SOUTHSIDE BANCSHARES CORP
Form 10-Q
August 14, 2001

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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 June 30, 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 AUGUST 13, 2001, the number of shares outstanding of the registrant's common stock was 8,444,528.

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SOUTHSIDE BANCSHARES CORP.

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SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

June 30, 2001 and December 31, 2000

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

	JUNE 30, 2001	DE
ASSETS		
Cash and due from banks	$ 18,929	$
Interest-bearing deposits in banks	2,623	
Cash and cash equivalents	21,552	
Federal funds sold	31,979	
Investments in debt and equity securities:		
Available for sale, at fair value	174,912	
Held to maturity, at amortized cost (fair value of $26,947 in 2001, and $36,660 in 2000)	26,437	
Total investments in debt and equity securities	201,349	
Loans, net of unearned discount	477,491	
Less allowance for loan losses	5,402	
Loans, net	472,089	
Premises and equipment	16,835	
Other assets	31,916	
Total assets	$ 775,720	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 74,258	$
Interest-bearing demand and savings	225,179	
Time deposits	313,742	
Total deposits	613,179	
Federal funds purchased	2,000	
Securities sold under agreements to repurchase	7,470	
FHLB borrowings	70,861	
Other borrowings	1,600	
Debt of Employee Stock Ownership Plan	791	
Other liabilities	6,786	
Total liabilities	702,687	
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	8,985
Surplus	5,419
Retained earnings	64,011
Unearned Employee Stock Ownership Plan shares	(692)
Treasury stock, at cost, 540,850 shares in 2001 and 591,850 shares in 2000	(5,843)
Accumulated other comprehensive income (loss)	1,153
Total shareholders' equity	73,033
Total liabilities and shareholders' equity	$ 775,720

See accompanying notes to condensed consolidated financial statements.

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

Six and three months ended June 30, 2001 and June 30, 2000

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

	SIX MONTHS ENDED	
	2001	2000
Interest income:		
Interest and fees on loans	$ 19,564	$ 17,055
Interest on investments in debt and equity securities:		
Taxable	5,147	5,925
Exempt from Federal income taxes	703	766
Interest on short-term investments	735	211
Total interest income	26,149	23,957
Interest expense:		
Interest on interest-bearing demand and savings deposits	3,194	3,642
Interest on time deposits	8,976	5,773
Interest on Federal funds purchased	55	224
Interest on securities sold under agreements to repurchase	146	148
Interest on FHLB borrowings	1,923	2,387
Interest on other borrowings	70	--
Interest on debt of Employee Stock Ownership Plan	33	41
Total interest expense	14,397	12,215
Net interest income	11,752	11,742
Provision for loan losses	321	178

Net interest income after provision for loan losses	11,431	11,564	
Noninterest income:			
Trust fees	577	636	
Service charges on deposit accounts	824	791	
Gains on sales of loans	187	5	
Other	785	744	
Total noninterest income	2,373	2,176	
Noninterest expense:			
Salaries and employee benefits	5,062	4,637	
Net occupancy and equipment expense	1,394	1,352	
Data processing	408	370	
Other	3,060	2,824	
Total noninterest expense	9,924	9,183	
Income before income tax expense	3,880	4,557	
Income tax expense	1,136	1,224	
Net income	$ 2,744	$ 3,333	$
Share data:			
Earnings per common share - basic	$ .33	$ .40	$
Earnings per common share - diluted	$ .32	$ .39	$
Dividends paid per common share	$ .16	$ .16	$
Average common shares outstanding	8,278,457	8,412,951	
Average common shares outstanding, including potentially dilutive shares	8,482,200	8,490,416	

See accompanying notes to condensed consolidated financial statements.

