TJX COMPANIES INC /DE/
Form 4
June 15, 2015

FORM 4

OMB APPROVAL

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

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Abdalla Zein

(Last) (First) (Middle)

THE TJX COMPANIES, INC., 770 COCHITUATE ROAD

(Street)

FRAMINGHAM, MA 01701

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TJX COMPANIES INC /DE/ [TJX]

3. Date of Earliest Transaction (Month/Day/Year)
06/11/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/11/2015		M [(1)]		1,263	A	$ 0 [(1)]	9,124	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Deferred Stock Units	$ 0	06/11/2015		A		1,144.51		(2)	(2)	Common Stock	1,144.5
Deferred Stock Units	$ 0	06/11/2015		A		54.95		(3)	(3)	Common Stock	54.95
Deferred Stock Units	$ 0	06/11/2015		A		1,144.51		(4)	(4)	Common Stock	1,144.5
Deferred Stock Units	$ 0	06/11/2015		A		13.99		(5)	(5)	Common Stock	13.99
Deferred Stock Units	$ 0	06/11/2015		M			1,263	(1)	(1)	Common Stock	1,263

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Abdalla Zein THE TJX COMPANIES, INC. 770 COCHITUATE ROAD FRAMINGHAM, MA 01701	X			

Signatures

Mary B. Reynolds, by Power of Attorney dated January 31, 2012	06/15/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Receipt of the deferred shares granted on June 10, 2014 in accordance with the terms of the Plan. Includes an amount equal to the aggregate dividends for which there has been a record date since June 10, 2014.

(2) Constitutes an award of deferred shares, under the Stock Incentive Plan, having a value of $75,000. Shares will be delivered to each Director upon Director's retirement, under and subject to the terms of the Plan.

(3)

Constitutes an award of deferred shares, under the Stock Incentive Plan, having a value equal to the aggregate dividends on previously granted deferred shares for which there has been a record date since June 10, 2014. Deferred shares will be delivered to each Director upon Director's retirement, under and subject to the terms of the Plan.

(4) Constitutes an award of deferred shares, under the Stock Incentive Plan, having a value of $75,000. Shares vest on the date immediately preceding the date of the annual meeting next succeeding the date of grant of such shares, provided that the recipient is still a Director on such date or, if earlier, immediately prior to a Change of Control. Vested shares will be delivered to each Director on the date of the annual meeting next succeeding the date of grant of such shares or upon the Director's retirement, in accordance with the Director's advance irrevocable election, if any, under and subject to the terms of the Plan.

(5) Constitutes an award of deferred shares, under the Stock Incentive Plan, having a value equal to the aggregate dividends on previously granted deferred shares for which there has been a record date since June 10, 2014. The previously granted deferred shares vest on the date immediately preceding the date of the annual meeting next succeeding the date of grant of such shares, provided that the recipient is still a Director on such date or, if earlier, immediately prior to a Change of Control. Vested shares will be delivered to each Director on the date of the annual meeting next succeeding the date of grant of such shares or upon the Director's retirement, in accordance with the Director's advance irrevocable election, if any, under and subject to the terms of the Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. imes new roman">4.00% N/A N/A

Bank Only	$246,848	19.01%	$51,941	4.00%	$77,912	6.00%
Tier 1 Capital (to Average Assets) (1)						
Consolidated	$257,837	8.45%	$122,026	4.00%	N/A	N/A
Bank Only	$246,848	8.10%	$121,893	4.00%	$152,367	5.00%
As of December 31, 2009:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$249,687	19.12%	$104,447	8.00%	N/A	N/A
Bank Only	$247,250	18.94%	$104,420	8.00%	$130,525	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$233,278	17.87%	$52,224	4.00%	N/A	N/A
Bank Only	$230,841	17.69%	$52,210	4.00%	$78,315	6.00%
Tier 1 Capital (to Average Assets) (1)						
Consolidated	$233,278	8.03%	$116,176	4.00%	N/A	N/A
Bank Only	$230,841	7.95%	$116,100	4.00%	$145,125	5.00%

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

The table below summarizes our key equity ratios for the years ended December 31, 2010, 2009 and 2008:

	Years Ended December 31,		
	2010	2009	2008
Return on Average Assets	1.32%	1.58%	1.29%
Return on Average Shareholders' Equity	18.16%	23.69%	21.44%
Dividend Payout Ratio - Basic	33.86%	26.41%	30.00%
Dividend Payout Ratio - Diluted	33.86%	26.60%	30.61%
Average Shareholders' Equity to Average Total Assets	7.24%	6.66%	6.04%

ACCOUNTING PRONOUNCEMENTS

See "Note 1 – Summary of Significant Accounting and Reporting Policies" to our consolidated financial statements included in this report.

