SOUTHSIDE BANCSHARES INC
Form 10-K405
March 15, 2001

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

Form 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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 0-12247

SOUTHSIDE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	75-1848732
(State of incorporation)	(I.R.S. Employer Identification No.)

1201 S. BECKHAM AVENUE, TYLER, TEXAS	75701
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
NONE	NONE

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

COMMON STOCK
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained,

to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 2, 2001, 7,499,916 shares of common stock of Southside Bancshares, Inc. were outstanding. The aggregate market value of common stock held by nonaffiliates of the registrant as of March 2, 2001 was $52,226,913.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's Proxy Statement to be filed for the Annual Meeting of Shareholders to be held April 19, 2001. (Part III)

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PART I

ITEM 1. BUSINESS

GENERAL

Southside Bancshares, Inc. (the "Company"), incorporated in Texas in 1982, is a bank holding company for Southside Bank (the "Bank" or "Southside Bank"), headquartered in Tyler, Texas. Tyler has a metropolitan area population of approximately 171,000 and is located approximately 90 miles east of Dallas, Texas and 90 miles west of Shreveport, Louisiana. The Bank has the largest deposit base in the Tyler metropolitan area and is the largest bank based on asset size headquartered in East Texas.

At December 31, 2000, the Company had total assets of $1.2 billion, total loans of $481.4 million, deposits of $720.6 million, and shareholders' equity of $51.7 million. The Company had net income of $9.8 million and $7.9 million and diluted earnings per share of $1.24 and $1.00 for the years ended December 31, 2000 and 1999, respectively. The Company has paid a cash dividend every year since 1970.

The Bank is a community-focused financial institution that offers a full range of financial services to individuals, businesses and nonprofit organizations in the communities it serves. These services include consumer and commercial loans, deposit accounts, trust services, safe deposit services and brokerage services.

The Bank's consumer loan services include 1-4 family residential mortgage loans, home improvement loans, automobile loans and other installment loans. The Bank began offering home equity loans in January 1998 when a new Texas law first permitting such loans took effect. Commercial loan services include short-term working capital loans for inventory and accounts receivable, short and medium-term loans for equipment or other business capital expansion and commercial real estate loans. The Bank also offers construction loans primarily for owner-occupied 1-4 family residential and commercial real estate.

The Bank offers a variety of deposit accounts having a wide range of interest rates and terms, including savings, money market, interest and noninterest bearing checking accounts and certificate accounts. The Bank's trust services include investment, management, administration and advisory services, primarily for individuals and, to a lesser extent, partnerships and corporations. At December 31, 2000, the Bank's trust department managed approximately $207 million of trust assets. Through its 25% owned securities brokerage affiliate, BSC Securities, L.C., the Bank offers full retail

investment services to its customers. In early 1997, the Company formed a consumer finance subsidiary, Countywide Loans, Inc. ("Countywide"), to provide basic financial services such as small loans, check cashing and money orders to individuals, which at December 31, 2000, had $.9 million in loans outstanding.

The Company and the Bank are subject to comprehensive regulation, examination and supervision by the Board of Governors of the Federal Reserve System (the "FRB"), the Texas Department of Banking (the "TDB") and the Federal Depository Insurance Corporation (the "FDIC"), and are subject to numerous laws and regulations relating to the extension of credit and making of loans to individuals.

The administrative offices of the Company are located at 1201 S. Beckham Avenue, Tyler, Texas 75701, and the telephone number is 903-531-7111. The Company's website can be found at www.southside.com.

MARKET AREA

The Company considers its primary market area to be all of Smith and Gregg Counties in East Texas, and to a lesser extent, portions of adjoining counties. During 1998 and 1999, the Bank opened three branches in Gregg County and one branch in Smith County. The Bank plans to open two additional branches in Lindale and Whitehouse, both in Smith County, which should open during 2001. The Company expects its presence in the Gregg County market area to increase in the future, however, the city of Tyler in Smith County presently represents the Company's primary market area.

The principal economic activities in the Company's market area include retail, distribution, manufacturing, medical services, education and oil and gas industries. Additionally, Tyler's industry base includes conventions and tourism, as well as retirement relocation. All of these support a growing regional system of medical service, retail and education centers. Tyler is home to several nationally recognized health care systems. Tyler hospitals represent all major specialties and employ over 6,500 individuals. In 1998, Target Stores opened a multi-state distribution center in the greater Tyler area along Interstate 20 that employs over 1,000 workers.

The Bank serves its markets through twelve full service branch locations, including seven branches located in grocery stores. The branches are located in and around Tyler and Longview. Several longtime Longview banking veterans joined the Bank to lead the Company in its expansion into the Longview market. The Company's television and radio advertising has extended into this market area for several years, providing the Bank name recognition in the greater Longview area.

The Bank also maintains four motor bank facilities and Countywide maintains one location. The Bank's customers may also access various banking services through 21 ATMs owned by the Bank and ATMs owned by others, through debit cards, and through the Bank's automated telephone, internet and electronic banking products. These products allow the Bank's customers to apply for loans, access account information and conduct various transactions from their telephones and computers.

LENDING ACTIVITIES

The Company's main objective is to seek attractive lending opportunities in East Texas, primarily in Smith and Gregg Counties. Substantially all of the

Bank's loans are made to borrowers who live in and conduct business in East Texas, with the exception of selected municipal loans. Total loans as of December 31, 2000 increased $94.0 million or 24.3% while the average balance was up $93.1 million or 27.3% when compared to 1999.

Real estate loans as of December 31, 2000 increased $53.7 million or 23.5% from December 31, 1999. Loans to individuals increased $12.3 million or 15.6% from December 31, 1999 and commercial loans increased $28.0 million or 35.1%.

The increase in real estate loans is due to a stronger real estate market and a strong commitment by the Company to residential mortgage lending. Commercial loans increased as a result of commercial growth in the Company's market area. Commercial loans also increased due to the growth of loans made to municipalities in Texas. Loans to individuals increased due to greater penetration in the Company's market area. In the portfolio, loans dependent upon private household income represent a significant concentration. Due to the number of customers involved who work in all sectors of the local economy, the Company believes the risk in this portion of the portfolio is adequately spread throughout the economic community.

The aggregate amount of loans that the Bank is permitted to make under applicable bank regulations to any one borrower, including related entities, is 25% of unimpaired certified capital and surplus. The Bank's legal lending limit at December 31, 2000 was $10 million. The Bank's largest loan relationship at December 31, 2000 was approximately $7.5 million.

The average yield on loans for the year ended December 31, 2000 increased to 8.45% from 8.28% for the year ended December 31, 1999. This increase was reflective of the repricing characteristics of the loans and the increase in lending rates during 2000.

LOAN PORTFOLIO COMPOSITION AND ASSOCIATED RISK

The following table sets forth loan totals net of unearned discount by category for the years presented:

	December 31,				
	2000	1999	1998	1997	1996
	(in thousands)				
Real Estate Loans:					
Construction	$ 25,108	$ 18,489	$ 10,509	$ 10,299	$ 7,
1-4 Family Residential	134,672	112,699	93,215	76,243	62,
Other	122,665	97,556	68,140	55,802	57,
Commercial Loans	107,711	79,722	67,977	61,972	51,
Loans to Individuals	91,279	78,980	79,882	91,719	79,
Total Loans	$ 481,435	$ 387,446	$ 319,723	$ 296,035	$ 258,

For purposes of this discussion, the Company's loans are divided into three categories: Real Estate Loans, Commercial Loans, and Loans to Individuals.

REAL ESTATE LOANS

Real estate loans represent the Company's greatest concentration of loans. However, the amount of risk associated with this group of loans is mitigated in part due to the type of loans involved. At December 31, 2000, the majority of the Company's real estate loans were collateralized by properties located in Smith and Gregg Counties. Of the $282.4 million in real estate loans, $134.7 million or 47.7% represent loans collateralized by residential dwellings that are primarily owner occupied. Historically, the amount of losses suffered on this type of loan has been significantly less than those on other properties. The Company's loan policy requires appraisal prior to funding any real estate loans and also outlines the requirements for appraisals on renewals.

Management pursues an aggressive policy of reappraisal on any real estate loan that becomes troubled and potential exposures are recognized and reserved for as soon as they are identified. However, the slow pace of absorption for certain types of properties could adversely affect the volume of nonperforming real estate loans held by the Company.

Real estate loans are divided into three categories: 1-4 Family Residential Mortgage Lending, Construction Loans and Commercial Real Estate Loans.

1-4 Family Residential Mortgage Lending

Residential loan originations are generated by the Company's in-house originations staff, marketing efforts, present customers, walk-in customers and referrals from real estate agents, mortgage brokers and builders. The Company focuses its lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, 1-4 family residences. Substantially all of the Company's 1-4 family residential mortgage originations are secured by properties located in Smith and Gregg Counties, Texas. Historically, the Company has sold a portion of its loan originations to secondary market investors pursuant to ongoing purchase commitments.

The Company's fixed rate 1-4 family residential mortgage loans generally have maturities ranging from five to 30 years. These loans are typically fully amortizing with monthly payments sufficient to repay the total amount of the loan or amortizing with a balloon feature, typically due in fifteen years or less.

The Company reviews information concerning the income, financial condition, employment and credit history when evaluating the creditworthiness of the applicant.

In November 1997, Texas voters approved a change to the Texas Constitution allowing home equity loans. The Company began offering this form of real estate lending beginning January 1, 1998 when the law became effective. At December 31, 2000, these loans totaled $17.9 million.

Construction Loans

The Company's construction loans are collateralized by property located

primarily in the Company's market area. The Company's emphasis for construction loans is directed toward properties that will be owner occupied. Occasionally, construction loans for projects built on speculation are financed, but these typically have substantial secondary sources of repayment. The Company's construction loans to individuals generally have fixed interest rates during the construction period. Construction loans to individuals are typically made in connection with the granting of the permanent loan on the property.

Commercial Real Estate Loans

In determining whether to originate commercial real estate loans, the Company generally considers such factors as the financial condition of the borrower and the debt service coverage of the property. Commercial real estate loans are made at both fixed and adjustable interest rates for terms generally up to 20 years. Commercial real estate loans primarily include commercial office buildings, retail, medical and warehouse facilities, hotels and churches. The majority of these loans, with the exception of those for hotels and churches, are collateralized by owner occupied properties.

COMMERCIAL LOANS

The Company's commercial loans are diversified to meet most business needs. Loan types include short-term working capital loans for inventory and accounts receivable and short and medium-term loans for equipment or other business capital expansion. Management does not consider there to be any material concentration of risk in any one industry type, other than medical, in this loan category since no industry classification represents over 10% of loans. The medical community represents a concentration of risk in the Company's Commercial loan and Commercial Real Estate loan portfolio (see "Market Area"). Risk in the medical community is mitigated because it is spread among multiple practice types and multiple specialties.

In its commercial business loan underwriting, the Company assesses the creditworthiness, ability to repay, and the value and liquidity of the collateral being offered. Terms are generally granted commensurate with the useful life of the collateral offered.

The Company formed a special lending department during 1998 that makes loans to municipalities and school districts throughout the state of Texas. The majority of the loans to municipalities and school districts have tax pledges which additionally support these loans in addition to collateral. Average loans to municipalities and school districts increased approximately $16.2 million during the year ended December 31, 2000. At December 31, 2000, the Company had Commercial Loans to municipalities and school districts of $31.1 million and Real estate loans to municipalities and school districts of $1.3 million.

LOANS TO INDIVIDUALS

The Bank is a major consumer lender in its trade territory and has been for many years. The majority of consumer loans outstanding are those secured by vehicles, including the "indirect" vehicle loan portfolio, which at December 31, 2000 was approximately $3.9 million. The indirect vehicle loans on the Company's books were originated through automobile dealers but underwritten directly by the Company using the same underwriting guidelines used for its direct vehicle loans. However, due to market forces that were contributing to declining profit margins on indirect vehicle loans, the Company exited the indirect vehicle loan program effective January 2, 1998 to concentrate on direct vehicle loans. Direct vehicle loans accounted for approximately $52.4 million at December 31, 2000. Additionally, the Company makes loans for a full range of other consumer purposes, which may be secured or unsecured depending on the credit quality and purpose of the loan.

At this point, the economy in the Bank's trade territory appears stable. One area of concern is the nationwide personal bankruptcy rate. Management expects this rate to have some adverse effect on the Company's net charge-offs. Most of the Company's loans to individuals are collateralized, which management believes will limit the exposure in this area should current bankruptcy levels continue.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Company for consumer loans include an application, a determination of the applicant's payment history on other debts, with greatest weight being given to payment history with the Company, and an assessment of the borrower's ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES

The following table represents loan maturities and sensitivity to changes in interest rates. The amounts of total loans outstanding at December 31, 2000, which, based on remaining scheduled repayments of principal, are due in (1) one year or less*, (2) more than one year but less than five years, and (3) more than five years*, are shown in the following table. The amounts due after one year are classified according to the sensitivity to changes in interest rates.

	Due in One Year or Less	After One but within Five Years	After Five Years
		(in thousands)	
Construction Loans	$ 15,736	$ 7,845	$ 1,527
Real Estate Loans-Other	107,403	126,248	23,686
Commercial Loans	86,117	20,492	1,102
All Other Loans	58,204	29,442	3,633
Total Loans	$ 267,460	$ 184,027	$ 29,948

Loans with Maturities After One Year for Which:		
	Interest Rates are Fixed or Predetermined	$ 213,346
	Interest Rates are Floating or Adjustable	$ 24,604

* The volume of commercial loans due within one year reflects the Company's general policy of limiting such loans to a short-term maturity. Loans are shown net of unearned discount. Nonaccrual loans are reflected in the due after five years column.

LOANS TO AFFILIATED PARTIES

In the normal course of business, the Company's subsidiary, Southside Bank, makes loans to certain of the Company's, as well as its own, officers, directors, employees and their related interests. As of December 31, 2000 and

1999, these loans totaled $8.9 million and $8.8 million or 17.2% and 23.3% of Shareholders' Equity, respectively. Such loans are made in the normal course of business at normal credit terms, including interest rate and collateral requirements and do not represent more than normal credit risks contained in the rest of the loan portfolio for loans of similar types.

LOAN LOSS EXPERIENCE AND RESERVE FOR LOAN LOSSES

The loan loss reserve is based on the most current review of the loan portfolio at that time. Several methods are used to maintain the review in the most current manner. First, the servicing officer has the primary responsibility for updating significant changes in a customer's financial position. Accordingly, each officer prepares status updates on any credit deemed to be experiencing repayment difficulties which, in the officer's opinion, would place the collection of principal or interest in doubt. Second, an internal review officer from the Company is responsible for an ongoing review of the Company's entire loan portfolio with specific goals set for the volume of loans to be reviewed on an annual basis. Independent Bank Services, L.C., a partially owned subsidiary of the Bank, supplements the internal review officer's process by performing additional loans reviews designed to achieve overall goals of penetration. Third, Southside Bank is regulated and examined by the FDIC and/or the Texas Department of Banking on an annual basis.

At each review of a credit, a subjective analysis methodology is used to grade the respective loan. Categories of grading vary in severity to include loans which do not appear to have a significant probability of loss at the time of review to grades which indicate a probability that the entire balance of the loan will be uncollectible. If full collection of the loan balance appears unlikely at the time of review, estimates or appraisals of the collateral securing the debt are used to allocate the necessary reserves. A list of loans, which are graded as having more than the normal degree of risk associated with them, is maintained by the internal review officer. This list is updated on a periodic basis, but no less than quarterly by the servicing officer in order to properly allocate necessary reserves and keep management informed on the status of attempts to correct the deficiencies noted in the credit.

Industry experience shows that a portion of the Company's loans will become delinquent and a portion of the loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond the Company's control, including, among other things, changes in market conditions affecting the value of properties and problems affecting the credit of the borrower. Management's determination of the adequacy of allowance for loan losses is based on various considerations, including an analysis of the risk characteristics of various classifications of loans, previous loan loss experience, specific loans which would have loan loss potential, delinquency trends, estimated fair value of the underlying collateral, current economic conditions, the views of the regulators (who have the authority to require additional reserves), and geographic and industry loan concentration.

In addition to maintaining an ongoing review of the loan portfolio, the internal review officer maintains a history of the loans that have been charged-off without first being identified as problems. This history is used to assist in gauging the amount of nonspecifically allocated reserve necessary, in addition to the portion which is specifically allocated by loan. The internal review officer also uses the loan portfolio data collected to determine the allocation of reserve for loan loss appropriate for the risk in each of the

Company's major loan categories.

As of December 31, 2000, the Company's review of the loan portfolio indicates that a loan loss reserve of $5.0 million is adequate.

The following table presents information regarding the average amount of net loans outstanding, changes in the reserve for loan losses, the ratio of net loans charged-off to average loans outstanding, and an allocation of the reserve for loan loss.

LOAN LOSS EXPERIENCE AND RESERVE FOR LOAN LOSSES

	Years Ended		
	2000	1999	19
		(dollars in	
Average Net Loans Outstanding	$ 434,559	$ 341,466	$ 30
Balance of Reserve for Loan Loss at Beginning of Period	$ 4,575	$ 3,564	$
Loan Charge-Offs:			
Real Estate-Construction	(15)	--	
Real Estate-Other	(14)	--	
Commercial Loans	(522)	(114)	
Loans to Individuals	(891)	(651)	
Total Loan Charge-Offs	(1,442)	(765)	(
Recovery of Loans Previously Charged off:			
Real Estate-Construction	--	--	
Real Estate-Other	34	5	
Commercial Loans	57	106	
Loans to Individuals	240	209	
Total Recovery of Loans Previously Charged-Off	331	320	
Net Loan Charge-Offs	(1,111)	(445)	(
Provision for Loan Loss	1,569	1,456	
Balance at End of Period	$ 5,033	$ 4,575	$
Ratio of Net Charge-Offs to Average Loans Outstanding	.26%	.13%	

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Allocation of Reserve for Loan Loss (dollars in thousands):

	December 31,						
	2000		1999		1998		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amoun
Real Estate-Construction	$ 230	4.6%	$ 91	2.0%	$ 52	1.5%	$ 5
Real Estate-Other	2,124	42.2%	1,804	39.4%	1,291	36.2%	1,08
Commercial Loans	1,561	31.0%	1,558	34.1%	1,182	33.2%	1,18
Loans to Individuals	1,097	21.8%	1,077	23.5%	1,017	28.5%	1,04
Unallocated	21	.4%	45	1.0%	22	.6%	1
Balance at End of Period	$5,033	100%	$4,575	100%	$3,564	100%	$3,37

See "Consolidated Financial Statements - Note 6. Loans and Reserve for Possible Loan Losses."

NONPERFORMING ASSETS

Nonperforming assets consist of delinquent loans over 90 days past due, nonaccrual loans, other real estate owned and restructured loans. Nonaccrual loans are those loans which are more than 90 days delinquent and collection in full of both the principal and interest is in doubt. Additionally, some loans that are not delinquent may be placed on nonaccrual status due to doubts about full collection of principal or interest. When a loan is categorized as nonaccrual, the accrual of interest is discontinued and the accrued balance is reversed for financial statement purposes. Other Real Estate Owned (OREO) represents real estate taken in full or partial satisfaction of debts previously contracted. The OREO consists of two real estate properties. The Company is actively marketing the properties and they are not held for investment purposes. Restructured loans represent loans which have been renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrowers. Categorization of a loan as nonperforming is not in itself a reliable indicator of potential loan loss. Other factors, such as the value of collateral securing the loan and the financial condition of the borrower must be considered in judgments as to potential loan loss.

The following table of nonperforming assets is classified according to

bank regulatory call report guidelines:

NONPERFORMING ASSETS

	Years Ended December 31,				
	2000	1999	1998	1997	1996
	(dollars in thousands)				
Loans 90 Days Past Due:					
Real Estate	$ 577	$ 233	$ 412	$ 454	$ 21
Loans to Individuals	43	58	44	232	17
Commercial	599	48	120	56	8
	1,219	339	576	742	47
Loans on Nonaccrual:					
Real Estate	336		2	108	64
Loans to Individuals	216	281	263	177	11
Commercial	78	422	167	1,059	77
	630	703	432	1,344	1,53
Restructured Loans:					
Real Estate	160	178	197	214	23
Loans to Individuals	151	214	222	189	10
Commercial	78	56	54	32	6
	389	448	473	435	40
Total Nonperforming Loans	2,238	1,490	1,481	2,521	2,40
Other Real Estate Owned	43	140	195	364	27
Repossessed Assets	196	209	326	206	26
Total Nonperforming Assets	$ 2,477	$ 1,839	$ 2,002	$ 3,091	$ 2,94
Percentage of Total Assets	.22%	.18%	.23%	.54%	.6
Percentage of Loans and Leases, Net of Unearned Income	.51%	.47%	.63%	1.04%	1.1

Total nonperforming assets increased $638,000 or 34.7% between December 31, 1999 and December 31, 2000. On January 3, 2001, one loan of $268,000 in the nonperforming asset category, loans 90 days past due, was paid in full. Nonperforming assets as a percentage of assets increased .04% from the previous year and as a percentage of loans increased .04%. Nonperforming assets represent a drain on the earning ability of the Company. Earnings losses are due both to the loss of interest income and the costs associated with maintaining the OREO, for taxes, insurance and other operating expenses. In addition to the nonperforming assets, at December 31, 2000 in the opinion of management, the Company had $431,000 of loans identified as potential problem loans. A potential problem loan is a loan where information about possible credit problems of the

borrower is known, causing management to have serious doubts about the ability of the borrower to comply with the present loan repayment terms and may result in a future classification of the loan in one of the nonperforming asset categories.

The following is a summary of the Company's recorded investment in loans (primarily nonaccrual loans) for which impairment has been recognized in accordance with FAS114:

	Total	Valuation Allowance	Carrying Value
		(in thousands)	
Real Estate Loans......................	$ 336	$ 32	$ 304
Commercial Loans.......................	78	20	58
Loans to Individuals...................	216	29	187
Balance at December 31, 2000...........	$ 630	$ 81	$ 549

	Total	Valuation Allowance	Carrying Value
		(in thousands)	
Commercial Loans.......................	$ 422	$ 225	$ 197
Loans to Individuals...................	281	44	237
Balance at December 31, 1999...........	$ 703	$ 269	$ 434

For the years ended December 31, 2000 and 1999, the average recorded investment in impaired loans was approximately $567,000 and $565,000, respectively. During the years ended December 31, 2000 and 1999, the amount of interest income reversed on impaired loans placed on nonaccrual and the amount of interest income subsequently recognized on the cash basis was not material.

