of view to the holders of Diboll common stock than the transactions contemplated by the merger agreement (taking into account any adjustment to the terms and conditions proposed in writing by Southside in response to such proposal).

The merger agreement defines a “intervening event” as a fact, change, development, event or circumstance that was not known to the Diboll board of directors on the date of the merger agreement (or if known, the consequences of which were not known to or reasonably foreseeable by the Diboll board as of such date), which event or circumstance, or any material consequences thereof, becomes known to the Diboll board prior to the time that Diboll’s required shareholder approval is received and does not relate to any (i) any acquisition proposal or (ii) any events or circumstances relating to the mergers or the other transactions contemplated hereby.

Conditions to Completion of the Mergers

Southside and Diboll’s respective obligations to complete the first merger are subject to the fulfillment or waiver of the following conditions:

- approval of the first merger by shareholders holding two-thirds of the outstanding shares of Diboll common stock;
- the receipt of all required regulatory approvals for the mergers, without the imposition of any material on-going conditions or restrictions and any applicable waiting periods shall have expired;



TABLE OF CONTENTS

- the absence of any legal restraint (such as an injunction or restraining order) that would prevent the consummation of the mergers;
- the authorization for listing the shares of Southside common stock to be issued as part of the merger consideration on the Nasdaq Global Select Market;
- the effectiveness of the registration statement of which this proxy statement/prospectus forms a part required in connection with the issuance of the Southside common stock in the first merger;
- each party's receipt of a tax opinion from Alston & Bird LLP confirming the tax-free treatment of the mergers for U.S. federal income tax purposes; and
- the absence of the occurrence of a material adverse effect on Diboll or Southside.

In addition, Southside's obligation to close is subject to the receipt of a FIRPTA certificate from Diboll and the absence of more than five percent of the outstanding shares of Diboll common stock exercising (or being entitled to exercise) their dissenters' rights.

Each party's obligation to close is subject to the accuracy of the other party's representations and warranties and the other party's compliance with its covenants and agreements set forth in the merger agreement. In order to avoid "hair-trigger" breaches, the inaccuracy of a representation or warranty usually will not be considered a breach of the merger agreement unless the inaccuracy relates to matters that, individually or in the aggregate, have a material adverse effect on the relevant party.

Neither Southside nor Diboll can provide assurance as to when or if all of the conditions to the first merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/ prospectus, neither Southside nor Diboll has reason to believe that any of these conditions will not be satisfied.

**Termination of the Merger Agreement**

The merger agreement can be terminated at any time prior to completion of the first merger by mutual consent, or by either party in the following circumstances:

- if the closing of the first merger is not completed within nine months of the date of the merger agreement, or March 12, 2018, which we refer to as the end date;
- if any court or other governmental entity has issued a final and nonappealable judgment, order, injunction, rule or decree, or taken any other action restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the merger agreement;
- if either party receives written notice from or is otherwise advised by a governmental entity that it will not grant any required regulatory approval without imposing a materially burdensome regulatory condition on either party;
- in the event that approval by the shareholders of Diboll is not obtained at a meeting at which a vote was taken; or
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if the other party has breached or is in breach of any representation, warranty, covenant or agreement in any respect, which breach would, individually or together with all such other then-uncured breaches by such party, prevent any closing condition from being satisfied and such breach is not cured by the earlier of (1) the end date and (2) the 30th business day after written notice of such breach.

In addition, Southside may terminate the merger agreement in the following circumstances:

- if Diboll fails to make its required recommendation to shareholders in favor of the first merger, or withdraws, amends, modifies or materially qualifies, in a manner adverse to Southside or Merger Sub, its recommendation, or adopts, approves or publicly recommends any competing acquisition proposal, or makes any public statement inconsistent with its recommendation, which we refer to as an adverse recommendation change;

TABLE OF CONTENTS

- if Diboll fails to properly call, give notice of, and convene a meeting of shareholders to vote on the first merger;
- if there has not been an adverse recommendation change and Diboll fails to use its commercially reasonable efforts to obtain the required shareholder approval; or
- if Diboll fails to comply in all material respects with its obligations pursuant to the no-shop covenant.

In addition, Diboll may terminate the merger agreement if Diboll's board of directors determines to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the merger agreement but only if Diboll pays to Southside a \$9.0 million termination fee and promptly enters into such definitive agreement.

Effect of Termination

If the merger agreement is terminated, it will become void, except that (1) both Southside and Diboll will remain liable for any willful and material breach of the merger agreement and (2) designated provisions of the merger agreement will survive the termination, including those relating to payment of fees and expenses and the confidential treatment of information.

Termination Fee

Pursuant to the merger agreement, Diboll will be obligated to pay Southside a \$9.0 million termination fee if Diboll or Southside terminate the merger agreement as a result of:

- (1) the closing not occurring on or before the end date and (2) after the date of the merger agreement, a competing acquisition proposal has been made known to Diboll's board of directors, and (3) prior to a date that is 12 months after the termination of the merger agreement, Diboll either consummates an acquisition proposal or approves, recommend or enters into any acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement, letter of intent, term sheet or other similar agreement with respect to an acquisition proposal, which we collectively refer to as an acquisition agreement; or
- (1) the failure to obtain the requisite approval at the meeting of the Diboll shareholders or at any adjournment or postponement thereof and (2) prior to the Diboll shareholder meeting, a competing acquisition proposal has been publicly announced, publicly disclosed or otherwise made known generally to Diboll's shareholders or any person has publicly announced an intention (whether or not conditional) to make a competing acquisition proposal and (3) prior to a date that is 12 months after the termination of the merger agreement, Diboll either consummates an acquisition proposal or enters into an acquisition agreement.

Diboll will also be obligated to pay Southside a \$9.0 million termination fee if Southside terminates the merger agreement as a result of or because:

- (1) a breach of any of Diboll's representations, warranties, covenants or agreements, which breach would, individually or together with all such other then-uncured breaches by Diboll, prevent any closing condition from being satisfied and such breach is not cured by the earlier of (a) the end date and (b) the 30th business day after written notice of such breach, and (2) after the date of the merger agreement and prior to the breach giving rise to such right of termination, a competing acquisition proposal has been made known to Diboll's board of directors, and (3) prior to a date that is 12 months after the termination of the merger agreement, Diboll either consummates an acquisition proposal or enters into an acquisition agreement; or
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Diboll fails to make its required recommendation to shareholders in favor of the first merger, or makes an adverse recommendation change; or

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Diboll fails to comply in all material respects with its obligations under the merger agreement by failing to call, give notice of, and convene a shareholders meeting to vote on the approval of the first merger; or

81

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TABLE OF CONTENTS

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There has not been an adverse recommendation change and Diboll fails to use its commercially reasonable efforts to obtain the required shareholder approval; or

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Diboll fails to comply in all material respects with its obligations pursuant to the no-shop covenant.

Finally, Diboll will be obligated to pay Southside a \$9.0 million termination fee if the merger agreement is terminated by Diboll because Diboll's board of directors determines to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the merger agreement.

Miscellaneous Provisions

Expenses and Costs

Except as set forth above, each of Southside and Diboll will be responsible for all costs and expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, Southside and Diboll may amend the merger agreement by written agreement. However, after any approval of the first merger by the shareholders of Diboll, there may not be, without further approval of Diboll shareholders, any amendment to the merger agreement that requires further approval under applicable law.

At any time prior to the effective time of the first merger, each party, to the extent legally allowed, may extend the time for the performance of any of the obligations or other acts of the other party; waive any inaccuracies in the representations and warranties of the other party; and waive compliance by the other party with any of the agreements and conditions contained in the merger agreement.

82

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TABLE OF CONTENTS

ANCILLARY AGREEMENTS

Voting and Support Agreements

In connection with, and as a condition to, entering into the merger agreement, Southside entered into a voting and support agreement with each of the directors, executive officers and significant shareholders of Diboll. The following summary of the voting and support agreements is subject to, and qualified in its entirety by reference to, the form of voting and support agreement attached to this proxy statement/ prospectus as Annex C.

Pursuant to the voting and support agreements, each party to a voting and support agreement agreed to vote his or her shares of Diboll common stock:

- in favor of adoption of the merger agreement and the approval of the first merger and the other transactions contemplated by the merger agreement, which is referred to in the voting and support agreements as the proposed transaction;
- against the approval or adoption of any proposal made in opposition to, or in competition with, the proposed transaction; and
- against any of the following (to the extent unrelated to the proposed transaction with Southside): (1) any merger, consolidation or business combination involving Diboll or any of its subsidiaries, (2) any sale, lease or transfer or all or substantially all of the assets of Diboll or its subsidiaries, (3) any reorganization, recapitalization, dissolution, liquidation or winding up of Diboll or any of its subsidiaries, or (4) any other action that is intended to, or could reasonably be expected to result in a breach of any covenant representation or warranty or any other obligation or agreement of Diboll under the merger agreement or of the shareholder under the support agreement.

The voting and support agreements provide that each shareholder party to a voting and support agreement will not, other than pursuant to the mergers, directly or indirectly:

- assign, sell, transfer, tender, exchange, pledge, hypothecate, grant, create, encumber or otherwise dispose of (including by gift) any of such shareholder's shares of Diboll common stock; or
- enter into any agreement, arrangement or understanding providing for any action described in the preceding bullet.

The voting and support agreements provide that each director, executive officer and significant shareholder that is a party thereto shall not, for a period of two years following the closing of the first merger, engage in certain competitive activities with Southside, solicit or induce certain employees to terminate their employees with Southside, solicit, divert or take away certain customers of Southside for the purpose of selling any product provided by Southside, or serve as a director or management official of another financial institution in the counties in Texas in which Diboll has branches.

The voting and support agreements further provide that each non-employee director will not, in his or her capacity as shareholder of Diboll, take any action that is intended, or could be reasonably expected, to impede, interfere with, delay, postpone, discourage or adversely affect the completion of the proposed transaction.

The voting requirements of the voting and support agreements will automatically terminate upon the earlier of the termination of the merger agreement in accordance with its terms and the effective time of the first merger, but the restrictions on competitive activities described above will survive for two years following the effective time of the first merger.

As of the record date, shareholders who are party to the voting and support agreements beneficially owned and were entitled to vote an aggregate of approximately 382,158 shares of Diboll common stock, which represented approximately 45.0% of the shares of Diboll common stock outstanding on that date.



TABLE OF CONTENTS

Key Employee Retention Agreements

As a condition to Southside entering into the merger agreement, various key employees of Diboll, including (but not limited to) each of Jay Shands, Diboll's current Chairman of the Board, President and Chief Executive Officer, Trey Denman, Diboll's current Director and Executive Vice President, and Jim Denman, Diboll's current Vice President and Treasurer, entered into Key Employee Retention Agreements with Southside Bank. Pursuant to the Key Employee Retention Agreements, Messrs. Shands, T. Denman and J. Denman will serve as Regional President, East Texas, Executive Vice President and Executive Vice President, respectively, of Southside Bank, effective upon completion of the mergers.

Under the terms of the Key Employee Retention Agreements, within 60 days after the effective time of the second merger, Southside will grant to each of Messrs. Shands, T. Denman and J. Denman equity incentive awards consisting of (i) non-qualified stock options to purchase shares of Southside common stock having a value equal to 12.5% of the employee's base salary in effect as of the effective date of the mergers (based on Black-Scholes option modeling), which stock options will have an exercise price equal to the closing price of Southside common stock on the date of grant, will vest in four equal installments on the first four anniversaries of the grant date, and will have a ten-year term, and (ii) restricted stock units having a value equal to 12.5% of the employee's base salary in effect as of the effective date of the mergers (based on the closing price of the Southside common stock on the effective date of the mergers), each representing the right to receive a share of Southside common stock, which will vest in four equal installments on the first four anniversaries of the grant date. Under the terms of the Key Employee Retention Agreements, each of Messrs. Shands, T. Denman and J. Denman is also entitled to receive a cash bonus payment following the employee's continuous, good standing employment with Southside Bank through each of the 90th day following the effective date of the mergers and the first and second anniversaries of the effective date of the mergers. The aggregate amounts of such cash bonus payments payable to Messrs. Shands, T. Denman and J. Denman are \$280,500, \$193,000 and \$185,000, respectively. For more information on the key employee agreements, please see the section entitled "The Mergers — Interests of Diboll's Directors and Executive Officers in the Mergers — Key Employee Retention Agreements" beginning on page 57.

TABLE OF CONTENTS

THE COMPANIES

Southside Bancshares, Inc.

Southside was incorporated in Texas in 1982 and serves as the bank holding company for Southside Bank, a Texas state bank headquartered in Tyler, Texas. Southside Bank has the largest deposit base in the Tyler metropolitan area and is the largest bank, based on asset size, headquartered in East Texas. At June 30, 2017, Southside had total assets of \$5.58 billion, total loans of \$2.61 billion, deposits of \$3.62 billion, and total equity of \$547.1 million. Southside has paid a cash dividend every year since 1970 (including dividends paid by Southside Bank prior to the incorporation of Southside Bancshares). On May 4, 2017 Southside's board of directors declared a 2.5% stock dividend to holders of record of common stock as of May 30, 2017, which was paid on June 27, 2017.

Southside is 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 it serves. These services include consumer and commercial loans, deposit accounts, trust services, safe deposit services and brokerage services.

Southside and its subsidiaries are subject to comprehensive regulation, examination and supervision by the Federal Reserve Board, the Texas Department of Banking, and the FDIC, and are subject to numerous laws and regulations relating to their operations, including, among other things, permissible activities, capital adequacy, reserve requirements, standards for safety and soundness, internal controls, consumer protection, anti-money laundering, and privacy and data security.

Southside's headquarters are located at 1201 South Beckham Avenue, Tyler, Texas 75701, and its telephone number is (903) 531-7111. Southside's website can be found at [www.southside.com](http://www.southside.com). The contents of Southside's website are not incorporated into this proxy statement/prospectus.

For more information about Southside's business, see "Where You Can Find More Information," below.

Diboll State Bancshares, Inc.

General

Diboll is a Texas corporation and bank holding company headquartered in Diboll, Texas. Diboll was incorporated in January 1980 for the purpose of acquiring and serving as a bank holding company for the predecessor to First Bank & Trust East Texas (referred to herein as First Bank & Trust). Diboll does not, as an entity, engage in separate business activities of a material nature apart from the activities it performs for its wholly-owned banking subsidiary, First Bank & Trust. Diboll's primary activities are to provide assistance in the management and coordination of First Bank & Trust's financial resources. Diboll has no significant assets other than all of the outstanding common stock of First Bank & Trust. Diboll derives its revenues primarily from the operations of First Bank & Trust in the form of dividends received from First Bank & Trust.