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SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity
and Comprehensive Income

Six months ended June 30, 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
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 ($.32 per share)	--	--	(2,660)	--	--
Allocation of 37,062 shares to ESOP participants	--	85	--	197	--
Purchase of 200,100 common shares for treasury	--	--	--	--	(2,059)
Balance at December 31, 2000	8,985	5,516	62,592	(791)	(6,394)
Comprehensive income:					
Net income	--	--	2,744	--	--
Change in net unrealized gain (loss) on available for sale securities, net of tax effect	--	--	--	--	--
Total comprehensive income	--	--	2,744	--	--
Cash dividends paid ($.16 per share)	--	--	(1,325)	--	--
Allocation of 18,531 shares to ESOP participants	--	139	--	99	--
Exercise of 51,000 stock options	--	(236)	--	--	551
Balance at June 30, 2001	$ 8,985	5,419	64,011	(692)	(5,843)

(1) Includes changes in net unrealized gain (loss) on available-for-sale securities, net of tax effect of $1,590,000 and $70,000 in the first and second quarters of 2001, respectively.

See accompanying notes to condensed consolidated financial statements.

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SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2001 and June 30, 2000

(dollars in thousands)
(unaudited)

	2001
Cash flows from operating activities:	

Net income	$ 2,744
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	930
Provision for loan losses	321
Gains on sales of loans	(187)
Other operating activities, net	994
Originations of loans for sale	(14,184)
Proceeds from sale of loans	13,991
Net cash provided by operating activities	4,609
Cash flows from investing activities:	
Net increase in Federal funds sold	(15,596)
Proceeds from maturities of and principal payments on debt securities	37,968
Purchases of debt securities	(42,600)
Net increase in loans	(13,877)
Recoveries of loans previously charged off	74
Purchases of premises and equipment	(184)
Proceeds from sales of other real estate owned and other foreclosed property	--
Net cash used in investing activities	(34,215)
Cash flows from financing activities:	
Net increase in demand and savings deposits	7,915
Net increase in time deposits	31,070
Net (decrease) increase in federal funds purchased	(3,750)
Net decrease in securities sold under agreements to repurchase	(482)
Proceeds from FHLB borrowings	--
Repayments of FHLB borrowings	(86)
Repayments of other borrowings	(300)
Repayment of ESOP debt	(197)
Stock options exercised	315
Cash dividends paid	(1,325)
Net cash provided by financing activities	33,160
Net increase (decrease) in cash and cash equivalents	3,554
Cash and cash equivalents, beginning of period	17,998
Cash and cash equivalents, end of period	$ 21,552
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest on deposits and borrowings	$ 14,588
Income taxes	1,465
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

JUNE 30, 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 June 30, 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 six and three months ended June 30, 2001 and 2000, respectively. The "Other" column includes the parent Company and all intercompany elimination entries.

SIX MONTHS ENDED JUNE 30, 2001

(dollars in thousands)

	SSNB	SBJC	BSG	BSCC	
Results of Operations:					
Net interest income	$ 7,553	$ 1,391	$ 1,795	$ 1,116	$
Provision for loan losses	300	21	--	--	
Noninterest income	1,566	189	252	206	
Noninterest expense	5,897	981	854	732	
Income tax expense (benefit)	699	185	391	183	
Net income (loss)	2,223	393	802	407	
Average Balances:					
Loans	$314,689	$ 55,591	$ 59,578	$ 43,013	$
Assets	512,769	78,225	100,659	65,605	
Deposits	387,308	68,990	87,722	59,428	
Financial Ratios:					
Return on assets	.87%	1.00%	1.59%	1.24%	
Return on equity	9.64	11.97	15.14	14.03	
Net interest margin	3.35	3.99	3.90	3.75	

SIX MONTHS ENDED JUNE 30, 2000

	SSNB	SBJC	BSG	BSCC

			(dollars in thousands)		
Results of Operations:					
Net interest income	$ 7,424	$ 1,325	$ 1,867	$ 1,167	$
Provision for loan losses	150	6	--	22	
Noninterest income	1,416	186	222	196	
Noninterest expense	5,664	960	911	747	
Income tax expense (benefit)	758	168	377	191	
Net income (loss)	2,268	377	801	403	
Average Balances:					
Loans	$258,963	$ 50,259	$ 56,817	$ 42,499	$
Assets	459,905	70,710	93,374	62,453	
Deposits	324,302	60,985	81,388	56,743	
Financial Ratios:					
Return on assets	.99%	1.07%	1.72%	1.29%	
Return on equity	11.23	12.37	16.66	15.32	
Net interest margin	3.72	4.25	4.39	4.02	