The net amount of interest recognized on loans that were nonaccruing or restructured during the year was $122,000, $125,000 and $94,000 for the years ended December 31, 2000, 1999 and 1998, respectively. If these loans had been accruing interest at their original contracted rates, related income would have been $138,000, $137,000 and $113,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The following is a summary of the Allowance for Losses on Other Real Estate Owned for the years presented:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Balance at beginning of year	$ 61	$ 658	$ 672
Acquisition of OREO	--	61	--
Disposition of OREO	(61)	(658)	(14)
Balance at end of year	$ --	$ 61	$ 658

SECURITIES ACTIVITY

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

The Company accounts for debt and equity securities as follows:

Held to Maturity (HTM). Debt securities that management has the positive intent and ability to hold until maturity are classified as HTM and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the level interest yield method over the estimated remaining term of the underlying security.

Available for Sale (AFS). Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as AFS. These assets are carried at market value. Market value is determined using published quotes as of the close of business. Unrealized gains and losses are excluded from earnings and reported net of tax as a separate component of shareholders' equity until realized.

Management attempts to deploy investable funds into instruments which are expected to increase the overall return of the portfolio given the current assessment of economic and financial conditions, while maintaining acceptable levels of capital, interest rate and liquidity risk.

The following table sets forth the carrying amount of Investment Securities, Mortgage-backed Securities and Marketable Equity Securities at December 31, 2000 and 1999:

December 31,

Available for Sale:	2000	1999
	(in thousands)	
U.S. Treasury	$ 6,015	$ 9,467
U.S. Government Agencies	3,502	21,168
Mortgage-backed Securities:		
Direct Govt. Agency Issues	254,667	232,855
Other Private Issues	14,619	40,821
State and Political Subdivisions	45,150	55,543
Other Stocks and Bonds	22,336	28,609
Total	$ 346,289	$ 388,463

Held to Maturity:	December 31, 2000	1999
	(in thousands)	
U.S. Government Agencies	$ 39,888	$ 42,871
Mortgage-backed Securities:		
Direct Govt. Agency Issues	67,498	14,967
Other Private Issues	75,463	58,931
State and Political Subdivisions	54,994	43,048
Other Stocks and Bonds	9,626	289
Total	$ 247,469	$ 160,106

The Company invests in mortgage-backed and related securities, including mortgage participation certificates, which are insured or guaranteed by U.S. Government agencies and government sponsored enterprises, and collateralized mortgage obligations and real estate mortgage investment conduits. Mortgage-backed securities (which also are known as mortgage participation certificates or pass-through certificates) represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators, through intermediaries (generally U.S.

Government agencies, government sponsored enterprises, and direct whole loans) that pool and repackage the participation interests in the form of securities, to investors such as the Company. U.S. Government agencies and government sponsored enterprises, which guarantee the payment of principal and interest to investors, primarily include the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Government National Mortgage Association. The whole loans the Company purchases are all AAA rated collateralized mortgage obligations and real estate mortgage investment conduit tranches rated AAA due to credit support and/or insurance coverage.

Mortgaged-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The term of a mortgaged-backed pass-through security thus approximates the term of the underlying mortgages.

The Company's mortgaged-backed derivative securities include collateralized mortgage obligations, which include securities issued by entities which have qualified under the Internal Revenue Code as real estate mortgage investment conduits. Collateralized mortgage obligations and real estate mortgage investment conduits (collectively collateralized mortgage obligations) have been developed in response to investor concerns regarding the uncertainty of cash flows associated with the prepayment option of the underlying mortgagor and are typically issued by governmental agencies, government sponsored enterprises and special purpose entities, such as trusts, corporations or partnerships, established by financial institutions or other similar institutions. A collateralized mortgage obligation can be collateralized by loans or securities which are insured or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, or whole loans which, in the Company's case, are all rated AAA. In contrast to pass-through mortgage-backed securities, in which cash flow is received pro rata by all security holders, the cash flow from the mortgages underlying a collateralized mortgage obligation is segmented and paid in accordance with a predetermined priority to investors holding various collateralized mortgage obligation classes. By allocating the principal and interest cash flows from the underlying collateral among the separate collateralized mortgage obligation classes, different classes of bonds are created, each with its own stated maturity, estimated average life, coupon rate and prepayment characteristics.

Like most fixed-income securities, mortgage-backed and related securities are subject to interest rate risk. However, unlike most fixed-income securities, the mortgage loans underlying a mortgage-backed or related security generally may be prepaid at any time without penalty. The ability to prepay a mortgage loan generally results in significantly increased price and yield volatility (with respect to mortgage-backed and related securities) than is the case with non-callable fixed income securities. Furthermore, mortgage-backed derivative securities often are more sensitive to changes in interest rates and prepayments than traditional mortgage-backed securities and are, therefore, even more volatile.

The combined Investment Securities, Mortgage-backed Securities, and Marketable Equity Securities portfolio increased to $593.8 million on December 31, 2000, compared to $548.6 million on December 31, 1999, an increase of $45.2 million or 8.2%. Mortgage-backed Securities increased $64.7 million or 18.6% during 2000 when compared to 1999. State and Political Subdivisions increased $1.6 million or 1.6% during 2000. U.S. Treasury securities decreased during 2000 compared to 1999 by $3.5 million or 36.5%, U.S. Government Agency securities decreased $20.6 million or 32.2% and Other Stocks and Bonds increased $3.1 million or 10.6% in 2000 compared to 1999 due to increased purchases of corporate bonds and increases in FHLB Dallas equity securities. During the first half of 2000, as rates continued to increase, the Company sold securities with an overall lower yield and, in some cases a longer average life and replaced them with securities with higher yields reflective of the interest rate environment at that time.

During the second quarter ended June 30, 2000, the Company issued $54.4 million of long-term brokered CD's with one-year call options and additional call options every six months thereafter, until the CD matures. The average

yield on these CD's was 8.19% with an average life of 10.8 years. Obtaining this long-term funding enabled the Bank to take advantage of the higher interest rate environment, primarily through the purchase of securities without incurring significant additional interest rate risk. The options associated with these CD's may provide the Bank with valuable balance sheet opportunities in the future. The higher cost associated with these callable CD's will have a negative impact on net interest spread during the next several quarters. In conjunction with the issuance of these long-term brokered CD's, securities were purchased with an overall duration and yield approximately that of the brokered CD's.

The market value of the Securities portfolio at December 31, 2000 was $599.8 million, which represented a net unrealized gain on that date of $1.0 million. The net unrealized gain was comprised of $13.5 million in unrealized gains and $12.5 million of unrealized losses. Net unrealized gains and losses on AFS securities, which is a component of Shareholders' Equity on the consolidated balance sheet, can fluctuate significantly as a result of changes in interest rates. Because management cannot predict the future direction of interest rates, the effect on Shareholders' Equity in the future cannot be determined; however, this risk is monitored closely through the use of shock tests on the AFS securities portfolio using an array of interest rate assumptions.

During the month ended January 31, 2000 and the year ended December 31, 1999, the Company transferred securities totaling $91.7 million and $132.4 million, respectively, from AFS to HTM due to changes in market conditions. Of the total transferred, $21.2 million and $66.3 million were investment securities and $70.5 million and $66.1 million were mortgage-backed securities. The unrealized loss on the securities transferred from AFS to HTM was $2.6 million and $5.6 million, net of tax, at the date of transfer. There were no securities transferred from AFS to HTM during the year ended December 31, 1998. There were no sales from the HTM portfolio during the years ended December 31, 2000 or 1999.

On January 1, 2001, the Company adopted Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS133) and Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities (FAS137). The transition provisions contained in FAS133 provide that at the date of initial application, an entity may transfer any debt security classified as HTM to AFS or trading. Effective January 1, 2001, as part of implementing FAS133 and FAS137, the Company elected to transfer all of its securities out of the HTM category in accordance with FAS133 guidance. Securities transferred on January 1, 2001 and sold during the first quarter ended March 31, 2001, will be accounted for as trading securities. All other securities transferred will be accounted for as AFS securities.

The maturities classified according to the sensitivity to changes in interest rates of the December 31, 2000 securities portfolio and the weighted yields are presented below. Tax-exempt obligations are shown on a taxable equivalent basis. Mortgage-backed securities are classified according to repricing frequency and cash flows from street estimates of principal prepayments.

	MATURING OR REPRICING	
	After 1 But	After 5 But

Available For Sale:	Within 1 Yr. Amount	Within 1 Yr. Yield	Within 5 Yrs. Amount	Within 5 Yrs. Yield	Within 10 Yrs. Amount	Within 10 Yrs. Yield
	(dollars in thousands)					
U.S. Treasury	$ 6,015	6.08%	$ --		$ --	
U.S. Government Agencies	3,502	6.09%	--		--	
Mortgage-backed Securities	73,413	7.73%	141,503	7.72%	45,820	7.67%
State and Political Subdivisions	630	7.77%	1,308	8.86%	1,640	7.88%
Other Stocks and Bonds	19,974	8.10%	1,139	6.98%	971	7.00%
Total	$103,534	7.65%	$143,950	7.72%	$ 48,431	7.66%

	MATURING OR REPRICING					
Held to Maturity:	Within 1 Yr. Amount	Within 1 Yr. Yield	After 1 But Within 5 Yrs. Amount	After 1 But Within 5 Yrs. Yield	After 5 But Within 10 Yrs. Amount	After 5 But Within 10 Yrs. Yield
	(dollars in thousands)					
U.S. Government Agencies............	$ 12,534	7.28%	$ 3,874	6.88%	$ 10,023	7.19%
Mortgage-backed Securities...........	20,619	7.20%	46,044	7.37%	25,464	7.32%
State and Political Subdivisions	495	7.15%	1,880	7.27%	2,920	7.73%
Other Stocks and Bonds..............	1,991	6.88%	1,479	7.18%	--	
Total..............................	$ 35,639	7.21%	$ 53,277	7.33%	$ 38,407	7.32%

DEPOSITS AND BORROWED FUNDS

Deposits provide the Company with its primary source of funds. The increase of $133.1 million or 22.6% in Total Deposits during 2000 provided the Company with funds for the growth in loans and a portion of the growth in securities. Time Deposits increased $89.2 million or 34.7% during 2000 compared to 1999. This increase was due in part to $54.4 million of brokered CD's issued during the second quarter ended June 30, 2000. Noninterest Bearing Demand Deposits increased $16.3 million or 10.8% during 2000. Interest Bearing Demand Deposits increased $23.9 million or 15.0% and Saving Deposits increased $3.7 million or 18.4% during 2000. The latter three categories, which are considered the lowest cost deposits, comprised 51.9% of total deposits at December 31, 2000 compared to 56.2% at December 31, 1999. The increase in Total Deposits, not including the brokered CD's issued, was reflective of overall bank growth and branch expansion and was the primary source of funding the increase in Loans.

The following table sets forth the Company's deposits by category at

December 31, 2000 and 1999:

	December 31, 2000	December 31, 1999
	(in thousands)	
Noninterest Bearing Demand Deposits	$ 166,899	$ 150,629
Interest Bearing Demand Deposits	183,383	159,505
Savings Deposits	24,007	20,282
Time Deposits	346,316	257,128
Total Deposits	$ 720,605	$ 587,544

During the year ended December 31, 2000, total time deposits of $100,000 or more increased $63.7 million or 72.8% from December 31, 1999. This increase was due to $54.4 million of brokered CD's issued during the second quarter ended June 30, 2000 and overall bank growth which accounted for an increase of $9.3 million in time certificates of deposit at year ended December 31, 2000, and more than offset the decrease in Public Funds of $1.2 million at December 31, 2000.

The table below sets forth the maturity distribution of time deposits of $100,000 or more issued by the Company at December 31, 2000 and 1999:

	December 31, 2000			December 31, 1999		
	Time Certificates of Deposit	Other Time Deposits	Total	Time Certificates of Deposit	Other Time Deposits	
	(in thousands)					
Three months or less................	$ 22,671	$ 377	$ 23,048	$ 29,146	$ 377	$
Over three to six months............	16,603	12,000	28,603	14,345	13,228	
Over six to twelve months...........	27,076	459	27,535	11,377	459	
Over twelve months..................	71,956	--	71,956	18,536	--	
Total......................	$ 138,306	$ 12,836	$ 151,142	$ 73,404	$ 14,064	$

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Short-term Obligations, consisting primarily of FHLB Dallas advances and Federal Funds Purchased, decreased $29.8 million or 16.0% during 2000 when compared to 1999. FHLB Dallas advances are collateralized by FHLB Dallas stock, nonspecified real estate loans and securities.

	Years Ended	
	2000	1999
	(dollars in tho	
Federal Home Loan Bank ("FHLB") Dallas Advances		
Balance at end of period......................................	$ 148,940	$ 181
Average amount outstanding during the period(1)...............	156,265	155
Maximum amount outstanding during the period..................	188,899	186
Weighted average interest rate during the period(2)...........	6.3%	
Interest rate at end of period................................	6.1%	

(1) The average amount outstanding during the period was computed by dividing the total month-end outstanding principal balances by the number of months in the period.

(2) The weighted average interest rate during the period was computed by dividing the actual interest expense (annualized) by average balance outstanding during the period.

Long-term Obligations primarily consisting of FHLB Dallas advances and Junior Subordinated Debentures increased $21.9 million during 2000 to $216.6 million or an 11.2% increase when compared to $194.7 million in 1999. The increase is primarily a result of the Company issuing $17.0 million of convertible preferred securities.

On November 2, 2000, the Company through its wholly-owned subsidiary, Southside Capital Trust II (the "Trust II Issuer"), sold 1,695,000 cumulative convertible preferred securities at a liquidation amount of $10 per convertible preferred security for an aggregate amount of $16,950,000. These securities have a convertible feature that allows the owner to convert each security to a share of the Company's common stock at a conversion price of $10 per common share.

On May 18, 1998, the Company through its wholly-owned subsidiary, Southside Capital Trust (the "Trust Issuer"), sold 2,000,000 Preferred Securities (the "Junior Subordinated Debentures") at a liquidation amount of $10 per Preferred Security for an aggregate amount of $20,000,000. These securities have a distribution rate of 8.50% per annum payable at the end of each calendar quarter.

THE BANKING INDUSTRY IN TEXAS

The banking industry is affected by general economic conditions such as interest rates, inflation, recession, unemployment and other factors beyond the Company's control. During the mid to late 1980's, declining oil prices had an indirect effect on the Company's business, and the deteriorating real estate market caused a significant portion of the increase in the Company's nonperforming assets during that period. During the early 1990's the East Texas economy entered into a recovery and growth period that continued throughout the year 2000. During the last ten years the East Texas economy has diversified, decreasing the overall impact of declining oil prices, however, the East Texas economy is still affected by the oil industry. One area of concern continues to

be the personal bankruptcy rate occurring nationwide. Management expects this trend to have some effect on the Company's net charge-offs. Management of the Company, however, cannot predict whether current economic conditions will improve, remain the same or decline.

COMPETITION

The activities engaged in by the Company and its subsidiary, Southside Bank, are highly competitive. Financial institutions such as savings and loan associations, credit unions, consumer finance companies, insurance companies, brokerage companies and other financial institutions with varying degrees of regulatory restrictions compete more vigorously for a share of the financial services market. Brokerage companies continue to become more competitive in the financial services arena and pose an ever increasing challenge to banks. Legislative changes also greatly affect the level of competition the Company faces. During 1998 federal legislation allowed credit unions to expand their membership criteria. This allows credit unions to use their expanded membership capabilities combined with tax-free status to compete more fiercely for traditional bank business. Because banks do not enjoy a tax-free status, credit unions will have a competitive advantage. Currently, the Company must compete against some institutions located in East Texas and elsewhere in the Company's service area which have capital resources and legal loan limits substantially in excess of those available to the Company and Southside Bank. The Company expects the competition to increase.

EMPLOYEES

At December 31, 2000, the Company employed approximately 365 full time equivalent persons. None of the employees are represented by any unions or similar groups, and the Company has not experienced any type of strike or labor dispute. The Company considers the relationship with its employees to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and Southside Bank as of December 31, 2000, were as follows:

B. G. Hartley (Age 71), Chairman of the Board and Chief Executive Officer of the Company since 1983. He also serves as Chairman of the Board and Chief Executive Officer of the Company's subsidiary, Southside Bank, having served in these capacities since the Bank's inception in 1960.

Sam Dawson (Age 53), President, Secretary and Director of the Company. President, Chief Operations Officer and Director of the Company's subsidiary, Southside Bank since 1996. He became an officer of the Company in 1982 and of Southside Bank during 1975.

Robbie N. Edmonson (Age 68), Vice Chairman of the Board of the Company and the Company's subsidiary, Southside Bank. He joined Southside Bank as a vice president in 1968.

Jeryl Story (Age 49), Executive Vice President of the Company. Senior Executive Vice President - Loan Administration, Senior Lending Officer and Director of the Company's subsidiary, Southside Bank, since 1996. He joined Southside Bank in 1979 as an officer in Loan Documentation.

Lee R. Gibson (Age 44), Executive Vice President and Chief Financial Officer of the Company and of the Company's subsidiary, Southside Bank. He is also a Director of Southside Bank. He became an officer of the Company in 1985 and of Southside Bank during 1984.

All the individuals named above serve in their capacity as officers of

the Company and/or Southside Bank at the pleasure of each entities' Board of Directors.

SUPERVISION AND REGULATION

Banking is a complex, highly regulated industry. The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress has created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. The descriptions of and references to the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

THE COMPANY

As bank holding companies under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), the Company and Southside Delaware are registered with and subject to regulation by the Federal Reserve. The Company and Southside Delaware are required to file annual and other reports with, and furnish information to, the Federal Reserve, which makes periodic inspections of the Company and Southside Delaware.

The Bank Holding Company Act provides that a bank holding company must obtain the prior approval of the Federal Reserve for the acquisition of more than five percent of the voting stock or substantially all the assets of any bank or bank holding company. In addition, the Bank Holding Company Act restricts the extension of credit to any bank holding company by its subsidiary bank. The Bank Holding Company Act also provides that, with certain exceptions, a bank holding company may not engage in any activities other than those of banking or managing or controlling banks and other authorized subsidiaries or own or control more than five percent of the voting shares of any company that is not a bank. The Federal Reserve has deemed limited activities to be closely related to banking and therefore permissible for a bank holding company.

Traditionally, the activities of bank holding companies have been limited to the business of banking and activities closely related or incidental to banking. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999, which became effective on March 11, 2000, expands the types of activities in which a bank holding company may engage. Subject to various limitations, the Modernization Act generally permits a bank holding company to elect to become a "financial holding company." A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are "financial in nature." Among the activities that are deemed "financial in nature" are, in addition to traditional lending activities, securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, certain merchant banking activities and activities that the Federal Reserve considers to be closely related to banking.

A bank holding company may become a financial holding company under the Modernization Act if each of its subsidiary banks is "well capitalized" under the Federal Deposit Insurance Corporation Improvement Act prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. In addition, the bank holding company must file a declaration with the Federal Reserve that the bank holding company wishes to

become a financial holding company. A bank holding company that falls out of compliance with these requirements may be required to cease engaging in some of its activities.

Any bank holding company that does not elect to become a financial holding company remains subject to the current restrictions of the Bank Holding Company Act. In a similar manner, a bank may establish one or more subsidiaries, which subsidiaries may then engage in activities that are financial in nature. However, applicable law and regulation provide that the amount of investment in these activities generally are limited to 45% of the total assets of the bank, and these investments are not aggregated with the bank for determining compliance with capital adequacy guidelines. Further, the transactions between the bank and this type of subsidiary are subject to a number of limitations.

Under the Modernization Act, the Federal Reserve serves as the primary "umbrella" regulator of financial holding companies, with supervisory authority over each parent company and limited authority over its subsidiaries. Expanded financial activities of financial holding companies generally will be regulated according to the type of such financial activity: banking activities by banking regulators, securities activities by securities regulators and insurance activities by insurance regulators. The Modernization Act also imposes additional restrictions and heightened disclosure requirements regarding private information collected by financial

institutions. All implementing regulations under the Modernization Act have not yet become effective in final form, and the Company cannot predict the full sweep of the new legislation and have not yet determined whether it will elect to become a financial holding company.

The Federal Reserve has cease-and-desist powers over bank holding companies and their nonbanking subsidiaries where their actions would constitute a serious threat to the safety, soundness or stability of a subsidiary bank. Federal regulatory agencies also have authority to regulate debt obligations (other than commercial paper) issued by bank holding companies. This authority includes the power to impose interest ceilings and reserve requirements on such debt obligations. A bank holding company and its subsidiaries are also prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Federal banking law generally provides that a bank holding company may acquire or establish banks in any state of the United States, subject to certain aging and deposit concentration limits. In addition, Texas banking laws permit a bank holding company which owns stock of a bank located outside the State of Texas to acquire a bank or bank holding company located in Texas. This type of acquisition may occur only if the Texas bank to be directly or indirectly controlled by the out-of-state bank holding company has existed and continuously operated as a bank for a period of at least five years. In any event, a bank holding company may not own or control banks in Texas the deposits of which would exceed 20% of the total deposits of all federally-insured deposits in Texas. The Company has no present plans to acquire or establish banks outside the State of Texas but have not eliminated the possibility of doing so.

The Federal Reserve has promulgated capital adequacy regulations for all bank holding companies with assets in excess of $150 million. The Federal Reserve's capital adequacy regulations are based upon a risk based capital determination, whereby a bank holding company's capital adequacy is determined in light of the risk, both on- and off-balance sheet, contained in the company's

assets. Different categories of assets are assigned risk weightings and are counted at a percentage of their book value.

The regulations divide capital between Tier 1 capital (core capital) and Tier 2 capital. For a bank holding company, Tier 1 capital consists primarily of common stock, related surplus, noncumulative perpetual preferred stock, minority interests in consolidated subsidiaries and a limited amount of qualifying cumulative preferred securities. Goodwill and certain other intangibles are excluded from Tier 1 capital. Tier 2 capital consists of an amount equal to the allowance for loan and lease losses up to a maximum of 1.25% of risk weighted assets, limited other types of preferred stock not included in Tier 1 capital, hybrid capital instruments and term subordinated debt. Investments in and loans to unconsolidated banking and finance subsidiaries that constitute capital of those subsidiaries are excluded from capital. The sum of Tier 1 and Tier 2 capital constitutes qualifying total capital. The Tier 1 component must comprise at least 50% of qualifying total capital.

Every bank holding company has to achieve and maintain a minimum Tier 1 capital ratio of at least 4.0% and a minimum total capital ratio of at least 8.0%. In addition, banks and bank holding companies are required to maintain a minimum leverage ratio of Tier 1 capital to average total consolidated assets (leverage capital ratio) of at least 3.0% for the most highly-rated, financially sound banks and bank holding companies and a minimum leverage ratio of at least 4.0% for all other banks. The Federal Deposit Insurance Corporation and the Federal Reserve define Tier 1 capital for banks in the same manner for both the leverage ratio and the risk-based capital ratio. However, the Federal Reserve defines Tier 1 capital for bank holding companies in a slightly different manner. As of December 31, 2000, the Company's Tier 1 leverage capital ratio was 6.31%.

