SOUTHSIDE BANCSHARES CORP
Form 10-Q
May 15, 2001

1

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from ______________________ to __________________

Commission file number 0-10849

SOUTHSIDE BANCSHARES CORP.

(Exact name of registrant as specified in its charter)

MISSOURI	43-1262037
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3606 GRAVOIS AVENUE, ST. LOUIS, MISSOURI	63116
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (314) 776-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _______

At MAY 15, 2001, the number of shares outstanding of the registrant's common stock was 8,417,528.

SOUTHSIDE BANCSHARES CORP.

TABLE OF CONTENTS

3

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

March 31, 2001 and December 31, 2000

(dollars in thousands except per share data)
(unaudited)

ASSETS	MARCH 3 2001
Cash and due from banks	$ 15,7
Interest-bearing deposits in banks	3
Cash and cash equivalents	16,0
Federal funds sold	37,5
Investments in debt and equity securities:	
Available for sale, at fair value	168,9
Held to maturity, at amortized cost (fair value of $32,814 in 2001, and $36,660 in 2000)	32,2
Total investments in debt and equity securities	201,2
Loans, net of unearned discount	474,3
Less allowance for loan losses	5,3
Loans, net	469,0
Premises and equipment	16,9
Other assets	31,8
Total assets	$ 772,6
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Noninterest-bearing demand	$ 73,0
Interest-bearing demand and savings	231,9
Time deposits	309,1
Total deposits	614,0

Federal funds purchased	
Securities sold under agreements to repurchase	6,0
FHLB borrowings	70,9
Other borrowings	1,9
Debt of Employee Stock Ownership Plan	7
Other liabilities	6,8
Total liabilities	700,5
Commitments and contingent liabilities	
Shareholders' equity:	
Cumulative preferred stock, no par value, 1,000,000 shares authorized and unissued	
Common stock, $1 par value, 15,000,000 shares authorized, 8,985,378 shares issued in 2001 and 2000	8,9
Surplus	5,4
Retained earnings	63,4
Unearned Employee Stock Ownership Plan shares	(7
Treasury stock, at cost, 569,850 shares in 2001 and 591,850 shares in 2000	(6,1
Accumulated other comprehensive income (loss)	1,0
Total shareholders' equity	72,1
Total liabilities and shareholders' equity	$ 772,6

See accompanying notes to condensed consolidated financial statements.

3

4

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

Three months ended March 31, 2001 and March 31, 2000

(dollars in thousands except per share data)
(unaudited)

	THREE MONTHS ENDED	
	MARCH 31, 2001	MARCH 31, 2000

Interest income:		
Interest and fees on loans	$ 9,478	$ 8,284
Interest on investments in debt and equity securities:		
Taxable	2,642	2,973
Exempt from Federal income taxes	349	393
Interest on short-term investments	342	110
Total interest income	13,081	11,760
Interest expense:		
Interest on interest-bearing demand and savings deposits	1,679	1,773
Interest on time deposits	4,423	2,798
Interest on Federal funds purchased	52	31
Interest on securities sold under agreements to repurchase	78	75
Interest on FHLB borrowings	958	1,171
Interest on other borrowings	39	--
Interest on debt of Employee Stock Ownership Plan	18	22
Total interest expense	7,247	5,870
Net interest income	5,834	5,890
Provision for loan losses	159	81
Net interest income after provision for loan losses	5,675	5,809
Noninterest income:		
Trust fees	287	288
Service charges on deposit accounts	398	378
Gains on the sales of loans	76	2
Other	401	374
Total noninterest income	1,162	1,042
Noninterest expenses:		
Salaries and employee benefits	2,492	2,275
Net occupancy and equipment expense	683	679
Data processing	211	190
Other	1,289	1,362
Total noninterest expense	4,675	4,506
Income before income tax expense	2,162	2,345

Income tax expense	609	671
Net income	$ 1,553	$ 1,674
Share data:		
Earnings per common share - basic	$ .19	$ .20
Earnings per common share - diluted	$ .18	$ .20
Dividends paid per common share	$ .08	$ .08
Average common shares outstanding	8,263,280	8,408,318
Average common shares outstanding, including potentially dilutive shares	8,430,550	8,502,146

See accompanying notes to condensed consolidated financial statements.