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SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(unaudited)

	THREE MONTHS ENDED JUNE 30, 2001				
	SSNB	SBJC	BSG	BSCC	
			(dollars in thousands)		
Results of Operations:					
Net interest income	$ 3,800	$ 702	$ 893	$ 569	$
Provision for loan losses	150	12	--	--	
Noninterest income	815	97	116	105	
Noninterest expense	2,983	496	431	366	
Income tax expense (benefit)	315	93	189	96	
Net income (loss)	1,167	198	389	212	
Average Balances:					
Loans	$319,012	$56,236	$ 60,798	$ 42,623	$
Assets	522,754	79,878	101,745	65,521	
Deposits	397,690	70,638	88,879	59,316	
Financial Ratios:					
Return on assets	.89%	.9%	1.5%	1.2%	
Return on equity	9.95	12.03	14.50	14.43	
Net interest margin	3.30	3.92	3.81	3.59	

	THREE MONTHS ENDED JUNE 30, 2000				
	SSNB	SBJC	BSG	BSCC	

(dollars in thousands)

Results of Operations:					
Net interest income	$ 3,681	$ 689	$ 921	$ 580	$
Provision for loan losses	75	6	--	16	
Noninterest income	747	98	103	101	
Noninterest expense	2,882	496	467	376	
Income tax expense (benefit)	326	89	179	93	
Net income (loss)	1,145	196	378	196	
Average Balances:					
Loans	$269,648	$ 52,209	$ 57,112	$ 42,482	$
Assets	467,069	73,278	93,410	62,585	
Deposits	326,913	63,158	81,488	56,824	
Financial Ratios:					
Return on assets	.99 %	1.0%	1.6%	1.2%	
Return on equity	11.28	12.85	15.67	14.84	
Net interest margin	3.66	4.30	4.32	3.86	

(3) MERGER

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 close late in the third quarter of 2001, the Merger is subject to several conditions described below, and there can be no assurance as to whether the Merger will be completed and, if so, when.

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") will 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

SOUTHSIDE BANCSHARES CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001 and 2000
(unaudited)

-- 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 will 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 of an opinion of counsel in reasonably satisfactory form as to the tax treatment of certain aspects of the Merger; and (iv) 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, each to be held on September 12, 2001. The Company has filed a registration statement with the Securities and Exchange Commission registering under the Security Act of 1933 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.

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 six and three months ended June 30, 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.

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Item 2. (continued)

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

	SIX MONTHS ENDED JUNE 30, 2001	TWELVE MO ENDE DECEMBER 3
Earnings:		
Total interest income	$ 26,149	$ 49
Total interest expense	14,397	26
Net interest income	11,752	23
Provision for loan losses	321	
Net interest income after provision for loan losses	$ 11,431	$ 22
Net income	$ 2,744	$ 6
Share Data:		
Earnings per common share:		

Basic	$ .33	$
Diluted	.32	
Dividends paid per common share	.16	
Book value(1)	8.78	
Tangible book value(1)	8.39	
Shares outstanding (period-end)(1)	8,444,528	8,393
Average shares outstanding	8,278,457	8,363
Average shares outstanding, including potentially dilutive shares	8,482,200	8,437
Financial Position:		
Total assets	$ 775,720	$ 737
Total deposits	613,179	574
Total loans, net of unearned discount	477,491	463
Allowance for loan losses	5,402	5
Short-term borrowings	9,470	13
FHLB borrowings	70,861	70
Other borrowings	1,600	1
Debt of Employee Stock Ownership Plan	791	
Total shareholders' equity	73,033	69