First Bank & Trust is a Texas banking association that was chartered on June 18, 1953 under the name Diboll State Bank. Since its inception, First Bank & Trust has generally grown organically and through strategic business combinations as summarized below:

- In September 1985, Diboll acquired Peoples National Bank, headquartered in Lufkin, Texas, and operated it as a stand-alone bank until April 1990, at which time it was merged with and into First Bank & Trust, with First Bank & Trust surviving;
- In January 1997, Diboll acquired The First State Bank, headquartered in Jasper, Texas, and operated it as a stand-alone bank until February 2001, at which time it was merged with and into First Bank & Trust, with First Bank & Trust surviving;
- In March 1998, Diboll acquired Pineland State Bank, headquartered in Pineland, Texas, and operated it as a stand-alone bank until July 2001, at which time it was merged with and into First Bank & Trust, with First Bank & Trust surviving; and





TABLE OF CONTENTS

In January 1999, Diboll acquired First Bank and Trust, headquartered in Cleveland, Texas, which was immediately thereafter merged with and into First Bank & Trust, with First Bank & Trust surviving.

As a bank holding company, Diboll is subject to supervision and regulation by the Federal Reserve Board in accordance with the requirements set forth in the BHC Act and by the rules and regulations issued by the Federal Reserve Board.

As of June 30, 2017, Diboll had, on a consolidated basis, total assets of approximately \$993.8 million, total deposits of approximately \$883.6 million, total loans (net of allowance for loan losses) of approximately \$653.4 million, and total shareholders' equity of approximately \$104.6 million. Diboll does not file reports with the SEC. Diboll does, however, voluntarily provide annual reports, including audited financial statements, to its shareholders at its annual meeting.

**Products and Services**

First Bank & Trust is a community-oriented, full service financial institution, which emphasizes personal service and contact. First Bank & Trust meets its commercial and retail customers' banking needs with a diversified range of financial services. First Bank & Trust is engaged in substantially all of the business operations, including trust services, customarily conducted by independent financial institutions located in East Texas and the surrounding communities, including the acceptance of checking, savings and certificate deposits and the making of commercial and consumer loans, individual retirement accounts, real estate loans, and other installment and term loans. First Bank & Trust does a substantial amount of business with individuals, as well as with customers in commercial, industrial and professional businesses.

For the convenience of its customers, First Bank & Trust offers drive-through banking facilities, automated teller machines, debit cards, night depository, personalized checks, safe deposit boxes, remote deposit capture and mobile banking. First Bank & Trust's services include cashier's checks, domestic and foreign wire transfers, account research, stop payments and telephone transfers between accounts.

The business of First Bank & Trust is not seasonal in any material respect, and neither the loans nor the deposits of First Bank & Trust are concentrated in any individual or group that, if lost, would have a material adverse effect on the business of First Bank & Trust.

**Properties**

Diboll's principal executive offices are located at 104 North Temple Drive, Diboll, Texas 75941. First Bank & Trust currently conducts business operations at its principal executive office and 16 banking offices located in the East Texas cities of Cleveland, Hemphill, Jasper, Longview, Lufkin, Nacogdoches, Palestine, Pineland, San Augustine, Splendora and Tyler, Texas and surrounding communities. A description of the properties is presented below.

Location	Type	Leased/Owned
200 East Crockett Street, Cleveland, Texas 77327	Full-service branch	Owned
104 North Temple Drive, Diboll, Texas, 75941	Full-service home office	Owned
725 Sabine Street, Hemphill, Texas 75948	Full-service branch	Owned
204 East Lamar Street, Jasper, Texas 75951	Full-service branch	Owned
275 West Gibson, Jasper, Texas 75951	Full-service branch	Owned
2395 H.G. Mosley Pkwy, Longview, Texas 75604	Full-service branch	Owned
1302 Tom Temple, Lufkin, Texas 75901	Limited-service office	N/A
111 Champion Drive, Lufkin, Texas 75901		Owned

	Full-service branch	
541 South Timberland Drive, Lufkin, Texas 75901	Full-service branch	Owned
2510 West Frank Avenue, Lufkin, Texas 75904	Full-service branch	Owned
321 N. Brentwood Drive, Lufkin, Texas 75904	Full-service branch	Owned
1009 North University Dr., Nacogdoches, Texas 75961	Full-service branch	Owned

86

---

TABLE OF CONTENTS

Location	Type	Leased/Owned
3310 S. Loop 256, Palestine, Texas 75801	Full-service branch	Owned
102 Timberland Highway, Pineland, Texas 75968	Full-service branch	Owned
421 South El Camino, San Augustine, Texas 75972	Full-service branch	Owned
14500 Old Us Highway 59, Splendora, Texas 77372	Full-service branch	Owned
2211 Three Lakes Parkway, Tyler, Texas 75703	Full-service branch	Owned

**Competition**

The table below lists First Bank & Trust's deposit market share as of June 30, 2017 for the significant market Metropolitan Statistical Areas, or MSAs, in which First Bank & Trust provides services:

Market Area	Market Rank	Branch Count	Deposits in Market (in thousands)	Market Share (%)
Houston-The Woodlands-Sugar Land, Texas MSA	64 of 99	2	\$ 143,338	0.07%
Longview, Texas MSA	21 of 28	1	28,075	0.60%
Tyler, Texas MSA	18 of 25	1	24,454	0.41%

Diboll experiences competition in its market from many other financial institutions, including when attracting and retaining savings deposits and in lending funds. The primary factors Diboll encounters in competing for savings deposits are convenient office locations and rates offered. Direct competition for savings deposits comes from other commercial banks, thrift institutions, credit unions, money market mutual funds and issuers of corporate and government securities which may offer more attractive rates than insured depository institutions are willing to pay. The primary factors Diboll encounters in competing for loans include, among others, interest rate and loan origination fees and the range of services offered. Competition for origination of real estate loans comes from other commercial banks, thrift institutions, mortgage bankers, mortgage brokers and insurance companies. Banks and other financial institutions with which Diboll competes may have capital resources and legal loan limits substantially higher than those maintained by Diboll.

**Employees**

As of June 30, 2017, First Bank & Trust had 260 full-time employees and six part-time employees, none of whom is covered by a collective bargaining agreement.

**Legal Proceedings**

Diboll and First Bank & Trust are from time to time subject to various pending and threatened legal actions which arise out of the normal course of its business. As of the date of this proxy statement/ prospectus, there are no pending material proceedings adverse to Diboll or First Bank & Trust. While legal proceedings are subject to uncertainties and the outcome of any such matter is not predictable, Diboll and First Bank & Trust are not aware of any legal proceedings pending or threatened against them that would be expected to have a material adverse effect on their financial condition, results of operations or liquidity.

**Corporate Information**

The principal executive offices of Diboll are located at 104 North Temple Drive, Diboll, Texas 75941, and its telephone number is (936) 829-4721. Diboll's website is [www.fbtet.com](http://www.fbtet.com). The information contained on or accessible from Diboll's website does not constitute a part of this proxy statement/prospectus and is not incorporated by reference herein.

**TABLE OF CONTENTS**

**DIBOLL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is intended to provide an overview of the significant factors affecting the financial condition and results of operations of Diboll for the Six Months ended June 30, 2017 and 2016, and the years ended December 31, 2016 and 2015. This discussion and analysis should be read in conjunction the section entitled "Cautionary Note Regarding Forward-Looking Statements," "Selected Financial Information of Diboll," and the consolidated financial statements and the notes thereto, included elsewhere in this proxy statement/prospectus. As used in this section, references to "Diboll" refer to Diboll and First Bank & Trust on a consolidated basis unless the context requires otherwise.

For the Six Months Ended June 30, 2017 and 2016

**Overview**

First Bank & Trust commenced business June 1953. In January 1980, Diboll was formed and became the holding company for First Bank & Trust. Other than as specifically provided herein, the financial information as of and for the six months ended June 30, 2017 and 2016, and for the years ended December 31, 2016 and 2015, is consolidated financial data for Diboll.

At June 30, 2017, Diboll had total assets of \$993.8 million, total loans of \$660.9 million, total deposits of \$883.6 million and stockholders' equity of \$104.6 million compared with total assets of \$983.9 million, total loans of \$642.3 million, total deposits of \$879.1 million and stockholders' equity of \$100.3 million at December 31, 2016. The increase in stockholders' equity of \$4.3 million, or 4.2%, from December 31, 2016, to June 30, 2017, was primarily a result of earnings of First Bank & Trust retained by Diboll and an increase in accumulated other comprehensive income, partially offset by dividends paid.

For the six months ended June 30, 2017, Diboll posted net income of \$5.4 million or \$6.39 and \$6.23 per common share, basic and diluted, respectively, and had a return on average assets of 1.10% and a return on average equity of 10.67%. For the same period, net interest income was \$18.4 million, noninterest income was \$5.5 million and noninterest expense was \$14.5 million. For the six months ended June 30, 2016, Diboll posted net income of \$6.0 million, or \$7.16 and \$7.01 per common share, basic and diluted, respectively, and had a return on average assets of 1.25% and a return on average equity of 12.31%. For the same period, net interest income was \$18.1 million, noninterest income was \$5.5 million and noninterest expense was \$14.2 million. The decrease in net income for the six months ended June 30, 2017, as compared to the same period in 2016 was primarily due to higher provision for loan losses.

**Results of Operations**

The earnings of Diboll depend primarily on net interest income, which is the difference between the income earned on Diboll's loans and investments and the interest paid on its deposits and other borrowings. Among the factors affecting net interest income are the type, volume and quality of Diboll's assets, the type and volume of its deposits and the relative sensitivity of its interest-earning assets and its interest-bearing liabilities to changes in market interest rates. In addition, Diboll's income is affected by the fees it receives from other banking services, by gains and losses on its investment portfolio, by its required provision for possible credit losses and by the level of its operating expenses. All aspects of Diboll's operations are affected by general market, economic and competitive conditions.

88

---

TABLE OF CONTENTS

Net Interest Income

Net interest income is the primary source of income for Diboll and represents the amount by which interest and fees generated by earning assets exceed the cost of funds, primarily interest paid to Diboll's depositors on interest-bearing accounts. The differential or spread between interest income earned and interest expense incurred is affected both by the local and national economies and by competition from other depository and nondepository financial institutions. Diboll closely scrutinizes competitors' rates and attempts to remain competitive in the market while maintaining the highest possible interest spread.

For the six months ended June 30, 2017, net interest income totaled \$18.4 million and Diboll posted a net interest margin of 3.97% and a net interest spread of 3.90%. For the six months ended June 30, 2016, net interest income totaled \$18.1 million and Diboll posted a net interest margin of 3.96% and a net interest spread of 3.89%. The increase in net interest income was primarily attributable to increased volume in the loan portfolio.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. At June 30, 2017 and December 31 2016, Diboll had extended \$377,000 and \$474,000 respectively, in loans for which the interest thereon was exempt from taxation. For the same periods Diboll held \$74.4 million in tax exempt investment securities in 2017 compared to \$79.5 million in 2016. No tax equivalent adjustments were made and all average balances are daily average balances.

89

---

TABLE OF CONTENTS

	For The Six Months Ended June 30,					
	2017			2016		
	Average Outstanding Balance(3)	Interest Earned/ Paid	Average Yield/ Rate(1)	Average Outstanding Balance(3)	Interest Earned/ Paid	Average Yield/ Rate(1)
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Loans	\$ 654,718	\$ 16,451	5.07%	\$ 631,825	\$ 16,004	5.09%
Investment securities(2)	258,934	2,373	1.85%	255,150	2,513	1.98%
FRB, FHLB and TIB Stock	394	—	—	378	—	—
Federal funds sold	21,021	90	0.86%	31,916	88	0.55%
Total interest-earning assets	935,067	18,914	4.08%	919,269	18,605	4.07%
Noninterest-earning assets:						
Cash due from banks	29,899			33,153		
Personal property and equipment, net	16,075			15,839		
Less allowance for possible credit losses	(7,491)			(7,483)		
Other assets	12,214			12,261		
Total noninterest-earning assets	50,697			53,770		
Total assets	\$ 985,764			\$ 973,039		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
NOW accounts	\$ 254,961	90	0.07%	\$ 247,631	88	0.07%
Money market checking	101,965	47	0.09%	108,168	50	0.09%
Savings	91,532	27	0.06%	88,328	26	0.06%
Time deposits/IRA Deposits	133,589	359	0.54%	139,521	359	0.52%
Other borrowings	25	—	—	—	—	—
Total interest-bearing liabilities	582,072	523	0.18%	583,648	523	0.18%
Noninterest-bearing liabilities:						
Demand deposits	298,838			286,945		
Other liabilities	2,845			3,956		
Total noninterest-bearing liabilities	301,683			290,901		
Stockholders' equity	102,009			98,490		
Total liabilities and stockholders' equity	\$ 985,764			\$ 973,039		
Net interest income		\$ 18,391			\$ 18,082	
Net interest rate spread			3.90%			3.89%
Net interest margin(4)			3.97%			3.96%

(1)  
Annualized.

(2)  
The average outstanding balance on investment securities includes the net unrealized gain on investment securities.

(3)  
The average balances of assets, liabilities and stockholders' equity presented are for First Bank & Trust only. Management estimated the difference between the average balances of First Bank & Trust and Diboll as immaterial.

(4)  
The net interest margin is equal to annualized net interest income divided by average interest-earning assets.

90

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TABLE OF CONTENTS

The following table compares the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the increase (decrease) related to higher outstanding balances and the volatility of interest rates.

	Six Months Ended June 30, 2017 Compared with 2016				
	Increase (Decrease) due to				
	Volume	Rate	Time	Mix	Total
	(Dollars in thousands) (Unaudited)				
Interest-earning assets:					
Loans, including fees	\$ 553	\$ (61)	\$ (43)	\$ (2)	\$ 447
Investment securities	41	(181)	—	—	(140)
Federal funds sold and other investments	(27)	48	(1)	(18)	2
Total increase (decrease) in interest income	\$ 567	\$ (194)	\$ (44)	\$ (20)	\$ 309
Interest-bearing liabilities:					
Interest Bearing Transaction accounts	\$ 1	\$ —	\$ (1)	\$ —	\$ —
Time deposits	(5)	6	(1)	—	—
Total increase (decrease) in interest expense	(4)	6	(2)	—	—
Increase in net interest income	\$ 571	\$ (200)	\$ (42)	\$ (20)	\$ 309

Provision for Possible Credit Losses

The provision for possible credit losses is a charge against earnings in order to bring Diboll's allowance for possible credit losses to a level deemed appropriate by management based on such factors as Diboll's historical loan loss experience, industry diversification of the commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume, growth and composition of the loan portfolio, current economic conditions that may affect the borrower's ability to pay and the value of collateral, the evaluation of the loan portfolio through the loan review process and other relevant factors. Management has adopted a methodology for assessing the adequacy of the allowance. Although no assurance can be given, management believes that the allowance for possible credit losses is adequate to cover probable losses inherent in the loan portfolio at June 30, 2017.

For the six months ended June 30, 2017, the allowance for possible credit losses was \$7.5 million compared with \$7.6 million for December 31, 2016. The decreased allowance was primarily due to a decrease in nonperforming assets.

Noninterest Income

The primary source of recurring noninterest income for Diboll is service charges on deposit accounts. Other sources of income include trust income, interchange income, mortgage loan income and other banking service-related fees. Also included in this category are net gains or losses realized on the sale of investment securities and other real estate.