The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory level, without significant reliance on intangible assets. The guidelines also indicate that the Federal Reserve will continue to consider a "Tangible Tier 1 Leverage Ratio" in evaluating proposals for expansion or new activities. The Tangible Tier 1 Leverage Ratio is the ratio of Tier 1 capital, less intangibles not deducted from Tier 1 capital, to quarterly average total assets. As of December 31, 2000, the Federal Reserve had not advised the Company of any specific minimum Tangible Tier 1 Leverage Ratio applicable to the Company.

As a bank holding company that does not, as an entity, currently engage in separate business activities of a material nature, the Company's ability to pay cash dividends depends upon the cash dividends it receives from the bank through Southside Delaware. The Company's only sources of income are dividends paid by the bank. The Company must pay all of its operating expenses from funds received by it from the bank. Therefore,

shareholders may receive dividends from the Company only to the extent that funds are available after payment of the Company's operating expenses. In addition, in November 1985 the Federal Reserve adopted a policy statement concerning payment of cash dividends, which generally prohibits bank holding companies from paying dividends except out of operating earnings, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition.

THE BANK

The bank is subject to various requirements and restrictions under the laws of the United States and the State of Texas, and to regulation, supervision and regular examination by the Texas Department of Banking and the Federal Deposit Insurance Corporation. The Texas Department of Banking and the Federal Deposit Insurance Corporation have the power to enforce compliance with applicable banking statutes and regulations. These requirements and restrictions include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon and restrictions relating to investments and other activities of the bank.

Transactions with Affiliates. The bank may not engage in specified transactions (including, for example, loans) with its affiliates unless the terms and conditions of those transactions are substantially the same or at least as favorable to the bank as those prevailing at the time for comparable transactions with or involving other nonaffiliated entities. In the absence of comparable transactions, any transaction between the bank and its affiliates must be on terms and under circumstances, including credit standards, that in good faith would be offered or would apply to nonaffiliated companies. In addition, transactions referred to as "covered transactions" between the bank and its affiliates may not exceed 10% of the bank's capital and surplus per affiliate and an aggregate of 20% of its capital and surplus for covered transactions with all affiliates. Certain transactions with affiliates, such as loans, also must be secured by collateral of specific types and amounts. The bank also is prohibited from purchasing low quality assets from an affiliate. Every company under common control with the bank, including the Company and Southside Delaware, are deemed to be affiliates of the bank.

Loans to Insiders. Federal law also constrains the types and amounts of loans that the bank may make to its executive officers, directors and principal shareholders. Among other things, these loans must be approved by the bank's board of directors in advance, must be on terms and conditions as favorable to the bank as those available to an unrelated person and are limited in amount.

Regulation of Lending Activities. Loans made by the bank are also subject to numerous federal and state laws and regulations, including the Truth-In-Lending Act, Federal Consumer Credit Protection Act, the Texas Consumer Credit Code, the Texas Consumer Protection Code, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and adjustable rate mortgage disclosure requirements. Remedies to the borrower or consumer and penalties to the bank are provided if the bank fails to comply with these laws and regulations. The scope and requirements of these laws and regulations have expanded significantly in recent years.

Branch Banking. Pursuant to the Texas Finance Code, all banks located in Texas are authorized to branch statewide. Accordingly, a bank located anywhere in Texas has the ability, subject to regulatory approval, to establish branch facilities near any of the Bank's facilities and within its market area. If other banks were to establish branch facilities near the Bank or any of its facilities, it is uncertain whether these branch facilities would have a material adverse effect on the business of the Bank.

In 1994 Congress adopted the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994. That statute provides for nationwide interstate banking and branching, subject to certain aging and deposit concentration limits that may be imposed under applicable state laws. Current Texas law permits interstate branching only through acquisition of a financial institution that is at least five years old, and after the acquisition, the resulting institution and its affiliates cannot hold more than 20% of the total deposits in the state. Accordingly, a bank with its main office outside of Texas generally cannot branch on a de novo basis into Texas. The new law permits applicable regulatory

authorities to approve de novo branching in Texas by institutions located in states that would permit Texas institutions to branch on a de novo basis into those states.

The Federal Deposit Insurance Corporation has adopted regulations under the Riegle-Neal Act to prohibit an out-of-state bank from using the new interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to insure that interstate branches operated by an out-of-state

bank in a host state are reasonably helping to meet the credit needs of the communities served by the out-of-state bank.

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

Dividends. All dividends paid by the Bank are paid to the Company, the sole indirect shareholder of the Bank, through Southside Delaware. The general dividend policy of the Bank is to pay dividends at levels consistent with maintaining liquidity and preserving applicable capital ratios and servicing obligations of the Company. The dividend policy of the Bank is subject to the discretion of the board of directors of the Bank and will depend upon such factors as future earnings, financial conditions, cash needs, capital adequacy, compliance with applicable statutory and regulatory requirements and general business conditions.

The ability of the Bank, as a Texas banking association, to pay dividends is restricted under applicable law and regulations. The Bank generally may not pay a dividend reducing its capital and surplus without the prior approval of the Texas Banking Commissioner. All dividends must be paid out of net profits then on hand, after deducting expenses, including losses and provisions for loan losses. The Federal Deposit Insurance Corporation has the right to prohibit the payment of dividends by the Bank where the payment is deemed to be an unsafe and unsound banking practice. The Bank is also subject to certain restrictions on the payment of dividends as a result of the requirements that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the Federal Deposit Insurance Corporation.

The exact amount of future dividends on the stock of the Bank will be a function of the profitability of the Bank in general and applicable tax rates in effect from year to year. The Bank's ability to pay dividends in the future will directly depend on its future profitability, which cannot be accurately estimated or assured.

Capital Adequacy. In 1990, the federal banking regulators promulgated

capital adequacy regulations to which all national and state banks, such as the Bank, are subject. These requirements are similar to the Federal Reserve requirements promulgated with respect to bank holding companies discussed previously.

Changes in Management. Any depository institution that has been chartered less than two years, is not in compliance with the minimum capital requirements of its primary federal banking regulator or is otherwise in a troubled condition must notify its primary federal banking regulator of the proposed addition of any person to the board of directors or the employment of any person as a senior executive officer of the institution at least 30 days before such addition or employment becomes effective. During this 30-day period, the applicable federal banking regulatory agency may disapprove of the addition of employment of such director or officer. The Bank is not subject to any such requirements.

Enforcement Authority. The federal banking laws also contain civil and criminal penalties available for use by the appropriate regulatory agency against certain "institution-affiliated parties" primarily including management, employees and agents of a financial institution, as well as independent contractors such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs and who caused or are likely to cause more than minimum financial loss to or a significant adverse affect on the institution, who knowingly or recklessly violate a law or regulation, breach a fiduciary duty or engage in unsafe or unsound practices. These practices can include the failure of an institution to timely file required reports or the submission of inaccurate reports. These laws authorize the appropriate banking agency to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets or take other action as determined by the ordering agency to be appropriate.

Annual Audits. Every bank with total assets in excess of $500 million, such as the Bank, must have an annual independent audit made of the bank's financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the Federal Deposit Insurance Corporation.

Prompt Corrective Action. Banks are subject to restrictions on their activities depending on their level of capital. The Federal Deposit Insurance Corporation's "prompt corrective action" regulations divides banks into five different categories, depending on their level of capital. Under these regulations, a bank is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or more, a core capital ratio of six percent or more and a leverage ratio of five percent or more, and if the bank is not subject to an order or capital directive to meet and maintain a certain capital level. Under these regulations, a bank is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of eight percent or more, a core capital ratio of four percent or more and a leverage ratio of four percent or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a leverage ratio of three percent or more). Under these regulations, a bank is deemed to be "undercapitalized" if it has a total risk-based capital ratio of less than eight percent, a core capital ratio of less than four percent or a leverage ratio of less than four percent. Under

these regulations, a bank is deemed to be "significantly undercapitalized" if it has a risk-based capital ratio of less than six percent, a core capital ratio of less than three percent and a leverage ratio of less than three percent. Under such regulations, a bank is deemed to be "critically undercapitalized" if it has a leverage ratio of less than or equal to two percent. In addition, the Federal Deposit Insurance Corporation has the ability to downgrade a bank's classification (but not to "critically undercapitalized") based on other considerations even if the bank meets the capital guidelines.

If a state nonmember bank, such as the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the Federal Deposit Insurance Corporation. An undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the Federal Deposit Insurance Corporation of a capital restoration plan for the bank.

If a state nonmember bank is classified as undercapitalized, the Federal Deposit Insurance Corporation may take certain actions to correct the capital position of the bank. If a bank is classified as significantly undercapitalized, the Federal Deposit Insurance Corporation would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, the bank must be placed into conservatorship or receivership within 90 days, unless the Federal Deposit Insurance Corporation determines otherwise.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by the bank. The Federal Deposit Insurance Corporation is required to conduct a full-scope, on-site examination of every bank at least once every twelve months. An exception to this rule provides that banks that have assets of less than $100 million, are categorized as "well capitalized," were found to be well managed with a composite rating of "outstanding" and have not been subject to a change in control during the last 12 months, need only be examined by the Federal Deposit Insurance Corporation once every 18 months.

Banks also may be restricted in their ability to accept brokered deposits, depending on their capital classification. "Well capitalized" banks are permitted to accept brokered deposits, but all banks that are not well capitalized are not permitted to accept such deposits. The Federal Deposit Insurance Corporation may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the Federal Deposit Insurance Corporation determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Risk Based Deposit Insurance Premiums. The Federal Deposit Insurance Corporation assesses insurance premiums on a bank's deposits at a variable rate depending on the probability that the deposit insurance fund will incur a loss with respect to the bank. The Federal Deposit Insurance Corporation determines the deposit insurance assessment rates on the basis of the bank's capital classification and

supervisory evaluations. Each of these categories has three subcategories, resulting in nine assessment risk classifications. The three subcategories with respect to capital are "well capitalized," "adequately capitalized" and "less than adequately capitalized" (that would include "undercapitalized," "significantly undercapitalized" and "critically undercapitalized" banks). The three subcategories with respect to supervisory concerns are "healthy," "supervisory concern" and "substantial supervisory concern." A bank is deemed "healthy" if it is financially sound with only a few minor weaknesses. A bank is deemed subject to "supervisory concern" if it has weaknesses that, if not corrected, could result in significant deterioration of the bank and increased risk to the Bank Insurance Fund of the Federal Deposit Insurance Corporation. A bank is deemed subject to "substantial supervisory concern" if it poses a substantial probability of loss to the Bank Insurance Fund.

Deposit Insurance. The bank's deposits are insured up to $100,000 per insured account by the Bank Insurance Fund. The bank's deposit insurance assessments may increase depending upon the risk category and subcategory, if any, to which the bank is assigned by the Federal Deposit Insurance Corporation. Any increase in insurance assessments could have an adverse effect on the bank's earnings.

Management of the Company and the Bank cannot predict what other legislation might be enacted or what other regulations might be adopted or the effects thereof.

CAPITAL GUIDELINES

Southside Bank is regulated by the TDB and the FDIC. The FDIC requires minimum levels of Tier 1 capital and risk-based capital for FDIC-insured institutions. The FDIC requires a minimum leverage ratio of 3% of adjusted total assets for the highest rated banks. Other banks are required to meet a leverage standard of 4% or more, determined on a case-by-case basis.

On December 31, 2000, the minimum ratio for qualifying total risk-based capital was 8% of which 4% must be Tier 1 capital. Southside Bank's actual capital to total assets and risk-based capital ratios at December 31, 2000 were in excess of the minimum requirements.

Also see discussion of "Capital Resources" under Item 7.

USURY LAWS

Texas usury laws limit the rate of interest that may be charged by state banks. Certain Federal laws provide a limited preemption of Texas usury laws. The maximum rate of interest that Southside Bank may charge on direct business loans under Texas law varies between 18% per annum and (i) 28% per annum for business and agricultural loans above $250,000 or (ii) 24% per annum for other direct loans. Texas floating usury ceilings are tied to the 26-week United States Treasury Bill Auction rate. Other ceilings apply to open-end credit card loans and dealer paper purchased by Southside Bank. A Federal statute removes interest ceilings under usury laws for loans by Southside Bank which are secured by first liens on residential real property.

ECONOMIC ENVIRONMENT

The monetary policies of regulatory authorities, including the FRB, have a significant effect on the operating results of bank holding companies and their subsidiaries. The FRB regulates the national supply of bank credit. Among the means available to the FRB are open market operations in United States Government Securities, changes in the discount rate on member bank borrowings, changes in reserve requirements against member and nonmember bank deposits, and

loans and limitations on interest rates which member banks may pay on time or demand deposits. These methods are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits. Their use may affect interest rates charged on loans or paid for deposits.

Also see discussion of "Banking Industry in Texas" above.

ITEM 2. PROPERTIES

Southside Bank owns the following properties:

- A two story building in Tyler, Texas, at 1201 South Beckham Avenue and the property adjacent to the main bank building, known as the Southside Bank Annex. These properties house the executive offices of Southside Bancshares, Inc.

- Property and a building directly adjacent to the building housing the Southside Bank Annex. The building is referred to as the Operations Annex, where various back office lending, accounts payable operations, other support areas and training facilities are located.

- Land and building located at 1010 East First Street in Tyler where motor bank facilities are located.

- Property and a building located at the intersection of South Broadway Avenue and Grande Boulevard in Tyler. The tract is occupied by Southside Bank's South Broadway branch, which currently provides a full line of banking services.

- Property and a building on South Broadway Avenue near the South Broadway branch where motor bank facilities are located.

- Twenty-one Automatic Teller Machines (ATM) facilities located throughout Smith and Gregg Counties.

- Building located in the downtown square of Tyler which houses Southside Bank's Downtown branch, providing a full line of banking services.

- Gentry Parkway branch and motor bank facility at 2121 West Gentry Parkway in Tyler.

- Property at 2001 Judson Road in Longview, Texas, where the Company constructed a permanent branch facility complete with motor bank facilities.

- Property on U.S. Highway 69 in Lindale, Texas, where the Company will construct a permanent branch facility complete with motor bank facilities.

- Property in Whitehouse, Texas, where the Company will construct a permanent branch facility complete with motor bank facilities.

The Company completed expansion and remodeling of the operations annex building, located on the property of the bank's headquarters during 2000. The Company purchased property in Longview, Texas at 2001 Judson Road during 1998.

Construction of a permanent branch facility at this location began during 1999 and was completed during 2000. The Company purchased property in Lindale on Highway 69, north of Interstate 20 on which it plans to build a branch facility with motor bank facilities during 2001. During the second quarter of 2000, the Company received approval from the Federal Deposit Insurance Corporation to open a second full service branch in Lindale. The Company plans to open the Lindale branch in temporary facilities during the first half of 2001. The Company also acquired property in Whitehouse, Texas in southern Smith County on which it plans to begin construction of a full service branch during 2001.

ITEM 3. LEGAL PROCEEDINGS

Southside Bank is party to legal proceedings arising in the normal conduct of business. Management of the Company believes that such litigation is not material to the financial position or results of the operations of the Company or Southside Bank.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the three months ended December 31, 2000, there were no meetings, annual or special, of the shareholders of the Company. No matters were submitted to a vote of the shareholders, nor were proxies solicited by management or any other person.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The Company's common stock began trading on the Nasdaq National Market on May 14, 1998 under the symbol "SBSI." Prior to that the Company's common stock was not actively traded on any established public trading market. The high/low prices shown below represent the closing prices on the Nasdaq National Market for the period from January 1, 1999 to December 31, 2000. During the second quarter of 2000, the Company declared and paid a two for one stock split. During the fourth quarter of 2000, the Company declared and paid a 5% stock dividend. During the third quarter of 1999 and 1998, the Company declared and paid a 5% stock dividend. Stock prices listed below have been adjusted to give retroactive recognition to stock splits and stock dividends.

Year Ended	1st qtr.	2nd qtr.	3rd qtr.	---
December 31, 2000	$ 8.99 - 7.97	$ 9.45 - 7.93	$ 8.36 - 7.33	$
December 31, 1999	$ 9.10 - 7.79	$ 8.28 - 7.71	$ 11.21 - 8.00	$

See "Item 7. Capital Resources" for a discussion of the Company's common stock repurchase program.

STOCKHOLDERS

There were approximately 1,111 holders of record of the Company's common

stock, the only class of equity securities currently issued and outstanding, as of February 28, 2001.

DIVIDENDS

Cash dividends declared and paid were $0.225 per share for the year ended December 31, 2000. Cash dividends declared and paid were $.20 per share for the years ended December 31, 1999 and 1998. Stock dividends of 5% were also declared and paid during each of the years ended December 31, 2000, 1999 and 1998. The Company has paid a cash dividend at least once every year since 1970. Future dividends will depend on the Company's earnings, financial condition and other factors which the Board of Directors of the Company considers to be relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data regarding the Company's results of operations and financial position for, and as of the end of, each of the fiscal years in the five-year period ended December 31, 2000. This information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," as set forth in this report.

	As of and For the Years Ended Decemb			
	2000	1999	1998	1997
	(in thousands, except per share da			
Investment Securities	$ 161,285	$ 182,452	$ 132,794	$ 71
Mortgage-backed and Related Securities	$ 412,247	$ 347,574	$ 341,004	$ 141
Loans, Net of Reserve for Loan Loss	$ 476,402	$ 382,871	$ 316,159	$ 292
Total Assets	$ 1,151,881	$ 1,012,565	$ 876,329	$ 571
Deposits	$ 720,605	$ 587,544	$ 515,034	$ 462
Long-term Obligations	$ 216,595	$ 194,704	$ 176,027	$ 28
Interest & Deposit Service Income	$ 83,463	$ 67,468	$ 49,030	$ 39
Net Income	$ 9,825	$ 7,924	$ 5,351	$ 5
Net Income Per Common Share-Basic	$ 1.29	$ 1.03	$ .69	$

Net Income Per Common Share-Diluted.............	$ 1.24	$ 1.00	$ .66	$
Cash Dividends Declared Per Common Share.........	$ .225	$ .20	$ .20	$

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

The following discussion and analysis provides a comparison of the Company's results of operations for the years ended December 31, 2000, 1999 and 1998 and financial condition as of December 31, 2000 and 1999. This discussion should be read in conjunction with the financial statements and related notes. All share data has been adjusted to give retroactive recognition to stock splits and stock dividends.

FORWARD-LOOKING INFORMATION

Certain statements of other than historical fact that are contained in this document and in written material, press releases and oral statements issued by or on behalf of the Company may be considered to be "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements may include words such as "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar expressions. Forward-looking statements are subject to significant risks and uncertainties and the Company's actual results may differ materially from the results discussed in the forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. See "Item 1 - Business" and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations." By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual income gains and losses could materially differ from those that have been estimated. Other factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to general economic conditions, either nationally or in the State of Texas, legislation or regulatory changes which adversely affect the businesses in which the Company is engaged, changes in the interest rate environment which reduce interest margins, significant increases in competition in the banking and financial services industry, changes in consumer spending, borrowing and saving habits, technological changes, the Company's ability to increase market share and control expenses, the effect of compliance with legislation or regulatory changes, the effect of changes in accounting policies and practices and the costs and effects of unanticipated litigation.

FINANCIAL CONDITION

Total assets increased $139.3 million or 13.8% to $1.2 billion at December 31, 2000 from $1.0 billion at December 31, 1999. The increase was primarily attributable to a $93.5 million increase in net loans and a $45.2 million increase in the securities portfolio. The securities portfolio totaled $593.8 million at December 31, 2000 compared to $548.6 million at December 31, 1999. At December 31, 2000, net loans were $476.4 million compared to $382.9 million at December 31, 1999. The increase in loans and securities was funded

primarily by retail deposit growth.

Nonperforming assets at December 31, 2000 totaled $2.5 million, representing 0.22% of total assets, compared to $1.8 million or 0.18% of total assets at December 31, 1999. Nonaccruing loans decreased to $630,000 and the ratio of nonaccruing loans to total loans decreased to 0.13% at December 31, 2000 as compared to $703,000 or 0.18% at December 31, 1999. Real estate owned decreased to $43,000 at December 31, 2000 from $140,000 at December 31, 1999. Loans 90 days past due at December 31, 2000 totaled $1.2 million compared to $.3 million at December 31, 1999, an increase of $.9 million.

Deposits increased $133.1 million to $720.6 million at December 31, 2000 from $587.5 million at December 31, 1999. FHLB Dallas advances were $328.6 million at December 31, 2000, a $27.3 million decrease from $355.9 million at December 31, 1999. Short-term FHLB Dallas advances decreased $32.3 million to $148.9 million at December 31, 2000 from $181.2 million at December 31, 1999. Long-term FHLB Dallas advances increased $4.9 million to $179.6 million at December 31, 2000 from $174.7 million at December 31, 1999. Other borrowings at December 31, 2000 and 1999 totaled $44.3 million and $24.8 million, respectively, and at December 31, 2000 consisted of $7.3 million short-term borrowings, $17.0 million of Long-term Junior Subordinated Convertible Debentures and $20.0 million of Long-term Junior Subordinated Debentures.

On November 2, 2000, the Company through its wholly-owned subsidiary, Southside Capital Trust II (the "Trust II Issuer"), sold 1,695,000 cumulative convertible preferred securities at a liquidation amount of $10 per convertible preferred security for an aggregate amount of $16,950,000. These securities have a convertible feature that allows the owner to convert each security to a share of the Company's common stock at a conversion price of $10 per common share.

On May 18, 1998, the Company through its wholly-owned subsidiary, Southside Capital Trust (the "Trust Issuer"), sold 2,000,000 Preferred Securities at a liquidation amount of $10 per Preferred Security for an aggregate amount of $20,000,000. It has a distribution rate of 8.50% per annum payable at the end of each calendar quarter.

Shareholders' equity at December 31, 2000 totaled $51.7 million compared to $37.7 million at December 31, 1999. The increase primarily reflects the net income recorded for the year ended December 31, 2000 and a decrease in the accumulated other comprehensive loss of $6.3 million, partially offset by the repurchase of 94,050 shares of the outstanding stock at an average price of $8.65 per share and the declaration of cash dividends.