SELECTED RATIOS

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

	SIX MONTHS ENDED JUNE 30, 2001(2)	TWELVE MONTHS ENDED DECEMBER 31,
Loan-to-deposit ratio	77.87%	80.71
Allowance for loan losses to total loans	1.13	1.12
Dividend payout ratio	48.48	41.03
Return on average assets	.72	.92
Return on average shareholders' equity	7.63	9.76
Net interest margin on average interest-earning assets	3.47	3.76
Average shareholders' equity to average total assets	9.41	9.37
Tier I leverage capital to adjusted total consolidated assets less intangibles	8.87	9.15
Tier I capital to risk-weighted assets	12.99	13.66
Total capital to risk-weighted assets	14.01	14.72

(1) Shares outstanding at June 30, 2001, December 31, 2000 and June 30, 2000 include 129,717, 148,248, 166,779 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.

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Item 2. (continued)

FINANCIAL POSITION

Total consolidated assets of the Company have increased $38,293,000 during the first six months of 2001 to $775,720,000 at June 30, 2001 compared to $737,427,000 at December 31, 2000. In addition, total assets of the Company have increased $64,728,000, or 9%, 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.

	JUNE 30, 2001	DECEMBER 31, 2000	JUNE 30, 2000
		(in thousands)	
Commercial, financial and agricultural	$ 83,188	78,586	76,386
Real estate-commercial	172,966	157,771	153,274
Real estate-construction	33,788	28,808	19,134
Real estate-residential	152,641	161,252	152,878
Consumer	26,313	27,189	25,390
Other loans	8,595	9,800	10,625
	$477,491	463,406	437,687

The Company's loan portfolio totaled $477,491,000 at June 30, 2001, which represents an increase of $14,085,000, or 3.04%, since December 31, 2000, and an increase of $39,804,000, or 9.09%, 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, which resulted in an increase in loans being refinanced and sold into the secondary market. 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

	SIX MONTHS ENDED JUNE 30, 2001	TWELVE MONTHS ENDED DECEMBER 31, 2000	SIX MONTHS ENDED JUNE 30, 2000
		(in thousands)	
Balance at beginning of period	$ 5,179	5,830	5,830

Provision charged to expense	321	361	178
Loans charged off	(172)	(1,487)	(1,379)
Recoveries	74	475	224
Balance at end of period	$ 5,402	5,179	4,853

Item 2. (continued)

The balance of the allowance for loan losses increased by $223,000 during the first six months of 2001. The increase in the allowance was due to the fact that net charge-offs for the first six months of 2001 were $98,000, and the Company recorded a provision for loan losses of $321,000. The decrease in charged-off loans during 2001, as compared to the prior year, was due to a $1.1 million commercial credit, which was charged off in the previous year. The Company has experienced no such significant charge-offs in the current year. 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 1.13% as of June 30, 2001 compared to 1.12% and 1.11% at December 31, 2000 and June 30, 2000, respectively.

NONPERFORMING ASSETS

	JUNE 30, 2001	DECEMBER 31, 2000	JUNE 30
	(dollars in thousands)		
Nonaccrual loans	$5,147	4,200	4,0
Loans past due 90 days or more and still accruing interest	138	339	
Total nonperforming loans	5,285	4,539	4,1
Other real estate owned	1,574	1,597	8
Total nonperforming assets	$6,859	6,136	5,0
Ratios:			
Total nonperforming loans as % of total loans	1.11%	.98%	.
Nonperforming assets as % of total loans and other real estate owned	1.43	1.32	1.
Nonperforming assets as % of total assets	.88	.83	.
Allowance for loan losses as a % of nonperforming loans	102.21	114.10	115.

Nonperforming assets totaled $6,859,000, or .88%, of total assets at June 30, 2001 compared to $6,136,000, or .83%, and $5,059,000, or .71%, at December 31, 2000 and June 30, 2000, respectively. Nonaccrual loans increased $947,000 during the first six months of 2001 and accounted for the majority of the increase in nonperforming assets. The increase in nonaccrual loans resulted from the addition of several smaller commercial and residential real estate credits to this category.