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity
and Comprehensive Income

Three months ended March 31, 2001 and year ended December 31, 2000

(dollars in thousands except per share data)
(unaudited)

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	UNEARNED ESOP SHARES	TREASURY STOCK	C
Balance at December 31, 1999	$ 8,985	5,431	58,765	(988)	(4,335)	
Comprehensive income:						
Net income	--	--	6,487	--	--	
Change in net unrealized gain (loss) on available for sale securities, net of tax effect	--	--	--	--	--	
Total comprehensive income	--	--	6,487	--	--	
Cash dividends paid ($.32 per share)	--	--	(2,660)	--	--	
Allocation of 37,062 shares to ESOP participants	--	85	--	197	--	

Purchase of 200,100 common shares for treasury	--	--	--	--	(2,059)
Balance at December 31, 2000	8,985	5,516	62,592	(791)	(6,394)
Comprehensive income:					
Net income	--	--	1,553	--	--
Change in net unrealized gain (loss) on available for sale securities, net of tax effect	--	--	--	--	--
Total comprehensive income	--	--	1,553	--	--
Cash dividends paid ($.08 per share)	--	--	(661)	--	--
Allocation of 9,265 shares to ESOP participants	--	51	--	50	--
Exercise of 22,000 stock options	--	(99)	--	--	238
Balance at March 31, 2001	$ 8,985	5,468	63,484	(741)	(6,156)

See accompanying notes to condensed consolidated financial statements.

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2001 and March 31, 2000

(dollars in thousands)
(unaudited)

	2001
Cash flows from operating activities:	
Net income	$ 1,553
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	432
Provision for loan losses	159
Gains on sale of loans	(76)
Other operating activities, net	1,096
Originations of loans for sale	(6,460)
Proceeds from sale of loans	5,529

Net cash provided by operating activities	2,233
Cash flows from investing activities:	
Net increase in Federal funds sold	(21,211)
Proceeds from maturities of and principal payments on debt securities	20,569
Purchases of debt securities	(25,007)
Net increase in loans	(9,971)
Recoveries of loans previously charged off	34
Purchases of premises and equipment	(78)
Proceeds from sales of other real estate owned and other foreclosed property	--
Net cash used in investing activities	(35,664)
Cash flows from financing activities:	
Net increase in demand and savings deposits	13,463
Net increase (decrease) in time deposits	26,430
Net decrease in federal funds purchased	(5,750)
Net decrease in securities sold under agreements to repurchase	(1,916)
Proceeds from FHLB borrowings	--
Repayments of FHLB borrowings	(41)
Repayment of ESOP debt	(197)
Stock options exercised	139
Cash dividends paid	(661)
Net cash provided by financing activities	31,467
Net decrease in cash and cash equivalents	(1,964)
Cash and cash equivalents, beginning of period	17,998
Cash and cash equivalents, end of period	$ 16,034
Supplemental disclosures of cash flow information: Cash paid during the period for:	
Interest on deposits and borrowings	$ 7,084
Income taxes	200
Noncash transactions -	
Transfers to other real estate owned in settlement of loans	--

See accompanying notes to condensed consolidated financial statements.

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001 AND 2000
(unaudited)

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. For further information, refer to Southside Bancshares Corp.'s (the Company or Southside) Annual Report on Form 10-K for the year ended December 31, 2000. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

(2) SEGMENT INFORMATION

The responsibility for management of the subsidiary banks remains with the officers and directors of the respective banks. The financial performance of the Company is measured internally by subsidiary bank results and key performance measures. The following tables show the financial information of the Company's subsidiary banks, South Side National Bank in St. Louis (SSNB), State Bank of Jefferson County (SBJC), Bank of Ste. Genevieve County (BSG), and The Bank of St. Charles County (BSCC) for the three months ended March 31, 2001 and 2000. The "Other" column includes the Parent Company and all intercompany elimination entries.

	THREE MONTHS ENDED MARCH			
	SSNB	SBJC	BSG	BS
			(dollars in thousa	
Results of Operations:				
Net interest income	$ 3,753	$ 689	$ 902	$
Provision for loan losses	150	9	--	
Noninterest income	751	92	136	
Noninterest expense	2,914	485	423	
Income tax expense (benefit)	384	92	202	
Net income	1,056	195	413	
Average Balances:				
Loans	$310,366	$ 54,946	$ 58,358	$ 43
Assets	502,784	76,572	99,573	65
Deposits	376,926	67,342	86,565	59
Financial Ratios:				
Return on assets	0.84%	1.02%	1.66%	
Return on equity	9.33	11.90	15.79	1
Net interest margin	3.40	4.06	3.99	

	THREE MONTHS ENDED MARCH			
	SSNB	SBJC	BSG	BS
	(dollars in thousa			
Results of Operations:				
Net interest income	$ 3,743	$ 636	$ 946	$
Provision for loan losses	75	--	--	
Noninterest income	669	88	119	
Noninterest expense	2,782	464	444	
Income tax expense (benefit)	432	79	198	
Net income	1,123	181	423	
Average Balances:				
Loans	$248,278	$ 48,309	$ 56,522	$ 42
Assets	452,741	68,142	93,338	62
Deposits	321,691	58,812	81,288	56
Financial Ratios:				
Return on assets	0.99%	1.06%	1.81%	
Return on equity	11.18	11.89	17.65	1
Net interest margin	3.78	4.20	4.46	

ITEM 2.