LEVERAGE STRATEGY

In May 1998 the Company implemented a leverage strategy designed to enhance its profitability with acceptable levels of credit, interest rate and liquidity risk. The leverage strategy consists of borrowing long and short-term funds from the Federal Home Loan Bank and investing the funds primarily in mortgage-backed securities, and to a lesser extent, long-term municipal securities. Although mortgage-backed securities often carry lower yields than traditional mortgage loans and other types of loans the Company makes, these securities generally increase the overall quality of the Company's assets by virtue of the securities' underlying insurance or guarantees, are more liquid than individual loans and may be used to collateralize the Company's borrowings or other obligations. While the strategy of investing a substantial portion of the Company's assets in mortgage-backed and municipal securities has resulted in

lower interest rate spreads and margins, the Company believes that the lower operating expenses and reduced credit and interest rate risk of this strategy have enhanced its overall profitability.

While the Company may increase its leverage to offset interest expense associated with this convertible preferred securities offering, the balance sheet strategy going forward will be to gradually replace a portion of the Company's securities portfolio with higher yielding loans. On the liability side, the Company intends to gradually replace a portion of the short-term Federal Home Loan Bank borrowings with deposits. The intended net result is to increase the Company's net interest spread. Since completing the initial phase of the Company's leverage strategy during the second quarter of 1999, its net interest spread has begun to increase. The leverage strategy is dynamic and requires ongoing management. As interest rates, funding costs and security spreads change, the Company's determination of the proper securities to purchase and funding to obtain must be re-evaluated.

RESULTS OF OPERATIONS

The Company's results of operations are dependent primarily on net interest income, which is the difference between the income earned on its loan, securities and investment portfolios and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the Company's noninterest income, provision for loan losses and noninterest expenses. General economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities, also significantly affect the Company's results of operations. Future changes in applicable law, regulations or government policies may also have a material impact on the Company.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDING DECEMBER 31, 2000 COMPARED TO DECEMBER 31, 1999

OVERVIEW

During the year ended December 31, 2000, the Company's net income increased $1.9 million or 24.0% to $9.8 million, from $7.9 million for the same period in 1999. The increase in net income was primarily attributable to an increase in interest income due to a more favorable net interest spread and the growth in earning assets. Noninterest income, not including gains or losses on sales of securities, also grew due to deposit services income. These increases were partially offset by an increase in noninterest expense and losses on sales of securities. Earnings per share of $1.24 represented an increase of $0.24 or 24.0% over the year ended December 31, 1999.

NET INTEREST INCOME

Net interest income is the principal source of a financial institution's earnings stream and represents the difference or spread between interest and fee income generated from interest earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as volume and mix changes in interest earning assets and interest bearing liabilities materially impact net interest income.

Net interest income for the year ended December 31, 2000 was $29.3 million, an increase of $4.6 million or 18.7% compared to the same period in 1999. Average interest earning assets increased $109.0 million or 12.3%, while

the net yield on average earning assets increased from 3.02% at December 31, 1999 to 3.22% at December 31, 2000. As interest rates increased during 1999 and the first half of 2000, the Company's premium mortgage-backed securities increased in yield as prepayment speeds decreased. This increase in yield, along with the increase in average loans, combined to increase the net interest spread. Future increases in the net interest spread will become more difficult due to competition and long-term liabilities purchased at higher rates.

During the year ended December 31, 2000, average loans, funded primarily by the growth in average deposits and average Federal Home Loan Bank advances, increased $93.1 million or 27.3%, compared to the same period in 1999. The average yield on loans increased from 8.28% at December 31, 1999 to 8.45% at December 31, 2000, reflective of an overall increase in interest rates. The increase in interest income on Loans of $8.0 million or 28.5% was the result of the increase in Average Loans and average yield on loans during 2000.

Average investment and mortgage-backed securities increased $17.8 million or 3.4% for the year ended December 31, 2000 when compared to the same period in 1999. This increase was a direct result of the leverage strategy implemented in 1998. The overall yield on Average Securities increased to 7.35% during the year ended December 31, 2000 from 6.35% during the same period in 1999, due in part to decreased prepayment speeds on mortgage-backed securities which led to decreased amortization expense, combined with a restructuring of a portion of the securities portfolio into higher yielding securities due to higher overall interest rates. Interest income on investment and mortgage-backed securities increased $6.2 million in 2000 or 20.0% compared to 1999 due to the increase in the Average Securities and the increase in the average yield of securities during 2000.

Interest income from marketable equity securities, federal funds and other interest earning assets increased $461,000 or 34.6% for the year ended December 31, 2000 when compared to 1999 as a result of higher rates and a special dividend of $304,000 on the Company's FHLB Dallas stock which more than offset the average balance decrease of 7.5%.

During the year ended December 31, 2000, the mix of the Company's Interest Earning Assets reflected an increase in Loans compared to the prior year end as Loans averaged 43.5% of Total Average Interest Earning Assets compared to 38.4% during 1999, a direct result of significant loan growth. Securities averaged 56.1% of the total and Other Interest Earning Asset categories averaged 0.4% for December 31, 2000. During 1999 the comparable mix was 60.7% in Securities and 0.9% in the Other Interest Earning Asset categories.

Total interest expense increased $10.1 million or 28.1% to $46.1 million during the year ended December 31, 2000 as compared to $36.0 million during the same period in 1999. The increase was attributable to an increase in average interest bearing liabilities of $108.5 million or 14.3% and an increase in the average yield on interest bearing liabilities from 4.75% at December 31, 1999 to 5.33% at December 31, 2000. Average interest bearing deposits increased $95.2 million or 23.8% while the average rate paid increased from 4.13% at December 31, 1999 to 4.81% at December 31, 2000. Average Time Deposits increased $74.3 million or 31.8% while the average rate paid increased 87 basis points. Average Interest Bearing Demand Deposits increased $17.9 million or 12.1% and Average Savings Deposits increased $2.9 million or 15.2%. Average Noninterest Bearing Demand Deposits increased during 2000 $8.4 million or 6.1%. The latter three categories, which are considered the lowest cost deposits, comprised 52.0% of total average deposits during the year ended December 31, 2000 compared to 56.6% during 1999 and 54.2% during 1998. The increase in Average Total Deposits is reflective of overall bank growth, brokered CD issuance, branch expansion and, except for the brokered CD's issued, was the primary source of funding the increase in Average Loans.

During the second quarter ended June 30, 2000, the Company issued $54.4 million of long-term brokered CD's with one-year call options and additional call options every six months thereafter, until the CD matures. The average yield on these CD's was 8.19% with an average life of 10.8 years. Obtaining this long-term funding should enable the Bank to take advantage of the higher interest rate environment, primarily through the purchase of securities without incurring significant additional interest rate risk. The higher cost associated with these callable CD's will have a negative impact on net interest spread during the next several quarters. The options associated with these CD's may provide the bank with valuable balance sheet opportunities in the future.

During the second quarter, the bank introduced a new Platinum Money Market Deposit Account. This account pays a higher rate on larger deposit balances than the bank's other money market account. As deposits shift to the new money market account, the higher interest cost associated with this change will have a negative impact on net interest margin. The bank hopes to attract new deposits due to the competitive rate of this account. While the interest rate on this account is higher than the Company's previous money market account, the interest rate is comparable to and in some cases is lower than the rate for short-term borrowings from the FHLB. As new deposits are obtained, short-term FHLB Dallas funds may be replaced which may offset some of the negative impact on the Bank's net interest margin.

The following table sets forth the Company's deposit averages by category for the years ended December 31, 2000, 1999 and 1998:

COMPOSITION OF DEPOSITS

	Years Ended December 31,				
	2000		1999		
	(dollars in thousands)				
	AVG. BALANCE	AVG. YIELD	AVG. BALANCE	AVG. YIELD	B
Noninterest Bearing Demand Deposits.............	$ 145,883	N/A	$ 137,499	N/A	$
Interest Bearing Demand Deposits................	165,790	2.99%	147,878	2.83%	
Savings Deposits................................	22,207	2.57%	19,272	2.56%	
Time Deposits...................................	307,663	5.95%	233,354	5.08%	
Total Deposits............................	$ 641,543	3.72%	$ 538,003	3.08%	$

Average short-term interest bearing liabilities, consisting primarily of FHLB Dallas advances and federal funds purchased, were $161.2 million, a decrease of $1.1 million or .7% for the year ended December 31, 2000 when compared to the same period in 1999. Average long-term interest bearing liabilities consisting of FHLB Dallas advances increased $12.0 million or 6.8% during the year ended December 31, 2000 as compared to $175.0 million at December 31, 1999. The advances were obtained from the FHLB Dallas as part of

the Company's balance sheet leverage strategy and partially to fund long-term loans. FHLB Dallas advances are collateralized by FHLB Dallas stock, securities and nonspecified real estate loans. The Company plans to gradually replace short-term FHLB Dallas advances with deposit growth and long-term FHLB Dallas advances. The Company expects that loan growth should gradually replace a portion of the securities portfolio.

Average long-term junior subordinated convertible debentures were $2.4 million for the year ended December 31, 2000 compared to zero for the same period in 1999. The increase is a result of the sale of 1,695,000 Convertible Preferred Securities on November 2, 2000 at a liquidation amount of $10 per Convertible Preferred Security for an aggregate amount of $16,950,000. It has a distribution rate of 8.75% per annum payable at the end of each calendar quarter. This increase in Average Long-term Junior Subordinated Convertible Debentures contributed to the higher average rate paid in 2000 when compared to 1999.

Average long term junior subordinated debentures remained the same at $20 million from December 31, 1999 to December 31, 2000.

Average long-term and short-term interest bearing liabilities other than deposits increased $13.3 million or 3.7%, a direct result of the Company's leverage strategy and ALCO objectives. This increase contributed to the higher interest expense in 2000, as well as providing the primary source of funding for the increase in average investment, mortgage-backed and marketable equity securities.

RESULTS OF OPERATIONS

The following table presents average balance sheet amounts and average yields for the years ended December 31, 2000, 1999 and 1998. The information should be reviewed in conjunction with the other financial statements. Two major components affecting the Company's earnings are the Interest Earning Assets and Interest Bearing Liabilities. A summary of Average Interest Earning Assets and Interest Bearing Liabilities is set forth below, together with the average yield on the Interest Earning Assets and the average cost of the Interest Bearing Liabilities.

AVERAGE BALANCES AND YIE
(dollars in thousands
Years Ended

	December 31, 2000			
ASSETS	AVG. BALANCE	INTEREST	AVG. YIELD	AV BALA
INTEREST EARNING ASSETS:				
Loans(1)(2)	$ 434,559	$ 36,733	8.45%	$ 34
Securities:				
Inv. Sec. (Taxable)(4)	77,971	5,446	6.98%	7
Inv. Sec. (Tax-Exempt)(3)(4)	88,462	7,147	8.08%	9
Mortgage-backed Sec.(4)	374,531	27,155	7.25%	35
Marketable Equity Sec	19,351	1,553	8.03%	1

Interest Earning Deposits	964	65	6.74%	
Federal Funds Sold	2,838	176	6.20%	
Total Interest Earning Assets:	998,676	78,275	7.84%	88
NONINTEREST EARNING ASSETS:				
Cash and Due From Banks	31,621			2
Bank Premises and Equipment	21,952			1
Other Assets	17,815			1
Less: Reserve for Loan Loss	(4,944)			(
Total Assets	$ 1,065,120			$ 94
LIABILITIES AND SHAREHOLDERS' EQUITY:				
INTEREST BEARING LIABILITIES:				
Savings Deposits	$ 22,207	570	2.57%	$ 1
Time Deposits	307,663	18,307	5.95%	23
Interest Bearing Demand Deposits	165,790	4,958	2.99%	14
Short-term Interest Bearing Liabilities	161,162	10,177	6.31%	16
Long-term Interest Bearing Liabilities-FHLB Dallas	187,011	10,211	5.46%	17
Long-term Junior Subordinated Convertible Debentures	2,447	214	8.75%	
Long-term Junior Subordinated Debentures	20,000	1,700	8.50%	2
Total Interest Bearing Liabilities	866,280	46,137	5.33%	75
NONINTEREST BEARING LIABILITIES:				
Demand Deposits	145,883			1
Other Liabilities	10,480			
Total Liabilities	1,022,643			9
SHAREHOLDERS' EQUITY	42,477			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,065,120			$ 9
NET INTEREST INCOME		$ 32,138		
NET YIELD ON AVERAGE EARNING ASSETS			3.22%	

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
Years Ended

December 31, 1998

ASSETS	AVG. BALANCE	INTEREST	AVG. YIELD
INTEREST EARNING ASSETS:			
Loans(1)(2)	$ 304,255	$ 26,059	8.56%
Securities:			
Inv. Sec. (Taxable)(4)	22,974	1,316	5.73%
Inv. Sec. (Tax-Exempt)(3)(4)	69,270	5,270	7.61%
Mortgage-backed Sec.(4)	226,359	12,116	5.35%
Marketable Equity Sec	7,700	449	5.83%
Interest Earning Deposits	962	60	6.24%
Federal Funds Sold	2,462	137	5.56%
Total Interest Earning Assets:	633,982	45,407	7.16%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	23,754		
Bank Premises and Equipment	17,781		
Other Assets	13,961		
Less: Reserve for Loan Loss	(3,492)		
Total Assets	$ 685,986		
LIABILITIES AND SHAREHOLDERS' EQUITY:			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$ 17,280	467	2.70%
Time Deposits	214,419	11,369	5.30%
Interest Bearing Demand Deposits	131,006	3,649	2.79%
Short-term Interest Bearing Liabilities	66,786	3,513	5.26%
Long-term Interest Bearing Liabilities-FHLB Dallas	84,836	4,701	5.54%
Long-term Junior Subordinated Convertible Debentures	--	--	
Long-term Junior Subordinated Debentures	12,383	1,048	8.50%
Total Interest Bearing Liabilities	526,710	24,747	4.70%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	105,779		
Other Liabilities	10,417		
Total Liabilities	642,906		
SHAREHOLDERS' EQUITY	43,080		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 685,986		
NET INTEREST INCOME		$ 20,660	

NET YIELD ON AVERAGE EARNING ASSETS	3.26%

(1) Loans are shown net of unearned discount. Interest on loans includes fees on loans which are not material in amount.

(2) Interest income includes taxable-equivalent adjustments of $494, $92 and $8 as of December 31, 2000, 1999 and 1998, respectively.

(3) Interest income includes taxable-equivalent adjustments of $2,363, $2,070 and $1,722 as of December 31, 2000, 1999 and 1998, respectively.

(4) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

Note: For the years ended December 31, 2000, 1999 and 1998, loans totaling $630, $703 and $432, respectively, were on nonaccrual status. The policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

The following tables set forth the dollar amount of increase (decrease) in interest income and interest expense resulting from changes in the volume of interest earning assets and interest bearing liabilities and from changes in yields (in thousands):

	Years Ended December 31, 2000 Compared to 1999		
	Average Volume	Average Yield	Increas (Decreas
INTEREST INCOME:			
Loans	$ 7,882	$ 561	$ 8,44
Investment Securities (Taxable)	258	797	1,05
Investment Securities (Tax-Exempt)(1)	(199)	590	39
Mortgage-backed Securities	1,039	4,036	5,07
Marketable Equity Securities	96	546	64
Federal Funds Sold	(120)	49	(7
Interest Earning Deposits	(130)	20	(11
Total Interest Income	8,826	6,599	15,42
INTEREST EXPENSE:			
Savings Deposits	75	2	7
Time Deposits	5,160	1,281	6,44
Interest Bearing Demand Deposits	561	211	77

Federal Funds Purchased and Other Interest Bearing Liabilities	(60)	1,702	1,64
FHLB Dallas Advances	677	298	97
Long-term Junior Subordinated Convertible Debentures	214	--	21
Total Interest Expense	6,627	3,494	10,12
Net Interest Earnings	$ 2,199	$ 3,105	$ 5,30

	Years Ended December 31, 1999 Compared to 1998		
	Average Volume	Average Yield	Increas (Decreas
INTEREST INCOME:			
Loans	$ 3,105	$ (874)	$ 2,23
Investment Securities (Taxable)	3,022	53	3,07
Investment Securities (Tax-Exempt)(1)	1,621	(135)	1,48
Mortgage-backed Securities	7,909	2,055	9,96
Marketable Equity Securities	506	(44)	46
Federal Funds Sold	124	(14)	11
Interest Earning Deposits	118	(3)	11
Total Interest Income	16,405	1,038	17,44
INTEREST EXPENSE:			
Savings Deposits	52	(26)	2
Time Deposits	1,308	(541)	76
Interest Bearing Demand Deposits	276	(9)	26
Federal Funds Purchased and Other Interest Bearing Liabilities	5,023	(1)	5,02
FHLB Dallas Advances	4,770	(235)	4,53
Long-term Junior Subordinated Debentures	652	--	65
Total Interest Expense	12,081	(812)	11,26
Net Interest Earnings	$ 4,324	$ 1,850	$ 6,17

(1) Interest yields on securities which are nontaxable for Federal Income Tax purposes are presented on a taxable equivalent basis.

NOTE: Volume/Yield variances (change in volume times change in yield) have been allocated to amounts attributable to changes in volumes and to changes in yields in proportion to the amounts directly attributable to those changes.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the period ended December 31, 2000 was $1.6 million compared to $1.5 million for December 31, 1999. For the year ended December 31, 2000, the Company's subsidiary, Southside Bank, had net charge-offs of loans of $1.1 million, an increase of 149.7% compared to December 31, 1999. For the year ended December 31, 1999, net charge-offs on loans were $445,000.

The increase in net charge-offs for 2000 is reflective of the overall growth in the Company's loan portfolio and the low level of net charge-offs for 1999. Net charge-offs for commercial loans and loans to individuals both increased.

As of December 31, 2000, the Company's review of the loan portfolio indicates that a loan loss reserve of $5.0 million is adequate.

NONINTEREST INCOME

Noninterest income consists of revenues generated from a broad range of financial services and activities including fee based services. The following schedule lists the accounts from which noninterest income was derived, gives totals for these accounts for the year ended December 31, 2000 and the comparable year ended December 31, 1999 and indicates the percentage changes:

	Years Ended December 31,		Percen
	2000	1999	Chang
	(dollars in thousands)		
Deposit services	$ 8,045	$ 6,780	18
(Losses) gains on sales of securities available for sale	(535)	149	(459
Trust income	726	631	15
Other	1,991	1,672	19
Total noninterest income	$ 10,227	$ 9,232	10

Total noninterest income for the year ended December 31, 2000 increased 10.8% or $1.0 million compared to 1999. Securities losses increased $684,000 or 459.1% from 1999. Of the $535,000 in net securities losses from the AFS portfolio in 2000, there were $1,553,000 in realized losses and $1,018,000 in realized gains. The Company sold securities out of its AFS portfolio to accomplish Asset Liability Committee and investment portfolio objectives aimed at maximizing the total return of the securities portfolio. Sales of AFS securities were the result of changes in economic conditions and a change in the mix of the securities portfolio. As rates increased during 2000, lower yielding securities were sold and replaced with higher yielding securities. The increase in deposit services income of $1.3 million or 18.7% was a result of the introduction of a new overdraft privilege program in June 1997 and a new free checking account program introduced during the first quarter of 1999, which

increased overdraft fees, increased numbers of deposit accounts and increased deposit activity. Trust income increased $95,000 or 15.1% due to growth in the Trust department. Other noninterest income increased $319,000 or 19.1% primarily as a result of increases in credit card income, official check fee income and other fee income.

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NONINTEREST EXPENSE

The following schedule lists the accounts which comprise noninterest expense, gives totals for these accounts for the year ended December 31, 2000 and the comparable year ended December 31, 1999 and indicates the percentage changes:

	Years Ended December 31,		
	2000	1999	Percent Change
	(dollars in thousands)		
Salaries and employee benefits	$15,165	$13,427	12.9%
Net occupancy expense	3,170	2,842	11.5%
Equipment expense	659	537	22.7%
Advertising, travel and entertainment...	1,623	1,322	22.8%
Supplies	563	494	14.0%
Postage	422	419	0.7%
Other	3,852	3,483	10.6%
Total noninterest expense ....,,,	$25,454	$22,524	13.0%

Noninterest expense for the year ended December 31, 2000 increased $2.9 million or 13.0% when compared to the year ended December 31, 1999. Salaries and employee benefits increased $1.7 million or 12.9% due to several factors. Direct salary expense and payroll taxes increased $1.5 million or 13.2% as a result of overall bank growth and pay increases. Retirement expense decreased $189,000 or 25.3% for the year ended December 31, 2000 due to actuarial assumptions and a higher return on plan assets. Deferred compensation expense decreased $198,000 or 93.9% due to changes in deferred compensation plans expensed during 1999. Health insurance expense increased $634,000 or 55.5% for the year ended December 31, 2000 due to increased health claims expense.

Net occupancy expense increased $328,000 or 11.5% for the year ended December 31, 2000 compared to the same period in 1999, largely due to higher real estate taxes and depreciation expense.

Equipment expense increased $122,000 or 22.7% for the year ended December 31, 2000 when compared to 1999 due to additional locations.

Advertising, travel and entertainment expense increased $301,000 or 22.8%

for the year ended December 31, 2000 compared to the same period in 1999 due to an increased advertising budget and additional expenses associated with additional locations and growth in assets.

Other expense increased $369,000 or 10.6% during the year ended December 31, 2000 compared to 1999. The increase was due primarily to ATM fees and telephone expense due to added locations. In addition, bank exam and bank analysis fees increased due to bank asset and transaction growth. Also, costs associated with the Company's junior subordinated debentures increased.

INCOME TAXES

Income tax expense was $2.7 million for the year ended December 31, 2000 and represented a $660,000 or 33.0% increase from the year ended December 31, 1999. The effective tax rate as a percentage of pre-tax income was 21.3% in 2000, 20.2% in 1999 and 18.6% in 1998. The increase in the effective tax rate and income tax expense for 2000 was primarily a result of higher taxable income.

DECEMBER 31, 1999 COMPARED TO DECEMBER 31, 1998

OVERVIEW

Net income for the year ended December 31, 1999 was $7.9 million as compared to $5.3 million for the same period in 1998, an increase of $2.6 million or 48.1%. The increase in net income was primarily attributable to an increase in interest income which was partially offset by an increase in noninterest expense and provision for loan losses. Earnings per share of $1.00 represented an increase of $0.34, or 51.5% over the year ended December 31, 1998.

NET INTEREST INCOME

Net interest income increased $5.7 million or 30.3% for the year ended December 31, 1999 compared to the same period in 1998.

In May 1998, the Company implemented a leverage strategy designed to enhance profitability with acceptable levels of credit, interest rate and liquidity risk. The leverage strategy consists of borrowing long and short-term funds from the Federal Home Loan Bank and investing the funds in securities. Margin compression resulted during the implementation phase of the leverage strategy. While the Company experienced margin compression during 1998 and 1999, the leverage strategy began to produce additional net income beginning during 1999.