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.

Item 2. (continued)

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 June 30, 2001, there were no concentrations of loans exceeding 10% of total loans, which were not disclosed as a category of loans, detailed on page 12.

INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities have increased $6,904,000 since December 31, 2000, due in large part to the deposit growth experienced during the year. With certificate of deposit runoff expected during the remainder of 2001, management anticipates the investment portfolio may decline through investment security maturities and paydowns on mortgage-backed securities.

DEPOSITS

Total deposits increased $38,985,000 during the first six months 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 half of 2001 was $31,070,000. Management continues to monitor the rates being offered, the impact of the deposits on rate sensitivity and the extent to which the Company is 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 half of 2001 by $10,853,000. Much of this increase can be attributed to the volatility in the stock market during 2001 and customers' desire to increase their cash positions.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (REPOs) decreased $482,000 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 $300,000 decrease in other borrowings was due to a principal payment made on this debt during the second quarter of 2001. This borrowing from an unaffiliated financial institution under a $5 million 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 authorized the Company to repurchase a total of 430,000 common shares or 5% of the Company's outstanding shares. Under the Plan, the Company repurchased 200,100 common shares at an average cost of $10.29 per common share. Because of the Company's pending merger with Allegiant, there will be no further repurchases under this Plan.

Item 2. (continued)

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 0.93x. 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.

LIQUIDITY

During the second half of 2000, the Company began a short-term certificate of deposit promotion priced near the upper end of deposit pricing in its local markets. The program was initiated to reduce the Company's reliance on short-term borrowings and to provide liquidity to fund future loan growth. During the second quarter of 2001, in response to a slow-down in new loan generation and a significantly improved liquidity position, Company management ended the short-term certificate of deposit promotion. It is anticipated that as some of these deposits mature during the next several quarters, they will not be renewed by the depositors. Management will continue to monitor the impact of this certificate of deposit runoff on the Company's liquidity position and make adjustments to deposit pricing as appropriate to properly manage the Company's overall liquidity position.

Item 2. (continued)

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

	JUNE 30, 2001			
	3 MONTHS OR LESS	OVER 3 MONTHS THROUGH 12 MONTHS	OVER 1 YEAR THROUGH 5 YEARS	OVE 5 YE
	(dollars in thousands)			
Interest-earning assets:				
Interest-bearing deposits in banks	$ 2,623	--	--	
Federal funds sold	31,979	--	--	
Investments available-for-sale	23,783	28,545	80,810	41,
Investments held-to-maturity	3,128	5,488	7,122	10,
Loans, net of unearned discount(1)	300,244	41,964	119,369	15,
Total interest-earning assets	361,757	75,997	207,301	68,
Cumulative interest-earning assets	361,757	437,754	645,055	713,
Interest-bearing liabilities:				
Interest-bearing demand deposits	67,462	57,910	39,352	
Savings deposits	16,983	25,897	17,575	
Time deposits under $100,000	87,973	114,823	54,879	
Time deposits $100,000 and over	19,259	31,186	5,318	
Securities sold under agreements to repurchase and Federal funds Purchased	9,470	--	--	
FHLB borrowings	30,000	8,000	31,132	1,
Other borrowings	1,600	--	--	
Debt of Employee Stock Ownership Plan	--	--	791	

Total interest-bearing liabilities	232,747	237,816	149,047	2,
Cumulative interest-bearing liabilities	232,747	470,563	619,610	621,
Gap analysis:				
Interest sensitivity gap	$129,010	(161,819)	58,254	66,
Cumulative interest sensitivity gap	$129,010	(32,809)	25,445	91,
Cumulative gap ratio of interest- earning assets to interest-bearing	1.55x	0.93x	1.04x	1.