EFFECTS OF INFLATION

Our consolidated financial statements, and their related notes, have been prepared in accordance with GAAP 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 our operations. Unlike many industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our 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. Inflation can affect the amount of money customers have for deposits, as well as ability to repay loans.

MANAGEMENT OF LIQUIDITY

Liquidity management involves our ability to convert assets to cash with a minimum of loss to enable us to meet our obligations to our 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, 2010, these investments were 16.8% of total assets, as compared with 18.9% for December 31, 2009, and 27.5% for December 31, 2008. The decrease to 16.8% at December 31, 2010 is primarily reflective of changes in the investment portfolio. Liquidity is further provided through the matching, by time period, of rate sensitive interest earning assets with rate sensitive interest bearing liabilities. Southside Bank has four lines of credit for the purchase of overnight federal funds at prevailing rates. Three $15.0 million and one $10.0 million unsecured lines of credit have been established with Bank of America, Frost Bank, Sterling Bank and TIB -The Independent Bankers Bank, respectively. There were no federal funds purchased at December 31, 2010. At December 31, 2010, the amount of additional funding Southside Bank could obtain from FHLB using unpledged securities at FHLB was approximately $377.3 million, net of FHLB stock purchases required. Southside Bank obtained $32.0 million letters of credit from

FHLB as collateral for a portion of its public fund deposits.

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Interest rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of new interest income through periods of changing interest rates. The ALCO closely monitors various liquidity ratios, interest rate spreads and margins. The ALCO performs interest rate simulation tests that apply various interest rate scenarios including immediate shocks and market value of portfolio equity ("MVPE") with interest rates immediately shocked plus and minus 200 basis points to assist in determining our overall interest rate risk and adequacy of the liquidity position. In addition, the ALCO utilizes a simulation model to determine the impact of net interest income of several different interest rate scenarios. By utilizing this technology, we 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.

OFF-BALANCE-SHEET ARRANGEMENTS

Financial Instruments with Off-Balance-Sheet Risk. In the normal course of business, we are a party to certain financial instruments, with off-balance-sheet risk, to meet the financing needs of our 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 we have 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.

We had outstanding unused commitments to extend credit of $113.3 million and $118.7 million at December 31, 2010 and 2009, respectively. Each commitment has a maturity date or an annual cancellation date and the commitment expires on that date with the exception of credit card and ready reserve commitments, which have no stated maturity date. Unused commitments for credit card and ready reserve at December 31, 2010 and 2009 were $11.5 million and $10.7 million, respectively, and are reflected in the due after one year category. We had outstanding standby letters of credit of $5.0 million and $5.2 million at December 31, 2010 and 2009, respectively.

The scheduled maturities of unused commitments as of December 31, 2010 and 2009 were as follows (in thousands):

	December 31,	
	2010	2009
Unused commitments:		
Due in one year or less	$64,984	$67,773
Due after one year	48,267	50,898
Total	$113,251	$118,671

We apply the same credit policies in making commitments and standby letters of credit as we do for on-balance-sheet instruments. We evaluate 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 cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, property, plant, and equipment.

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Explanation of Responses:

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following summarizes our contractual cash obligations and commercial commitments at December 31, 2010, and the effect such obligations are expected to have on liquidity and cash flow in future periods. Payments reflected in the table below do not include interest.