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

GENERAL

This discussion is presented to provide an understanding of Southside Bancshares Corp. and subsidiaries (the "Company" or "Registrant") consolidated financial condition and the results of operations for the three months ended March 31, 2001 and 2000.

The Company's net income is derived primarily from the net interest income of its subsidiary banks. Net interest income is the difference (or spread) between the interest income the subsidiary banks receive from their loan and investment portfolios and their cost of funds, consisting primarily of the interest paid on deposits and borrowings. Net income is also affected by the levels of provisions for loan losses, noninterest income, and noninterest expense.

Statements contained in this Report and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made with the approval of an authorized executive officer which are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended). Such statements are based on management's beliefs, and assumptions made by and information currently available to management, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those currently anticipated or projected. When used in the Company's documents or oral presentations, the words "anticipates," "believes," "estimates," "expects," "intends," "forecasts," "plan," "projects," and similar expressions are intended to identify such forward-looking statements. There can be no assurance that such forward-looking statements will in fact transpire. The following important factors, risks and uncertainties, among others, could cause actual results to differ materially from such forward-looking statements: (1) credit risk, (2) interest rate risk, (3) competition, (4) changes in the regulatory environment and (5) changes in general business and economic trends. The foregoing list should not be construed as exhaustive and the Company disclaims any obligation to subsequently update or revise any forward-looking statements after the date of this Report.

Item 2. (continued)

FINANCIAL HIGHLIGHTS
COMPARISON OF SELECTED FINANCIAL DATA
(dollars in thousands except per share data)

	THREE MONTHS ENDED MARCH 31, 2001	TWELVE E DECEMBE
Earnings:		
Total interest income	$ 13,081	
Total interest expense	7,247	
Net interest income	5,834	
Provision for loan losses	159	
Net interest income after provision for loan losses	$ 5,675	
Net income	$ 1,553	
Share Data:		
Earnings per common share:		
Basic	$ .19	
Diluted	.18	
Dividends paid per common share	.08	
Book value(1)	8.71	
Tangible book value(1)	8.31	
Shares outstanding (period-end)(1)	8,415,528	8,3
Average shares outstanding	8,263,280	8,3
Average shares outstanding, including potentially dilutive shares	8,430,550	8,4

Financial Position:		
Total assets	$ 772,658	7
Total deposits	614,087	5
Total loans, net of unearned discount	474,330	4
Allowance for loan losses	5,318	
Short-term borrowings	6,036	
FHLB borrowings	70,906	
Other borrowings	1,900	
Debt of Employee Stock Ownership Plan	791	
Total shareholders' equity	72,122	

SELECTED RATIOS

The table below summarizes various selected ratios as of the end and for the periods indicated.

	THREE MONTHS ENDED MARCH 31, 2001(2)	TWELVE MO ENDED DECEMBER 31
Loan-to-deposit ratio	77.24%	80.71%
Allowance for loan losses to total loans	1.12	1.12
Dividend payout ratio	42.11	41.03
Return on average assets	.83	.92
Return on average shareholders' equity	8.81	9.76
Net interest margin on average interest-earning assets	3.51	3.76
Average shareholders' equity to average total assets	9.39	9.37
Tier I leverage capital to adjusted total consolidated assets less intangibles	9.05	9.15
Tier I capital to risk-weighted assets	12.98	13.66
Total capital to risk-weighted assets	14.00	14.72

(1) Shares outstanding at March 31, 2001, December 31, 2000 and March 31, 2000 include 138,982, 148,248, 176,044 shares, respectively, held by the ESOP which have not been allocated to participants' accounts and thus are not considered outstanding for purposes of computing book value and tangible book value per share. These unallocated shares are also excluded from the average shares outstanding used to compute earnings per common share.

(2) Statistical information is annualized where applicable.

Item 2. (continued)

FINANCIAL POSITION

Total consolidated assets of the Company have increased $35,231,000 during the first quarter of 2001 to $772,658,000 at March 31, 2001 compared to

$737,427,000 at December 31, 2000. In addition, total assets of the Company have increased $82,631,000, or 12%, over the past twelve months. The Company's strategic business plan includes growth as one of the Company's priorities, and over the past several quarters, the Company has experienced significant growth in loans, deposits and total assets.