For the six months ended June 30, 2017, Diboll earned \$2.2 million in service charge income, essentially unchanged, compared with income from service charges of approximately \$2.1 million for the comparable period in 2016. Total noninterest income for the six months ended June 30, 2017, decreased by \$3,000 compared with the same period in 2016. A majority of the decrease in noninterest income for the six months ended June 30, 2017 is attributable to a gain on sale of securities of \$167,000 and a gain on the sale of the credit card portfolio of \$108,000, included in the other income category. Partially offsetting these decreases was the increased mortgage loan income and exchange income during 2017 as compared to the same period in 2016.

TABLE OF CONTENTS

The following table presents, for the periods indicated, the major categories of noninterest income:

Six Months Ended June 30, 2017  
Compared with 2016

2017          2016          Increase  
(Decrease)

(Dollars in thousands) (Unaudited)

Income from fiduciary activities	\$ 1,164	\$ 1,110	\$ 54
Service fees on deposits	2,173	2,133	40
Net realized gain (loss) on sale of securities available for sale	2	167	(165)
Other Income	2,189	2,121	68
Total noninterest income	\$ 5,528	\$ 5,531	\$ (3)

### Noninterest Expense

Generally, noninterest expense is composed of all costs associated with operating Diboll's business facilities, obtaining and retaining banking customer relationships and providing bank services. The major component of noninterest expense is employee compensation and benefits. Noninterest expenses also include expenses which Diboll incurs in the course of day-to-day operations, such as occupancy expenses, depreciation and amortization of furniture and equipment, professional fees, regulatory fees including FDIC assessments, data processing, advertising and supplies. Noninterest expense for the six months ended June 30, 2017, increased \$261,000, or 1.8%, to \$14.5 million compared with noninterest expense of \$14.2 million for the comparable period in 2016. The most significant components of the increase in other operating expense related to increased legal and professional fees partially offset by lower FDIC assessments.

The following table presents, for the periods indicated, the major categories of noninterest expense:

For The Six Months Ended June 30,  
2017

Compared with 2016

2017          2016          Increase  
(Decrease)

(Dollars in thousands) (Unaudited)

Salaries and employee benefits	\$ 8,420	\$ 8,357	\$ 63
Occupancy and equipment	1,081	1,051	30
Other operating	4,952	4,784	168
Total noninterest expense	\$ 14,453	\$ 14,192	\$ 261

### Income Taxes

Provisions for federal income taxes and the tax effects of the transactions reported in the financial statements consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for possible credit losses and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

For the six months ended June 30, 2017, income tax expense totaled \$2.5 million, a decrease of \$306,000, or approximately 10.9%, compared with \$2.8 million for the same period in 2016. The decrease was primarily attributable to lower operating income. The effective tax rate for each of the six months ended June 30, 2017 and 2016, was 31.5% and 31.7% respectively.

Financial Condition

At June 30, 2017, total assets were \$993.8 million, an increase of \$9.8 million, or 1.0%, from total assets of \$983.9 million at December 31, 2016. Total loans were \$660.9 million and total deposits were

92

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**TABLE OF CONTENTS**

\$883.6 million at June 30, 2017, an increase of \$18.6 million, or 2.9%, and an increase of \$4.5 million, or 0.5% respectively from their respective balances at December 31, 2016. Investment securities and cash and cash equivalents accounted for the majority of the remaining assets.

**Loan Portfolio**

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a maturity not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred repricing is between 5 to 7 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years fixed, then variable with amortization to a maximum of 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 14.26% of the loan portfolio at June 30, 2017. Loans in this category generally carry a variable interest rate or a fixed rate generally no more than 5 years.

Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

The following table summarizes Diboll's loan portfolio by type of loan at the dates indicated:

	June 30, 2017		December 31, 2016	
	Amount	Percent	Amount	Percent
	(Unaudited)			
	(Dollars in thousands)			
Commercial real estate	\$ 210,714	31.88%	\$ 201,733	31.41%
Commercial and industrial	94,245	14.26%	98,309	15.31%
Residential real estate	204,569	30.95%	189,340	29.48%
Consumer	88,808	13.44%	92,330	14.37%
Other real estate	59,468	9.00%	59,456	9.26%
Late charges and clearing account	3,128	0.47%	1,125	0.17%
Total loans	\$ 660,932	100.00%	\$ 642,293	100.0%

At June 30, 2017, total loans net of unearned fees had increased \$18.6 million, or 2.9%, to \$660.9 million compared with \$642.3 million at December 31, 2016, primarily a result of continued organic growth.

Loan origination and commitment fees are recognized as income when received. Direct loan origination costs are expensed when paid. Professional accounting standards require the net effect of loan origination and commitment fees and certain direct loan origination costs to be deferred and recognized over the life of the related loan as an adjustment of yield. The application of these standards would not have a material effect on the consolidated financial position or results of operations.

Included in the loans category are loans, which have been categorized by management as nonaccrual because collection of interest is doubtful. After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Interest on loans is accrued by using the simple interest method on daily balances of the principal amount outstanding.

TABLE OF CONTENTS

## Loan Maturities and Sensitivity to Changes in Interest Rates

The following table represents loan maturities and sensitivity to changes in interest rates for our real estate construction and commercial loans (in thousands). The amounts of these loans outstanding at June 30, 2017 which, based on remaining scheduled repayments of principal, are due in (1) one year or less, (2) more than one year but less than five years, and (3) more than five years, are shown in the following table. The amounts due after one year are classified according to the sensitivity to changes in interest rates.

	Within One Year or Less	After One but Within Five Years	After Five Years
Real Estate Loans – Construction	\$ 12,759	\$ 20,421	\$ 42,805
Commercial Loans	52,800	38,463	2,981
Total	\$ 65,559	\$ 58,884	\$ 45,786

Loans with Maturities After One Year for Which:	Interest Rates are Fixed or Predetermined	\$56,499
	Interest Rates are Floating or Adjustable	\$48,171

Scheduled contractual principal repayments do not reflect the actual maturities of loans. The maturity of loans may be substantially less than their contractual term because of prepayments.

## Nonperforming Assets

Diboll has several procedures in place to assist in maintaining the overall quality of its loan portfolio. Diboll has established underwriting guidelines to be followed by its officers, and, when applicable, will monitor delinquency levels for any negative or adverse trends. Diboll's loan review procedures include approval of lending policies and underwriting guidelines by the Diboll Board of Directors, a semi-annual independent third party loan review, approval of large credit relationships by Diboll's loan committee and loan quality documentation procedures. There can be no assurance, however, that Diboll's loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Placing a loan on nonaccrual status has a two-fold impact on net interest earnings. First, it may cause a charge against earnings for the interest which had been accrued in the current year but not yet collected on the loan. Second, it eliminates future interest earnings with respect to that particular loan from Diboll's revenues. Interest on such loans is not recognized until all of the principal is collected or until the loan is returned to a performing status. There were 67 loans totaling \$3.2 million on nonaccrual status and considered to be nonperforming at June 30, 2017.

Diboll may renegotiate the terms of a loan because of deterioration in the financial condition of a borrower. This renegotiation enhances the probability of collection. There were four loans in such status as of June 30, 2017.

TABLE OF CONTENTS

The following table presents information regarding nonperforming assets as of the dates indicated:

	June 30, 2017 (Unaudited)	December 31, 2016
	(Dollars in thousands)	
Nonaccrual loans	\$ 3,240	\$ 4,980
Accruing loans 90 or more days past due	458	1,310
Restructured loans	1,718	1,799
Total nonperforming loans	5,416	8,089
Other real estate	1,987	263
Reposessed assets	114	76
Total nonperforming assets	\$ 7,517	\$ 8,428
Nonperforming assets to total loans and other real estate	1.13%	1.31%
Nonperforming assets to average earning assets	0.80%	0.91%

Diboll obtains appraisals on loans secured by real estate, as required by applicable regulatory guidelines, and may update such appraisals for loans categorized as nonperforming loans and potential problem loans. In instances where undated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write downs or appropriate additions to the allowance for possible credit losses. Diboll records other real estate at fair value at the time of acquisition, less estimated costs to sell.

Allowance for Possible Credit Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Bank uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the real estate portfolio; (ii) the consumer portfolio, and (iii) the commercial portfolio. The classes within the commercial portfolio segments are commercial loans that are unsecured and secured by personal property. The classes within the real estate portfolio segment are residential mortgage, home equity, home improvement, and commercial real estate. The classes within the consumer portfolio segment include direct/indirect consumer and other consumer loans. Under this accounting guidance, the allowance is presented by portfolio segment.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, Receivables, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.



**TABLE OF CONTENTS**

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.



TABLE OF CONTENTS

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccrual status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The allowance for possible credit losses at June 30, 2017, was \$7.5 million, which constitutes approximately 1.14% of total loans outstanding at such date. The allowance for possible credit losses at June 30, 2017, represents a decrease of \$109,000, or 1.4%, from \$7.6 million at December 31, 2016 and a decrease of \$59,000, or 0.78%, from the allowance of \$7.6 million at June 30, 2016. Although additional losses may occur, management believes the allowance for possible credit losses to be adequate to absorb probable losses inherent in the loan portfolio at June 30, 2017.

The following tables present, for the periods indicated, an analysis of the allowance for possible credit losses and other related data:

	June 30, 2017			Total
	Commercial	Real Estate	Consumer	Allowance
	(Dollars in thousands) (Unaudited)			
Allowance for loan and lease losses January 1	\$ 1,499	\$ 4,783	\$ 1,349	\$ 7,631
Loans and leases charged off	(313)	(836)	(623)	(1,772)
Recoveries of loans and leases previously charged off	3	13	66	82
Net charge offs	(310)	(823)	(557)	(1,690)
Provision for loan and lease losses	283	708	590	1,581
Allowance for loan and lease losses June 30	\$ 1,472	\$ 4,668	\$ 1,382	\$ 7,522

	June 30, 2016			Total
	Commercial	Real Estate	Consumer	Allowance
	(Dollars in thousands) (Unaudited)			
Allowance for loan and lease losses January 1	\$ 1,483	\$ 4,435	\$ 1,454	\$ 7,372
Loans and leases charged off	(14)	(57)	(366)	(437)
Recoveries of loans and leases previously charged off	4	—	42	46
Net charge offs	(10)	(57)	(324)	(391)
Provision for loan and lease losses	(34)	345	289	600
Allowance for loan and lease losses June 30	\$ 1,439	\$ 4,723	\$ 1,419	\$ 7,581

TABLE OF CONTENTS

	As of and for the Six Months Ended June 30, 2017	As of and for the Six Months Ended June 30, 2016
Ratios:		
Net charge-offs to average loans	0.52%	0.12%
Net charge-offs to end of period loans	0.52%	0.12%
Allowance to average loans	1.15%	1.20%
Allowance to end of period loans	1.14%	1.20%

The following table describes the allocation of the allowance for possible credit losses among various categories of loans at the indicated dates. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any category of loans. All impaired loans have a valuation allowance at June 30, 2017 and December 31, 2016 and these reserves are included in the table below.

	June 30, 2017 (Unaudited)		December 31, 2016	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
Balance of allowance for possible credit losses applicable to:				
Commercial	\$ 1,472	14.33%	\$ 1,499	15.33%
Real estate	4,668	72.17%	4,783	70.27%
Consumer	1,382	13.50%	1,349	14.40%
Total allowance for possible credit losses	\$ 7,522	100.0%	\$ 7,631	100.0%

The allocation in the table above is based on the dollar amount of loans in each category rather than an analysis of specific loans. When management is able to identify specific loans or categories of loans where specific amounts of allowance are required, allocations will be assigned to those loans. There can be no assurance, however, that Diboll will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at June 30, 2017.

**Investment Securities**

Diboll uses its securities portfolio to provide liquidity for cash requirements, to manage interest rate risk, to provide a source of income, to provide collateral for municipal pledging requirements and to manage asset quality. Investment securities totaled \$251.6 million at June 30, 2017, compared with \$265.8 million at December 31, 2016.

Professional standards require the Bank to recognize all financial derivatives on the balance sheet at fair value. At June 30, 2017 and December 31, 2016, the Bank had no derivative instruments.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives. At June 30, 2017 and December 31, 2016, the Bank had no investment securities categorized as held-to-maturity.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity, net of the related deferred tax effect.

98

---

**TABLE OF CONTENTS**

Securities held as trading assets are carried at fair value. At June 30, 2017 and December 31, 2016, the Bank had no investment securities categorized as trading.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income. Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

The following tables summarize the amortized cost of securities classified as available for sale and their approximate fair values as of the dates shown:

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands) (Unaudited)			
Securities available for sale:				
Obligations of U.S. government agencies	\$ 158,152	\$ —	\$ (646)	\$ 157,506
Obligations of states and political subdivisions	81,385	1,711	—	83,096
Mortgage-backed and other securities	10,625	181	—	10,806
Limited partnership	170	—	—	170
Total securities available for sale	\$ 250,332	\$ 1,892	\$ (646)	\$ 251,578

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies	\$ 167,460	\$ 348	\$ (1,561)	\$ 166,247
Obligations of states and political subdivisions	86,745	1,501	(1,015)	87,231
Mortgage-backed and other securities	12,007	246	(69)	12,184
Limited partnership	166	—	—	166
Total securities available for sale	\$ 266,378	\$ 2,095	\$ (2,645)	\$ 265,828

**TABLE OF CONTENTS**

The following table summarizes the contractual maturity of investment securities based on amortized cost and their weighted average yields at the date indicated:

June 30, 2017

	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
(Dollars in thousands) (Unaudited)									
Securities available for sale:									
U.S. Government and Agency:									
Treasury	\$ —	—	\$ 249	1.23%	\$ —	—	\$ —	—	\$ —
Agency	18,505	1.15%	129,614	1.56%	8,781	1.64%	—	—	—
Agency Callable	1,003	0.84%	—	—	—	—	—	—	—
Municipal securities	7,319	2.91%	27,381	2.82%	31,923	3.35%	7,803	3.36%	—
Other:									
CMO	—	—	—	—	177	4.00%	—	—	—
Mortgage-backed securities	—	—	1,932	2.41%	4,821	2.87%	3,695	3.09%	—
Taxable Muni	—	—	—	—	6,959	6.16%	—	—	—
Limited partnership	—	—	70	—	100	—	—	—	—
Total securities	\$ 26,827	1.62%	\$ 159,246	1.79%	\$ 52,761	3.39%	\$ 11,498	3.28%	\$ —

**Deposits**

Diboll relies primarily on its deposit base to fund its lending and investment activities. Diboll follows a policy of paying interest rates on interest-bearing accounts, which are competitive with other commercial banks in its market area.

Total deposits were \$883.6 million at June 30, 2017, compared with \$879.1 million at December 31, 2016, an increase of \$4.5 million. At June 30, 2017, NOW, money market and savings deposits accounted for approximately 50.8% of total deposits, while certificates of deposit made up 14.4% of total deposits. Noninterest-bearing demand deposits totaled \$307.9 million, or 34.8%, of total deposits at June 30, 2017, compared with \$303.0 million, or 34.5%, of total deposits at December 31, 2016, an increase of \$4.9 million, or 1.6%. The average cost of deposits, including noninterest-bearing demand deposits, was 0.12% for the six months ended June 30, 2017, compared with 0.12% for the year ended December 31, 2016.