	Payments Due By Period				
Contractual obligations:	Less than 1 Year	1-3 Years	3-5 Years (in thousands)	More than 5 Years	Total
Long-term debt, including current maturities (1)	$–	$–	$–	$60,311	$60,311
FHLB advances (2)	191,363	309,532	52,663	9,015	562,573
Operating leases (3)	1,202	1,527	384	14	3,127
Deferred compensation agreements (4)	891	974	1,084	5,377	8,326
Time deposits (5)	559,887	101,406	155,535	28,272	845,100
Securities purchased not paid for	145	–	–	–	145
Capital lease obligations	–	–	–	–	–
Purchase obligations	–	–	–	–	–
Total contractual obligations	$753,488	$413,439	$209,666	$102,989	$1,479,582

(1) The total balance of long-term debt was $60.3 million at December 31, 2010. The scheduled maturities and interest rates were as follows:

- Floating rate debt of $20.6 million with a scheduled maturity of 2033, that was indexed to three-month LIBOR and adjusts on a quarterly basis. The rate of interest for the first quarter of 2011 associated with this debt is 3.24281%.
- Floating rate debt of $3.6 million with a scheduled maturity of 2035, that was indexed to three-month LIBOR and adjusts on a quarterly basis. The rate of interest associated with this debt is 2.08438% through February 22, 2011.
- Debt of $23.2 million with a scheduled maturity of 2037, which carries a fixed rate of 6.518% through October 30, 2012 and thereafter adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.
- Debt of $12.9 million with a scheduled maturity of 2037, which carries a fixed rate of 7.48% through December 15, 2012 and thereafter adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.

(2) We had fixed rate FHLB advances with maturity dates ranging from 2011 through 2028, with interest rates ranging from 0.9% to 7.6% with a total balance of $562.6 million at December 31, 2010. Callable FHLB advances with a total balance of $5.0 million are presented based on contractual maturity.

(3) We had various operating leases for our office machines that total $219,000 and expire on or before the end of 2015. In addition, we have operating leases totaling $2.9 million on our retail branch locations and loan production

offices which have future commitments of up to five years and additional options, which we control, beyond the commitment period.

(4) We have deferred compensation agreements (the "agreements") with 18 officers totaling $8.3 million. Payments from the agreements are to commence at the time of retirement. As of December 31, 2010, $170,000 in payments had been made from such agreements. Of the 18 officers included in the agreements, two were eligible for retirement at December 31, 2010 and one retired officer is currently receiving benefits. One officer becomes eligible in each of the years 2012, 2014 and 2015. The remaining 12 officers are eligible at various dates after five years. The totals reflected under five years assume the retirement of the two eligible officers at December 31, 2010 and the retirement of the eligible officers in 2012, 2014 and 2015. Additional information regarding executive compensation is incorporated into "Item 11. Executive Compensation" of this Annual Report on Form 10-K.

(5) We had $161.3 million of callable brokered CDs at December 31, 2010 with maturity dates ranging from 2014 through 2016 and coupons ranging from 0.75% to 2.4%.

During the third and fourth quarters of 2010, we entered into the option to fund between one and a half years and two years forward from the advance commitment date, $150 million par in long-term advance commitments from the FHLB at the FHLB rates on the date the option was purchased. In order to obtain these commitments from the FHLB we paid fees, which at December 31, 2010, were $7.6 million. The fee, included in other assets in our consolidated balance sheet, will be amortized over the term of the advance as long as it is probable we will exercise the advance commitments. Should we determine the advance commitments will not be exercised, the fee will be expensed in the period determination is made.

We expect to contribute $2.0 million to our defined benefit plan during 2011. We also expect to contribute to our defined benefit plan in future years, however, those amounts are indeterminable at this time.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the banking industry, a major risk exposure is changing interest rates. The primary objective of monitoring our 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, the current economic downturn and legislative changes have been significant factors affecting the task of managing interest rate sensitivity positions in recent years.