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

Item 2. (continued)

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 14.01%, 14.72% and 15.44% as of June 30, 2001, December 31, 2000, and June 30, 2000, respectively, which included Tier I capital ratios of 12.99%, 13.66%, and 14.39%, 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 8.87%, 9.15%, and 9.64% at June 30, 2001, December 31, 2000, and June 30, 2000, respectively. As of June 30, 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 $2,744,000 for the six months ended June 30, 2001 compared to $3,333,000 for six months ended June 30, 2000, which represents a $589,000 or a 18% decrease over the prior year. Net income for the second quarter of 2001 was $1,191,000 compared with $1,659,000 in the second quarter of the prior year, which represents a decrease of $468,000 or 28%. Both the first half and second quarter decline in earnings were largely the result of expenses related to the Company's pending merger with Allegiant Bancorp, Inc. These expenses resulted in a $460,000 reduction in both the first half and the second quarter net income. Excluding the effects of the merger related expenses, net income for the six months and quarter ended June 30, 2001 would have been $3,204,000 and $1,651,000, respectively.

Basic and diluted earnings per common share were $.33 and $.32, respectively, for the first six months of 2001, compared to $.40 and $.39 for the first six months of 2000, respectively, and $.14 and $.14, respectively, for the second quarter of 2001 compared to $.20 and $.19, respectively, for the second quarter of 2000. Net income for the first six months of 2001 resulted in an annualized return on average assets (ROA) of .72% compared to .96% in the first half of 2000, and an annualized return on average shareholders' equity (ROE) of 7.63% in 2001 compared to 10.17% in 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 $4,000 in the first half of 2001 when compared to the first six months of 2000. Net interest income decreased because the yield on average earnings assets decreased 17 basis points to 7.56% and the Company's cost of funds increased 27 basis points to 4.71 percent. This increase in the cost of funds and the decrease in the asset yield more than offset the additional interest income generated by a $71,720,000 increase in average-earning assets. Much of the asset growth over the past several quarters was funded through an 11-month certificate of deposit promotion. When the prime-lending rate dropped 275 basis points during the first half of 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

	SIX MONTHS ENDED JUNE 30,			
	2001			
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATES EARNED/ PAID(3)	AVERAGE BALANCE
		(dollars in thousands)		
Loans, net of unearned discount(1)(2)(3)	$ 472,871	19,659	8.31%	408,538
Investments in debt securities:				
Taxable(4)	169,937	5,147	6.06	185,463
Exempt from Federal income tax(3)(4)	28,879	1,065	7.38	30,883
Short-term investments	31,714	735	4.64	6,797
Total interest-earning assets/interest income/overall yield(3)	703,401	26,606	7.56%	631,681
Allowance for loan losses	(5,284)			(5,325)
Cash and due from banks	16,825			16,546
Other assets	49,088			49,526

Total assets	$ 764,030			692,428
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing demand and savings deposits	$ 225,581	3,194	2.83%	228,880
Time deposits	304,017	8,976	5.90	222,203
Short-term borrowings	8,314	201	4.84	14,121
FHLB borrowings	70,912	1,923	5.42	83,641
Other borrowings	1,825	70	7.67	--
Debt of Employees Stock Ownership Plan	880	33	7.50	1,087
Total interest-bearing liabilities/ interest - expense/overall rate	611,529	14,397	4.71%	549,932
Non-interest-bearing demand deposits	73,850			72,161
Other liabilities	6,759			4,788
Shareholders' equity	71,892			65,547
Total liabilities and shareholders' equity	$ 764,030			692,428
Net interest income		12,209		
Net interest margin on average interest-earning assets			3.47%	

(1) Interest income includes amortization of 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%.

(4) Includes investments available-for-sale.

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Item 2. (continued)

PROVISION FOR LOAN LOSSES

The provision for loan losses increased to $321,000 and $162,000 during the first half and second quarter of 2001, respectively, from $178,000 and $97,000, respectively, 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.