LOAN PORTFOLIO

The Company's loan portfolio consists of business loans to small and medium size companies, commercial, construction and residential real estate loans, and consumer loans. Traditionally, the majority of the loan portfolio has focused on real estate as an integral component of a credit's underlying source of collateral. The following table is a breakdown of the Company's loan portfolio as of the end of the periods indicated.

	MARCH 31, 2001	DECEMBER 31, 2000	M
		(in thousands)	
Commercial, financial and agricultural	$ 80,325	78,586	
Real estate-commercial	170,818	157,771	
Real estate-construction	28,091	28,808	
Real estate-residential	158,241	161,252	
Consumer	26,642	27,189	
Other loans	10,213	9,800	
	$474,330	463,406	

The Company's loan portfolio totaled $474,330,000 at March 31, 2001, which represents an increase of $10,924,000 or 2.36%, since December 31, 2000, and an increase of $69,009,000 or 17.03%, over the past twelve months. These increases in the loan portfolio were the result of the Company continuing to execute elements of its strategic business plan, as the Company's banking subsidiaries continue to attract customers who are dissatisfied with the service level of the area's larger financial institutions. The decrease in residential real estate loans can be attributed to the drop in interest rates during 2001. In contrast to 2000 when the majority of the residential real estate loan customers were opting for adjustable rate mortgage products, some of those same customers are now refinancing their adjustable rate mortgages into longer term fixed rate mortgage products, which are sold into the secondary market.

SUMMARY OF ALLOWANCE FOR LOAN LOSSES

	THREE MONTHS ENDED MARCH 31, 2001	TWELVE MONTHS ENDED DECEMBER 31, 2000	THR MAR
		(in thousands)	
Balance at beginning of period	$ 5,179	5,830	
Provision charged to expense	159	361	
Loans charged off	(54)	(1,487)	
Recoveries	34	475	

Balance at end of period	$ 5,318	5,179

Item 2. (continued)

The balance of the allowance for loan losses increased by $139,000 during the first quarter of 2001. The increase in the allowance was due to the fact that net charge offs for the quarter were $20,000, and the Company recorded a provision for loan losses of $159,000. Based upon the Company's internal analysis of the adequacy of the allowance for loan losses, management of the Company believes the level is adequate to cover probable losses inherent in the loan portfolio under current conditions. The ratio of allowance for loan losses as a percentage of total loans was 1.12% as of March 31, 2001 compared to 1.12% and 1.19% at December 31, 2000 and March 31, 2000.

NONPERFORMING ASSETS

	MARCH 31, 2001	DECEMBER 31, 2000	MA
	(dollars in thousands)		
Nonaccrual loans	$4,602	4,200	
Loans past due 90 days or more and still accruing interest	143	339	
Total nonperforming loans	4,745	4,539	
Other real estate owned	1,574	1,597	
Total nonperforming assets	$6,319	6,136	
Ratios:			
Total nonperforming loans as % of total loans	1.00%	0.98%	
Nonperforming assets as % of total loans and other real estate owned	1.33	1.32	
Nonperforming assets as % of total assets	.82	.83	
Allowance for loan losses as a % of nonperforming loans	112.08	114.10	

Nonperforming assets totaled $6,319,000 or .82% of total assets at March 31, 2001 compared to $6,136,000 or .83% and $5,296,000 or .77% at December 31, 2000 and March 31, 2000, respectively. Nonaccrual loans increased $402,000 during the first quarter of 2001 and accounted for the majority of the increase in nonperforming assets.

A loan is reported as impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's loan policy generally requires that a credit meeting the above criteria be placed on nonaccrual status. Additionally, loans, which are past due more than 90 days as to payment of principal or interest, are also considered to be impaired. These loans are included in the total of nonperforming assets.

Loans past due less than 90 days are generally not considered impaired; however, a loan which is current as to payments may be determined by management to demonstrate some of the characteristics of an impaired loan. In these cases, the loan is classified as impaired while management evaluates the appropriate course of action. The Company's primary basis for measurements of impaired loans is the collateral underlying the identified loan.

Any loans classified for regulatory purposes, but not included above in nonperforming loans, do not represent material credits about which management is aware of any information which causes management to have serious doubts as to the borrower's ability to comply with the loan repayment terms or which management reasonably expects will materially impact future operating results or capital resources. As of March 31, 2001, there were no concentrations of loans exceeding 10% of total loans, which were not disclosed as a category of loans, detailed on page 10.

INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities have increased $6,760,000 since December 31, 2000, due in large part to the deposit growth experienced during the year. With additional loan growth and some certificate of deposit runoff expected during 2001, management anticipates the investment portfolio may decline through investment security maturities and paydowns on mortgage-backed securities.