Interest income for the year ended December 31, 1999 increased $17.0 million or 38.9% to $60.7 million compared to the same period in 1998. The increased interest income in 1999 was attributable to the increase in Average Interest Earning Assets during the year.

Average Interest Earning Assets, totaling $889.6 million at December 31, 1999, increased $255.7 million or 40.3% over December 31, 1998 primarily as a result of increases in Average Investment and Mortgage-backed Securities and, to a lesser extent, Average Loans. During the year ended December 31, 1999 the mix of the Company's Interest Earning Assets reflected a decrease in Loans compared

to the prior year end as Loans averaged 38.4% of Total Average Interest Earning Assets compared to 48.0% during 1998, a direct result of the Company's leverage strategy. Securities averaged 60.7% of the total and Other Interest Earning Asset categories averaged 0.9% for December 31, 1999. During 1998 the comparable mix was 51.5% in Securities and 0.5% in the Other Interest Earning Asset categories.

The overall yield on Investment, Mortgage-backed and Marketable Equity securities increased 45 basis points to 6.32% during 1999 compared to the same period in 1998. This change was a result of overall higher interest rates, decreased prepayment speeds on premium mortgage-backed securities which led to decreased amortization expense and an increase for the year ended December 31, 1999 in the average tax-free municipal securities portfolio.

The average yield on average interest earning assets decreased 10 basis points during the year ended December 31, 1999 as compared to 1998 primarily as a result of the decrease in the average yield on loans and the increase in the overall mix of earning assets with lower yielding securities. The average yield on loans for the year ended December 31, 1999 decreased to 8.28% from 8.56% for the year ended December 31, 1998. This decrease was reflective of the repricing characteristics of the loans and the decrease in lending rates during 1999 due to competitive pressures, the changing mix of the loan portfolio and a lower average prime rate in 1999 compared to 1998. The U.S. prime interest rate decreased 75 basis points during the latter part of 1998 beginning September 1998. Prime increased 75 basis points during 1999, but did not begin increasing until June 1999, at which time prime increased 25 basis points. The final 25 basis point increase did not occur until November 1999. As a result, the prime rate, which is used as a basis to price numerous loans, was on average lower in 1999 than in 1998.

Interest income on loans increased $2.1 million or 8.2% compared to 1998 due to the increase in average loans during 1999 which more than offset the decrease in average yield on loans during 1999.

Interest income on securities increased $14.6 million in 1999 or 84.0% compared to 1998 primarily due to the increase in the average securities and the increase in the average yield of securities during 1999.

The increase in interest expense for the year ended December 31, 1999 of $11.3 million or 45.5% was attributable to an increase in Average Interest Bearing Liabilities of $231.1 million or 43.9% along with the increase in the average rate paid on Interest Bearing Liabilities of 5 basis points. Average Time Deposits increased $18.9 million or 8.8% while the average rate paid decreased 22 basis points along with an increase in Average Interest Bearing Demand Deposits of $16.9 million or 12.9% and an increase in Average Savings Deposits of $2.0 million or 11.5%. Average Noninterest Bearing Demand Deposits increased during 1999 $31.7 million or 30.0%. The latter three categories, which are considered the lowest cost deposits, comprised 56.6% of total average deposits during the year ended December 31, 1999 compared to 54.2% during 1998 and 52.4% during 1997. The increase in Average Total Deposits is reflective of overall bank growth and branch expansion and was the primary source of funding the increase in Average Loans.

Average Long-term and Short-term Interest Bearing Liabilities other than deposits increased $185.7 million or 122.5%, a direct result of the Company's

leverage strategy. This increase contributed to the higher interest expense in 1999, as well as providing the primary source of funding for the increase in average investment, mortgage-backed and marketable equity securities.

Average long-term junior subordinated debentures increased $7.6 million or 61.5%, a result of the sale of 2,000,000 preferred securities on May 18, 1998 at a liquidation amount of $10 per preferred security for an aggregate amount of $20 million. The debentures have a distribution rate of 8.50% per annum payable at the end of each calendar quarter. This increase in average long-term junior subordinated debentures also contributed to the higher average rate paid in 1999 when compared to 1998.

PROVISION FOR LOAN LOSSES

The provision for loan losses for December 31, 1999 and 1998 was $1.5 million and $1.2 million, respectively. For the year ended December 31, 1999, the Company's subsidiary, Southside Bank, had net charge-offs of loans of $445,000, a decrease of 56.4% compared to December 31, 1998. For the year ended December 31, 1998, net charge-offs on loans were $1.0 million. The decrease in net charge-offs for 1999 is reflective of the overall economy in the Company's primary market area. Net charge-offs for real estate loans, commercial loans and loans to individuals all decreased. As of December 31, 1999, the Company's review of the loan portfolio indicated that a loan loss reserve of $4.6 million was adequate.

NONINTEREST INCOME

The following table sets forth the accounts from which noninterest income was derived, gives totals for these accounts for the year ended December 31, 1999 and the comparable year ended December 31, 1998 and indicates the percentage changes:

	Years Ended December 31, 1999	Years Ended December 31, 1998	Percent Change
	(dollars in thousands)		
Deposit Services	$6,780	$5,353	26.7%
Gain on Sales of Securities Available for Sale ...	149	1,260	(88.2)%
Trust Income	631	528	19.5%
Other	1,672	1,162	43.9%
Total Noninterest Income	$9,232	$8,303	11.2%

Total noninterest income for the year ended December 31, 1999 increased 11.2% or $929,000 compared to 1998. Securities gains decreased $1.1 million or 88.2% from 1998. Of the $149,000 in net securities gains from the AFS portfolio in 1999, there were $856,000 in realized gains and $707,000 in realized losses. The Company sold securities out of the AFS portfolio to accomplish Asset/Liability Management Committee objectives of obtaining an acceptable total

rate of return on a risk adjusted basis on the securities portfolio. Sales of AFS securities were the result of changes in economic conditions and a change in the mix of the securities portfolio. The increase in deposit services income of $1.4 million or 26.7% was a result of the introduction of a new overdraft privilege program in June 1997 and a new free checking account program introduced during the first quarter of 1999, which increased overdraft fees, increased numbers of deposit accounts and increased deposit activity. Trust income increased $103,000 or 19.5% due to growth in the Trust Department. Other noninterest income increased $510,000 or 43.9% primarily as a result of increases in mortgage servicing release fees income of $289,000 and an increase in income from Countywide of $112,000.

NONINTEREST EXPENSE

The following table sets forth the accounts which comprise noninterest expense, gives totals for these accounts for the year ended December 31, 1999 and the comparable year ended December 31, 1998 and indicates the percentage changes:

	Years Ended December 31,		
	1999	1998	Percent Change
	(dollars in thousands)		
Salaries and Employee Benefits	$13,427	$11,318	18.6%
Net Occupancy Expense	2,842	2,370	19.9%
Equipment Expense	537	457	17.5%
Advertising, Travel and Entertainment	1,322	1,124	17.6%
Supplies	494	461	7.2%
Postage	419	352	19.0%
Other	3,483	3,361	3.6%
Total Noninterest Expense	$22,524	$19,443	15.8%

Noninterest expense for the year ended December 31, 1999 increased $3.1 million or 15.8% when compared to the year ended December 31, 1998. Salaries and employee benefits increased $2.1 million or 18.6% due to several factors. Direct salary expense and payroll taxes increased $1.6 million or 16.2% as a result of personnel additions to staff the three new branches opened in the second half of 1998, overall bank growth and pay increases. Retirement expense increased $281,000 or 41.5% for the year ended December 31, 1999 due to increasing numbers of employees covered by the retirement plan, increased contributions to the Company's employee stock ownership plan and additional deferred compensation expense incurred during 1999. Health insurance expense increased $247,000 or 27.6% for the year ended December 31, 1999 due to increased health claims.

Net occupancy expense increased $472,000 or 19.9% for the year ended December 31, 1999 compared to the same period in 1998, largely due to higher real estate taxes, depreciation expense and associated operating costs as a result of the three new branches opened in the second half of 1998.

Equipment expense increased $80,000 or 17.5% for the year ended December

31, 1999 when compared to 1998 due to increased equipment usage at the three new branch locations opened in the second half of 1998 and increased equipment costs associated with equipment maintenance.

Advertising, travel and entertainment expense increased $198,000 or 17.6% for the year ended December 31, 1999 compared to the same period in 1998. The increase occurred due to increases in direct advertising during 1999 as a result of the opening of the three new branches in 1998 and new products introduced in 1999. Donations also increased during the year ended December 31, 1999 and are included in this total.

Postage expense increased $67,000 or 19.0% for the year ended December 31, 1999 compared to the same period in 1998, largely due to the increased numbers of deposit accounts and increased volume.

Other expense increased $122,000 or 3.6% during the year ended December 31, 1999 compared to 1998. The increase was due primarily to ATM fees and telephone expense due to added locations. In addition, bank exam and bank analysis fees increased due to bank asset and transaction growth. Also, amortization of costs associated with the Company's junior subordinated debentures increased.

INCOME TAXES

Income tax expense was $2.0 million for the year ended December 31, 1999 and represented a $776,000 or 63.4% increase from the year ended December 31, 1998. The effective tax rate as a percentage of pre-tax income was 20.2% in 1999 and 18.6% in 1998. The increase in the effective tax rate and income tax expense for 1999 was primarily a result of higher taxable income.

MANAGEMENT OF LIQUIDITY

Liquidity management involves the ability to convert assets to cash with a minimum of loss. The Company must be capable of meeting its obligations to its customers at any time. This means addressing (1) the immediate cash withdrawal requirements of depositors and other funds providers; (2) the funding requirements of all lines and letters of credit; and (3) the short-term credit needs of customers. Liquidity is provided by short-term investments that can be readily liquidated with a minimum risk of loss.

Cash, Interest Earning Deposits, Federal Funds Sold and short-term investments with maturities or repricing characteristics of one year or less continue to be a substantial percentage of total assets. At December 31, 2000, these investments were 15.5% of Total Assets, as compared with 13.0% for December 31, 1999, and 19.2% for December 31, 1998. Liquidity is further provided through the matching, by time period, of rate sensitive interest earning assets with rate sensitive interest bearing liabilities. The Company has three lines of credit for the purchase of federal funds. Two $15.0 million and one $10.0 million unsecured lines of credit have been established with Bank of America, Frost Bank and Texas Independent Bank, respectively.

The Asset/Liability Management Committee of the bank closely monitors various liquidity ratios, interest rate spreads and margins, interest rate shock reports and market value of portfolio equity with rates shocked plus and minus 200 basis points to ensure the Company a satisfactory liquidity position. Market

value of portfolio equity is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. Market value of portfolio equity analysis is the general measure used by regulatory authorities for assessing an institution's interest rate risk. The extent to which assets will gain or lose value in relation to the gains or losses of liabilities and/or interest rate contracts determines the appreciation or depreciation in equity on a market-value basis. Such market value analysis is intended to evaluate the impact of immediate and sustained parallel interest-rate shifts of the current yield curve upon the market value of the current balance sheet. In addition, the bank utilizes a simulation model to determine the impact of net interest income under several different interest rate scenarios. By utilizing this technology, the bank attempts to determine changes that need to be made to the asset and liability mixes to minimize the change in net interest income under these various interest rate scenarios.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of monitoring the Company's interest rate sensitivity, or risk, is to provide management the tools necessary to manage the balance sheet to minimize adverse changes in net interest income as a result of changes in the direction and level of interest rates. Federal Reserve Board monetary control efforts, the effects of deregulation and legislative changes have been significant factors affecting the task of managing interest rate sensitivity positions in recent years.

The interest rate risk inherent in assets and liabilities may be determined by analyzing the extent to which such assets and liabilities are "interest rate sensitive" and by measuring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a defined time period if it matures or reprices within that period. The difference or mismatch between the amount of interest earning assets maturing or repricing within a defined period and the amount of interest bearing liabilities maturing or repricing within the same period is defined as the interest rate sensitivity gap. An institution is considered to have a negative gap if the amount of interest bearing liabilities maturing or repricing within a specified time period exceeds the amount of interest earning assets maturing or repricing within the same period. If more interest earning assets than interest bearing liabilities mature or reprice within a specified period, then the institution is considered to have a positive gap. Accordingly, in a rising interest rate environment in an institution with a negative gap, the cost of its rate sensitive liabilities would theoretically rise at a faster pace than the yield on its rate sensitive assets, thereby diminishing future net interest income. In a falling interest rate environment, a negative gap would indicate that the cost of rate sensitive liabilities would decline at a faster pace than the yield on rate sensitive assets and improve net interest income. For an institution with a positive gap, the reverse would be expected. The table on page 40 shows interest sensitivity gaps for four different intervals as of December 31, 2000.

In an attempt to manage its exposure to changes in interest rates, management closely monitors the Company's exposure to interest rate risk. Management maintains an asset/liability committee which meets regularly and reviews the Company's interest rate risk position and makes recommendations for adjusting this position. In addition, the Board reviews on a monthly basis the Company's asset/liability position.

The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates. Except for the effects of prepayments and scheduled principal amortization on mortgage related assets, the table presents principal cash flows and related weighted average interest rates by the contractual term to maturity. Nonaccrual loans are not included in the Loan totals. All instruments are classified as other than trading.

EXPECTED MATURITY DATE
(dollars in thousands)

	Year Ending December 31,					
	2001	2002	2003	2004	2005	Ther
Fixed Rate Loans	$ 214,470	$ 90,326	$ 49,733	$ 28,847	$ 15,122	$
	8.29%	8.27%	8.15%	8.05%	8.09%	
Adjustable Rate Loans	28,385	5,761	1,713	3,227	3,811	
	10.37%	10.40%	10.49%	9.88%	10.08%	
Mortgage-backed Securities	89,151	67,514	51,286	39,017	29,730	
	7.67%	7.65%	7.64%	7.62%	7.60%	
Investments and Other Interest Earning Assets ..	45,737	2,609	4,802	383	1,886	
	7.40%	7.11%	6.99%	7.70%	8.16%	
Total Interest Earning Assets	$ 377,743	$ 166,210	$ 107,534	$ 71,474	$ 50,549	$
	8.19%	8.07%	7.89%	7.90%	7.95%	
Savings Deposits	$ 2,400	$ 1,201	$ 1,201	$ 1,201	$ 1,201	$
	2.57%	2.57%	2.57%	2.57%	2.57%	
NOW Deposits	10,758	5,379	5,379	5,379	5.379	
	3.04%	3.04%	3.04%	3.04%	3.04%	
Money Market Deposits	18,105	6,036	6,036	6,036	6,036	
	3.38%	3.38%	3.38%	3.38%	3.38%	
Platinum Money Market	10,819	1,159	1,159	1,159	1,159	
	5.10%	5.10%	5.10%	5.10%	5.10%	
Certificates of Deposit ..	226,106	31,356	30,115	6,659	18,401	
	6.01%	6.10%	6.86%	5.64%	7.32%	
FHLB Dallas Advances	149,804	50,820	61,867	13,752	13,666	
	6.09%	5.68%	5.54%	5.62%	5.97%	
Other Borrowings	7,303	--	--	--	--	
	4.69%	--	--	--	--	

Total Interest Bearing Liabilities	$ 425,295	$ 95,951	$ 105,757	$ 34,186	$ 45,842	$
	5.79%	5.48%	5.63%	4.70%	5.72%	

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Residential fixed rate loans are assumed to have annual prepayment rates between 10% and 18% of the portfolio. Commercial and multi-family real estate loans are assumed to prepay at an annualized rate between 6% and 18%. Consumer loans are assumed to prepay at an annualized rate between 6% and 18%. Fixed and adjustable rate mortgage-backed securities, including Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs"), have annual payment assumptions ranging from 10% to 30%. At December 31, 2000, the contractual maturity of substantially all of the Company's mortgage-backed or related securities was in excess of ten years. The actual maturity of a mortgage-backed or related security is less than its stated maturity due to regular principal payments and prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and affect its yield to maturity. The yield to maturity is based upon the interest income and the amortization of any premium or discount related to the security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed or related security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing may increase and accelerate the prepayment of the underlying mortgages and the related security. At December 31, 2000, of the $412.2 million of mortgage-backed and related securities held by the Company, an aggregate of $407.3 million were secured by fixed-rate mortgage loans and an aggregate of $4.9 million were secured by adjustable-rate mortgage loans.

The Company assumes 70% of savings accounts and transaction accounts at December 31, 2000, are core deposits and are, therefore, expected to roll-off after five years. The Company assumes 30% of Money Market accounts at December 31, 2000 are core deposits and are, therefore, expected to roll-off after five years. The Company does not consider any of its Platinum Money Markets accounts as core deposits. No roll-off rate is applied to certificates of deposit. Fixed maturity deposits reprice at maturity.

In evaluating the Company's exposure to interest rate risk, certain limitations inherent in the method of analysis presented in the foregoing table must be considered. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgages,

have features which restrict changes in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

The following table sets forth certain information as of December 31, 2000 with respect to rate sensitive assets and liabilities and interest sensitivity gap (dollars in thousands):

Rate Sensitive Assets (RSA)	1-3 Mos.	4-12 Mos.	1-5 Yrs.
Loans(1)	$ 131,093	$ 136,366	$ 184,028
Securities	67,430	71,743	197,227
Other Interest Earning Assets	596	--	--
Total Rate Sensitive Assets	$ 199,119	$ 208,109	$ 381,255
Rate Sensitive Liabilities (RSL)			
Interest Bearing Deposits	$ 70,178	$ 198,010	$ 141,631
Other Interest Bearing Liabilities	113,205	43,902	140,105
Total Rate Sensitive Liabilities	$ 183,383	$ 241,912	$ 281,736
Gap(2)	15,736	(33,803)	99,519
Cumulative Gap	15,736	(18,067)	81,452
Cumulative Ratio of RSA to RSL	1.09	0.96	1.12
Gap/Total Earning Assets	1.5%	(3.1)%	9.3%

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(1) Amount is equal to total loans net of unearned discount less nonaccrual loans at December 31, 2000.

(2) Gap equals Total RSA minus Total RSL.

The Asset Liability Management Committee of Southside Bank closely monitors the desired gap along with various liquidity ratios to ensure a satisfactory liquidity position for the Company. Rates have fluctuated several hundred basis points during the last five years. During this time, NOW, MMDA and Savings rates have moved very little. Therefore, when considering rate sensitivity, management does not consider NOW, Savings and MMDA to be one day interest rate sensitive. Management spreads these deposits into several categories from 0 to 10 years for purposes of internal evaluation. As a result of reclassifying these deposits, management considers the Company to be appropriately matched. Management continually evaluates the condition of the economy, the pattern of market interest rates and other economic data to

determine the types of investments that should be made and at what maturities. Using this analysis, management from time to time assumes calculated interest sensitivity gap positions to maximize net interest income based upon anticipated movements in the general level of interest rates. Regulatory authorities also monitor the Bank's gap position along with other liquidity ratios. In addition, the Bank utilizes a simulation model to determine the impact of net interest income under several different interest rate scenarios. By utilizing this technology, the Bank can determine changes that need to be made to the asset and liability mixes to minimize the change in net interest income under these various interest rate scenarios.

CAPITAL RESOURCES

Total Shareholders' Equity at December 31, 2000, of $51.7 million increased 37.2% or $14.0 million from December 31, 1999 and represented 4.5% of total assets at December 31, 2000 compared to 3.7% at December 31, 1999. The increase in the percent of Shareholders' Equity to Total Assets is a result of the decrease in the unrealized losses in the securities portfolio and the increase in net income.

Net income for 2000 of $9.8 million was the major contributor to the increase in Shareholders' Equity at December 31, 2000 along with the issuance of $410,000 in common stock (53,964 shares) through the Company's dividend reinvestment plan and incentive stock option plan and a net decrease in unrealized losses of $6.3 million on AFS securities. Decreases to Shareholders' Equity consisted of $1.7 million in dividends paid and the purchase of $813,000 in treasury stock (94,050 shares). The Company purchased treasury stock pursuant to a common stock repurchase plan instituted in late 1994. Under the repurchase plan, the Board of Directors establishes, on a quarterly basis, total dollar limitations and price per share for stock to be repurchased. The Board reviews this plan in conjunction with the capital needs of the Company and Southside Bank and may, at its discretion, modify or discontinue the plan. During the third quarter of 2000, the Company issued a 5% stock dividend, which had no net effect on Shareholders' Equity. The Company's dividend policy requires that any cash dividend payments made by the Company not exceed consolidated earnings for that year. Shareholders should not anticipate a continuation of the cash dividend simply because of the implementation of a dividend reinvestment program. The payment of dividends will depend upon future earnings, the financial condition of the Company, and other related factors.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average

assets (as defined). Management believes, as of December 31, 2000, that the Bank meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table:

	Actual		For Capital Adequacy Purpose	
	Amount	Ratio	Amount	Ra
			(dollars in thousan	
As of December 31, 2000:				
Total Capital (to Risk Weighted Assets)				
Consolidated	$ 94,817	16.63%	$ 45,605	
Bank Only	$ 87,495	15.30%	$ 45,741	
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	$ 71,169	12.48%	$ 22,802	
Bank Only	$ 82,758	14.47%	$ 22,870	
Tier 1 Capital (to Average Assets) (1)				
Consolidated	$ 71,169	6.31%	$ 45,148	
Bank Only	$ 82,758	7.33%	$ 45,176	
As of December 31, 1999:				
Total Capital (to Risk Weighted Assets)				
Consolidated	$ 70,611	13.96%	$ 40,473	
Bank Only	$ 67,687	13.25%	$ 40,864	
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated	$ 61,782	12.21%	$ 20,237	
Bank Only	$ 63,343	12.40%	$ 20,432	

Tier 1 Capital (to Average Assets) (1)				
Consolidated	$ 61,782	6.20%	$ 39,876	
Bank Only	$ 63,343	6.35%	$ 39,875	

(1) Refers to quarterly average assets as calculated by bank regulatory agencies.

The table below summarizes key equity ratios for the Company for the years ended December 31, 2000, 1999 and 1998.

	Years Ended December 31,		
	2000	1999	1998
Percentage of Net Income to:			
Average Total Assets	.92%	.84%	.78%
Average Shareholders' Equity	23.13%	18.99%	12.42%
Percentage of Dividends Declared Per Common Share to Net Income Per Common Share-Basic	17.44%	19.42%	28.99%
Percentage of Dividends Declared Per Common Share to Net Income Per Common Share-Diluted	18.15%	20.00%	30.30%
Percentage of Average Shareholders' Equity to Average Total Assets	3.99%	4.41%	6.28%

OTHER ACCOUNTING ISSUES

On June 15, 1998, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS133). FAS133 and its amendments are effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. FAS133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

In June 1999, the Financial Accounting Standards Board issued Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities (FAS137)-- Deferral of the Effective Date of Financial Accounting Standards No. 133, an Amendment of Financial Accounting Standards Board Statement No. 133," which defers the effective date of Financial Accounting Standards No. 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 Financial Accounting Standards No. 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 Financial Accounting Standards No. 133, as amended. Additionally, Financial Accounting Standards No. 133, as amended, should not be applied retroactively to financial statements of prior periods.