NONINTEREST INCOME

Noninterest income increased $197,000 during the first six months of 2001 in comparison to the same period in the prior year. The increase was due in large part to a $182,000 increase in the gains on sales of loans. As mentioned previously, with the decrease in interest rates during the first half of 2001, 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 the secondary market. Increases in service charge and other revenue were partially offset by a decline in trust revenue. The decrease in trust fees was largely due to poor performance in many segments of the stock market over the past several quarters. Because trust fees are tied to the asset value of the accounts being managed, stock market performance has a direct impact on trust revenue. Noninterest income during the second quarter of 2001 was $77,000 higher than the comparable period in 2000 because of the same factors, which affected noninterest income during the first half of the year.

NONINTEREST EXPENSE

Noninterest expense increased $741,000 and $572,000 during the first half and second quarter of 2001 in comparison to the first half and second quarter of 2000, respectively. Both the second quarter and first half increases were due mainly to increased personnel costs and attorney and professional fees associated with the Company's pending merger with Allegiant Bancorp. The increase in personnel costs are attributable to a combination of several factors: normal salary increases, increased health insurance cost, higher personnel costs resulting from a tight labor market, and increased employee benefit plan expense caused by the recent surge in the Company's stock price. Expenses relating to both the Employee Stock Ownership Plan as well as certain other deferred compensation plans are tied to the performance of the Company's common stock. In conjunction with the pending merger, the Company has incurred approximately $500,000 in attorney and other professional fees, some of which are nondeductible for federal income tax purposes. Excluding these expenses, other expense would be down for both the second quarter and the first half of the year due to a reduction in several categories of operating expenses.

INCOME TAXES

Income tax expense for the first half and second quarter of 2001 was $1,136,000 and $527,000, respectively, compared to $1,224,000 and $553,000, respectively, in the first half and second quarter of 2000. The Company's combined federal and state effective tax rate increased to 29.28% in 2001, compared to 26.86% in 2000. The increase in the effective tax rate was the result of the aforementioned merger related expenses, which are not deductible for income tax purposes.

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

Item 2. (continued)

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 derivative instruments in its interest rate management process.

In July 2001, the FASB issued SFAS 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations occurring after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company is required to adopt the provisions of SFAS 141 immediately and SFAS 142 effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142. As of the date of adoption, the Company had intangible assets, consisting primarily of goodwill, included in other assets in the consolidated balance sheets. Gross intangible assets totaled $5,190,000 at June 30, 2001 with accumulated amortization of $1,942,000, which will be subject to the transition provisions of SFAS 141 and SFAS 142.

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	MA B

2nd Quarter - 2001	$ 15.00	$ 10.87	$14.86	$ 8.78	16
1st Quarter - 2001	11.50	7.375	10.875	8.71	12
4th Quarter - 2000	8.50	6.875	7.375	8.42	8
3rd Quarter - 2000	10.00	7.375	8.00	8.08	9
2nd Quarter - 2000	9.25	6.50	7.438	7.91	9
1st Quarter - 2000	10.00	7.50	7.625	7.75	9

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 June 30, 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

The Company has changed its previously announced anticipated date of its Annual Meeting of Shareholders from April 26, 2001 to September 12, 2001. Southside shareholders will not be entitled to submit proposals for consideration at the Annual Meeting, except to the extent the proposals relate directly to the matters to come before the Annual Meeting, as set forth in joint proxy statement/prospectus delivered to the Company's shareholders in conjunction with the Annual Meeting. Southside's by-laws provide that shareholder proposals, which do not appear in the proxy statement, may be considered at a meeting of shareholders only if written notice of the proposal is received by the Secretary of the Company not less than 75 days prior to the date of any annual meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Agreement and Plan of Merger between Southside Bancshares Corp. And Allegiant Bancshares, Inc. dated as of April 30, 2001, as amended as of July 31, 2001, included in the Company's Registration Statement on Form S-4 (File No. 333-63212) is incorporated by reference.

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.

August 13, 2001	/s/ Thomas M. Teschner
	Thomas M. Teschner President and Chief Executive Officer (Principal Executive Officer)
August 13, 2001	/s/ Joseph W. Pope
	Joseph W. Pope Senior Vice President and Chief Financial Officer (Principal Financial Officer, Controller, and Principal Accounting Officer)