The following table presents for the periods indicated the average balances and weighted average rates paid on total deposits:

	June 30, 2017 (Unaudited)		December 31, 2016	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 298,838	—	\$ 300,061	—
Interest-bearing NOW deposits	254,961	0.07%	243,781	0.07%

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Interest-bearing Money market checking	101,965	0.09%	106,326	0.09%
Interest-bearing Savings	91,532	0.06%	90,000	0.06%
Time Deposits/IRA Deposits	133,589	0.54%	139,691	.52%
Total deposits	\$ 880,885	0.12%	\$ 879,859	0.12%

100

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TABLE OF CONTENTS

The following table sets forth the amount of Diboll's certificates of deposit by the time remaining until maturity as of the date indicated:

	As of June 30, 2017 (Dollars in thousands) (Unaudited)
Remaining maturity:	
3 months or less	\$ 26,220
Over 3 through 6 months	21,652
Over 6 through 9 months	22,992
Over 9 through 12 months	23,345
Over 12 months	32,608
Total	\$ 126,817

Liquidity

Diboll's asset and liability management policy is intended to maintain adequate liquidity and thereby enhance its ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements and otherwise sustain operations. Diboll accomplishes this through management of the maturities of its interest-earning assets and interest-bearing liabilities. To the extent practicable, Diboll attempts to match the maturities of its rate sensitive assets and liabilities. Liquidity is monitored daily and overall interest rate risk is assessed through reports showing both sensitivity ratios and existing dollar "gap" data. Diboll believes its present position to be adequate to meet its current and future liquidity needs.

The liquidity of Diboll is maintained in the form of readily marketable investment securities, demand deposits with commercial banks, the FRB, the FHLB of Dallas, vault cash and federal funds sold. While the minimum liquidity requirement for banks is determined by federal bank regulatory agencies as a percentage of deposit liabilities, Diboll's management monitors liquidity requirements as warranted by interest rate trends, changes in the economy and the scheduled maturity and interest rate sensitivity of the investment and loan and lease portfolios and deposits.

In addition to the liquidity provided by the foregoing, Diboll has correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. Diboll has established lines of credit totaling \$15.0 million with various correspondent financial institutions, which are renewable annually and are unsecured. Diboll also had total available borrowings through the FHLB, secured by investment securities and a blanket lien on certain real estate and commercial loans of approximately \$289 million and \$273 million at June 30, 2017 and December 31, 2016, respectively. There were no FHLB advances outstanding at June 30, 2017 or December 31, 2016.

In the ordinary course of its operations, Diboll maintains correspondent bank accounts and interest-bearing deposits with various financial institutions, which aggregated approximately \$49.4 million as of June 30, 2017 and \$41.9 million as of December 31, 2016. The largest of these interest-bearing deposit accounts is with the Federal Reserve Bank. Each of the correspondent accounts is a demand account or money market account and Diboll receives from such correspondents the normal services associated with a correspondent banking relationship, including clearing, sales and purchases of participations in loans and sales and purchases of federal funds.

TABLE OF CONTENTS

## Off-Balance Sheet Risk

Diboll is party to various financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of condition. The contract or notional amounts of those instruments reflect the extent of the involvement Diboll has in particular classes of financial instruments. Diboll's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. Diboll uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The following is a summary, as of the dates indicated, of the various financial instruments whose contract amounts represent credit risk. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	June 30, 2017
	(Dollars in thousands)
	(Unaudited)
Commitments to extend credit	\$ 86,948
Standby letters of credit	6,413
	December 31, 2016
	(Dollars in thousands)
Commitments to extend credit	\$ 77,266
Standby letters of credit	9,300

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Diboll evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by Diboll upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by Diboll to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

## Borrowings

Diboll had \$15.0 million in unsecured lines of credit with correspondent financial institutions as of June 30, 2017 and December 31, 2016. Diboll had no borrowings on these lines of credit at June 30, 2017 or December 31, 2016.

Diboll had total available borrowings through the FHLB, secured by investment securities and a blanket lien on certain real estate and commercial loans of approximately \$289 million and \$273 million as of June 30, 2017 and December 31, 2016, respectively. There were no FHLB advances outstanding at June 30, 2017 or December 31, 2016.

## Capital Resources

Stockholders' equity for Diboll was \$104.6 million as of June 30, 2017, compared with \$100.3 million at December 31, 2016, an increase of \$4.3 million, or 4.2%. The increase was primarily due to earnings of First Bank & Trust retained by Diboll.



TABLE OF CONTENTS

Both the Federal Reserve with respect to Diboll, and the FDIC with respect to First Bank & Trust, have established certain minimum risk-based capital standards that apply to bank holding companies and federally insured banks. As of June 30, 2017, First Bank & Trust's risk-based capital ratios were above the levels required for First Bank & Trust to be designated as "well capitalized" by the FDIC. The following table sets forth Diboll's and First Bank & Trust's Total risk-based capital, Tier 1 capital, Common equity tier 1 and Leverage ratios as of the date indicated:

June 30, 2017

	Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions		Actual Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands) (Unaudited)						
Diboll State Bancshares, Inc.						
Total risk based capital (to risk-weighted assets)	\$ 57,175	≥8.0%	\$ 71,469	≥10.0%	\$ 104,156	14.57%
Tier 1 capital(to risk-weighted assets)	42,882	≥6.0%	57,175	≥8.0%	96,402	13.49%
Common equity tier 1 (to risk-weighted assets)	32,161	≥4.5%	46,455	≥6.5%	96,402	13.49%
Leverage (Tier 1 capital to average assets)	39,207	≥4.0%	49,009	≥5.0%	96,402	9.84%
First Bank & Trust East Texas						
Total risk based capital (to risk-weighted assets)	\$ 57,173	≥8.0%	\$ 71,467	≥10.0%	\$ 102,236	14.31%
Tier 1 capital (to risk-weighted assets)	42,880	≥6.0%	57,173	≥8.0%	94,482	13.22%
Common equity tier 1 (to risk-weighted assets)	32,160	≥4.5%	46,453	≥6.5%	94,482	13.22%
Leverage (Tier 1 capital to average assets)	39,206	≥4.0%	49,008	≥5.0%	94,482	9.64%

December 31, 2016

	Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions		Actual Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Diboll State Bancshares, Inc.						
Total risk based capital (to risk-weighted assets)	\$ 56,257	≥8.0%	\$ 70,321	≥10.0%	\$ 101,182	14.39%
Tier 1 capital(to risk-weighted assets)	42,193	≥6.0%	56,257	≥8.0%	93,328	13.27%
Common equity tier 1 (to risk-weighted assets)	31,645	≥4.5%	45,709	≥6.5%	93,328	13.27%

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Leverage (Tier 1 capital to average assets)	39,916	≥4.0%	49,895	≥5.0%	93,328	9.35%
First Bank & Trust East Texas						
Total risk based capital (to risk-weighted assets)	\$ 56,255	≥8.0%	\$ 70,319	≥10.0%	\$ 99,348	14.13%
Tier 1 capital (to risk-weighted assets)	42,191	≥6.0%	56,255	≥8.0%	91,494	13.01%
Common equity tier 1 (to risk-weighted assets)	31,643	≥4.5%	45,707	≥6.5%	91,494	13.01%
Leverage (Tier 1 capital to average assets)	39,915	≥4.0%	49,894	≥5.0%	91,494	9.17%

103

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**TABLE OF CONTENTS**

For the Years Ended December 31, 2016, 2015 and 2014

Overview

At December 31, 2016, Diboll had total assets of \$983.9 million, total loans of \$642.3 million, total deposits of \$879.1 million and stockholders' equity of \$100.3 million compared to total assets of \$981.7 million, total loans of \$622.5 million, total deposits of \$881.0 million and stockholders' equity of \$94.8 million at December 31, 2015, and compared to total assets of \$920.5 million, total loans of \$603.6 million, total deposits of \$826.0 million and stockholders' equity of \$90.5 million at December 31, 2014.

The increases in stockholders' equity of \$5.5 million, or 5.8% from December 31, 2015 to December 31, 2016, and \$4.3 million, or 4.8%, from December 31, 2014 to December 31, 2015, were primarily a result of the retention of consolidated net income, offset by dividends paid on common stock.

For the year ended December 31, 2016, Diboll posted net income of \$12.1 million, or \$14.34 and \$13.99 per common share, basic and diluted, respectively, and had a return on average assets of 1.23% and a return on average equity of 11.96%. For the year ended December 31, 2015, Diboll posted net income of \$11.6 million, or \$13.82 and \$13.47 per common share, basic and diluted, respectively, and had a return on average assets of 1.24% and a return on average equity of 12.27%. For the year ended December 31, 2014, Diboll posted net income of \$10.7 million, or \$12.76 and \$12.43 per common share, basic and diluted, respectively, and had a return on average assets of 1.18% and a return on average equity of 12.37%.

Results of Operations

The earnings of Diboll depend primarily on net interest income, which is the difference between the income earned on Diboll's loans and investments and the interest paid on its deposits and other borrowings. Among the factors affecting net interest income are the type, volume and quality of Diboll's assets, the type and volume of its deposits and the relative sensitivity of its interest-earning assets and its interest-bearing liabilities to changes in market interest rates.

In addition, Diboll's income is affected by the fees it receives from other banking services, by gains and losses on its investment portfolio, by its required provision for possible credit losses and by the level of its operating expenses. All aspects of Diboll's operations are affected by general market, economic and competitive conditions.

Net Interest Income

For the year ended December 31, 2016, net interest income totaled \$36.1 million and Diboll posted a net interest margin of 3.89% and a net interest spread of 3.82%. For the year ended December 31, 2015, net interest income totaled \$34.8 million with a net interest margin of 3.98% and a net interest spread of 3.91%. For the year ended December 31, 2014, net interest income totaled \$33.6 million with a net interest margin of 3.96% and a net interest spread of 3.88%. The increases in interest income from period to period were primarily attributable to increases in loan volume over the periods, partially offset by a decline in average rates on these interest-earning assets.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts for Diboll. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. At December 31, 2016, 2015 and 2014, Diboll had extended \$474,000, \$566,000 and \$281,000, respectively, in loans for which the interest thereon was exempt from taxation and held \$79.5 million, \$80.8 million and \$85.1 million, respectively, in tax-exempt investment securities. No tax-equivalent adjustments were made and all average balances are annual average balances.

TABLE OF CONTENTS

	Years Ended December 31,								
	2016			2015			2014		
	Average Outstanding Balance(3)	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance(3)	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance(3)	Interest Earned/ Paid	
	(Dollars in thousands)								
Assets									
Interest-earning assets:									
Loans	\$ 635,723	\$ 32,349	5.09%	\$ 611,604	\$ 31,550	5.16%	\$ 582,458	\$ 30,6	
Investment securities(1)	257,831	4,627	1.79%	228,999	4,207	1.84%	228,398	3,99	
FRB, FHLB and TIB Stock	386	—	—	362	—	—	344	—	
Federal funds sold	35,830	203	0.57%	33,757	100	0.30%	36,514	107	
Total interest-earning assets	929,770	37,179	4.00%	874,722	35,857	4.10%	847,714	34,6	
Noninterest-earning assets:									
Cash due from banks	35,129			38,457			33,565		
Personal property and equipment, net	15,742			16,211			16,926		
Less allowance for possible credit losses	(7,631)			(7,373)			(6,701)		
Other assets	12,327			12,705			11,944		
Total noninterest-earning assets	55,567			60,000			55,734		
Total assets	\$ 985,337			\$ 934,722			\$ 903,448		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
NOW accounts	\$ 243,781	175	0.07%	\$ 223,229	159	0.07%	\$ 188,659	134	
Money market checking	106,326	98	0.09%	104,418	96	0.09%	118,889	110	
Savings	90,000	54	0.06%	84,815	50	0.06%	77,465	45	
Time deposits/IRA deposits	139,691	723	0.52%	145,222	759	0.52%	147,916	807	
Total interest-bearing	579,798	1,050	0.18%	557,684	1,064	0.19%	532,929	1,09	

## liabilities

Noninterest-bearing  
liabilities:

Demand deposits	300,061	278,752	280,441
Other liabilities	4,849	4,025	3,930
Total noninterest-bearing liabilities	304,910	282,777	284,371
Stockholders' equity(2)	100,629	94,261	86,148
Total liabilities and stockholders' equity	\$ 985,337	\$ 934,722	\$ 903,448

Net interest income	\$ 36,129	\$ 34,793	\$ 33,6
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Net interest rate spread	3.82%	3.91%
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Net interest margin	3.89%	3.98%
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(1)

The average outstanding balance on investment securities includes the net unrealized gain on investment securities.

(2)

The average balances of assets, liabilities and stockholders' equity presented are for First Bank & Trust only. Management estimated the difference between the average balances of First Bank & Trust and Diboll as immaterial.

(3)

The net interest margin is equal to net interest income divided by average interest-earning assets.

TABLE OF CONTENTS

The following tables compare the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguish between the increase (decrease) related to higher outstanding balances, the volatility of interest rates and change in composition of interest-earning assets and interest-bearing liabilities.

	Year Ended December 31, 2016 Compared with 2015			
	Increase (Decrease) due to			
	Volume	Rate	Mix	Total
	(Dollars in thousands)			
Interest-earning assets:				
Loans, including fees	\$ 1,244	\$ (428)	\$ (17)	\$ 799
Investment securities	530	(97)	(13)	420
Federal funds sold and other investments	6	91	6	103
Total increase (decrease) in interest income	\$ 1,780	\$ (434)	\$ (24)	\$ 1,322
Interest-bearing liabilities:				
Interest Bearing accounts	\$ 21	\$ 1	\$ —	\$ 22
Time deposits	(29)	(7)	—	(36)
Total increase (decrease) in interest expense	(8)	(6)	—	(14)
Increase in net interest income	\$ 1,788	\$ (428)	\$ (24)	\$ 1,336

	Year Ended December 31, 2015 Compared with 2014			
	Increase (Decrease) due to			
	Volume	Rate	Mix	Total
	(Dollars in thousands)			
Interest-earning assets:				
Loans, including fees	\$ 1,531	\$ (554)	\$ (27)	\$ 950
Investment securities	11	205	—	216
Federal funds sold and other investments	(8)	1	—	(7)
Total increase (decrease) in interest income	\$ 1,534	\$ (348)	\$ (27)	\$ 1,159
Interest-bearing liabilities:				
Interest Bearing Transaction accounts	\$ 20	\$ (4)	\$ —	\$ 16
Time deposits	(15)	(34)	1	(48)
Total increase (decrease) in interest expense	5	(38)	1	(32)
Increase in net interest income	\$ 1,529	\$ (310)	\$ (28)	\$ 1,191

TABLE OF CONTENTS

## Noninterest Income

The following tables present, for the periods indicated, the major categories of noninterest income:

Year Ended December 31, 2016  
Compared with 2015

	2016	2015	Increase (Decrease)
	(Dollars in thousands)		
Income from fiduciary activities	\$ 2,470	\$ 2,340	\$ 130
Service fees on deposits	3,930	4,005	(75)
Net realized gain (loss) on sale of securities available for sale	167	(1)	168
Gain on sale of equipment	—	115	(115)
Other Income	4,658	4,022	636
Total noninterest income	\$ 11,225	\$ 10,481	\$ 744

Year Ended December 31, 2015  
Compared with 2014

	2015	2014	Increase (Decrease)
	(Dollars in thousands)		
Income from fiduciary activities	\$ 2,340	\$ 2,190	\$ 150
Service fees on deposits	4,005	4,224	(219)
Net realized gain (loss) on sale of securities available for sale	(1)	115	(116)
Gain on sale of equipment	115	116	(1)
Other Income	4,022	3,821	201
Total noninterest income	\$ 10,481	\$ 10,466	\$ 15

For the year ended December 31, 2016, Diboll earned \$3.9 million in service charge income, a decrease of \$75,000, or 1.9%, compared with income from service charges of \$4.0 million for the year ended December 31, 2015. Total noninterest income for the year ended December 31, 2016 increased by \$744,000, or 7.1%, compared with the year ended December 31, 2015. Other income increased to \$4.7 million for the year ended December 31, 2016, from \$4.0 million for the same period in 2015, an increase of \$636,000, or 15.8%. A majority of the \$636,000 increase in other income during 2016 is related to mortgage loan income and gain from an SBIC investment.