DEPOSITS

Total deposits increased $39,893,000 during the first quarter of 2001, due largely to a decision made during 2000 to replace short-term borrowed funds, used to fund loan growth, with certificates of deposit. The increase in time deposits during the first quarter of 2001 was $26,430,000. Management continues to monitor the rates being offered, the impact of the deposits on rate sensitivity and the extent to which we are able to cross-sell additional products and services to new time deposit customers. In addition, interest-bearing demand and savings accounts also increased during the first quarter by $17,583,000. Much of this increase can be attributed to the volatility in the stock market during the first quarter and customers' desire to increase their cash positions.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (REPOs) decreased $1,916,000 during 2001. The majority of the Company's REPOs are used by larger commercial customers as a daily cash management tool, therefore, depending on their individual liquidity positions, the balances in these accounts can vary considerably.

FEDERAL HOME LOAN BANK (FHLB) BORROWINGS

FHLB borrowings are used by the Company for a variety of purposes.

Approximately $48,000,000 of the borrowings has been used to fund leveraged strategies, whereby the Company borrowed funds and used the proceeds to purchase investment securities. The yield on the investments exceeds the borrowing cost and provides the Company with additional net interest income. Approximately $1,750,000 of the borrowings has been used by one of the Company's subsidiary banks to fund longer-term fixed rate residential real estate loans. The remaining $21,000,000 is used by the Company to meet short-term liquidity needs.

OTHER BORROWINGS

The $1,900,000 balance in this category represents borrowings from an unaffiliated financial institution under a $5 million line of credit. The line of credit was established to provide the resources necessary to fund the Company's stock repurchase plan announced during the third quarter of 2000. The plan authorizes the Company to repurchase a total of 430,000 common shares or 5% of the Company's outstanding shares. To date, the Company has repurchased 200,100 common shares under the repurchase program at an average cost of $10.29 per common share.

DEBT OF EMPLOYEE STOCK OWNERSHIP PLAN

The decrease in the debt of the Employee Stock Ownership Plan was due to the annual principal reduction on the loan, which is paid in March each year.

ASSET/LIABILITY MANAGEMENT

As reflected on the Repricing and Interest Rate Sensitivity Analysis on the following page, the Company has a reasonably well-balanced interest rate sensitivity position. The Company's current one-year cumulative gap is 0.96x. Management believes a one-year cumulative gap ratio in a range of 0.80x - 1.20x indicates an entity is not subject to undue interest rate risk. A one-year cumulative gap ratio of 1.00x indicates that an institution has an equal amount of assets and liabilities repricing within twelve months. A ratio in excess of 1.00x indicates more assets than liabilities will be repriced during the period indicated, and a ratio less than 1.00x indicates more liabilities than assets will be repriced during the period indicated. However, actual experience may differ because of the assumptions used in the allocation of deposits and other factors, which are beyond management's control. Among the significant assumptions used in preparing the Repricing and Interest Rate Sensitivity Analysis is that interest-bearing demand and savings deposits are not 100% rate sensitive within the period of three months or less. As a result, these deposits are allocated between the repricing categories based on historical analyses performed by the Company's subsidiary banks. In addition, FHLB borrowings are categorized based on the first available call date of the individual borrowings versus their final maturity.

Additionally, the following analysis includes the available-for-sale securities spread throughout their respective repricing and/or maturity horizons, even though such securities are available for immediate liquidity should the need arise in any particular time horizon.

REPRICING AND INTEREST RATE SENSITIVITY ANALYSIS

	MARCH 31, 2001			
	3 MONTHS OR LESS	OVER 3 MONTHS THROUGH 12 MONTHS	OVER 1 YEAR THROUGH 5 YEARS	OVER 5 YEA
	(dollars in thousands)			
Interest-earning assets:				
Interest-bearing deposits in banks	$ 325	--	--	
Federal funds sold	37,594	--	--	
Investments available-for-sale	28,924	20,250	71,547	48,
Investments held-to-maturity	5,888	6,973	8,670	10,
Loans, net of unearned discount (1)	285,515	45,565	127,194	16,
Total interest-earning assets	358,246	72,788	207,411	75,
Cumulative interest-earning assets	358,246	431,034	638,445	713,
Interest-bearing liabilities:				
Interest-bearing demand deposits	71,608	45,118	41,357	15,
Savings deposits	16,467	14,651	21,129	6,
Time deposits under $100,000	56,231	146,788	50,659	
Time deposits $100,000 and over	16,268	34,180	4,840	
Securities sold under agreements to repurchase	6,036	--	--	
FHLB borrowings	30,000	8,000	31,152	1,
Other borrowings	--	1,900	--	
Debt of Employee Stock Ownership Plan	--	--	791	
Total interest-bearing liabilities	196,610	250,637	149,928	23,
Cumulative interest-bearing liabilities	196,610	447,247	597,175	620,
Gap analysis:				
Interest sensitivity gap	$161,636	(177,849)	57,483	51,
Cumulative interest sensitivity gap	$161,636	(16,213)	41,270	92,
Cumulative gap ratio of interest-earning assets to interest-bearing	1.82x	0.96x	1.07x	1.