In an attempt to manage our exposure to changes in interest rates, management closely monitors our exposure to interest rate risk through our ALCO. Our ALCO meets regularly and reviews our interest rate risk position and makes recommendations to our board for adjusting this position. In addition, our board reviews our asset/liability position on a monthly basis. We primarily use two methods for measuring and analyzing interest rate risk: net income simulation analysis and MVPE modeling. We utilize the net income simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next 12 months. The model was used to measure the impact on net interest income relative to a base case scenario of rates increasing 100 and 200 basis points or decreasing 100 and 200 basis points over the next 12 months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the repricing and maturity characteristics of the existing and projected balance sheet. The impact of interest rate-related risks such as prepayment, basis and option risk are also considered. As of December 31, 2010, the model simulations projected that 100 and 200 basis point immediate increases in interest rates would result in negative variances on net interest income of 2.56% and 6.97%, respectively, relative to the base case over the next 12 months, while an immediate decrease in interest rates of 100 and 200 basis points would result in a positive variance in net interest income of 6.14% and 5.98%, respectively, relative to the base case over the next 12 months. As of December 31, 2009, the model simulations projected that 100 and 200 basis point increases in interest rates would result in negative variances on net interest income of 4.28% and 8.33%, respectively, relative to the base case over 12 months, while decreases in interest rates of 100 and 200 basis points would result in positive variances in net interest income of 4.74% and 13.60%, respectively, relative to the base case over the next 12 months. As part of the overall assumptions, certain assets and liabilities have been given reasonable floors. This type of simulation analysis requires numerous assumptions including but not limited to changes in balance sheet mix, prepayment rates on mortgage-related assets and fixed rate loans, cash flows and repricings of all financial instruments, changes in volumes and pricing, future shapes of the yield curve, relationship of market interest rates to each other (basis risk), credit spread and deposit sensitivity. Assumptions are based on management's best estimates but may not accurately reflect actual results under certain changes in interest rates.

The ALCO monitors various liquidity ratios to ensure a satisfactory liquidity position for us. 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 our gap position along with other liquidity ratios. In addition, as described above, we utilize a simulation model to determine the impact of net interest income under several different interest rate scenarios. By utilizing this technology, we can determine changes that need to be made to the asset and liability mixes to mitigate the change in net interest income under these various interest rate scenarios.

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.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), undertook an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended) as of December 31, 2010 and, based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of that date.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework.

Based on this assessment, management concluded that we maintained effective internal control over financial reporting as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

No changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act of 1934, as amended) during the last fiscal quarter of the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2011 Annual Meeting of shareholders to be filed with the SEC within 120 days of our fiscal year-end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2011 Annual Meeting of shareholders to be filed with the SEC within 120 days of our fiscal year-end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2011 Annual Meeting of shareholders to be filed with the SEC within 120 days of our fiscal year-end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2011 Annual Meeting of shareholders to be filed with the SEC within 120 days of our fiscal year-end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2011 Annual Meeting of shareholders to be filed with the SEC within 120 days of our fiscal year-end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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, 2010 and 2009.
Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008.
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2010, 2009 and 2008.
Consolidated Statements of Cash Flow for the years ended December 31, 2010, 2009 and 2008.
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)	–	Amended and Restated Articles of Incorporation of Southside Bancshares, Inc. effective April 17, 2009 (filed as Exhibit 3(a) to the Registrant's Form 8-K, filed April 20, 2009, and incorporated herein by reference).
3 (b)(i)	–	Amended and Restated Bylaws of Southside Bancshares, Inc. effective February 28, 2008 (filed as Exhibit 3(b) to the Registrant's Form 8-K, filed March 5, 2008, and incorporated herein by reference).
3 (b)(ii)	–	Amendment No.1 to the Amended and Restated Bylaws of Southside Bancshares, Inc. effective August 27, 2009 (filed as Exhibit 3.1 to the Registrant's Form 8-K/A, filed September 10, 2009, and incorporated herein by reference).
3(b)(iii)	–	Amendment No. 2 to the Amended and Restated Bylaws of Southside Bancshares, Inc. effective September 2, 2010 (filed as Exhibit 3.1 to the Registrant's Form 8-K, filed September 2, 2010, and incorporated herein by reference).
4	–	Management agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any other agreements or instruments of Southside Bancshares, Inc. and its subsidiaries defining

the rights of holders of any long-term debt whose authorization does not exceed 10% of total assets.

10 – Southside Securities, Inc., located in Tyler, Texas. The Company is the sole shareholder of this nonbank subsidiary, formed April 8, 2010, created under the laws of the State of Texas.