For the year ended December 31, 2015, Diboll earned \$4.0 million in service charge income, a decrease of \$219,000, or 5.2%, compared with income from service charges of \$4.2 million for the year ended December 31, 2014. A majority of the decrease in service fees on deposits is related to a decrease in NSF service charges. Total noninterest income for the year ended December 31, 2015 increased by \$15,000, or 0.1%, compared with the year ended December 31, 2014. For the year ended December 31, 2015, other income increased \$201,000, or 5.3%, to \$4.0 million, compared to \$3.8 million for the comparable period of 2014. A majority of the \$201,000 increase in other income during 2015 is related to mortgage loan income and check printing income.

Substantially all the increase in income from fiduciary activities was a result of increases in estate fees where the Bank served as executor or co-executor.

## Noninterest Expense

Noninterest expense for the year ended December 31, 2016 increased \$839,000, or 3.0%, to \$28.4 million compared with noninterest expense of \$27.6 million for the year ended December 31, 2015. The most significant components of the increase were expenses related to occupancy and equipment.

Noninterest expense for the year ended December 31, 2015 increased \$331,000, or 1.2%, to \$27.6 million compared with noninterest expense of \$27.2 million for the year ended December 31, 2014. A majority of the increase in noninterest expense was related to salaries and employee benefits.

107

---



**TABLE OF CONTENTS**

The following tables present for the periods indicated, the major categories of noninterest expense:

Year Ended December 31, 2016

Compared with 2015

	2016	2015	Increase (Decrease)
	(Dollars in thousands)		
Salaries and employee benefits	\$ 16,664	\$ 16,533	\$ 131
Occupancy and equipment	5,255	4,800	455
Advertising	179	176	3
ATM processing	969	867	102
Directors' fees	228	231	(3)
Donations	197	212	(15)
Legal and professional	267	257	10
Postage and freight	528	526	2
Communication	487	526	(39)
Correspondent bank charges	145	125	20
Stationery and supplies	419	487	(68)
EDP Software	248	197	51
FDIC insurance assessment	411	481	(70)
Other operating	2,410	2,150	260
Total noninterest expense	\$ 28,407	\$ 27,568	\$ 839

Year Ended December 31, 2015

Compared with 2014

	2015	2014	Increase (Decrease)
	(Dollars in thousands)		
Salaries and employee benefits	\$ 16,533	\$ 16,303	\$ 230
Occupancy and equipment	4,800	4,712	88
Advertising	176	119	57
ATM processing	867	831	36
Directors' fees	231	240	(9)
Donations	212	203	9
Legal and professional	257	231	26
Postage and freight	526	524	2
Communication	526	577	(51)
Correspondent bank charges	125	151	(26)
Stationery and supplies	487	534	(47)
EDP Software	197	151	46
FDIC insurance assessment	481	461	20
Other operating	2,150	2,200	(50)

Total noninterest expense	\$ 27,568	\$ 27,237	\$ 331
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108

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TABLE OF CONTENTS

## Income Taxes

The amount of federal income tax expense is influenced by the amount of taxable income, the amount of tax-exempt income, the amount of nondeductible interest expense and the amount of other nondeductible expenses. For the year ended December 31, 2016, income tax expense was \$5.4 million compared with \$5.3 million for the year ended December 31, 2015. The changes were directly attributable to increases in net income for financial reporting. The effective tax rate for financial reporting for the years ended December 31, 2016 and 2015 was 31.1% and 31.4%, respectively. The effective income tax rates differed from the U.S. statutory rate of 34% during the comparable periods primarily due to tax exempt interest income on investment securities.

## Financial Condition

At December 31, 2016, total assets were \$983.9 million, an increase of \$2.3 million, or 0.2%, from total assets of \$981.7 million at December 31, 2015. Total loans were \$642.3 million and total deposits were \$879.1 million at December 31, 2016, an increase of \$19.8 million, or 3.2%, and a decrease of \$2.0 million, or 0.2%, respectively, from their balances at December 31, 2015. Investment securities and cash and cash equivalents accounted for the majority of the remaining assets. Cash and cash equivalents were \$52.4 million at December 31, 2016, a decrease of \$22.1 million from December 31, 2015. The decrease in cash and cash equivalents is primarily a result of the growth in the loan portfolio.

## Loan Portfolio

The following table summarizes Diboll's loan portfolio by type of loan at the dates indicated:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Commercial real estate	\$ 201,733	31.41%	\$ 200,847	32.26%	\$ 202,653	33.57%
Commercial and industrial	98,309	15.31%	95,635	15.36%	91,279	15.12%
Residential real estate	189,340	29.48%	170,151	27.33%	160,654	26.62%
Consumer	92,330	14.37%	96,730	15.54%	97,917	16.22%
Other real estate	59,456	9.26%	55,255	8.88%	49,372	8.18%
Late charges and clearing account	1,125	0.17%	3,899	0.63%	1,748	0.29%
Total loans	\$ 642,293	100.0%	\$ 622,517	100.0%	\$ 603,623	100.0%

At December 31, 2016, total loans net of unearned fees increased \$19.8 million or 3.2% to \$642.3 million compared with \$622.5 million at December 31, 2015, and increased \$18.9 million or 3.13% from December 31, 2014 to December 31, 2015. A majority of the loan growth from period to period is primarily due to growth in the real estate portfolio.

The contractual maturity or next repricing dates in each maturity range of Diboll's loan portfolio at December 31, 2016, are summarized in the following table:

	December 31, 2016			
	Within One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Total loans	\$ 183,120	\$ 418,252	\$ 40,921	\$ 642,293

See “— For the Six Months Ended June 30, 2017 and 2016 — Financial Condition — Loan Portfolio” for additional information regarding the contractual maturity or repricing ranges of Diboll's loan portfolio.



TABLE OF CONTENTS

## Nonperforming Assets

Diboll had \$5.0 million loans on nonaccrual status at December 31, 2016. Diboll had \$4.5 million in loans on nonaccrual status at December 31, 2015 and \$4.0 million loan on nonaccrual status at December 31, 2014.

	December 31, 2016	December 31, 2015	December 31, 2014
	(Dollars in thousands)		
Nonaccrual loans	\$ 4,980	\$ 4,531	\$ 4,004
Accruing loans 90 or more days past due	1,310	1,094	501
Restructured loans	1,799	239	56
Total nonperforming loans	8,089	5,864	4,561
Other real estate	263	35	170
Reposessed assets	76	47	41
Total nonperforming assets	\$ 8,428	\$ 5,946	\$ 4,772
Nonperforming assets to total loans and other real estate	1.31%	0.96%	0.79%
Nonperforming assets to average earning assets	0.91%	0.68%	0.56%

Diboll may renegotiate the terms of a loan because of deterioration in the financial condition of a borrower. This renegotiation enhances the probability of collection. Diboll had 1 loan that was restructured due to deterioration of the borrower's financial condition for the year ended December 31, 2016 and 17 in 2015.

## Allowance for Possible Credit Losses

The allowance for possible credit losses at December 31, 2016, was \$7.6 million, which was 1.19% of total loans outstanding, net of unearned fee income, at such date. The allowance for possible credit losses at December 31, 2016, represented an increase of \$258,000, or 3.5%, from the allowance of \$7.4 million at December 31, 2015. The allowance for possible credit losses at December 31, 2015, was \$7.4 million, which was 1.18% of total loans outstanding, net of unearned fee income, at such date. The allowance for possible credit losses at December 31, 2015, represented an increase of \$279,000, or 3.9%, from the allowance of \$7.1 million at December 31, 2014. Substantially all the increases in the allowance for possible credit losses was a result of an increase in outstanding loans.

The following table presents, for the periods indicated, an analysis of the allowance for possible credit losses and other related data:

	December 31, 2016			Total
	Commercial	Real Estate	Consumer	Allowance
	(Dollars in thousands)			
Allowance for loan and lease losses January 1	\$ 1,483	\$ 4,435	\$ 1,454	\$ 7,372
Loans and leases charged off	(240)	(104)	(929)	(1,273)
Recoveries of loans and leases previously charged off	5	20	83	108
Net charge offs	(235)	(84)	(846)	(1,165)
Provision for loan and lease losses	251	432	741	1,424
Allowance for loan and lease losses December 31	\$ 1,499	\$ 4,783	\$ 1,349	\$ 7,631

TABLE OF CONTENTS

	December 31, 2015			
	Commercial	Real Estate	Consumer and Credit Cards	Total Allowance
	(Dollars in thousands)			
Allowance for loan and lease losses January 1	\$ 1,558	\$ 4,153	\$ 1,382	\$ 7,093
Loans and leases charged off	(12)	(29)	(667)	(708)
Recoveries of loans and leases previously charged off	19	45	80	144
Net charge offs	7	16	(587)	(564)
Provision for loan and lease losses	(82)	266	659	843
Allowance for loan and lease losses December 31	\$ 1,483	\$ 4,435	\$ 1,454	\$ 7,372

	As of and for the Year Ended December 31, 2016	As of and for the Year Ended December 31, 2015	As of and for the Year Ended December 31, 2014
Ratios:			
Net charge-offs to average loans	0.18%	0.09%	0.10%
Net charge-offs to end of period loans	0.18%	0.09%	0.10%
Allowance to average loans	1.20%	1.21%	1.22%
Allowance to end of period loans	1.19%	1.18%	1.18%

The following table describes the allocation of the allowance for possible credit losses among various categories of loans at the indicated dates. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any category of loans, with the exception of reserves held for loans considered to be impaired. All impaired loans have a valuation allowance at December 31, 2016 and 2015.

	December 31, 2016		December 31, 2015	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)			
Balance of allowance for possible credit losses applicable to:				
Commercial	\$ 1,499	15.33%	\$ 1,483	15.46%
Real estate	4,783	70.27%	4,435	68.90%
Consumer	1,349	14.40%	1,454	15.64%
Total allowance for possible credit losses	\$ 7,631	100.0%	\$ 7,372	100.0%

The allocation in the table above is based on the dollar amount of loans in each category rather than an analysis of specific loans. When management identifies specific loans or categories of loans where specific amounts of allowance are required, allocations will be assigned to those loans. There can be no assurance, however, that DIBOLL will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at December 31, 2016.

A discussion of the factors which influenced management's judgement in determining the amount of additions to the allowance charged to operating expense for the periods indicated is set forth above in this discussion and analysis under "— For the Six Months Ended June 30, 2017 and 2016 — Allowance for Possible Credit Losses."

111

---

TABLE OF CONTENTS

## Investment Securities

Diboll uses its securities portfolio to provide liquidity for cash requirements, to manage interest rate risk, to provide a source of income, to provide collateral for municipal pledging requirements and to manage asset quality. Securities available for sale totaled \$265.8 million and \$257.8 million at December 31, 2016 and 2015, respectively. There were no securities classified as held to maturity at December 31, 2016 or 2015.

The following tables summarize the amortized cost of securities classified as available for sale and their approximate fair values as of the dates shown:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies	\$ 167,460	\$ 348	\$ (1,561)	\$ 166,247
Obligations of states and political subdivisions	86,745	1,501	(1,015)	87,231
Mortgage-backed and other securities	12,007	246	(69)	12,184
Limited partnership	166	—	—	166
Total securities available for sale	\$ 266,378	\$ 2,095	\$ (2,645)	\$ 265,828

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies	\$ 156,361	\$ 396	\$ (560)	\$ 156,197
Obligations of states and political subdivisions	88,058	1,968	(341)	89,685
Mortgage-backed and other securities	11,354	398	(33)	11,719
Limited partnership	201	—	—	201
Total securities available for sale	\$ 255,974	\$ 2,762	\$ (934)	\$ 257,802

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Securities available for sale:				
Obligations of U.S. government agencies	\$ 116,625	\$ 279	\$ (249)	\$ 116,655
Obligations of states and political subdivisions	92,689	3,023	(543)	95,169
Mortgage-backed and other securities	9,373	474	(1)	9,846
Limited partnership	149	—	—	149
Total securities available for sale	\$ 218,836	\$ 3,776	\$ (793)	\$ 221,819





**TABLE OF CONTENTS**

The following table summarizes the contractual maturity of investment securities based on amortized cost and their weighted average yields as of the date indicated:

	December 31, 2016									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years			
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield		
	(Dollars in thousands)									
Securities available for sale:										
U.S. Government and Agency:										
Treasury	\$ —	—	\$ 248	1.23%	\$ —	—	\$ —	—		
Agency	21,616	0.89%	132,191	1.55%	12,393	1.66%	—	—		
Agency Callable	1,012	0.84%	—	—	—	—	—	—		
Municipal securities	6,831	2.55%	26,858	2.81%	35,833	3.36%	9,951	3.34%		
Other:										
CMO	—	—	—	—	199	4.00%	—	—		
Mortgage-backed securities	17	4.81%	2,310	2.71%	5,346	3.03%	4,135	3.02%		
Taxable municipal securities	300	2.34%	—	—	6,972	6.16%	—	—		
Limited partnership	—	—	—	—	—	—	166	—		
Total securities	\$ 29,776	1.28%	\$ 161,607	1.77%	\$ 60,743	3.30%	\$ 14,252	3.24%		

**Deposits**

Total deposits were \$879.1 million at December 31, 2016, compared with \$881.0 million at December 31, 2015, a decrease of \$2.0 million, or 0.2%. At December 31, 2016, interest-bearing demand, NOW, money market and savings deposits accounted for approximately 49.7% of total deposits, while certificates of deposit (including IRAs) made up 15.8% of total deposits. Noninterest-bearing demand deposits totaled \$303.0 million, or 34.5%, of total deposits at December 31, 2016 compared with \$286.7 million, or 32.5%, of total deposits at December 31, 2015, an increase of \$16.3 million or 5.7%. The average cost of deposits, including noninterest-bearing demand deposits, was 0.12% for the year ended December 31, 2016, compared with 0.13% for the year ending December 31, 2015.