(1) Nonaccrual loans are reported in the "Over 1 year through 5 years" column.

CAPITAL RESOURCES

The regulatory capital guidelines require banking organizations to maintain a minimum total capital ratio of 8% of risk-weighted assets (of which at least 4% must be Tier I capital). The Company's total capital ratios under the risk-weighted guidelines were 14.00%, 14.72% and 15.97% as of March 31, 2001, December 31, 2000, and March 31, 2000, respectively, which included Tier I capital ratios of 12.98%, 13.66%, and 14.87%, respectively. These ratios are well above the minimum risk-weighted capital requirements.

In addition, the Company and its subsidiary banks must maintain a minimum Tier I leverage ratio (Tier I capital to total adjusted consolidated assets) of at least 3%. Capital, as defined under these guidelines, is total shareholders' equity less goodwill and excluding unrealized gains and losses on available-for-sale securities of the Company. The Company's Tier I leverage ratios were 9.05%, 9.15%, and 9.61% at March 31, 2001, December 31, 2000, and March 31, 2000, respectively. As of March 31, 2001, all of the Company's subsidiary banks were well capitalized under the regulatory framework for prompt corrective action.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Net income was $1,553,000 for the three months ended March 31, 2001 compared to $1,674,000 for the three months ended March 31, 2000, which represents a $121,000 or a 7% decrease over the prior year. The decrease in first quarter earnings can be attributed to a combination of factors. First, net interest income declined $56,000 on a quarter comparison due to the sharp decline in interest rates during the first quarter. These rate cuts caused the prime-lending rate to decrease 150 basis points during the quarter. Commercial and home equity loans tied to the prime-lending rate and yields on Federal funds sold are adjusted downward instantaneously with these interest rate cuts; however, deposits and borrowing costs typically adjust over time as deposits and borrowings mature and interest rates on transaction and savings deposits are gradually changed to reflect the current interest rate environment. Second, in light of the Company's continued growth, the provision for loan losses increased $78,000 in the first quarter of 2001 compared to the prior year first quarter. Finally, noninterest expense was $169,000 higher in the first quarter of 2001 compared to 2000.

Basic and diluted earnings per common share were $.19 and $.18, respectively, for the first quarter of 2001, compared to $.20 and $.20 for the first quarter of 2000, respectively. Net income for the first quarter of 2001 resulted in an annualized return on average assets (ROA) of .83% compared to .98% in the first quarter of 2000, and an annualized return on average shareholders' equity (ROE) of 8.81% compared to 10.34% the first quarter of 2000.

NET INTEREST INCOME

As reflected in the Condensed Consolidated Average Balance Sheets and

Average Interest Rates table on the following page, net interest income on a tax-equivalent basis decreased by $63,000 in the first quarter of 2001 when compared to the first quarter of 2000. Net interest income decreased because the yield on average earnings assets remained relatively unchanged, but the Company's cost of funds increased 49 basis points to 4.81 percent. This increase in the cost of funds more than offset the additional interest income generated by a $69,095,000 increase in average-earning assets. Much of the asset growth over the past three quarters was funded through an 11-month certificate of deposit promotion. When the prime-lending rate dropped 150 basis points during the first quarter 2001, it caused a very narrow interest margin when matched against the rates offered during the promotion. The deposits will begin to mature during the third quarter of this year. As these deposits reprice in the current interest rate environment, it is expected to provide the Company with some relief from the downward pressure on the net interest margin.

Item 2. (continued)

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

CONDENSED CONSOLIDATED AVERAGE BALANCE SHEET AND AVERAGE INTEREST RATES

	THREE MONTHS ENDED			
	2001			
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATES EARNED/ PAID(3)	
			(dollars in th	
Loans, net of unearned discount (1) (2) (3)	$ 467,07	$ 9,796	8.39%	$
Investments in debt securities:				
Taxable(4)	169,284	2,642	6.24	
Exempt from Federal income tax (3) (4)	28,646	529	7.38	
Short-term investments	25,826	342	5.30	
Total interest-earning assets/interest income/overall yield (3)	690,829	13,309	7.71	
Allowance for loan losses	(5,209)			
Cash and due from banks	16,763			
Other assets	48,992			
Total assets	$ 751,375			$
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing demand and savings deposits	$ 222,502	1,679	3.02%	$