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** 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, December 21,1999 and June 29, 2001 (filed as Exhibit 10(a)(i) to the Registrant's Form 10-Q for the quarter ended June 30, 2001, 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)	–	Form of Deferred Compensation Agreements dated June 30, 1994 with each of Sam Dawson, Lee Gibson and Jeryl Story as amended October 15, 1997 (filed as Exhibit 10(f) to the Registrant's Form 10-K for the year ended December 31, 1997, and incorporated herein by reference).
** 10 (e)	–	Split dollar compensation plan dated October 13, 2004 with Jeryl Wayne Story (filed as exhibit 10(h) to the Registrant's Form 8-K, filed October 19, 2004, and incorporated herein by reference).
** 10 (f)	–	Split dollar compensation plan dated September 7, 2004 with Lee R. Gibson, III (filed as exhibit 10(i) to the Registrant's Form 8-K, filed October 19, 2004, and incorporated herein by reference).
** 10 (g)	–	Split dollar compensation plan dated August 27, 2004 with B. G. Hartley (filed as exhibit 10 (j) to the Registrant's Form 8-K, filed October 19, 2004, and incorporated herein by reference).
** 10 (h)	–	Split dollar compensation plan dated August 31, 2004 with Charles E. Dawson (filed as exhibit 10(k) to the Registrant's Form 8-K, filed October 19, 2004, and incorporated herein by reference).
** 10 (i)	–	Employment Agreement dated October 22, 2007 by and between Southside Bank and Lee R. Gibson (filed as exhibit 10 (l) to the Registrant's Form 8-K, filed October 26, 2007, and incorporated herein by reference).
** 10 (j)	–	Employment Agreement dated October 22, 2007 by and between Southside Bank and Sam Dawson (filed as exhibit 10 (m) to the Registrant's Form 8-K, filed October 26, 2007, and incorporated herein

by reference).

10 (k) – Master Software License Maintenance and Services Agreement dated February 4, 2008, by and between Southside Bank and Jack Henry & Associates, Inc. (filed as Item 1.01 to the Registrant's Form 8-K, filed February 8, 2008, and incorporated herein by reference).

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Explanation of Responses:

**	10 (l)	–	Retirement Agreement dated November 7, 2008, by and between Southside Bank, Southside Bancshares, Inc. and B. G. Hartley (filed as exhibit 10 (o) to the Registrant's Form 10-Q, filed November 7, 2008, and incorporated herein by reference).
**	10 (m)	–	Southside Bancshares, Inc. 2009 Incentive Plan (filed as Exhibit 99.1 to the Registrant's Form 8-K filed April 20, 2009, and incorporated herein by reference).
	10 (n)	–	Agreement and Plan of Merger dated May 17, 2007, as amended, by and among Southside Bancshares, Inc., Southside Merger Sub, Inc. and FWBS (filed as Exhibit 10(a) to the Registrant's Form 10-Q for the quarter ended September 30, 2007, and incorporated herein by reference).
	11		Southside Financial Properties, Inc., located in Tyler, Texas. Southside Financial Properties is a nonbank subsidiary formed September 17, 2010, created under the laws of the State of Texas.
*	21	–	Subsidiaries of the Registrant.
*	23	–	Consent of Independent Registered Public Accounting Firm.
*	31.1	–	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	–	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	32	–	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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 Chief Executive Officer
(Principal Executive Officer)

DATE: March 7, 2011

BY: /s/ LEE R. GIBSON
Lee R. Gibson, CPA, Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

DATE: March 7, 2011

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)	Chief Executive Officer, Chairman of the Board and Director	March 7, 2011
/s/ROBBIE N. EDMONSON (Robbie N. Edmonson)	Vice Chairman of the Board and Director	March 7, 2011
/s/SAM DAWSON (Sam Dawson)	President, Secretary and Director	March 7, 2011
/s/JULIE N. SHAMBURGER		

(Julie N. Shamburger)	CPA, Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 7, 2011
(Lawrence Anderson)	Director	March 4, 2011
(Herbert C. Buie)	Director	March 4, 2011