In June 2000, the Financial Accounting Standards Board issued Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Hedging Activities, an Amendment of Financial Accounting Standards Board Statement No. 133," which addresses a limited number of issues causing implementation difficulties for numerous entities that apply Financial Accounting Standards No. 133, as amended. Financial Accounting Standards No. 138 amends the accounting and reporting standards of Financial Accounting Standards No. 133, as amended, for certain derivative instruments, certain hedging activities and for decisions made by the Financial Accounting Standards Board relating to the Derivatives Implementation Group process. Management anticipates that adoption of Financial Accounting Standards No. 133, as amended, will not have a significant effect on the Company's results of operations or its financial position, except the HTM securities transferred. On January 1, 2001, the Company adopted FAS133 and FAS137. The transition provisions contained in FAS133 provide that at the date of initial application, an entity may transfer any debt security classified as HTM to AFS or trading. Effective January 1, 2001, as part of implementing FAS133 and FAS137, the Company elected to transfer all of its securities out of the HTM category in accordance with FAS133 guidance. Securities transferred on January 1, 2001 and sold during the first quarter ended March 31, 2001, will be accounted for as trading securities. All other securities transferred will be accounted for as AFS securities.

In September 2000, the Financial Accounting Standards Board issued Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of Financial Accounting Standards Board Statement No. 125," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but, it carries over most of Financial Accounting Standards No. 125's provisions without reconsideration. The statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. It is effective for disclosures about securitizations and collateral and for the recognition and reclassification of collateral for fiscal years ending after December 15, 2000. Management anticipates the adoption of financial Accounting Standards No. 140 will not have a significant effect on the Company's results of operations or its financial position.

EFFECTS OF INFLATION

The consolidated financial statements of the Company, and their related notes, have been prepared in accordance with generally accepted accounting principles, that require the measurement of financial position and operating results in terms of historical dollars, without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike many industrial companies, nearly all of the assets and liabilities of the Company are monetary. As a result, interest rates have a greater impact on the

Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth in Part IV.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain of the information required under this item appears beginning on page 2 of the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held April 19, 2001, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item appears beginning on page 7 of the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held April 19, 2001, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under this item beginning on page 2 of the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held April 19, 2001, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this item beginning on page 10 of the Company's definitive proxy statement for the Annual Meeting of Shareholders to be held April 19, 2001, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)
1. Financial Statements

The following consolidated financial statements of Southside Bancshares, Inc. and its subsidiaries are filed as part of this report.

Consolidated Balance Sheets as of December 31, 2000 and 1999.

Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998.
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998.
Consolidated Statements of Cash Flow for the years ended December 31, 2000, 1999 and 1998.
Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

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

3. Exhibits

Exhibit No.		
3(a)(i)	-	Articles of Incorporation as amended and in effect on December 31, 1992, of SoBank, Inc. (now named Southside Bancshares, Inc.)(filed as Exhibit 3 to the Registrant's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
3(a)(ii)	-	Articles of Amendment effective May 9, 1994 to Articles of Incorporation of SoBank, Inc. (now named Southside Bancshares, Inc.) (filed as Exhibit 3(a)(ii) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
3(b)	-	Bylaws as amended and in effect on March 23, 1995 of Southside Bancshares, Inc. (filed as Exhibit 3(b) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
**10(a)(i)	-	Deferred Compensation Plan for B. G. Hartley effective February 13, 1984, as amended June 28, 1990, December 15, 1994, November 20, 1995 and December 21, 1999 (filed as Exhibit 10(a)(i) to the Registrant's Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
**10(a)(ii)	-	Deferred Compensation Plan for Robbie N. Edmonson effective February 13, 1984, as amended June 28, 1990 and March 16, 1995 (filed as Exhibit 10(a)(ii) to the Registrant's Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).
**10(b)	-	Officers Long-term Disability Income Plan effective June 25, 1990 (filed as Exhibit

10(b) to the Registrant's Form 10-K for the year ended June 30, 1990, and incorporated herein by reference).

**10(c) - Retirement Plan Restoration Plan for the subsidiaries of SoBank, Inc. (now named Southside Bancshares, Inc.)(filed as Exhibit 10(c) to the Registrant's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

**10(d) - Incentive Stock Option Plan effective April 1, 1993 of SoBank, Inc. (now named Southside Bancshares, Inc.) (filed as Exhibit 10(d) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).

**10(e) - Form of Deferred Compensation Agreements dated June 30, 1994 with each of Titus Jones and Andy Wall as amended November 13, 1995. (filed as Exhibit 10(e) to the Registrant's Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).

**10(f) - Form of Deferred Compensation Agreements dated June 30, 1994 with each of Sam Dawson, Lee Gibson and Jeryl Story as amended October 15, 1997 and Form of Deferred Compensation Agreement dated October 15, 1997 with Lonny Uzzell (filed as Exhibit 10(f) to the Registrant's Form 10-K for the year ended December 31, 1997, and incorporated herein by reference).

*21 - Subsidiaries of the Registrant.

*23 - Consent of Independent Accountants.

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* Filed herewith.

** Compensation plan, benefit plan or employment contract or arrangement.

(b) Reports on Form 8-K

On November 10, 2000, the Company filed Form 8-K reporting Item 5. Other Events, regarding the approval by the board of directors of the Company of a 5% common stock dividend, a $.05 per common share cash dividend and a $.025 per common share special cash dividend. Further, the Company reported the adjustment of the conversion ratio for the Company's convertible trust preferred securities to 1.0 shares of common stock per $10 principal amount of debentures.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHSIDE BANCSHARES, INC.

BY: /s/ B. G. HARTLEY

B. G. Hartley, Chairman of the Board and Director (Principal Executive Officer)

/s/ LEE R. GIBSON

Lee R. Gibson, CPA, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

DATED: March 1, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ B. G. HARTLEY (B. G. Hartley)	Chairman of the Board and Director	March 1, 2001
/s/ ROBBIE N. EDMONSON (Robbie N. Edmonson)	Vice Chairman of the Board and Director	March 1, 2001
/s/ SAM DAWSON (Sam Dawson)	President and Secretary and Director	March 1, 2001
/s/ FRED E. BOSWORTH (Fred E. Bosworth)	Director	March 1, 2001
/s/ HERBERT C. BUIE (Herbert C. Buie)	Director	March 1, 2001
/s/ ROLLINS CALDWELL	Director	March 1, 2001

(Rollins Caldwell)

/s/ MICHAEL D. GOLLOB ------------------------ (Michael D. Gollob)	Director	March 1, 2001
/s/ W. D. (JOE) NORTON ------------------------ (W. D. (Joe) Norton)	Director	March 1, 2001
/s/ PAUL W. POWELL ------------------------ (Paul W. Powell)	Director	March 1, 2001
/s/ WILLIAM SHEEHY ------------------------ (William Sheehy)	Director	March 1, 2001

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Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flow present fairly, in all material respects, the financial position of Southside Bancshares, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that the we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Dallas, Texas
March 2, 2001

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

	December 31, 2000	Decembe 199
ASSETS		
Cash and due from banks	$ 38,800	$ 41,
Investment securities:		
Available for sale	56,777	96,
Held to maturity	104,508	86,
Total Investment securities	161,285	182,
Mortgage-backed and related securities:		
Available for sale	269,286	273,
Held to maturity	142,961	73,
Total Mortgage-backed securities and related securities	412,247	347,
Marketable equity securities:		
Available for sale	20,226	18,
Loans:		
Loans, net of unearned discount	481,435	387,
Less: reserve for loan losses	(5,033)	(4,
Net Loans	476,402	382,
Premises and equipment, net	25,475	21,
Other real estate owned, net	43	
Interest receivable	9,117	7,
Deferred tax asset	2,922	6,
Other assets	5,364	4,
TOTAL ASSETS	$ 1,151,881	$ 1,012,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 166,899	$ 150,
Interest bearing	553,706	436,
Total Deposits	720,605	587,
Short-term obligations:		
Federal funds purchased	5,025	
FHLB Dallas Advances	148,940	181,
Other obligations	2,278	4,
Total Short-term obligations	156,243	186,
Long-term obligations:		
FHLB Dallas Advances	179,645	174,

Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Convertible Debentures	16,950	
Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures	20,000	20,
Total Long-term obligations	216,595	194,
Other liabilities	6,743	6,
TOTAL LIABILITIES	1,100,186	974,
Commitments and Contingencies (Note 14 and 15)		
Shareholders' equity:		
Common stock: ($1.25 par, 20,000,000 shares authorized, 8,215,135 and 7,798,332 shares issued)	10,269	9,
Paid-in capital	30,226	27,
Retained earnings	19,891	14,
Treasury stock (606,552 and 512,502 shares at cost)	(5,357)	(4,
Accumulated other comprehensive loss	(3,334)	(9,
TOTAL SHAREHOLDERS' EQUITY	51,695	37,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,151,881	$ 1,012,

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

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

	Years Ended December 31,		
	2000	1999	199
Interest income			
Loans	$ 36,239	$ 28,198	$ 26,
Investment securities	10,230	9,077	4,
Mortgage-backed and related securities	27,155	22,080	12,
Marketable equity securities	1,553	911	
Other interest earning assets	241	422	
Total interest income	75,418	60,688	43,
Interest expense			
Deposits	23,835	16,545	15,
Short-term obligations	10,177	8,535	3,

Long-term obligations	12,125	10,936	5,
Total interest expense	46,137	36,016	24,
Net interest income	29,281	24,672	18,
Provision for loan losses	1,569	1,456	1,
Net interest income after provision for loan losses	27,712	23,216	17,
Noninterest income			
Deposit services	8,045	6,780	5,
(Loss) gain on sales of securities available for sale	(535)	149	1,
Trust income	726	631	
Other	1,991	1,672	1,
Total noninterest income	10,227	9,232	8,
Noninterest expense			
Salaries and employee benefits	15,165	13,427	11,
Net occupancy expense	3,170	2,842	2,
Equipment expense	659	537	
Advertising, travel & entertainment	1,623	1,322	1,
Supplies	563	494	
Postage	422	419	
Other	3,852	3,483	3,
Total noninterest expense	25,454	22,524	19,
Income before federal tax expense	12,485	9,924	6,
Provision (benefit) for federal tax expense			
Current	2,572	2,033	1,
Deferred	88	(33)	(
Total income taxes	2,660	2,000	1,
Net Income	$ 9,825	$ 7,924	$ 5,
Net Income Per Common Share			
Basic	$ 1.29	$ 1.03	$
Diluted	$ 1.24	$ 1.00	$

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

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

	Comprehensive Income (Loss)	Common Stock	Paid in Capital	Retained Earning
Balance at December 31, 1999	$	$ 9,748	$ 27,472	$14,583
Net Income	9,825			9,825
Other comprehensive income, net of tax				
Unrealized gains on securities, net of reclassification adjustment (see disclosure below)	6,277			
Minimum pension liability adjustment	(24)			
Comprehensive income	$ 16,078			
Common stock issued (53,964 shares)		67	343	
FAS109 - Incentive Stock Options (ISO's)			6	
Dividends paid on common stock				(1,658
Purchase of 94,050 shares of treasury stock				
Stock dividend		454	2,405	(2,859
Balance at December 31, 2000		$10,269	$ 30,226	$19,891
Disclosure of reclassification amount:				
Unrealized holding gains arising during period..................................	$ 5,924			
Less: reclassification adjustment for losses included in net income............	(353)			
Net unrealized gains on securities..........	$ 6,277			
Balance at December 31, 1998................	$	$ 9,214	$ 24,198	$11,391
Net Income..................................	7,924			7,924
Other comprehensive loss, net of tax				
Unrealized losses on securities, net of reclassification adjustment (see disclosure below).......................	(14,352)			
Minimum pension liability adjustment........	(3)			
Comprehensive loss..........................	$ (6,431)			
Common stock issued (77,012 shares).........		96	360	
FAS109 - Incentive Stock Options (ISO's)....			29	
Dividends paid on common stock..............				(1,409
Purchase of 148,150 shares of treasury stock..........................				
Stock dividend..............................		438	2,885	(3,323
Balance at December 31, 1999................		$ 9,748	$ 27,472	$14,583

Disclosure of reclassification amount:	
Unrealized holding losses arising during period	$ (14,254)
Less: reclassification adjustment for gains included in net income	98
Net unrealized losses on securities	$ (14,352)

	Accumulated Other Compre-hensive Income (Loss)	Total Shares holders' Equity
Balance at December 31, 1999	$ (9,587)	$ 37,672
Net Income		9,825
Other comprehensive income, net of tax		
Unrealized gains on securities, net of reclassification adjustment (see disclosure below)	6,277	6,277
Minimum pension liability adjustment	(24)	(24)
Comprehensive income		
Common stock issued (53,964 shares)		410
FAS109 - Incentive Stock Options (ISO's)		6
Dividends paid on common stock		(1,658)
Purchase of 94,050 shares of treasury stock		(813)
Stock dividend		
Balance at December 31, 2000	$ (3,334)	$ 51,695
Disclosure of reclassification amount:		
Unrealized holding gains arising during period		
Less: reclassification adjustment for losses included in net income		
Net unrealized gains on securities		
Balance at December 31, 1998	$ 4,768	$ 46,413
Net Income		7,924
Other comprehensive loss, net of tax		
Unrealized losses on securities, net of reclassification adjustment (see disclosure below)	(14,352)	(14,352)
Minimum pension liability adjustment	(3)	(3)
Comprehensive loss		
Common stock issued (77,012 shares)		456
FAS109 - Incentive Stock Options (ISO's)		29

Dividends paid on common stock.............		(1,409)
Purchase of 148,150 shares of treasury stock..........................		(1,386)
Stock dividend............................		
Balance at December 31, 1999...............	$ (9,587)	$ 37,672

Disclosure of reclassification amount:
Unrealized holding losses arising during period................................
Less: reclassification adjustment for gains included in net income............

Net unrealized losses on securities.........

(continued)

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

	Compre-hensive Income (Loss)	Common Stock	Paid in Capital	Retained Earnings
Balance at December 31, 1997	$	$ 8,740	$ 21,290	$ 10,414
Net Income	5,351			5,351
Other comprehensive income, net of tax				
Unrealized gains on securities, net of reclassification adjustment (see disclosure below)	3,396			
Minimum pension liability adjustment	50			
Comprehensive income	$ 8,797			
Common stock issued (42,320 shares)		53	294	
FAS109 - Incentive Stock Options (ISO's)			42	
Dividends paid on common stock				(1,359)
Purchase of 142,852 shares of treasury stock				
Exercise of 12,000 shares of ISO's				(22)
Stock dividend		421	2,572	(2,993)

Balance at December 31, 1998		$ 9,214	$ 24,198	$ 11,391
		=========	==========	==========

Disclosure of reclassification amount:	
Unrealized holding gains arising during period	$ 4,228
Less: reclassification adjustment for gains included in net income	832

Net unrealized gains on securities	$ 3,396
	========

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

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

	Yea
	2000
OPERATING ACTIVITIES:	
Net income	$ 9,825
Adjustments to reconcile net cash provided by operations:	
Depreciation	1,699
Amortization of premium	1,610
Accretion of discount and loan fees	(2,043)
Provision for loan losses	1,569
FAS109-Incentive stock options	6
Loss (gain) on sale of securities available for sale	535
Gain on sale of assets	--
Gain on sale of other real estate owned	(17)
Increase in interest receivable	(1,554)
(Increase) decrease in other assets	(636)
Decrease (increase) in deferred tax asset	100
Increase in interest payable	517
(Decrease) increase in other payables	(2,880)

Net cash provided by operating activities	8,731
INVESTING ACTIVITIES:	
Proceeds from sale of investment securities available for sale	87,280

Proceeds from sale of mortgage-backed securities available for sale	209,087
Proceeds from maturities of investment securities available for sale	6,939
Proceeds from maturities of mortgage-backed securities available for sale	38,449
Proceeds from maturities of investment securities held to maturity	8,430
Proceeds from maturities of mortgage-backed securities held to maturity ...	4,991
Purchases of investment securities available for sale	(73,508)
Purchases of mortgage-backed securities available for sale	(308,826)
Purchases of investment securities held to maturity	(3,829)
Purchases of mortgage-backed securities held to maturity	(3,110)
Purchases of marketable equity securities available for sale	(1,683)
Net increase in loans	(96,366)
Purchases of premises and equipment	(5,868)
Proceeds from sale of premises and equipment	
Proceeds from sale of repossessed assets	1,003
Proceeds from sale of other real estate owned	390
Net cash used in investing activities	(136,621)

(continued)

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

	Years End	
	2000	
FINANCING ACTIVITIES:		
Net increase in demand and savings accounts	$ 43,873	$
Net increase in certificates of deposit	89,188	
Proceeds from FHLB Dallas advances	1,071,180	
Repayment of FHLB Dallas advances	(1,098,521)	
Issuance of guaranteed preferred beneficial interest in the company's junior subordinated debentures	--	
Issuance of guaranteed preferred beneficial interest in the company's junior subordinated convertible debentures	16,950	
Net increase (decrease) in federal funds purchased	4,950	
Proceeds from the issuance of common stock	410	
Purchase of treasury stock	(813)	
Sale of treasury stock	--	
Dividends paid	(1,658)	
Net cash provided by financing activities	125,559	
Net (decrease) increase in cash and cash equivalents	(2,331)	

Cash and cash equivalents at beginning of year	41,131	
Cash and cash equivalents at end of year	$ 38,800	$

SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION:

Interest paid	$ 45,620	$
Income taxes paid	$ 2,125	$

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Acquisition of other real estate owned and other repossessed assets through foreclosure	$ 1,266	$

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

NOTES TO FINANCIAL STATEMENTS   Southside Bancshares, Inc. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The significant accounting and reporting policies of Southside Bancshares, Inc. (the "Company"), and its wholly owned subsidiaries, Southside Delaware Financial Corporation, Southside Bank (the "Bank") and the nonbank subsidiary, are summarized below.

Organization and Basis of Presentation. The consolidated financial statements include the accounts of the Company, Southside Delaware Financial Corporation, Southside Bank and the nonbank subsidiary, which did not conduct any business in 2000. Southside Bank offers a full range of financial services to commercial, industrial, financial and individual customers. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Cash Equivalents. Cash equivalents, for purposes of reporting cash flow, include cash and amounts due from banks.

Loans. All loans are stated at principal outstanding net of unearned income. Interest income on installment loans is recognized primarily using the level yield method. Interest income on other loans is credited to income based primarily on the principal outstanding at contract rates of interest. Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the reserve for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. A loan is considered impaired, based on current information and events, if it is probable that

the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Substantially all of the Company's impaired loans are collateral-dependent, and as such, are measured for impairment based on the fair value of the collateral.

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

Reserve for Loan Losses. A reserve for loan losses is provided through charges to income in the form of a provision for loan losses. Loans which management believes are uncollectible are charged against this account with subsequent recoveries, if any, credited to the account. The amount of the reserve for loan losses is determined by management's evaluation of the quality and inherent risks in the loan portfolio, economic conditions and other factors which warrant current recognition.

Nonaccrual Loans. A loan is placed on nonaccrual when principal or interest is contractually past due 90 days or more unless, in the determination of management, the principal and interest on the loan are well collateralized and in the process of collection. In addition, a loan is placed on nonaccrual when, in the opinion of management, the future collectibility of interest and principal is in serious doubt. When classified as nonaccrual, accrued interest receivable on the loan is reversed and the future accrual of interest is suspended. Payments of contractual interest are recognized as income only to the extent that full recovery of the principal balance of the loan is reasonably certain.

Other Real Estate Owned. Other Real Estate Owned includes real estate acquired in full or partial settlement of loan obligations. Other Real Estate Owned is carried at the lower of (1) the recorded amount of the loan for which the foreclosed property previously served as collateral or (2) the fair market value of the property. Prior to foreclosure, the recorded amount of the loan is written down, if necessary, to the appraised fair market value of the real estate to be acquired, less selling costs, by charging the reserve for loan losses. Any subsequent reduction in fair market value is charged to results of operations through the Reserve for Losses on Other Real Estate account. Costs of maintaining and operating foreclosed properties are expensed as incurred. Expenditures to complete or improve foreclosed properties are capitalized only if expected to be recovered; otherwise, they are expensed.

Securities. The Company uses the specific identification method to determine the basis for computing realized gain or loss. The Company accounts for debt and equity securities as follows:

Held to Maturity (HTM). Debt securities that management has the positive intent and ability to hold until maturity are classified as HTM and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the level interest yield method over the estimated remaining term of the underlying security.

Available for Sale (AFS). Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of

alternative investments are classified as AFS. These assets are carried at market value. Market value is determined using published quotes as of the close of business. Unrealized gains and losses are excluded from earnings and reported net of tax in Accumulated Other Comprehensive Income until realized.

Premises and Equipment. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful lives of the related assets. Useful lives are estimated to be twenty to forty years for premises and three to ten years for equipment. Maintenance and repairs are charged to income as incurred while major improvements and replacements are capitalized.

Income Taxes. The Company files a consolidated Federal income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period the change occurs.

Stock Options. The Company applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, in accounting for its stock-based compensation plans. Under Opinion 25, compensations cost is measured as the excess, if any of the quoted market price of the Company's stock at the date of the grant above the amount an employee must pay to acquire the stock. The Financial Accounting Standards Board (FASB) published Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS123) on January 1, 1996 which encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options and other equity instruments to employees based on new fair value accounting rules. Companies that choose not to adopt the new rules will continue to apply existing rules, but will be required to disclose pro forma net income and earnings per share under the new method. The Company elected to provide the pro forma disclosures for 1998, 1999 and 2000.

Recent Accounting Pronouncements. On June 15, 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS133). FAS133 and its amendments are effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. FAS133 requires that all derivative instruments be recorded on the balance at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

In June 1999, the Financial Accounting Standards Board issued Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities (FAS137)-- Deferral of the Effective Date of Financial Accounting Standards No. 133, an Amendment of Financial Accounting

Standards Board Statement No. 133," which defers the effective date of Financial Accounting Standards No. 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 Financial Accounting Standards No. 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 Financial Accounting Standards No. 133, as amended. Additionally, Financial Accounting Standards No. 133, as amended, should not be applied retroactively to financial statements of prior periods.