The following table presents for the periods indicated the average balances and weighted average rates paid on total deposits:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	\$ 300,061	—	\$ 278,752	—	\$ 280,441	—
Interest-bearing NOW deposits	243,781	0.07%	223,229	0.07%	188,659	0.07%

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Interest-bearing Money market checking	106,326	0.09%	104,418	0.09%	118,889	0.09%
Interest-bearing Savings	90,000	0.06%	84,815	0.06%	77,465	0.06%
Time deposits/IRA Deposits	139,691	0.52%	145,222	0.52%	147,916	0.55%
Total deposits	\$ 879,859	0.12%	\$ 836,436	0.13%	\$ 813,370	0.13%

113

---

TABLE OF CONTENTS

The following table sets forth the amount of Diboll's certificates of deposit by the time remaining until maturity as of the date indicated:

	As of December 31, 2016  (Dollars in thousands)
Remaining maturity:	
3 months or less	\$ 37,149
Over 3 through 6 months	27,405
Over 6 through 9 months	20,198
Over 9 through 12 months	18,926
Over 12 months	35,043
Total	\$ 138,721

Time deposits of \$100,000 or more are generally solicited from markets served by Diboll. The aggregate amount of time deposits in amounts of \$100,000 or more at December 31, 2016 and 2015, was approximately \$77.5 million and \$76.9 million, respectively. Diboll had no brokered deposits as of December 31, 2016. Time deposits are a significant source of funds. The amount of deposits in CDs including IRA and public funds in amounts of \$100,000 or more was 8.8% and 8.7% of total deposits as of December 31, 2016 and 2015, respectively.

Liquidity

In the ordinary course of its operations, Diboll maintains correspondent bank accounts with various banks, which accounts aggregated approximately \$41.9 million and \$63.2 million as of December 31, 2016 and 2015, respectively. The largest of these accounts was with the Federal Reserve Bank. As of December 31, 2016, the balance in this account was approximately \$28.5 million and \$27.9 million at December 31, 2015. At December 31, 2016 and 2015, Diboll had no borrowings outstanding on its lines of credit. Each of the correspondent accounts is a demand account or interest bearing demand account and Diboll receives from such correspondents the normal services associated with a correspondent banking relationship, including clearing of checks and sales and purchases of federal funds.

Off-Balance Sheet Risk

The following is a summary, at December 31, 2016 and 2015, of the various financial instruments whose contract amounts represent credit risk. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	December 31, 2016  (Dollars in thousands)
Commitments to extend credit	\$ 77,266
Standby letters of credit	9,300
Commitments to extend credit on credit card loans	—
	December 31, 2015  (Dollars in thousands)
Commitments to extend credit	\$ 72,568
Standby letters of credit	9,309

Commitments to extend credit on credit card loans	11,928
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114

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TABLE OF CONTENTS**Borrowings**

Diboll had \$15.0 million in unsecured lines of credit with correspondent financial institutions as of December 31, 2016. Diboll had no borrowings on these lines of credit at December 31, 2016 or 2015.

Diboll had total available borrowings through the FHLB, secured by investment securities and a blanket lien on certain real estate and commercial loans of approximately \$273 million and \$233 million at December 31, 2016 and 2015, respectively. There were no FHLB advances outstanding at December 31, 2016 or 2015.

**Capital Resources**

Stockholders' equity of Diboll was \$100.3 million at December 31, 2016, and \$94.8 million at December 31, 2015, an increase of \$5.5 million, or 5.8%, primarily due to earnings of First Bank & Trust retained by Diboll, partially offset by dividends paid.

Both the Federal Reserve with respect to Diboll, and the FDIC with respect to First Bank & Trust, has established certain minimum risk-based capital standards that apply to bank holding companies and federally insured banks. As of December 31, 2016, First Bank & Trust's risk-based capital ratios were above the levels required for First Bank & Trust to be designated as "well capitalized" by the FDIC.

The following tables set forth Diboll's and First Bank & Trust's Total risk-based capital, Common equity tier 1 and Leverage ratios as of December 31, 2016 and 2015:

	December 31, 2016					
	Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions		Actual Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands) (Unaudited)						
<b>Diboll State Bancshares, Inc.</b>						
Total risk based capital (to risk-weighted assets)	\$ 56,257	≥8.0%	\$ 70,321	≥10.0%	\$ 101,182	14.39%
Tier 1 capital(to risk-weighted assets)	42,193	≥6.0%	56,257	≥8.0%	93,328	13.27%
Common equity tier 1 (to risk-weighted assets)	31,645	≥4.5%	45,709	≥6.5%	93,328	13.27%
Leverage (Tier 1 capital to average assets)	39,916	≥4.0%	49,895	≥5.0%	93,328	9.35%
<b>First Bank &amp; Trust East Texas</b>						
Total risk based capital (to risk-weighted assets)	\$ 56,255	≥8.0%	\$ 70,319	≥10.0%	\$ 99,348	14.13%
Tier 1 capital (to risk-weighted assets)	42,191	≥6.0%	56,255	≥8.0%	91,494	13.01%
Common equity tier 1 (to risk-weighted assets)	31,643	≥4.5%	45,707	≥6.5%	91,494	13.01%
Leverage (Tier 1 capital to average assets)	39,915	≥4.0%	49,894	≥5.0%	91,494	9.17%

TABLE OF CONTENTS

	December 31, 2015					
	Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions		Actual Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands) (Unaudited)						
<b>Diboll State Bancshares, Inc.</b>						
Total risk based capital (to Risk-Weighted Assets)	\$ 54,811	≥8.0%	\$ 68,514	≥10.0%	\$ 93,846	13.70%
Tier 1 capital(to Risk-Weighted Assets)	41,108	≥6.0%	54,811	≥8.0%	86,277	12.59%
Common equity tier 1 (to Risk-Weighted Assets)	30,831	≥4.5%	44,534	≥6.5%	86,277	12.59%
Leverage (Tier 1 capital to average assets)	38,274	≥4.0%	47,843	≥5.0%	86,277	9.02%
<b>First Bank &amp; Trust East Texas</b>						
Total risk based capital (to risk-weighted assets)	\$ 54,809	≥8.0%	\$ 68,512	≥10.0%	\$ 92,361	13.48%
Tier 1 capital (to risk-weighted assets)	41,107	≥6.0%	54,809	≥8.0%	84,792	12.38%
Common equity tier 1 (to risk-weighted assets)	30,830	≥4.5%	44,533	≥6.5%	84,792	12.38%
Leverage (Tier 1 capital to average assets)	38,273	≥4.0%	47,842	≥5.0%	84,792	8.86%

The table below summarizes our key equity ratios:

	Years Ended December 31,		
	2016	2015	2014
Return on Average Assets	1.23%	1.24%	1.18%
Return on Average Shareholders' Equity	12.00%	12.27%	12.37%
Dividend Payout Ratio – Basic	57.53%	43.42%	39.18%
Dividend Payout Ratio – Diluted	58.97%	44.54%	40.23%
Shareholders' Equity to Total Assets	10.19%	9.66%	9.83%

## TABLE OF CONTENTS

### DESCRIPTION OF CAPITAL STOCK

As a result of the first merger, Diboll shareholders who receive shares of Southside common stock in the first merger will become shareholders of Southside. Your rights as shareholders of Southside will be governed by Texas law and the restated certificate of formation and the amended and restated bylaws of Southside. The following briefly summarizes the material terms of Southside common stock. We urge you to read the applicable provisions of the Texas Business Organizations Code, or the TBOC, Southside's restated certificate of formation and amended and restated bylaws and federal laws governing bank holding companies carefully and in their entirety. Copies of Southside's governing documents have been filed with the SEC. To obtain copies of these documents, see "Where You Can Find More Information."

#### Authorized Capital Stock

Southside's authorized capital stock consists of 40,000,000 shares of common stock, par value \$1.25 per share. As of September 6, 2017, there were 29,423,438 shares of Southside common stock outstanding.

#### Voting Rights

Each holder of shares of Southside common stock is entitled to one vote for each share held on all questions submitted to a vote at a meeting of shareholders. Holders of shares of Southside common stock do not have cumulative voting rights in the election of directors.

Election of Southside directors requires the approval by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present. Other matters (other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Texas law or the restated certificate of formation) require approval by the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, or expressly abstained from voting with respect to, the matter at a shareholder meeting at which a quorum is present.

Southside's restated certificate of formation provides for the election of directors to three classes, as nearly equal in number as possible, to hold office for staggered terms. Directors elected to each class shall hold office until the expiration of the three-year term applicable to the class of directorship to which the respective director is elected and until their successors are elected and qualified, or they shall hold office until death or retirement or until resignation or removal in the manner provided in Southside's amended and restated bylaws. This helps ensure the continuity of Southside's board of directors and effectively makes it more difficult for potential acquirers of Southside to acquire control of Southside through control of its board of directors.

#### Preemptive Rights

Holders of shares of Southside common stock do not have preemptive rights. Preemptive rights are the priority right to buy additional shares if Southside issues more shares in the future. Therefore, if additional shares are issued by Southside without the opportunity for existing shareholders to purchase more shares, a shareholder's ownership interest in Southside may be subject to dilution.

#### Dividend Rights

Southside's board of directors may declare, at its discretion, dividends payable in cash, property or shares of Southside, subject to Southside's restated certificate of formation and to the extent permitted by applicable law.

For more information regarding the rights of holders of Southside common stock, see "Comparison of Rights of Southside Shareholders and Diboll Shareholders" on page 118.



**TABLE OF CONTENTS**

**COMPARISON OF RIGHTS OF SOUTHSIDE SHAREHOLDERS AND DIBOLL SHAREHOLDERS**

If the first merger is completed, shareholders of Diboll will become shareholders of Southside. The rights of Diboll shareholders are currently governed by and subject to the provisions of the Texas Business Organizations Code, as amended, or the TBOC, and the charter and bylaws of Diboll. Upon completion of the first merger, the rights of the former Diboll shareholders who receive shares of Southside common stock will be governed by the TBOC and the Southside restated certificate of formation and Southside amended and restated bylaws, rather than the charter and bylaws of Diboll.

The following is a summary of the material differences between the rights of holders of Southside common stock and holders of Diboll common stock, but it does not purport to be a complete description of those differences, the specific rights of such holders or the terms of the Southside common stock subject to issuance in connection with the first merger. The following summary is qualified in its entirety by reference to the relevant provisions of: (1) Texas law; (2) the Southside restated certificate of formation; (3) the Diboll charter; (4) the Southside amended and restated bylaws; and (5) the Diboll bylaws.

The identification of some of the differences in the rights of such holders as material is not intended to indicate that other differences that may be equally important do not exist. You are urged to read carefully the relevant provisions of Texas law, as well as the governing corporate instruments of each of Southside and Diboll, copies of which are available, without charge, to any person, including any beneficial owner to whom this proxy statement/prospectus is delivered, by following the instructions listed under “Where You Can Find More Information.”

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
Corporate Governance	<p>Southside is a Texas corporation. The rights of Southside shareholders are governed by the TBOC, the Southside charter and the Southside bylaws.</p>	<p>Diboll is a Texas corporation. The rights of the Diboll shareholders are governed by the TBOC and the Diboll charter and bylaws.</p>
Authorized Capital Stock	<p>Southside is authorized to issue 40,000,000 shares of common stock, par value \$1.25 per share. As of September 6, 2017, there were 29,423,438 shares of Southside common stock issued and outstanding and 2,833,339 shares held in treasury. Southside has reserved 1,021,183 shares of common stock for issuance under Southside’s dividend reinvestment plan and 2,460,000 shares of common stock for issuance pursuant to awards granted under Southside’s 2017 Incentive Plan.</p>	<p>Diboll is authorized to issue up to 2,000,000 shares of capital stock, which are divided into 1,000,000 shares of cumulative preferred stock, par value \$5.00 per share, and 1,000,000 shares of common stock, par value \$1.00 per share. The Diboll board of directors is authorized to provide for the issuance of preferred stock in one or more classes or series and to fix the rights, designations and preferences related thereto, subject to the terms of the certificate of formation. As of the Diboll record date, there were 848,776 shares of Diboll common stock outstanding. No shares of preferred stock are outstanding.</p>
Preemptive Rights	<p>Southside’s restated certificate of formation provides that shareholders shall not have preemptive rights.</p>	<p>Diboll’s certificate of formation provides that shareholders shall not have statutory preemptive rights.</p>

**TABLE OF CONTENTS**

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
	Each holder of shares of Southside common stock is entitled to one vote for each share held on all questions submitted to holders of shares of Southside common stock.	Each share of Diboll Common Stock has one vote for each matter properly brought before the shareholders.
	Election of Southside directors requires the approval by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present.	Diboll directors are elected by a plurality of the votes cast by the shareholders entitled to vote in the election of directors at a meeting of the shareholders at which a quorum is present.
Voting Rights	Other matters (other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Texas law or the restated certificate of formation) require approval by the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, or expressly abstained from voting with respect to, the matter at a shareholder meeting at which a quorum is present.	Other matters (other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Texas law or the certificate of formation) require approval by the affirmative vote of the holders of a majority of the shares entitled to vote on, and who voted for or against, or expressly abstained from voting with respect to, such matter at a shareholders' meeting at which a quorum is present.
	Under Texas law, shareholders may act without a meeting if a written consent is signed by all of the shareholders entitled to vote on the matter, unless the corporation's certificate of formation allows less than unanimous consent (but not less than the number of votes necessary to take the action at the meeting). Diboll's certificate of formation does not permit shareholder action to be taken without a meeting by written consent of holders of less than all shares entitled to vote.	Under Texas law, shareholders may act without a meeting if a written consent is signed by all of the shareholders entitled to vote on the matter, unless the corporation's certificate of formation allows less than unanimous consent (but not less than the number of votes necessary to take the action at the meeting). Diboll's certificate of formation does not permit shareholder action to be taken without a meeting by written consent of holders of less than all shares entitled to vote.
Cumulative Voting	Holders of shares of Southside common stock do not have cumulative voting rights at elections of directors.	Holders of shares of Diboll common stock do not have cumulative voting rights at elections of directors.
Size of the Board of Directors	The Southside board of directors consists of 15 directors. Prior to, and subject to the occurrence of, the effective time of the first merger, the Southside board of directors will be increased by two, and Southside will select two individuals who are currently directors of Diboll to serve on the Southside board of directors.	The Diboll Board consists of five directors. The Diboll bylaws provide that the number of directors may be determined by the Diboll Board from time to time, but no decrease in the number of directors will have the effect of shortening the term of any incumbent director.