Time deposits	296,309	4,423	5.97
Short-term borrowings	9,651	130	5.39
FHLB borrowings	70,934	958	5.40
Other borrowings	1,900	39	8.21
Debt of Employees Stock Ownership Plan	960	18	7.50
Total interest-bearing liabilities/interest-expense/overall rate	602,256	7,247	4.81
Non-interest-bearing demand deposits	71,562		
Other liabilities	7,037		
Shareholders' equity	70,520		
Total liabilities and shareholders' equity	$ 751,375		
Net interest income		$ 6,062	
Net interest margin on average interest-earning assets			3.51%

(1) Interest income includes loan origination fees.
(2) Average balance includes nonaccrual loans.
(3) Interest yields are presented on a tax-equivalent basis. Nontaxable income has been upwardly adjusted by the amount of Federal income tax that would have been paid if the income had been taxable at a rate of 34%, adjusted downward by the disallowance of the interest cost to carry nontaxable loans and securities.
(4) Includes investments available-for-sale.

Item 2. (continued)

PROVISION FOR LOAN LOSSES

The provision for loan losses increased to $159,000 during the first quarter of 2001 from $81,000 in 2000. The increase in the provision for loan losses was largely due to the significant loan growth achieved over the past several quarters resulting in increased risk. With additional loan growth projected in 2001, management anticipates that a larger provision for loan losses, as compared to the prior year, will continue throughout the year. Based on the Company's analysis of the adequacy of the allowance for loan losses, management determined it was appropriate to increase the provisions for loan losses in 2001. Management will continue to assess the adequacy of the allowance for loan losses on a regular basis throughout the year.

NONINTEREST INCOME

Noninterest income increased $120,000 during the first quarter of 2001 in comparison to the first quarter of the prior year. The increase was due in large part to a $74,000 increase in the gains on sales of loans. As mentioned previously, with the decrease in interest rates during the first quarter, the

Company experienced a shift in customer preference from adjustable rate loan products to fixed rate mortgage loan products, which are sold into the secondary market. The increase in these gains is directly the result of a significant increase in the volume of loans being sold into secondary market. In addition, increases in service charge and other revenue contributed to the increase in noninterest income.

NONINTEREST EXPENSE

Noninterest expense increased $169,000 during the first quarter of 2001 in comparison to the first quarter of 2000. The increase was mainly the result of a $217,000 increase in salaries and employee benefits, which was partially offset by a $73,000 decrease in other expense. The increase in salaries and employee benefits was due in part to normal increases, as well as, increased health insurance costs and higher personnel costs resulting from an extremely tight labor market, which forced the Company to make salary adjustments to attract and retain qualified employees. The decrease in other expenses was due to small decreases in a variety of normal operating expenditures.

INCOME TAXES

Income tax expense for the first quarter of 2001 was $609,000 compared to $671,000 in the first quarter of 2000. The Company's combined Federal and state effective tax rate decreased slightly to 28.17% in 2001, compared to 28.61% in 2000. The Company's effective tax rate is impacted by tax-exempt loan and security income, income generated by the company-owned life insurance, which is exempt from Federal and state income taxes and Federal and state tax credits associated with the Company's investment in low- and moderate-income housing projects.

SUBSEQUENT EVENT

On April 30, 2001, the Company and Allegiant Bancorp, Inc., a Missouri corporation ("Allegiant"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Allegiant will acquire the Company. The acquisition is structured as the merger (the "Merger") of Allegiant with and into the Company, with the Company as the surviving corporation (the "Surviving Corporation") in the Merger. Although the Merger is expected to be completed during the fourth quarter, there can be no assurance that the Merger will be completed.

In accordance with the terms of the Merger Agreement in connection with the Merger:

- each share of the Company's common stock, par value $1.00 per share, and the associated preferred share purchase rights under the Company's Rights Agreement, dated May 27, 1993, (together, the "Southside Common Stock"), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") shall be converted into the right to receive either: (i) $14.00 in cash; (ii) 1.39 shares of common stock in the Surviving

Corporation, par value $0.01 per share ("Surviving Corporation Common Stock"); or (iii) a combination of cash and shares of Surviving Corporation Common Stock calculated in accordance with the formula set forth in the Merger Agreement (collectively, the

"Southside Merger Consideration"); and

- each share of Allegiant common stock, par value $0.01 per share (the "Allegiant Common Stock"), issued and outstanding immediately prior to the Effective Time shall be converted into one share of Surviving Corporation Common Stock.

Pursuant to the terms of the Merger Agreement, each shareholder of the Company will elect what proportion of cash and Surviving Corporation Common Stock such shareholder desires to receive in exchange for such shareholder's shares of Company Common Stock (the "Shareholder Election"); provided that each such Shareholder Election is subject to reallocation in accordance with the formula set forth in the Merger Agreement to ensure that the aggregate Southside Merger Consideration payable to the Company's shareholders will be comprised of 50% cash and 50% stock.