In June 2000, the Financial Accounting Standards Board issued Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Hedging Activities, an Amendment of Financial Accounting Standards Board Statement No. 133," which addresses a limited number of issues causing implementation difficulties for numerous entities that apply Financial Accounting Standards No. 133, as amended. Financial Accounting Standards No. 138 amends the accounting and reporting standards of Financial Accounting Standards No. 133, as amended, for certain derivative instruments, certain hedging activities and for decisions made by the Financial Accounting Standards Board relating to the Derivatives Implementation Group process. Management anticipates that adoption of Financial Accounting Standards No. 133, as amended, will not have a significant effect on the Company's results of operations or its financial position, except for the HTM securities transferred. On January 1, 2001, the Company adopted FAS133 and FAS137. The transition provisions contained in FAS133 provide that at the date of initial application, an entity may transfer any debt security classified as HTM to AFS or trading. Effective January 1, 2001, as part of implementing FAS133 and FAS137, the Company elected to transfer all of its securities out of the HTM category in accordance with FAS133 guidance. Securities transferred on January 1, 2001 and sold during the first quarter ended March 31, 2001, will be accounted for as trading securities. All other securities transferred will be accounted for as AFS securities.

In September 2000, the Financial Accounting Standards Board issued Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of Financial Accounting Standards Board Statement No. 125," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but, it carries over most of Financial Accounting Standards No. 125's provisions without reconsideration. The statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. It is effective for disclosures about securitizations and collateral and for the recognition and reclassification of collateral for fiscal years ending after December 15, 2000. Management anticipates the adoption of financial Accounting Standards No. 140 will not have a significant effect on the Company's results of operations or on its financial position.

General. Certain prior period amounts have been reclassified to conform to current year presentation.

2. EARNINGS PER SHARE

Earnings per share on a basic and diluted basis as required by Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (FAS128), has been adjusted to give retroactive recognition to stock splits and stock dividends and is calculated as follows (in thousands, except per share amounts):

	Years Ended December 31,		
	2000	1999	1998
Numerator:			
Net income	$9,825	$7,924	$5,351
Numerator for net income per common share	9,825	7,924	5,351
Effect of dilutive securities	142	--	--
Numerator for net income per common share - assuming dilution	$9,967	$7,924	$5,351
Denominator:			
Denominator for net income per common share (weighted-average shares outstanding)	7,612	7,675	7,783
Effect of dilutive securities:			
Stock options	197	247	298
Convertible debentures	241	--	--
Denominator for net income per common share - assuming dilution	8,050	7,922	8,081
Net income per common share	$ 1.29	$ 1.03	$ .69
Net income per common share - assuming dilution	$ 1.24	$ 1.00	$ .66

3. COMPREHENSIVE INCOME

The components of accumulated comprehensive income (loss) as required by Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" are as follows (in thousands):

	Year Ended December 31, 2000		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 8,976	$(3,052)	$ 5,924
Less: reclassification adjustment for losses realized in net income	(535)	182	(353)
Net unrealized gains	9,511	(3,234)	6,277
Minimum pension liability adjustment	(36)	12	(24)
Other comprehensive income	$ 9,475	$(3,222)	$ 6,253

	Year Ended December 31, 1999		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period ..	$(21,597)	$ 7,343	$(14,254
Less: reclassification adjustment for gains realized in net income	149	(51)	98
Net unrealized losses	(21,746)	7,394	(14,352
Minimum pension liability adjustment	(5)	2	(3
Other comprehensive loss	$(21,751)	$ 7,396	$(14,355

	Year Ended December 31, 1998		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period ...	$ 6,405	$(2,177)	$ 4,228
Less: reclassification adjustment for gains realized in net income	1,260	(428)	832
Net unrealized gains	5,145	(1,749)	3,396
Minimum pension liability adjustment	76	(26)	50
Other comprehensive income	$ 5,221	$(1,775)	$ 3,446

4. CASH AND DUE FROM BANKS

The Company is required to maintain cash reserve balances with the Federal Reserve Bank. The reserve balances were $4.5 million and $250,000 as of December 31, 2000 and 1999, respectively.

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5. INVESTMENT, MORTGAGE-BACKED AND MARKETABLE EQUITY SECURITIES

The amortized cost and estimated market value of investment, mortgage-backed and marketable equity securities as of December 31, 2000 and 1999 were (in thousands):

December 31, 2000	AVAILABLE FOR SALE			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury	$ 6,001	$ 15	$ 1	$ 6,015
U.S. Government Agencies	3,502	--	--	3,502
Mortgage-backed Securities:				
Direct Govt. Agency Issues	250,190	4,598	121	254,667
Other Private Issues	14,170	532	83	14,619
State and Political Subdivisions ..	43,609	1,741	200	45,150
Other Stocks and Bonds	22,327	9	--	22,336
Total	$339,799	$ 6,895	$ 405	$346,289

December 31, 2000	HELD TO MATURITY			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government Agencies	$ 39,888	$ 871	$ 212	$ 40,547
Mortgage-backed Securities:				
Direct Govt. Agency Issues	67,498	2,069	136	69,431
Other Private Issues	75,463	1,182	250	76,395
State and Political Subdivisions ..	54,994	2,353	1	57,346
Other Stocks and Bonds	9,626	131	--	9,757
Total	$247,469	$ 6,606	$ 599	$253,476

December 31, 1999	AVAILABLE FOR SALE			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury	$ 9,502	$ --	$ 35	$ 9,467
U.S. Government Agencies	21,430	--	262	21,168
Mortgage-backed Securities:				
Direct Govt. Agency Issues	236,240	404	3,789	232,855
Other Private Issues	41,400	144	723	40,821
State and Political Subdivisions ..	57,180	485	2,122	55,543
Other Stocks and Bonds	28,841	2	234	28,609
Total	$394,593	$ 1,035	$ 7,165	$388,463

December 31, 1999	HELD TO MATURITY			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government Agencies	$ 42,871	$ 201	$ 873	$ 42,199
Mortgage-backed Securities:				
Direct Govt. Agency Issues	14,967	21	295	14,693
Other Private Issues	58,931	--	1,748	57,183
State and Political Subdivisions ..	43,048	--	1,154	41,894
Other Stocks and Bonds	289	7	--	296
Total	$160,106	$ 229	$ 4,070	$156,265

Interest income recognized on securities for the years presented:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
U.S. Treasury	$ 403	$ 707	$ 562
U.S. Government Agencies	4,197	3,322	614
Mortgage-backed Securities	27,155	22,080	12,116

State and Political Subdivisions	4,913	4,698	3,548
Other Stocks and Bonds	2,270	1,261	589
Total interest income on securities	$38,938	$32,068	$17,429

During the month ended January 31, 2000 and the year ended December 31, 1999, the Company transferred securities totaling $91.7 million and $132.4 million, respectively, from AFS to HTM due to changes in market conditions. Of the total transferred, $21.2 million and $66.3 million were investment securities and $70.5 million and $66.1 million were mortgage-backed securities. The unrealized loss on the securities transferred from AFS to HTM was $2.6 million and $5.6 million, net of tax, at the date of transfer. There were no securities transferred from AFS to HTM during the year ended December 31, 1998. There were no sales from the HTM portfolio during the years ended December 31, 2000 or 1999.

On January 1, 2001, the Company adopted FAS133 and FAS137. The transition provisions contained in FAS133 provide that at the date of initial application, an entity may transfer any debt security classified as HTM to AFS or trading. Effective January 1, 2001, as part of implementing FAS133 and FAS137, the Company elected to transfer all of its securities out of the HTM category in accordance with FAS133 guidance. Securities transferred on January 1, 2001 and sold during the first quarter ended March 31, 2001, will be accounted for as trading securities. All other securities transferred will be accounted for as AFS securities.

Of the $535,000 in net securities losses on sales from the AFS portfolio in 2000, there were $1,553,000 in realized losses and $1,018,000 in realized gains. Of the $149,000 in net securities gains on sales from the AFS portfolio in 1999, there were $856,000 in realized gains and $707,000 in realized losses. The $1,260,000 in net securities gains on sales from the AFS portfolio in 1998 were comprised of $1,321,000 in realized gains and $61,000 in realized losses.

The scheduled maturities of AFS and HTM securities as of December 31, 2000 are presented below. Mortgage-backed securities are presented in total by category.

	Amortized Cost	Aggregate Fair Value
	(in thousands)	
Available for sale securities:		
Due in one year or less	$ 27,735	$ 27,759
Due after one year through five years	4,709	4,810
Due after five years through ten years ...	2,539	2,611
Due after ten years	40,456	41,823

	75,439	77,003
Mortgage-backed securities	264,360	269,286
Total	$339,799	$346,289
Held to maturity securities:		
Due in one year or less	$ 2,486	$ 2,489
Due after one year through five years	15,194	15,387
Due after five years through ten years ...	12,943	13,013
Due after ten years	73,885	76,761
	104,508	107,650
Mortgage-backed securities	142,961	145,826
Total	$247,469	$253,476

Investment securities with book values of $343,955,000 and $436,357,000 were pledged as of December 31, 2000 and 1999, respectively, to collateralize FHLB Dallas advances, public and trust deposits or for other purposes as required by law.

6. LOANS AND RESERVE FOR POSSIBLE LOAN LOSSES

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

	December 31, 2000	December 31, 1999
Real Estate Loans:	(in thousands)	
Construction	$ 25,108	$ 18,489
1-4 family residential	134,672	112,699
Other	122,665	97,556
Commercial loans	107,737	79,804
Loans to individuals	92,607	82,747
Total loans	482,789	391,295
Less: Unearned income	1,354	3,849
Reserve for loan losses ...	5,033	4,575
Net loans	$476,402	$382,871

The following is a summary of the Reserve for Loan Losses for the years ended December 31, 2000, 1999 and 1998:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Balance at beginning of year	$ 4,575	$ 3,564	$ 3,370
Provision for loan losses	1,569	1,456	1,215
Loans charged off	(1,442)	(765)	(1,349)
Recoveries of loans charged off	331	320	328
Balance at end of year	$ 5,033	$ 4,575	$ 3,564

Nonaccrual loans at December 31, 2000 and 1999 were $630,000 and $703,000, respectively. Loans with terms modified in troubled debt restructuring at December 31, 2000 and 1999 were $389,000 and $448,000, respectively.

For the years ended December 31, 2000 and 1999, the average recorded investment in impaired loans was approximately $567,000 and $565,000, respectively. During the years ended December 31, 2000 and 1999, the amount of interest income reversed on impaired loans placed on nonaccrual and the amount of interest income subsequently recognized on the cash basis was not material.

The amount of interest recognized on nonaccrual or restructured loans was $122,000, $125,000 and $94,000 for the years ended December 31, 2000, 1999 and 1998, respectively. If these loans had been accruing interest at their original contracted rates, related income would have been $138,000, $137,000 and $113,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The following is a summary of the Company's recorded investment in loans (primarily nonaccrual loans) for which impairment has been recognized in accordance with FAS114:

	Total	Valuation Allowance	Carrying Value
	(in thousands)		
Real Estate.............................	$ 336	$ 32	$ 304
Commercial Loans........................	78	20	58
Loans to Individuals....................	216	29	187
Balance at December 31, 2000............	$ 630	$ 81	$ 549

	Total	Valuation Allowance	Carrying Value

	(in thousands)		
Commercial Loans........................	$ 422	$ 225	$ 197
Loans to Individuals....................	281	44	237
Balance at December 31, 1999............	$ 703	$ 269	$ 434

7. BANK PREMISES AND EQUIPMENT

	December 31, 2000	December 31, 1999
	(in thousands)	
Bank premises	$27,002	$22,347
Furniture and equipment	13,473	12,290
	40,475	34,637
Less accumulated depreciation	15,000	13,331
Total	$25,475	$21,306

Depreciation expense was $1,699,000, $1,474,000 and $1,397,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Rent expense was $447,000, $424,000 and $198,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Future minimum rental commitments under noncancelable leases are (in thousands):

2001	$ 270
2002	181
2003	142
2004	27
2005	--
Thereafter	--
	$ 620

8. OTHER REAL ESTATE OWNED

The following is a summary of the Allowance for Losses on Other Real Estate Owned (OREO) for the periods presented:

Years Ended December 31,

	2000	1999	1998
	(in thousands)		
Balance at beginning of year	$ 61	$ 658	$ 672
Acquisition of OREO		61	
Disposition of OREO	(61)	(658)	(14)
Balance at end of year	$ --	$ 61	$ 658

For the years ended December 31, 2000, 1999 and 1998, income from OREO properties exceeded the provision and other expenses by $2,000, $58,000 and $28,000, respectively.

9. INTEREST BEARING DEPOSITS

	December 31, 2000	December 31, 1999
	(in thousands)	
Savings deposits	$ 24,007	$ 20,282
Money Market demand deposits	60,355	75,278
Platinum Money Market deposits	15,455	--
NOW demand deposits	107,573	84,227
Certificates and other time deposits of $100,000 or more	151,142	87,468
Certificates and other time deposits under $100,000	195,174	169,660
Total	$553,706	$436,915

For the years ended December 31, 2000, 1999 and 1998, interest expense on time deposits of $100,000 or more was $7,902,000, $3,427,000 and $3,133,000, respectively.

At December 31, 2000, the scheduled maturities of certificates and other time deposits are as follows (in thousands):

2001	$ 226,106
2002	31,356
2003	30,115
2004	6,659
2005 and thereafter	52,080

$ 346,316
=========

The aggregate amount of demand deposits that has been reclassified as loans were $950,000 and $870,000 for December 31, 2000 and 1999, respectively.

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10. SHORT-TERM BORROWINGS

Information related to short-term borrowings is provided in the table below.

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Federal funds purchased			
Balance at end of period	$ 5,025	$ 75	$ 4,168
Average amount outstanding during the period(1)	2,687	4,660	3,700
Maximum amount outstanding during the period	15,325	24,068	25,364
Weighted average interest rate during the period(2)	6.6%	5.1%	5.7%
Interest rate at end of period	6.5%	4.3%	5.1%
Securities sold under agreements to repurchase			
Balance at end of period	$ --	$ --	$ --
Average amount outstanding during the period(1)	--	--	59
Maximum amount outstanding during the period	--	--	7,150
Weighted average interest rate during the period(2)	--	--	5.6%
Interest rate at end of period	--	--	--
Federal Home Loan Bank ("FHLB") Dallas Advances			
Balance at end of period	$148,940	$181,222	$118,000
Average amount outstanding during the period(1)	156,265	155,719	61,734
Maximum amount outstanding during the period	188,899	186,500	135,000
Weighted average interest rate during the period(2)	6.3%	5.3%	5.3%
Interest rate at end of period	6.1%	5.3%	5.0%
Treasury tax and loan funds			
Balance at end of period	$ 2,278	$ 4,744	$ 1,523
Average amount outstanding during the period(1)	2,210	1,908	1,293
Maximum amount outstanding during the period	4,604	4,747	3,154
Weighted average interest rate during the period(2)	5.8%	4.0%	4.2%
Interest rate at end of period	5.8%	4.7%	4.1%

(1) The average amount outstanding during the period was computed by dividing the total month-end outstanding principal balances by the number of months in the period.

(2) The weighted average interest rate during the period was computed by dividing the actual interest expense (annualized) by average balance

outstanding during the period.

The Company has three lines of credit for the purchase of federal funds. Two $15.0 million and one $10.0 million unsecured lines of credit have been established with Bank of America, Frost Bank and Texas Independent Bank, respectively.

11. LONG TERM OBLIGATIONS

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
FHLB Dallas Advances			
Balance at end of period	$179,645	$174,704	$156,02
Average amount outstanding during the period (1)	187,011	175,028	84,83
Maximum amount outstanding during the period	210,460	174,870	156,23
Weighted average interest rate during the period (2)	5.5%	5.3%	5.
Interest rate at end of period	5.7%	5.4%	5.

(1) The average amount outstanding during the period was computed by dividing the total month-end outstanding principal balances by the number of months in the period.

(2) The weighted average interest rate during the period was computed by dividing the actual interest expense (annualized) by average balance outstanding during the period.

Maturities of fixed rate FHLB Dallas Long-term advances based on scheduled repayments at December 31, 2000 are (in thousands):

	Under 1 Year	Due 1-5 Years	Due 6-10 Years	Over 10 Years	2000 Total
Total Long-term Obligations.........	$ 864	$140,105	$ 37,891	$ 785	$179,645

FHLB Dallas advances are collateralized by FHLB Dallas stock, nonspecified real estate loans and mortgage-backed securities.

In April 1998, the Company formed a wholly-owned non-banking subsidiary Southside Capital Trust (the "Trust Issuer"). The Trust Issuer was created under the Business Trust Act of Delaware for the sole purpose of issuing and selling Preferred Securities and Common Securities and using proceeds from the sale of the Preferred Securities and Common Securities to acquire Junior Subordinated

Debentures (the "Debentures") issued by the Company. Accordingly, the Debentures are the sole assets of the Trust Issuer and payments under the Debentures are the sole revenue of the Trust Issuer. All of the Common Securities are owned by the Company.

On May 18, 1998, the Company, through the Trust Issuer, sold 2,000,000 Preferred Securities at a liquidation amount of $10 per Preferred Security for an aggregate amount of $20,000,000. It has a distribution rate of 8.50% per annum payable at the end of each calendar quarter.

On November 2, 2000, the Company through its wholly-owned subsidiary, Southside Capital Trust II (the "Trust II Issuer"), sold 1,695,000 cumulative convertible preferred securities at a liquidation amount of $10 per convertible preferred security for an aggregate amount of $16,950,000. These securities have a convertible feature that allows the owner to convert each security to a share of the Company's common stock at a conversion price of $10 per common share.

The Company's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust Issuer's obligations under the Preferred Securities. Although the Debentures are treated as debt of the Company, they currently qualify for Tier 1 capital treatment subject to a limitation that the securities included as Tier 1 capital not exceed 25% of total Tier 1 capital. The Securities are callable by the Company on or about June 30, 2003, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier 1 capital is no longer permitted or certain other contingencies arise. The Preferred Securities must be redeemed upon maturity of the Debentures in year 2028.

12. EMPLOYEE BENEFITS

Southside Bank has a deferred compensation agreement with eight of its executive officers, which generally provides for payment of an aggregate amount of $3.7 million over a maximum period of fifteen years after retirement or death. Deferred compensation expense was $13,000, $211,000 and $147,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company provides accident and health insurance for substantially all employees through an insurance program funded by the Company. Health insurance benefits are offered to retired employees who pay a premium based on cost as determined by a third party administrator. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age after fifteen years of employment with the Company. The cost of health care benefits was $1,451,000, $1,122,000 and $802,000 for the years ended December 31, 2000, 1999 and 1998, respectively. There were six retirees and five retirees participating in the health insurance plan as of December 31, 2000 and 1999, respectively.

The Company has an Employee Stock Ownership Plan which covers substantially all employees. Contributions to the plan are at the sole discretion of the Board of Directors. Contributions to the plan for the years ended December 31, 2000 and 1999 were $100,000. There were no contributions to the plan for the year ended December 31, 1998. At December 31, 2000 and 1999, 197,260 and 202,919 shares of common stock were owned by the Employee Stock Ownership Plan, respectively. The number of shares have been adjusted as a result of stock splits and stock dividends. These shares are treated as externally held shares for dividend and earnings per share calculations.

The Company has an Officers Long-term Disability Income Plan, (the "Disability Plan"), which covers officers of the Company and Southside Bank in the event they become disabled as defined under its terms. Individuals are automatically covered under the plan if they (a) have been elected as an officer, (b) have been an employee of the Company and Southside Bank for three years and (c) receive earnings of $50,000 or more on an annual basis. The Disability Plan provides, among other things, that should a covered individual become totally disabled he would receive 66-2/3%, not to exceed $10,000 per month, of their current salary. The benefits paid out of this plan are limited by the benefits paid to the individual under the terms of other Company sponsored benefit plans.

The Company and Southside Bank have a defined benefit pension plan pursuant to which participants are entitled to benefits based on final average monthly compensation and years of credited service determined in accordance with plan provisions. All employees of the Company and Southside Bank who have worked 1000 hours or more in their first twelve months of employment or during any plan year thereafter are eligible to participate. Employees are vested upon the earlier of five years credited service or the employee attaining 60 years of age. Benefits are payable monthly commencing on the later of age 65 or the participant's date of retirement. Eligible participants may retire at reduced benefit levels after reaching age 55. The Company contributes amounts to the pension fund sufficient to satisfy funding requirements of the Employee Retirement Income Security Act. Plan assets included 138,899 shares of Southside Bancshares, Inc. stock purchased at fair market value at December 31, 2000 and 1999. The number of shares have been adjusted as a result of stock splits and stock dividends.

Change in Projected Benefit Obligation	December 31, 2000	December 31, 1999
	(in thousands)	
Benefit obligation at end of prior year	$ 13,548	$ 13,926
Service cost	679	714
Interest cost	1,030	957
Actuarial loss (gain)	488	(1,371)
Benefits paid	(634)	(604)
Expenses paid	--	(74)
Benefit obligation at end of year	$ 15,111	$ 13,548

Change in Plan Assets	December 31, 2000	December 31, 1999
	(in thousands)	
Fair value of plan assets at end of prior year	$ 14,117	$ 12,113
Actual return	(123)	1,891

Employer contribution	485	791
Benefits paid	(634)	(604)
Expenses paid	--	(74)
Fair value of plan assets at end of year	$ 13,845	$ 14,117

Reconciliation of Funded Status	December 31, 2000	December 31, 1999
	(in thousands)	
Funded status	$(1,266)	$ 569
Unrecognized net loss (gain)	729	(1,127)
Unrecognized net transition asset	(139)	(185)
Accrued benefit cost	$ (676)	$ (743)

The weighted average discount rate and rate of increase in future compensation levels used in determining actuarial present value of the projected benefit obligation was 7.50% and 4.50% and 7.75% and 4.50% at December 31, 2000 and 1999, respectively. The assumed long-term rate of return on plan assets was 9.0% at December 31, 2000 and 1999.

Net periodic pension cost for the years ended December 31, 2000, 1999 and 1998 included the following components:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Service cost	$ 679	$ 714	$ 578
Interest cost	1,030	957	856
Expected return on assets	(1,245)	(1,068)	(900)
Transition asset recognition	(46)	(46)	(46)
Net loss recognition	--	9	9
Net periodic benefit cost	$ 418	$ 566	$ 497

The Company has a nonfunded supplemental retirement plan (restoration plan) for its employees whose benefits under the principal retirement plan are reduced because of compensation deferral elections or limitations under federal tax laws.