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/s/ALTON CADE (Alton Cade)	Director	March 4, 2011
/s/PIERRE DE WET (Pierre de Wet)	Director	March 4, 2011
(Bob Garrett)	Director	March 4, 2011
/s/MELVIN B. LOVELADY (Melvin B. Lovelady)	Director	March 4, 2011
/s/JOE NORTON (Joe Norton)	Director	March 4, 2011
(Paul W. Powell)	Director	March 4, 2011
/s/WILLIAM SHEEHY (William Sheehy)	Director	March 4, 2011
/s/PRESTON SMITH (Preston Smith)	Director	March 4, 2011
/s/DON THEDFORD (Don Thedford)	Director	March 4, 2011

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flow present fairly, in all material respects, the financial position of Southside Bancshares, Inc. and its subsidiaries at December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for other-than-temporary impairment in 2009.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
March 7, 2011

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

ASSETS	December 31, 2010	December 31, 2009
Cash and due from banks	$56,188	$50,350
Interest earning deposits	22,885	1,816
Total cash and cash equivalents	79,073	52,166
Investment securities:		
Available for sale, at estimated fair value	299,344	265,060
Held to maturity, at amortized cost	1,495	1,493
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	946,043	1,238,182
Held to maturity, at amortized cost	417,862	242,665
FHLB stock, at cost	34,712	38,629
Other investments, at cost	2,064	2,065
Loans held for sale	6,583	2,857
Loans:		
Loans	1,077,920	1,033,576
Less: allowance for loan losses	(20,711)	(19,896)
Net Loans	1,057,209	1,013,680
Premises and equipment, net	50,144	46,477
Goodwill	22,034	22,034
Other intangible assets, net	777	1,096
Interest receivable	18,033	18,482
Deferred tax asset	6,677	1,611
Other assets	57,571	77,791
TOTAL ASSETS	$2,999,621	$3,024,288
LIABILITIES AND EQUITY		

Deposits:		
Noninterest bearing	$423,304	$394,001
Interest bearing	1,711,124	1,476,420
Total Deposits	2,134,428	1,870,421
Short-term obligations:		
Federal funds purchased and repurchase agreements	3,844	13,325
FHLB advances	189,094	322,351
Other obligations	2,651	2,760
Total Short-term obligations	195,589	338,436
Long-term obligations:		
FHLB advances	373,479	532,519
Long-term debt	60,311	60,311
Total Long-term obligations	433,790	592,830
Other liabilities	20,378	20,352
TOTAL LIABILITIES	2,784,185	2,822,039
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 17)		
Shareholders' equity:		
Common stock: ($1.25 par, 40,000,000 shares authorized, 17,660,312 shares issued in 2010 and 16,742,835 shares issued in 2009)	22,075	20,928
Paid-in capital	162,877	146,357
Retained earnings	64,567	53,812
Treasury stock (2,023,838 and 1,762,261 shares at cost)	(28,377)	(23,545)
Accumulated other comprehensive (loss) income	(6,819)	4,229
TOTAL SHAREHOLDERS' EQUITY	214,323	201,781
Noncontrolling interest	1,113	468
TOTAL EQUITY	215,436	202,249
TOTAL LIABILITIES AND EQUITY	$2,999,621	$3,024,288

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

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Explanation of Responses:

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Years Ended December 31,		
	2010	2009	2008
Interest income			
Loans	$ 69,973	$ 70,679	$ 73,120
Investment securities - taxable	91	1,055	1,723
Investment securities - tax exempt	10,889	7,607	4,910
Mortgage-backed and related securities	50,130	65,463	55,470
FHLB stock and other investments	259	235	841
Other interest earning assets	32	154	112
Total interest income	131,374	145,193	136,176
Interest expense			
Deposits	18,969	22,682	32,891
Short-term obligations	7,563	4,696	8,969
Long-term obligations	18,775	25,294	18,503
Total interest expense	45,307	52,672	60,363
Net interest income	86,067	92,521	75,813
Provision for loan losses	13,737	15,093	13,675
Net interest income after provision for loan losses	72,330	77,428	62,138
Noninterest income			
Deposit services	16,819	17,629	18,395
Gain on sale of securities available for sale	25,789	33,446	12,334
Total other-than-temporary impairment losses	(39)	(5,730)	–
Portion of loss recognized in other comprehensive income (before taxes)	(36)	2,730	–
Net impairment losses recognized in earnings	(75)	(3,000)	–
Gain on sale of loans	1,751	1,240	1,757
Trust income	2,368	2,456	2,465
Bank owned life insurance income	1,155	1,724	2,246
Other	3,589	3,179	3,105
Total noninterest income	51,396	56,674	40,302
Noninterest expense			
Salaries and employee benefits	43,957	42,505	37,228
Occupancy expense	6,780	6,372	5,704
Equipment expense	1,899	1,718	1,305
Advertising, travel and entertainment	2,319	2,344	2,097
ATM and debit card expense	825	1,296	1,211
Director fees	950	785	674
Supplies	902	863	812
Professional fees	2,015	2,218	1,864
Postage	800	872	755
Telephone and communications	1,443	1,424	1,050
FDIC Insurance	2,909	3,943	966
Other	6,515	7,290	6,686
Total noninterest expense	71,314	71,630	60,352
Income before income tax expense	52,412	62,472	42,088