**TABLE OF CONTENTS**

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
Independent Directors	A majority of the Southside board of directors must be comprised of independent directors as defined in the listing rules of NASDAQ.	
Term of Directors and Classified Board	Southside’s restated certificate of formation provides for the election of directors to three classes, as nearly equal in number as possible, to hold office for staggered terms. Directors elected to each class shall hold office until the expiration of the three-year term applicable to the class of directorship to which the respective director is elected and until their successors are elected and qualified, or they shall hold office until death or retirement or until resignation or removal in the manner provided in Southside’s amended and restated bylaws.	The bylaws of Diboll provide that, with the exception of board vacancies, directors shall be elected at the annual meeting of the shareholders and shall serve until the next succeeding annual meeting and until a successor is elected and qualified.
Election of Directors	Southside directors are elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present.	Diboll directors are elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present.
Removal of Directors	Any Southside director or the entire Southside board of directors may be removed, for cause only, at any shareholder meeting called expressly for the purpose of removing a director, by a vote of the holders of a majority of the shares then entitled to vote at any election of directors.	The Diboll bylaws provide that any director may be removed, with or without cause, at any annual or special meeting of the shareholders, by the affirmative vote of the holders of a majority of the shares entitled to vote for the election of directors.
Filling Vacancies of Directors	Vacancies resulting from the death, resignation or removal of a director or other cause may be filled by election at a shareholder meeting called for that purpose or by the affirmative vote of a majority of the remaining directors, even if the remaining directors constitute less than a quorum. Newly created directorships resulting from an increase in the number of directorships may be filled by election at an annual or special meeting of shareholders called for that purpose or by the Southside board of directors. The number of newly created	Vacancies resulting from the death, resignation or removal of a director or other cause may be filled by election at a shareholder meeting called for that purpose or by the affirmative vote of a majority of the remaining directors, even if the remaining directors constitute less than a quorum. Newly created directorships resulting from an increase in the number of directorships may be filled by election at an annual or special meeting of shareholders called for that purpose or by the Diboll board of directors. The number of newly created directorships filled by the Diboll

TABLE OF CONTENTS

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
	directorships filled by the Southside board of directors may not exceed two directorships between two successive annual meetings of shareholders.	board of directors may not exceed two directorships between two successive annual meetings of shareholders.
Amendments to Certificates of Formation	Amendment of the Southside restated certificate of formation requires the approval of Southside's board of directors and 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.	Amendment of the Diboll certificate of formation requires the approval of Diboll's board of directors and 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 on the amendment.
Bylaw Amendments	The Southside board of directors may amend its bylaws unless (1) such power is reserved exclusively to Southside's shareholders by Southside's restated certificate of formation or Texas law or (2) Southside's shareholders, in amending, repealing, or adopting a particular bylaw, have expressly provided that the Southside board of directors may not amend such bylaw. Unless Southside's restated certificate of formation or a bylaw adopted by Southside's shareholders provides otherwise, Southside's shareholders may amend (but only by the affirmative vote of the holders of not less than a majority of the then outstanding shares entitled to vote with respect thereto) Southside's bylaws even though the bylaws may also be amended by the Southside board of directors.	The Diboll board of directors may amend its bylaws unless (1) such power is reserved exclusively to Diboll's shareholders by Diboll's certificate of formation or Texas law or (2) Diboll's shareholders, in amending, repealing, or adopting a particular bylaw, have expressly provided that the Diboll board of directors may not amend such bylaw. Unless Diboll's certificate of formation or a bylaw adopted by Diboll's shareholders provides otherwise, Diboll's shareholders may amend (by the affirmative vote of the holders of a majority of the shares entitled to vote on, and who voted for or against, or expressly abstained from voting with respect to, such matter) Diboll's bylaws even though the bylaws may also be amended by the Diboll board of directors.
Merger, Consolidations or Sales of Substantially All Assets	Under the TBOC, the affirmative vote of the holders of at least two-thirds of the outstanding shares of the corporation entitled to vote is required to approve a fundamental business transaction, except as otherwise provided by the TBOC or the corporation's certificate of formation. Southside's restated certificate of formation does not alter the default voting standard under Texas law for fundamental business transactions.	Under the TBOC, the affirmative vote of the holders of at least two-thirds of the outstanding shares of the corporation entitled to vote is required to approve a fundamental business transaction, unless a different vote but not less than a majority of the shares entitled to vote on the matter, is specified in the certificate of formation. The certificate of formation of Diboll does not provide for a lower vote standard to approve a fundamental business transaction.

TABLE OF CONTENTS

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
Annual Meetings of the Shareholders	The annual meeting of shareholders for the election of Southside directors and such other business as may properly be brought before the meeting shall be held at a date and time designated by the Southside board of directors and stated in the notice of the meeting.	The Diboll bylaws provide that the annual meeting of shareholders for the election of Diboll directors and such other business as may properly be brought before the meeting shall be held at such time and place as designated by the Diboll Board.
Special Meetings of the Shareholders	Special meetings of the shareholders may be called by Southside's President and shall be called by Southside's President or Secretary at the request in writing of a majority of Southside's board of directors, or at the request in writing of Southside shareholders owning not less than 10% of all the shares entitled to vote at the meeting. A request for a special meeting must state the purpose of the proposed meeting. Business transacted at a special meeting shall be limited to the purposes stated in the notice of such meeting.	Special meetings of the shareholders may be called by Diboll's President or Diboll's board of directors, and shall be called by Diboll's President at the request of the holders of not less than 10% of all of the shares entitled to vote at the meeting. Business transacted at a special meeting shall be limited to the purposes stated in the notice of such meeting.
Advance Notice Provisions for Shareholder Nominations and Shareholder Business Proposals at Annual Meetings	For nominations or other business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to Southside's Secretary and such other business must be a proper matter for shareholder action. To be timely, a shareholder's notice must set forth all of the information required by Southside's amended and restated bylaws and shall be delivered to the Secretary at Southside's principal executive offices not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual	There are no such advance notice provisions in the Diboll certificate of formation or bylaws.

TABLE OF CONTENTS

	Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)	Rights of Diboll Shareholders
	meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. The advance notice requirements in Southside’s bylaws are deemed satisfied by a shareholder if the shareholder has notified Southside of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 of the Exchange Act and such shareholder’s proposal has been included in a proxy statement that has been prepared by Southside to solicit proxies for such annual meeting.	
Notice of Shareholder Meetings	Written notice stating the place, day and hour of a shareholders’ meeting and, in the case of a special meeting, the purpose for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting, except as permitted by Texas law.	The Diboll bylaws provide that written notice stating the place, day and hour of a shareholders’ meeting and, in the case of a special meeting, the purpose for which the meeting is called, shall be delivered not less than 10 nor more than 50 days before the date of the meeting, by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting, except as permitted by Texas law.
Liability and Indemnification of Directors and Officers	Generally, Chapter 8 of the TBOC permits a corporation to indemnify a person who was, is, or is threatened to be made a named defendant or respondent in a proceeding because the person was or is a director or officer if it is determined that such person (1) conducted himself in good faith, (2) reasonably believed (a) in the case of conduct in his official capacity as a director or officer of the corporation, that his conduct was in the corporation’s best interest, or (b) in other cases, that his conduct was not opposed to the corporation’s best interests, and (3) in the case of any criminal proceeding, did not have reasonable cause to believe that his conduct was unlawful. In addition, the TBOC requires a corporation to indemnify a director or officer for any action that such director or officer is wholly successful, on the merits or	Generally, Chapter 8 of the TBOC permits a corporation to indemnify a person who was, is, or is threatened to be made a named defendant or respondent in a proceeding because the person was or is a director or officer if it is determined that such person (1) conducted himself in good faith, (2) reasonably believed (a) in the case of conduct in his official capacity as a director or officer of the corporation, that his conduct was in the corporation’s best interest, or (b) in other cases, that his conduct was not opposed to the corporation’s best interests, and (3) in the case of any criminal proceeding, did not have reasonable cause to believe that his conduct was unlawful. In addition, the TBOC requires a corporation to indemnify a director or officer for any action that such director or officer is wholly successful, on the merits or

TABLE OF CONTENTS

Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)

otherwise, in the defense of the proceeding.

Southside's amended and restated bylaws provide for indemnification rights to Southside's officers and directors to the fullest extent allowed by Texas law. Pursuant to the TBOC and Southside's amended and restated bylaws, Southside will indemnify and, under certain circumstances, advance expenses to, any person who was, is, or is threatened to be named as, a defendant or respondent in a proceeding because that person is or was one of Southside's directors or officers or because that person served at Southside's request as a present or former partner, director, officer, venturer, proprietor, trustee, employee, administrator or agent of another corporation, limited liability company, partnership, joint venture, trust or other organization or employee benefit plan. Southside may also pay or reimburse expenses incurred by any director or officer in connection with that person's appearance as a witness or other participation in a proceeding at a time when that person is not a named defendant or respondent in that proceeding.

Southside's charter provides that Southside shall indemnify (1) its current and former directors and officers, whether serving Southside or at its request any other entity, to the fullest extent required or permitted by the TBOC, including the advancement of expenses under the procedures and to the fullest extent permitted by law, and (2) other employees and agents to such extent as shall be authorized by the Southside board of directors and permitted by law; provided, however, that, except with respect to proceedings to enforce rights to indemnification, Southside shall indemnify any such indemnitee in connection with a proceeding initiated by such indemnitee only if such proceeding was authorized by the Southside board of directors.

Rights of Diboll Shareholders

otherwise, in the defense of the proceeding.

The certificate of formation of Diboll provides for permissive indemnification of directors and officers of Diboll and any person who may have served at the request of Diboll as a director or officer of another corporation in which Diboll owns shares or of which Diboll is a creditor. Such indemnification may include expenses incurred in defending any a proceeding in advance of its final disposition.

TABLE OF CONTENTS

<p>Limitation of Director Liability</p>	<p>Rights of Southside Shareholders (which will be the rights of shareholders of the combined company following the first merger)</p> <p>Southside’s restated certificate of formation limits the liability of Southside’s directors to the fullest extent permitted by Texas statutory or decisional law. The TBOC currently prohibits the elimination of personal liability for (1) a breach of the director’s duty of loyalty, (2) acts or omissions not in good faith that (a) constitute a breach of the director’s duty to the corporation or (b) involve intentional misconduct or a knowing violation of law, (3) any transaction from which the director derived an improper personal benefit, or (4) acts or omissions for which the liability of a director is expressly provided by an applicable statute.</p>	<p>Rights of Diboll Shareholders</p> <p>Under Texas law, the certificate of formation of a corporation may provide that directors and officers of the corporation are not liable to the corporation or its owners for monetary damages for an act or omission by such persons in their capacities as directors and officers. The certificate of formation of Diboll provides that a person who performs his duties shall have no liability to Diboll (whether asserted directly or derivatively) by reason of being or having been a director of Diboll.</p>
<p>Dividends</p>	<p>Southside’s board of directors may declare, at its discretion, dividends payable in cash, property or shares of Southside, subject to Southside’s restated certificate of formation and to the extent permitted by applicable law and regulatory requirements.</p>	<p>Diboll’s board of directors may declare, at its discretion, dividends payable in cash, property or shares of Diboll, subject to Diboll’s certificate of formation and to the extent permitted by applicable law and regulatory requirements.</p>
<p>Dissenters’ Rights</p>	<p>Under the TBOC, a shareholder of a corporation is entitled to (1) dissent from a plan of merger, conversion or exchange or a sale of all or substantially all of the assets of the corporation and (2) subject to compliance with the procedures set forth in the TBOC, obtain the fair value of the shareholder’s ownership interest through an appraisal. The TBOC further provides that there is no right of dissent in favor of the holders of shares listed on a national securities exchange under certain circumstances depending on the consideration to be received pursuant to the terms of the plan of merger, conversion or exchange.</p>	<p>Under the TBOC, a shareholder of a corporation is entitled to (1) dissent from a plan of merger, conversion or exchange or a sale of all or substantially all of the assets of the corporation and (2) subject to compliance with the procedures set forth in the TBOC, obtain the fair value of the shareholder’s ownership interest through an appraisal. The TBOC further provides that there is no right of dissent in favor of the holders of shares listed on a national securities exchange under certain circumstances depending on the consideration to be received pursuant to the terms of the plan of merger, conversion or exchange.</p>



TABLE OF CONTENTS

LEGAL MATTERS

The validity of the Southside common stock to be issued in connection with the first merger will be passed upon for Southside by Alston & Bird LLP (Atlanta, Georgia). Certain U.S. federal income tax consequences relating to the mergers will also be passed upon for Southside and Diboll by Alston & Bird LLP (Atlanta, Georgia).

EXPERTS

The consolidated financial statements of Southside Bancshares, Inc. appearing in Southside Bancshares, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2016, and the effectiveness of Southside Bancshares Inc.'s internal control over financial reporting as of December 31, 2016 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and Southside Bancshares, Inc. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Diboll State Bancshares, Inc. as of December 31, 2016 and for the year then ended have been included in this proxy statement/prospectus in reliance upon the report of Briggs & Veselka Co., independent registered public accounting firm, as stated in their report appearing herein, and upon the authority of said firm as experts in accounting and auditing.

The annual consolidated financial statements of Diboll State Bancshares, Inc. as of December 31, 2015 and 2014 included in this proxy statement/prospectus have been audited by Axley & Rode, LLP, independent auditors, as stated in their report included herein. Such annual consolidated financial statements have been so included herein in reliance upon the reports of such firm as experts in accounting and auditing.

126

---

**TABLE OF CONTENTS**

**WHERE YOU CAN FIND MORE INFORMATION**

Southside has filed a registration statement on Form S-4 under the Securities Act of 1933 with the SEC with respect to the Southside common stock to be issued to shareholders of Diboll in the first merger. This proxy statement/prospectus constitutes the prospectus of Southside filed as part of the registration statement. This proxy statement/prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. The registration statement and its exhibits are available for inspection and copying as set forth below.

In addition, Southside (File No. 000-12247) files annual, quarterly and special reports, proxy statements and other business and financial information with the SEC. You may read and copy any materials that Southside files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the SEC at (800) SEC-0330 for further information on the public reference room. In addition, Southside files reports and other business and financial information with the SEC electronically, and the SEC maintains a website that contains Southside's SEC filings as well as reports, proxy and information statements, and other information issuers file electronically with the SEC at [www.sec.gov](http://www.sec.gov). You will also be able to obtain these documents, free of charge, from Southside's website at [www.southside.com](http://www.southside.com) under the "Investor Relations" link and then under the "Documents" heading. The website addresses for the SEC and Southside are inactive textual references and except as specifically incorporated by reference into this proxy statement/prospectus, information on those websites is not part of this proxy statement/prospectus.

The SEC allows Southside to "incorporate by reference" information in this proxy statement/ prospectus. This means that Southside can disclose important business and financial information to you by referring you to another document filed separately with the SEC. The information that Southside incorporates by reference is considered to be part of this proxy statement/prospectus, and later information that Southside files with the SEC will automatically update and supersede the information Southside included in this proxy statement/prospectus. This document incorporates by reference the documents that are listed below that Southside has previously filed with the SEC, except to the extent that any information contained in such filings is deemed "furnished" in connection with SEC rules.

- Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 24, 2017;

- Definitive Proxy Statement on Schedule 14A for the 2017 Annual Meeting, filed on March 22, 2017;

- Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, filed on April 28, 2017 and July 28, 2017, respectively;

- Current Reports on Form 8-K or Form 8-K/A, as applicable, filed on January 3, 2017, January 23, 2017, March 7, 2017, May 12, 2017, June 12, 2017 and June 21, 2017; and

- The description of our common stock contained in our Registration Statement filed with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934, or the Exchange Act, including any amendment or report filed for purposes of updating such description.