Consummation of the Merger is subject to various conditions, including: (i) approval of the Merger Agreement and the Merger by the shareholders of the Company and Allegiant; (ii) receipt of requisite regulatory approvals from the Board of Governors of the Federal Reserve System and other federal and state regulatory authorities as necessary; (iii) receipt by each of the Company and Allegiant of an opinion of counsel in reasonably satisfactory form as to the tax treatment of certain aspects of the Merger; (iv) the registration pursuant to the Securities Act of 1933, as amended (the "Act"), of the shares of Surviving Corporation Common Stock to be issued in the Merger; and (v) satisfaction of other customary conditions included in the Merger Agreement.

The Merger Agreement and the transactions contemplated thereby will be submitted for approval at meetings of the shareholders of the Company and Allegiant, respectively. The Company will file a registration statement with the Securities and Exchange Commission registering under the Act the shares of Surviving Corporation Common Stock to be issued in the Merger. The shares of Surviving Corporation Common Stock will be offered to the Company's shareholders pursuant to a prospectus that will also serve as a proxy statement for the shareholders' meetings.

As a result of the Company and Allegiant entering into the Merger Agreement, all of the conditions to the Company's previously announced tender offer to purchase 1,100,000 shares of its common stock, which commenced on January 9, 2001, were not satisfied, and, therefore, the Company determined to terminate the tender offer on May 1, 2001. The Company instructed its exchange agent for the tender offer to promptly return all shares of its common stock tendered pursuant to the tender offer and not withdrawn.

EFFECT OF NEW ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, which was issued in June 1998, establishes accounting and reporting standards for derivative instruments and hedging activities. Under SFAS 133, derivatives are recognized on the balance sheet at fair value as an asset or liability. Changes in the fair value of derivatives are reported as a component of other comprehensive income or recognized as earnings through the income statement depending on the nature of the instrument. In June 1999, the FASB issued SFAS 137 - Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133, which defers the effective date of SFAS 133 from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. Initial application should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated and documented pursuant to the provisions of SFAS 133, as amended. Earlier application of all of the provisions is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after the issuance date of SFAS 133, as amended. Additionally, SFAS 133, as amended should not be applied retroactively to financial statements of prior periods. In June 2000, the FASB issued SFAS No. 138 - Accounting for

Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, which addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133, as amended. SFAS 138 amends the accounting and reporting standards of SFAS 133, as amended, for certain derivative instruments, certain hedging activities and for decisions made by the FASB relating to the Derivatives Implementation Group (DIG) process. The adoption of SFAS 133 did not have a material impact on the financial condition and results of operations of the Company. The Company generally does not utilize deriviative instruments in its interest rate management process.

COMMON STOCK - MARKET PRICE AND DIVIDENDS

The table below sets forth the high, low and closing bid prices of the Company's common stock for the periods presented. The Company's common stock is traded on the National Association of Securities Dealers Automated Quotation System/Small-Cap Market System ("NASDAQ/SCM") under the symbol SBCO. Accordingly, information included below represents the high and low bid prices of the common stock reported on NASDAQ/SCM.

	HIGH BID	LOW BID	CLOSE	BOOK VALUE	MARKET/ BOOK
1st Quarter - 2001	$ 11.50	$ 7.375	$ 10.875	$ 8.71	124.86
4th Quarter - 2000	8.50	6.875	7.375	8.42	87.59
3rd Quarter - 2000	10.00	7.375	8.00	8.08	99.01
2nd Quarter - 2000	9.25	6.50	7.438	7.91	94.03
1st Quarter - 2000	10.00	7.50	7.625	7.75	98.39

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

There have been no material changes from the information provided in the December 31, 2000 Annual Report on Form 10-K.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company had certain routine lawsuits pending at March 31, 2001. In the opinion of management, after consultation with legal counsel, none of these lawsuits will have a material adverse effect on the consolidated financial condition of the Company.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

On May 8, 2001, the Company filed a report on Form 8-K, which included the Agreement and Plan of Merger between Southside Bancshares Corp. and Allegiant Bancorp dated April 30, 2001.

SIGNATURES

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

SOUTHSIDE BANCSHARES CORP.

May 15, 2001	/s/ Thomas M. Teschner
	Thomas M. Teschner President (Principal Executive Officer)
May 15, 2001	/s/ Joseph W. Pope
	Joseph W. Pope Senior Vice President and Chief Financial Officer (Principal Financial Officer, Controller, and Principal Accounting Officer)