Provision (benefit) for income tax expense			
Current	11,100	16,816	15,601
Deferred	866	(207)	(4,351)
Total income taxes	11,966	16,609	11,250
Net income	40,446	45,863	30,838
Less: Net income attributable to the noncontrolling interest	(955)	(1,467)	(142)
Net income attributable to Southside Bancshares, Inc	$ 39,491	$ 44,396	$ 30,696
Earnings per common share – basic	$ 2.51	$ 2.84	$ 2.00
Earnings per common share – diluted	$ 2.51	$ 2.82	$ 1.96
Dividends declared per common share	$ 0.85	$ 0.75	$ 0.60

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

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

	Years Ended December 31,		
	2010	2009	2008
Common Stock			
Balance, beginning of period	$20,928	$19,695	$18,581
Issuance of common stock (163,313 shares in 2010, 277,761 shares in 2009 and 231,749 shares in 2008)	204	347	290
Stock dividend	943	886	824
Balance, end of period	22,075	20,928	19,695
Paid-in capital			
Balance, beginning of period	146,357	131,112	115,250
Issuance of common stock (163,313 shares in 2010, 277,761 shares in 2009 and 231,749 shares in 2008)	1,619	1,953	1,794
Stock compensation expense	–	–	7
Tax benefit of incentive stock options	331	651	639
Stock dividend	14,570	12,641	13,422
Balance, end of period	162,877	146,357	131,112
Retained earnings			
Balance, beginning of period	53,812	34,021	26,187
Net income attributable to Southside Bancshares, Inc.	39,491	44,396	30,696
Cumulative effect of adoption of a new accounting principle on January 1, 2008	–	–	(351)
Dividends paid on common stock ($0.85 per share in 2010, $0.75 per share in 2009 and $0.60 per share in 2008)	(13,223)	(11,078)	(8,265)
Stock dividend	(15,513)	(13,527)	(14,246)
Balance, end of period	64,567	53,812	34,021
Treasury Stock			
Balance, beginning of period	(23,545)	(23,115)	(22,983)
Purchase of common stock (261,577 shares in 2010, 30,691 shares in 2009 and 6,713 shares in 2008)	(4,832)	(430)	(132)
Balance, end of period	(28,377)	(23,545)	(23,115)
Accumulated other comprehensive (loss) income			
Balance, beginning of period	4,229	(1,096)	(4,707)
Net unrealized gains on available for sale securities, net of tax	9,238	24,225	18,680
Reclassification adjustment for gains on sales of available for sale securities included in net income, net of tax	(16,763)	(21,740)	(8,017)
Non-credit portion of other-than-temporary impairment losses on available for sale			
securities, net of tax	23	(1,775)	–
Reclassification of other-than-temporary impairment charges on available for sale securities included in net income, net tax	49	1,950	–
Adjustment to net periodic benefit cost, net of tax	(3,595)	2,665	(7,052)
Net change in accumulated other comprehensive (loss) income	(11,048)	5,325	3,611
Balance, end of period	(6,819)	4,229	(1,096)
Total shareholders' equity	214,323	201,781	160,617
Noncontrolling interest			
Balance, beginning of period	468	472	498