Change in Projected Benefit Obligation	December 31, 2000	December 31, 1999
	(in thousands)	
Benefit obligation at end of prior year	$ 635	$ 405
Service cost	3	13
Interest cost	35	46
Actuarial (gain) loss	(149)	227
Benefits paid	(56)	(56)
Benefit obligation at end of year	$ 468	$ 635

Change in Plan Assets	December 31, 2000	December 31, 1999
	(in thousands)	
Fair value of plan assets at end of prior year	$	$
Employer contribution	56	56
Benefits paid	(56)	(56)
Fair value of plan assets at end of year	$ --	$ --

Reconciliation of Funded Status	December 31, 2000	December 31, 1999
	(in thousands)	
Funded status	$(468)	$(635)
Unrecognized net loss	106	260
Unrecognized net transition obligation	19	21
Accrued benefit cost	(343)	(354)
Additional minimum liability	(112)	(79)
Accrued benefit liability	(455)	(433)
Intangible asset	19	21
Accumulated other comprehensive income	93	58
Net amount recognized	$(343)	$(354)

The weighted average discount rate and rate of increase in future compensation levels used in determining actuarial present value of the projected benefit

obligation was 7.50% and 4.50% and 7.75% and 4.50% at December 31, 2000 and 1999, respectively. The assumed long-term rate of return on plan assets was 9.0% at December 31, 2000 and 1999.

Net periodic postretirement benefit cost for the years ended December 31, 2000, 1999 and 1998 includes the following components:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Service cost	$ 3	$ 13	$ --
Interest cost	35	46	28
Transition obligation recognition	3	3	3
Net loss recognition	4	21	--
Net periodic benefit cost	$ 45	$ 83	$ 31

Incentive Stock Options

In April 1993, the Company adopted the Southside Bancshares, Inc. 1993 Incentive Stock Option Plan ("the Plan"), a stock-based incentive compensation plan. The Company applies APB Opinion 25 and related Interpretations in accounting for the Plan and discloses the pro forma information required by FAS123.

Under the Plan, the Company is authorized to issue shares of Common Stock pursuant to "Awards" granted in the form of incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended). Awards may be granted to selected employees and directors of the Company or any subsidiary. At December 31, 2000 and 1999, there were 17,688 and 294,435 options available for grant, respectively.

The Plan provides that the exercise price of any stock option may not be less than the fair market value of the Common Stock on the date of grant. The Company granted incentive stock options in 1998, 1999 and 2000. These stock options have contractual terms of 10 years. All options vest on a graded schedule, 20% per year for 5 years, beginning on the first anniversary date of the grant date. In accordance with APB 25, the Company has not recognized any compensation cost for these stock options.

A summary of the status of the Company's stock options as of December 31, 2000, 1999 and 1998 and the changes during the year ended on those dates is presented below:

	2000		1999		
	# SHARES OF UNDERLYING	WEIGHTED AVERAGE	# SHARES OF UNDERLYING	WEIGHTED AVERAGE	# SH UND

	OPTIONS PRICES	EXERCISE	OPTIONS PRICES	EXERCISE	OP PR
Outstanding at beginning of the year	890,012	$ 6.41	788,975	$ 5.90	6
Granted	279,971	$ 7.39	157,665	$ 8.00	3
Exercised	9,503	$ 4.42	47,094	$ 2.95	
Forfeited	3,224	$ 7.84	9,534	$ 7.98	1
Expired	--	N/A	--	N/A	
Outstanding at end of year	1,157,256	$ 6.65	890,012	$ 6.41	7
Exercisable at end of year	557,034	$ 5.69	405,498	$ 5.22	3
Weighted-average FV of options granted during the year	$ 1.83		$ 2.13		$

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes method of option pricing with the following weighted-average assumptions for grants in 2000, 1999 and 1998, respectively: dividend yield of 2.95%, 2.30%, and 1.37%; risk-free interest rates of 5.95%, 6.05%, and 5.18%; the expected lives of 6 years; the expected volatility is 23.21%.

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/00	WEIGHTED AVG. REMAINING CONTR. LIFE	WEIGHTED AVG EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/00	WEIGHTED AVG. EXERCISE PRICE
$ 2.71 to $ 5.88	402,465	4.3	$4.74	366,730	$4.62
$ 7.30 to $ 8.00	754,791	8.3	$7.68	190,304	$7.73
$ 2.71 to $ 8.00	1,157,256	6.9	$6.65	557,034	$5.69

Pro Forma Net Income and Net Income Per Common Share

Had the compensation cost for the Company's stock-based compensation plans been determined consistent with the requirements of FAS123, the Company's net income and net income per common share for 2000, 1999, and 1998 would approximate the

pro forma amounts below (in thousands, except per share amounts, net of taxes):

	As Reported 12/31/00	Pro Forma 12/31/00	As Reported 12/31/99	Pro Forma 12/31/99	As Reported 12/31/98
FAS123 Charge	$ --	$ 330	$ --	$ 316	$ --
Net Income	$ 9,825	$ 9,495	$ 7,924	$ 7,608	$ 5,351
Net Income per Common Share-Basic	$ 1.29	$ 1.25	$ 1.03	$ .99	$ .69
Net Income per Common Share-Diluted	$ 1.24	$ 1.20	$ 1.00	$ .96	$ .66

The effects of applying FAS123 in this pro forma disclosure are not indicative of future amounts.

13. SHAREHOLDERS' EQUITY

Cash dividends declared and paid were $0.225 per share for the year ended December 31, 2000. Cash dividends declared and paid were $0.20 per share for the years ended December 31, 1999 and 1998. Future dividends will depend on the Company's earnings, financial condition and other factors which the Board of Directors of the Company considers to be relevant. The Company's dividend policy requires that any dividend payments made by the Company not exceed consolidated earnings for that year.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2000, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2000, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Total risk-based, Tier 1 risk-based,

and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		For Capital Adequacy Purposes		Cap Pro Act
	Amount	Ratio	Amount	Ratio	Am
As of December 31, 2000:			(in thousands)		
Total Capital (to Risk Weighted Assets)					
Consolidated...........................	$ 94,817	16.63%	$ 45,605	8.00%	
Bank Only..............................	$ 87,495	15.30%	$ 45,741	8.00%	$
Tier 1 Capital (to Risk Weighted Assets)					
Consolidated...........................	$ 71,169	12.48%	$ 22,802	4.00%	
Bank Only..............................	$ 82,758	14.47%	$ 22,870	4.00%	$
Tier 1 Capital (to Average Assets) (1)					
Consolidated...........................	$ 71,169	6.31%	$ 45,148	4.00%	
Bank Only..............................	$ 82,758	7.33%	$ 45,176	4.00%	$
As of December 31, 1999:					
Total Capital (to Risk Weighted Assets)					
Consolidated...........................	$ 70,611	13.96%	$ 40,473	8.00%	
Bank Only..............................	$ 67,687	13.25%	$ 40,864	8.00%	$
Tier 1 Capital (to Risk Weighted Assets)					
Consolidated...........................	$ 61,782	12.21%	$ 20,237	4.00%	
Bank Only..............................	$ 63,343	12.40%	$ 20,432	4.00%	$
Tier 1 Capital (to Average Assets) (1)					
Consolidated...........................	$ 61,782	6.20%	$ 39,876	4.00%	
Bank Only..............................	$ 63,343	6.35%	$ 39,875	4.00%	$

(1) Refers to quarterly average assets as calculated by bank regulatory agencies.

Payment of dividends by the Bank is limited under regulation. The amount that can be paid in any calendar year without prior approval of the Bank's regulatory agencies cannot exceed the lesser of net profits (as defined) for that year plus

the net profits for the preceding two calendar years, or retained earnings.

The table below summarizes key equity ratios for the Company for the years ended December 31, 2000, 1999 and 1998.

	Years Ended December 31,		
	2000	1999	1998
Percentage of Net Income to:			
Average Total Assets	.92%	.84%	.78%
Average Shareholders' Equity	23.13%	18.99%	12.42%
Percentage of Dividends Declared Per Common Share to Net Income Per Common Share-Basic	17.44%	19.42%	28.99%
Percentage of Dividends Declared Per Common Share to Net Income Per Common Share-Diluted	18.15%	20.00%	30.30%
Percentage of Average Shareholders' Equity to Average Total Assets	3.99%	4.41%	6.28%

14. DIVIDEND REINVESTMENT AND COMMON STOCK REPURCHASE PLAN

The Company has a Dividend Reinvestment Plan funded by stock authorized, but not yet issued. Proceeds from the sale of the common stock will be used for general corporate purposes and could be directed to the Company's subsidiaries. For the year ended December 31, 2000, 44,732 shares were sold under this plan at an average price of $8.24 per share, reflective of other trades at the time of each sale. For the year ended December 31, 1999, 34,296 shares were sold under this plan at an average price of $9.25 per share, reflective of other trades at the time of each sale.

The Company instituted a Common Stock Repurchase Plan in late 1994. Under the repurchase plan, the Board of Directors establishes, on a quarterly basis, total dollar limitations and price per share for stock to be repurchased. The Board reviews this plan in conjunction with the capital needs of the Company and Southside Bank and may, at its discretion, modify or discontinue the plan. During 2000, 94,050 shares of treasury stock were purchased under this plan at a cost of $813,000. During 1999, 148,150 shares of treasury stock were purchased under this plan at a cost of $1,386,000.

15. INCOME TAXES

The provisions for federal income taxes included in the accompanying statements of income consist of the following (in thousands):

	Years Ended December 31,		
	2000	1999	1998

Current tax provision	$ 2,572	$ 2,033	$ 1,496
Deferred tax expense (benefit)	88	(33)	(272)
Provision for tax expense charged to operations	$ 2,660	$ 2,000	$ 1,224

Deferred income taxes result from temporary differences in the recognition of revenues and expenses for tax and book purposes. These differences and the tax effect of each of the major categories are as follows (in thousands):

	Years Ended December 31,		
	2000	1999	1998
Provision for loan losses	$ (431)	$ (551)	$ (204)
Provision for OREO losses	--	202	--
Depreciation	42	45	(6)
Retirement and other benefit plans	44	(4)	(211)
FHLB Dallas Stock dividends	526	308	149
Other	(93)	(33)	--
Deferred tax expense (benefit)	$ 88	$ (33)	$ (272)

The components of the net deferred tax asset (liability) as of December 31, 2000 and 1999 are summarized below (in thousands):

	Assets	Liabilities
Allowance for Losses on OREO	$ 101	$
Reserve for Loan Losses	1,711	
Retirement and Other Benefit Plans	831	
Unrealized losses on securities available for sale	1,685	
Loan Origination Costs		(88)
Premises and Equipment		(292)
FHLB Dallas Stock Dividends		(1,128)
Other	102	
Gross deferred tax assets (liabilities)	4,430	(1,508)
Net deferred tax asset at December 31, 2000	$ 2,922	

	Assets	Liabilities
Allowance for Losses on OREO	$ 101	$
Reserve for Loan Losses	1,280	
Retirement and Other Benefit Plans	875	
Unrealized losses on securities available for sale	4,919	
Loan Origination Costs		(148)
Premises and Equipment		(250)
FHLB Dallas Stock Dividends		(602)
Other	69	
Gross deferred tax assets (liabilities)	7,244	(1,000)
Net deferred tax asset at December 31, 1999	$ 6,244	

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

	Years Ended December 31,				
	2000		1999		
	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income	Am
Calculated Tax Expense	$ 4,245	34.0%	$ 3,374	34.0%	$
Increase (Decrease) in Taxes from:					
Tax Exempt Interest	(2,001)	(16.0%)	(1,661)	(16.7%)	(
Other Net	416	3.3%	287	2.9%	
Provision for Tax Expense Charged to Operations	$ 2,660	21.3%	$ 2,000	20.2%	$

16. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Company buys and sells securities. There were no commitments to purchase securities at December 31, 2000 and 1999. At December 31, 1998, the Company had commitments to purchase $8.3 million in securities.

The Company, or its subsidiaries, is involved with various litigation which

resulted in the normal course of business. Management of the Company, after consulting with its legal counsel, believes that any liability resulting from litigation will not have a material effect on the financial position and results of operations and the liquidity of the Company or its subsidiaries.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business the Company is a party to certain financial instruments, with off-balance-sheet risk, to meet the financing needs of its customers. These off-balance-sheet instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the financial statements. The contract or notional amounts of these instruments reflect the extent of involvement and exposure to credit loss the Company has in these particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company had outstanding unused commitments to extend credit of $54.2 million and $52.2 million at December 31, 2000 and 1999, respectively. The Company had outstanding standby letters of credit of $406,000 and $259,000 at December 31, 2000 and 1999, respectively.

The Company applies the same credit policies in making commitments and standby letters of credit as it does for on-balance-sheet instruments. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment.

18. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The economy of the Company's market area, East Texas, is directly tied to the oil and gas industry. Oil prices have had an indirect effect on the Company's business. Although the Company has a diversified loan portfolio, a significant portion of its loans are collateralized by real estate. Repayment of these loans is in part dependent upon the economic conditions in the market area. Part of the risk associated with real estate loans has been mitigated since 47.7% of this group represents loans collateralized by residential dwellings that are primarily owner occupied. Losses on this type of loan have historically been less than those on speculative properties. Many of the remaining real estate loans are collateralized primarily with owner occupied commercial real estate.

The Mortgage-backed Securities held by the Company consist solely of Government agency pass-through securities which are either directly or indirectly backed by the full faith and credit of the United States Government.

19. RELATED PARTY TRANSACTIONS

Loan activity of executive officers, directors, and their affiliates for the years ended December 31, 2000 and 1999 were (in thousands):

	2000	1999
Beginning Balance of Loans	$ 5,765	$ 6,428
Additional Loans	2,114	2,936
Payments	(2,639)	(3,599)
Ending Balance of Loans	$ 5,240	$ 5,765

Other indebtedness of officers and employees as of December 31, 2000 and 1999 was $3,673,000 and $3,031,000, respectively.

The Company incurred legal costs of $134,000, $150,000 and $176,000 during the years ended December 31, 2000, 1999 and 1998, respectively, from a law firm of which an outside director of the Company is a partner. The Company paid approximately $69,000, $54,000 and $49,000 in insurance premiums during the years ended December 31, 2000, 1999 and 1998, respectively, to companies of which two outside directors are officers.

20. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" (FAS107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other estimation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Such techniques and assumptions, as they apply to individual categories of the Company's financial instruments, are as follows:

Cash and due from banks: The carrying amounts for cash and due from banks is a reasonable estimate of those assets' fair value.

Investment, mortgage-backed and marketable equity securities: Fair values for these securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

Loans receivable: For adjustable rate loans that reprice frequently and with no significant change in credit risk, the carrying amounts are a reasonable estimate of those assets' fair value. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Nonperforming loans are estimated using discounted cash flow analyses or underlying value of the collateral where applicable.

Deposit liabilities: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount on demand at the reporting date, that is, the carrying value. Fair values for fixed

rate certificates of deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Federal funds purchased and securities sold under agreement to repurchase: Federal funds purchased and securities sold under agreement to repurchase generally have an original term to maturity of one day and thus are considered short-term borrowings. Consequently, their carrying value is a reasonable estimate of fair value.

Commitments to extend credit: The carrying amounts of commitments to extend credit and standby letters of credit are a reasonable estimate of those assets' fair value.

FHLB Dallas Advances: The fair value of these advances is estimated by discounting the future cash flows using rates at which advances would be made to borrowers with similar credit ratings and for the same remaining maturities.

The following table presents the Company's assets, liabilities, and unrecognized financial instruments at both their respective carrying amounts and fair value:

	At December 31, 2000		At December 31,	
	Carrying Amount	Fair Value	Carrying Amount	Fai
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 38,800	$ 38,800	$ 41,131	$
Investment securities:				
Available for sale	56,777	56,777	96,244	
Held to maturity	104,508	107,650	86,208	
Mortgage-backed and related securities:				
Available for sale	269,286	269,286	273,676	
Held to maturity	142,961	145,826	73,898	
Marketable equity securities:				
Available for sale	20,226	20,226	18,543	
Loans, net	476,402	479,783	382,871	
Financial liabilities:				
Retail deposits	$ 720,605	$ 693,873	$ 587,544	$
Federal funds purchased	5,025	5,025	75	
FHLB Dallas advances	328,585	328,063	355,926	
Junior subordinated debentures	20,000	20,000	20,000	
Junior subordinated convertible debentures	16,950	16,950	--	
Off-balance sheet liabilities:				
Commitments to extend credit	47,393	47,393	46,007	
Standby letters of credit	406	406	259	

Credit card arrangements	6,801	6,801	6,171

As discussed earlier, the fair value estimate of financial instruments for which quoted market prices are unavailable is dependent upon the assumptions used. Consequently, those estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented in the above fair value table do not necessarily represent the underlying value of the Company.

21. QUARTERLY FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

	2000		
	Fourth Quarter	Third Quarter	Second Quarte
Interest income	$ 20,190	$ 19,182	$ 18
Net interest income	7,232	7,095	7
Income before provision for income taxes	3,180	2,954	3
Provision for income taxes	628	592	
Net income	2,552	2,362	2
Net income per share			
Basic	.34	.31	
Diluted	.32	.30	

	1999		
	Fourth Quarter	Third Quarter	Second Quarte
Interest income	$ 16,706	$ 15,736	$ 14
Net interest income	7,034	6,418	5
Income before provision for income taxes	3,280	2,511	2
Provision for income taxes	699	537	
Net income	2,581	1,974	1

Net income per share		
Basic	.33	.26
Diluted	.32	.25

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22. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for Southside Bancshares, Inc. (parent company only) was as follows:

CONDENSED BALANCE SHEETS

	December 31, 2000
	(in thous
ASSETS	
Cash and due from banks	$ 7,031
Investment in bank subsidiary at equity in underlying net assets	79,476
Investment in nonbank subsidiary at equity in underlying net assets	15
Other assets	2,270
TOTAL ASSETS	$ 88,792
LIABILITIES	
Junior subordinated debentures	$ 20,000
Junior subordinated convertible debentures	16,950
Other liabilities	147
TOTAL LIABILITIES	37,097
SHAREHOLDERS' EQUITY	
Common stock ($1.25 par, 20,000,000 shares authorized: 8,215,135 and 7,798,332 and shares issued)	10,269
Paid-in capital	30,226
Retained earnings	19,891
Treasury stock (606,552 and 512,502 shares)	(5,357)

Accumulated other comprehensive loss	(3,334)
TOTAL SHAREHOLDERS' EQUITY	51,695
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 88,792

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2000	1999	1998
INCOME		(in thousands)	
Dividends from subsidiary	$ --	$ --	$
TOTAL INCOME	--	--	
EXPENSE			
Interest expense	1,914	1,700	1,
Salaries and employee benefits	100	100	
Taxes other than income	--	--	
Other	382	348	
TOTAL EXPENSE	2,396	2,148	1,
Loss before federal income tax expense	(2,396)	(2,148)	(
Benefit for federal income tax expense	815	730	
Loss before equity in undistributed earnings of subsidiaries	(1,581)	(1,418)	(
Equity in undistributed earnings of subsidiaries	11,406	9,342	5,
NET INCOME	$ 9,825	$ 7,924	$ 5,

CONDENSED STATEMENTS OF CASH FLOW

Years Ended December

	2000	1999
		(in thousands)
OPERATING ACTIVITIES:		
Net Income	$ 9,825	$ 7,924
Adjustments to reconcile net income to cash provided by operations:		
Equity in undistributed earnings of subsidiaries	(11,406)	(9,342)
(Increase) decrease in other assets	(1,030)	45
Decrease (increase) in other liabilities	105	31
Net cash used in operating activities	(2,506)	(1,342)
INVESTING ACTIVITIES:		
Investments in subsidiaries	(8,000)	--
Net cash used in investing activities	(8,000)	--
FINANCING ACTIVITIES:		
Purchase of treasury stock	(813)	(1,386)
Proceeds from sale of treasury stock		
Proceeds from issuance of common stock	410	456
Dividends paid	(1,658)	(1,409)
Proceeds from the issuance of junior subordinated debentures	--	--
Proceeds from the issuance of junior subordinated convertible debentures	16,950	--
Net cash provided by (used in) financing activities	14,889	(2,339)
Net increase (decrease) in cash and cash equivalents	4,383	(3,681)
Cash and cash equivalents at beginning of year	2,648	6,329
Cash and cash equivalents at end of year	$ 7,031	$ 2,648

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
3(a)(i) -	Articles of Incorporation as amended and in effect on December 31, 1992, of SoBank, Inc. (now named Southside Bancshares, Inc.)(filed as Exhibit 3 to the Registrant's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
3(a)(ii) -	Articles of Amendment effective May 9, 1994 to Articles of Incorporation of SoBank, Inc.

		(now named Southside Bancshares, Inc.) (filed as Exhibit 3(a)(ii) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
3(b)	-	Bylaws as amended and in effect on March 23, 1995 of Southside Bancshares, Inc. (filed as Exhibit 3(b) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
**10(a)(i)	-	Deferred Compensation Plan for B. G. Hartley effective February 13, 1984, as amended June 28, 1990, December 15, 1994, November 20, 1995 and December 21, 1999 (filed as Exhibit 10(a)(i) to the Registrant's Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
**10(a)(ii)	-	Deferred Compensation Plan for Robbie N. Edmonson effective February 13, 1984, as amended June 28, 1990 and March 16, 1995 (filed as Exhibit 10(a)(ii) to the Registrant's Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).
**10(b)	-	Officers Long-term Disability Income Plan effective June 25, 1990 (filed as Exhibit 10(b) to the Registrant's Form 10-K for the year ended June 30, 1990, and incorporated herein by reference).
**10(c)	-	Retirement Plan Restoration Plan for the subsidiaries of SoBank, Inc. (now named Southside Bancshares, Inc.)(filed as Exhibit 10(c) to the Registrant's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
**10(d)	-	Incentive Stock Option Plan effective April 1, 1993 of SoBank, Inc. (now named Southside Bancshares, Inc.) (filed as Exhibit 10(d) to the Registrant's Form 10-K for the year ended December 31, 1994, and incorporated herein by reference).
**10(e)	-	Form of Deferred Compensation Agreements dated June 30, 1994 with each of Titus Jones and Andy Wall as amended November 13, 1995. (filed as Exhibit 10(e) to the Registrant's Form 10-K for the year ended December 31, 1995, and incorporated herein by reference).

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**10(f)	-	Form of Deferred Compensation Agreements dated June 30, 1994 with each of Sam Dawson, Lee Gibson and Jeryl Story as amended October 15, 1997 and Form of Deferred Compensation Agreement dated October 15, 1997 with Lonny

Uzzell (filed as Exhibit 10(f) to the Registrant's Form 10-K for the year ended December 31, 1997, and incorporated herein by reference).

*21 - Subsidiaries of the Registrant.

*23 - Consent of Independent Accountants.

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* Filed herewith.
** Compensation plan, benefit plan or employment contract or arrangement.