Southside also incorporates by reference any future filings they make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement/prospectus and the date of the Diboll special meeting. Any statement contained in this proxy statement/prospectus or in a document incorporated or deemed to be incorporated by reference in this proxy statement/prospectus is deemed to be modified or superseded to the extent that a statement contained herein or in any subsequently filed document that also is, or is deemed to be, incorporated by reference herein modified or superseded such statement. Any statement so modified or superseded will not be deemed,

except as so modified or superseded, to constitute a part of this proxy statement/prospectus.

127

---

TABLE OF CONTENTS

Documents incorporated by reference are available from Southside without charge (except for exhibits to the documents unless the exhibits are specifically incorporated in the document by reference). You may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from Southside at the following address:

Southside Bancshares, Inc.  
1201 South Beckham Avenue  
Tyler, Texas 75701  
Attention: Secretary  
Telephone: (877) 639-3511

To obtain timely delivery, you must make a written or oral request for a copy of such information by October 10, 2017. You will not be charged for any of these documents that you request. If you request any incorporated documents from Southside, Southside will mail them to you by first class mail, or another equally prompt means, within one business day after receiving your request.

You should rely only on the information contained in this proxy statement/prospectus. Neither Southside nor Diboll has authorized anyone to provide you with different information. Therefore, if anyone gives you different or additional information, you should not rely on it. The information contained in this proxy statement/prospectus is correct as of its date. It may not continue to be correct after this date. Diboll has supplied all of the information about Diboll and its subsidiaries contained in this proxy statement/prospectus and Southside has supplied all of the information contained in this proxy statement/prospectus about Southside and its subsidiaries. Each of us is relying on the correctness of the information supplied by the other.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.

128

---

**TABLE OF CONTENTS**

**INDEX TO FINANCIAL STATEMENTS**

Consolidated Financial Statements of Diboll State Bancshares, Inc. for the Six Months Ended June 30, 2017

<u>Unaudited Consolidated Balance Sheets</u>	<u>F-2</u>
<u>Unaudited Consolidated Statements of Income</u>	<u>F-3</u>
<u>Unaudited Consolidated Statements of Comprehensive Income</u>	<u>F-4</u>
<u>Unaudited Consolidated Statements of Cash Flows</u>	<u>F-5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>F-7</u>

Consolidated Financial Statements of Diboll State Bancshares, Inc. for the Years Ended December 31, 2016 and 2015

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-33</u>
<u>Consolidated Balance Sheets</u>	<u>F-35</u>
<u>Consolidated Statements of Income</u>	<u>F-36</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-37</u>
<u>Consolidated Statements of Changes in Stockholders Equity</u>	<u>F-38</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-39</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-40</u>

Consolidated Financial Statements of Diboll State Bancshares, Inc. for the Years Ended December 31, 2015 and 2014

<u>Report of Independent Auditor</u>	<u>F-69</u>
<u>Consolidated Balance Sheets</u>	<u>F-71</u>
<u>Consolidated Statements of Income</u>	<u>F-72</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-73</u>
<u>Consolidated Statements of Changes in Stockholders Equity</u>	<u>F-74</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-75</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-76</u>

Unaudited Pro Forma Consolidated Financial Statements of Southside Bancshares, Inc.

<u>Introduction</u>	<u>F-102</u>
<u>Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2017</u>	<u>F-104</u>
<u>Unaudited Pro Forma Condensed Combined Statement of Income for the Six Months Ended June 30, 2017</u>	<u>F-105</u>
<u>Unaudited Pro Forma Condensed Combined Statement of Income for the Year Ended December 31, 2016</u>	<u>F-106</u>
<u>Notes to Unaudited Pro Forma Condensed Combined Financial Statements</u>	<u>F-107</u>

F-1

TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2017 (Unaudited) and December 31, 2016

	June 30,2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents:		
Non-interest bearing	\$ 20,192,463	\$ 23,666,373
Interest bearing	37,881,100	28,699,876
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>58,073,563</b>	<b>52,366,249</b>
Investment Securities:		
Available-for-sale	251,577,840	265,828,008
Federal Home Loan Bank (FHLB) stock, at cost	394,000	393,500
Loans, less allowance for loan losses	653,409,393	634,662,062
Accrued interest receivable	3,335,507	3,440,659
Bank premises and equipment, net	14,438,369	14,752,132
Other real estate	1,986,800	263,400
Goodwill	7,334,165	7,334,165
Other assets	3,211,261	4,899,398
<b>TOTAL ASSETS</b>	<b>\$ 993,760,898</b>	<b>\$ 983,939,573</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 307,877,851	\$ 302,996,959
Interest-bearing demand	356,697,173	346,000,253
Savings	92,184,062	91,341,079
Time	126,816,596	138,721,437
<b>TOTAL DEPOSITS</b>	<b>883,575,682</b>	<b>879,059,728</b>
Accrued interest payable	109,345	107,558
Other liabilities	5,518,128	4,473,711
<b>TOTAL LIABILITIES</b>	<b>889,203,155</b>	<b>883,640,997</b>
Stockholders' Equity:		
Common stock; par value \$1; 1,000,000 shares authorized; 903,139 and 900,980 shares issued, respectively	903,139	900,980
Surplus	12,825,080	12,504,604
Retained earnings	95,376,192	92,510,085
Treasury stock; 58,052 and 57,313 shares at cost, respectively	(5,368,635)	(5,254,090)
Accumulated other comprehensive income (loss), net of tax	821,967	(363,003)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>104,557,743</b>	<b>100,298,576</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 993,760,898</b>	<b>\$ 983,939,573</b>

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



TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

For the Six Months Ended June 30, 2017 and 2016

	2017	2016
Interest Income:		
Interest and fees on loans	\$ 16,451,221	\$ 16,004,237
Interest on investment securities	2,373,194	2,513,087
Interest on federal funds sold and deposits in banks	89,796	87,898
TOTAL INTEREST INCOME	18,914,211	18,605,222
Interest Expense:		
Interest on interest-bearing demand and savings accounts	164,441	164,141
Interest on time deposits	358,604	358,479
Other interest	156	—
TOTAL INTEREST EXPENSE	523,201	522,620
NET INTEREST INCOME	18,391,010	18,082,602
Provision for loan losses	1,581,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,810,010	17,482,602
Other Income:		
Income from fiduciary activities	1,163,849	1,110,000
Service fees on deposits	2,172,499	2,133,148
Net realized gain on sale of available-for-sale securities	2,472	166,631
Other income	2,188,925	2,120,798
TOTAL OTHER INCOME	5,527,745	5,530,577
Other Expenses:		
Salaries and employee benefits	8,419,817	8,356,970
Occupancy and equipment	1,080,838	1,051,008
Other operating expenses	4,952,355	4,783,631
TOTAL OTHER EXPENSES	14,453,010	14,191,609
INCOME BEFORE FEDERAL INCOME TAXES	7,884,745	8,821,570
Federal income taxes	2,486,700	2,792,300
NET INCOME	\$ 5,398,045	\$ 6,029,270
Net income per common share – basic	\$ 6.39	\$ 7.16
Net income per common share – diluted	\$ 6.23	\$ 7.01
Weighted average shares outstanding – basic	844,190	841,375
Weighted average shares outstanding – diluted	866,555	859,720

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

F-3



TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the Six Months Ended June 30, 2017 and 2016

	2017	2016
NET INCOME	\$ 5,398,045	\$ 6,029,270
Other Comprehensive Income, Net of Tax:		
Unrealized Gains (Losses) on Securities:		
Change in net unrealized gains on securities available for sale, net of in 2017 and \$1,434,139 in 2016 income taxes of \$611,280	1,186,602	2,783,916
Reclassification adjustment for gains realized net of income taxes of (\$840) in 2017 and (\$56,655) in 2016	(1,632)	(109,976)
OTHER COMPREHENSIVE INCOME (LOSS)	1,184,970	2,673,940
COMPREHENSIVE INCOME	\$ 6,583,015	\$ 8,703,210

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

F-4

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**TABLE OF CONTENTS**

DIBOLL STATE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Six Months Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 5,398,045	\$ 6,029,270
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization on investment securities, net	436,873	455,471
Provision for loan losses	1,581,000	600,000
FHLB stock dividends	—	—
Depreciation of bank premises and equipment	669,554	657,562
Amortization of software	98,735	134,548
Gain from sale of other real estate	(51,234)	(80,730)
Increase in deferred taxes excluding effect of accumulated comprehensive income	5,295	8,918
Net gain from sales of investment securities	(2,472)	(166,631)
Stock-based compensation	77,962	64,339
Change in Assets/Liabilities:		
Decrease in accrued interest receivable	105,152	5,600
Increase in prepaid federal income tax	(47,595)	(264,378)
Decrease in other operating assets	940,437	405,055
Increase in accrued interest payable	1,787	2,322
Increase in other liabilities	2,609,975	2,015,113
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>11,823,514</b>	<b>9,866,459</b>
Cash Flows from Investing Activities:		
Decrease in Federal funds sold	—	(1,500,000)
Proceeds from sales, maturities, and calls of investment securities available-for-sale	170,484,732	220,268,184
Purchases of investments available-for-sale	(155,034,958)	(211,160,135)
Proceeds from return of capital – Limited partnership	—	77,349
Purchases of investments – Limited partnership	(4,372)	—
Purchases of FHLB stock	(500)	(23,900)
Proceeds from sales of mortgage loans	12,206,097	10,284,288
Increase in loans, net of noncash transactions	(34,484,005)	(21,136,481)
Capital expenditures, net	(409,258)	(377,238)
Proceeds from sale of other real estate	277,411	98,519
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(6,964,853)</b>	<b>(3,469,414)</b>
Cash Flows from Financing Activities:		
Increase in noninterest-bearing demand accounts	4,880,892	11,694,570
Increase (decrease) in interest-bearing demand accounts	10,153,232	(30,438,988)

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Increase in savings accounts	1,386,671	3,971,122
Decrease in time deposits	(11,904,841)	(2,913,138)
Proceeds from stock options exercised	244,676	148,879
Purchase of treasury stock	(114,545)	—
Payment of dividends	(3,797,432)	(4,836,152)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	848,653	(22,373,707)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,707,314	(15,976,662)
Cash and cash equivalents at beginning of year	52,366,249	74,490,424
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 58,073,563	\$ 58,513,762

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

F-5

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TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED

For the Six Months Ended June 30, 2017 and 2016

	2017	2016
Supplemental Information:		
Cash Paid During the Period For:		
Interest	\$ 521,414	\$ 520,298
Income taxes	2,534,295	3,056,678
Noncash Investing and Financing Activities:		
Increase in unrealized holding gains and losses on securities available for sale	1,795,410	4,051,424
Increase in deferred income tax on unrealized holding gains and losses on securities available for sale	610,440	1,377,484
Net decrease in loans from other real estate foreclosures and financing	1,995,371	1,059,683
Loan charge-offs	1,771,249	436,723
Decrease in dividends payable	(1,265,501)	(2,732,304)

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

F-6

TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Diboll State Bancshares, Inc. (“Diboll” or “the Company”), is a bank holding company headquartered in Diboll, Texas and owns all the outstanding capital stock of First Bank & Trust East Texas (“FB&T” or “the Bank”). The accounting and reporting policies of Diboll and the Bank conform to practices within the banking industry. The following is a description of the more significant of those policies.

Nature of Operations:

Diboll, as a bank holding company, exists for the purpose of investing in banks. It is subject to regulation by the Federal Reserve System.

The Bank operates under a state bank charter, provides full banking services, and is subject to regulation by the Texas State Department of Banking and the Federal Deposit Insurance Corporation. The Bank generates commercial (including agricultural), mortgage and consumer loans and receives deposits from customers located primarily in the eastern region of Texas with seventeen branch locations: Lufkin (5), Diboll (1), Nacogdoches (1), Cleveland (1), Splendor (1), Jasper (2), San Augustine (1), Pineland (1), Hemphill (1), Tyler (1), Palestine (1) and Longview (1). Additionally, the Bank maintains correspondent banking relationships and transacts daily federal fund sales on an unsecured basis with regional correspondent banks. Note 2 discusses the types of securities in which the Bank invests. Note 3 discusses the types of lending in which the Bank engages. The Bank does not have any significant concentrations to any one industry or customer.

Basis of Presentation:

Diboll and the Bank maintain its accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In the opinion of management, the accompanying consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and results of operations at the dates and for the periods presented. The results of operations for the six months ended June 30, 2017 are not necessarily indicative of the results of operations for the full fiscal year or for any other period. This information should be read in conjunction with the Company’s Annual Report for the year ended December 31, 2016.

Principles of Consolidation:

The consolidated financial statements and related notes include the accounts of Diboll and FB&T. In consolidation, all material intercompany transactions and balances have been eliminated.

Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management may obtain independent appraisals for significant problem loans or properties.

F-7

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TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) — CONTINUED

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the loan portfolio is diversified, its debtors' ability to honor their contracts is heavily dependent upon economic conditions in the service area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in the economic conditions in the service area. In addition, the regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents:

Cash and cash equivalents include cash sold and due from banks. Generally, the Bank considers all highly liquid instruments with original maturities of three months or less to be cash and cash equivalents. In monitoring credit risk associated with these uninsured deposits, the Bank periodically evaluates the stability of the correspondent financial institutions.

Investment Securities:

Professional standards require the Bank to recognize all financial derivatives on the balance sheet at fair value. At June 30, 2017 and December 31, 2016, the Bank had no derivative instruments.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives. At June 30, 2017 and December 31, 2016, the Bank had no investment securities categorized as held-to-maturity.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity, net of the related deferred tax effect.

Securities held as trading assets are carried at fair value. At June 30, 2017 and December 31, 2016, the Bank had no investment securities categorized as trading.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income. Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the

TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) — CONTINUED

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted Equity Securities:

Restricted stock is stock from the Federal Home Loan Bank of Dallas, which is restricted as to its marketability.

Because no ready market exists for this stock and it has no quoted market value, it is carried at cost in the financial statements.

Loans:

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout the eastern region of Texas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

Loans, with the exception of mortgage loans held for sale, are stated at the amount of unpaid principal and reduced by an allowance for loan losses.

Mortgage loans held for sale are recorded at the lower of cost or market. Gains and losses on sales are computed on the basis of specific identification.

Interest on loans is accrued by using the simple interest method on daily balances of the principal amount outstanding. Loan origination and commitment fees are recognized as income when received. Direct loan origination costs are expensed when paid.

Included in the loans category are loans, which have been categorized by management as nonaccrual because collection of interest is doubtful. After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Allowance for Loan Losses:

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Bank uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the real estate portfolio; (ii) the consumer and credit card portfolio, and (iii) the commercial portfolio. The classes within the commercial portfolio segments are commercial loans that are unsecured and secured by personal property. The classes within the real estate portfolio segment are residential mortgage, home equity, home improvement, and commercial real estate. The classes within the consumer and credit card portfolio segment include credit card, direct/indirect consumer and other consumer loans. Under this accounting guidance, the allowance is presented by portfolio segment.

F-9

TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) — CONTINUED

## NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, Receivables, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In





TABLE OF CONTENTS

DIBOLL STATE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) — CONTINUED

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

addition, various regulatory agencies periodically review the allowance for loan losses. These agencies