Net income attributable to noncontrolling interest shareholders	955	1,467	142
Capital distribution to noncontrolling interest shareholders	(310)	(1,471)	(168)
Balance, end of period	1,113	468	472
Total equity	$215,436	$202,249	$161,089
Comprehensive income			
Net income	$40,446	$45,863	$30,838
Net change in accumulated other comprehensive (loss) income	(11,048)	5,325	3,611
Comprehensive income	29,398	51,188	34,449
Comprehensive income attributable to the noncontrolling interest	(955)	(1,467)	(142)
Comprehensive income attributable to Southside Bancshares, Inc.	$28,443	$49,721	$34,307

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)	Years Ended December 31,		
	2010	2009	2008
OPERATING ACTIVITIES:			
Net income	$ 40,446	$ 45,863	$ 30,838
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	3,204	2,888	2,458
Amortization of premium	35,245	15,393	7,148
Accretion of discount and loan fees	(4,502)	(3,913)	(4,483)
Provision for loan losses	13,737	15,093	13,675
Stock compensation expense	–	–	7
Decrease (increase) in interest receivable	449	(2,130)	(4,561)
Increase in other assets	(8,289)	(12,239)	(1,596)
Net change in deferred taxes	883	(1,642)	(378)
(Decrease) increase in interest payable	(879)	(1,621)	468
Increase (decrease) in other liabilities	1,566	(944)	(5,324)
(Increase) decrease in loans held for sale	(3,726)	(2,346)	2,850
Gain on sale of securities available for sale	(25,789)	(33,446)	(12,334)
Net other-than-temporary impairment losses	75	3,000	–
(Gain) loss on sale of assets	(7)	–	77
Loss on disposal of assets	–	171	–
Impairment on other real estate owned	20	729	–
Loss on sale of other real estate owned	153	52	–
Net cash provided by operating activities	52,586	24,908	28,845
INVESTING ACTIVITIES:			
Proceeds from sales of investment securities available for sale	115,282	260,090	137,826
Proceeds from sales of mortgage-backed securities available for sale	1,209,939	718,520	449,537
Proceeds from maturities of investment securities available for sale	19,446	56,523	86,790
Proceeds from maturities of mortgage-backed securities available for sale	340,139	268,035	127,008

Proceeds from maturities of mortgage-backed securities held to maturity	75,956	51,167	33,613
Proceeds from redemption of FHLB stock	6,818	3,698	897
Purchases of investment securities available for sale	(178,399)	(284,222)	(381,801)
Purchases of investment securities held to maturity	–	(1,014)	–
Purchases of mortgage-backed securities available for sale	(1,253,375)	(1,199,783)	(867,793)
Purchases of mortgage-backed securities held to maturity	(258,935)	(138,214)	(1,664)
Purchases of FHLB stock and other investments	(2,900)	(2,916)	(20,454)
Net increase in loans	(58,985)	(26,657)	(69,149)
Purchases of premises and equipment	(6,902)	(6,814)	(5,315)
Proceeds from sales of premises and equipment	38	–	384
Proceeds on bank owned life insurance	–	1,086	713
Proceeds from sales of other real estate owned	1,648	1,102	515
Proceeds from sales of repossessed assets	4,949	2,900	3,465
Net cash provided by (used in) investing activities	14,719	(296,499)	(505,428)

(continued)

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

(in thousands)	Years Ended December 31,		
	2010	2009	2008
FINANCING ACTIVITIES:			
Net increase in demand and savings accounts	190,323	94,798	95,928
Net increase (decrease) in certificates of deposit	87,268	199,521	(71,174)
Net (decrease) increase in federal funds purchased and repurchase agreements	(9,481)	2,696	3,606
Proceeds from FHLB advances	8,949,688	7,961,046	15,498,447
Repayment of FHLB advances	(9,241,985)	(7,991,050)	(15,053,612)
Net capital distributions to non-controlling interest in consolidated entities	(310)	(1,471)	(168)
Tax benefit of incentive stock options	331	651	639
Purchase of common stock	(4,832)	(430)	(132)
Proceeds from the issuance of common stock	1,823	2,300	2,084
Dividends paid	(13,223)	(11,078)	(8,265)
Net cash (used in) provided by financing activities	(40,398)	256,983	467,353
Net increase (decrease) in cash and cash equivalents	26,907	(14,608)	(9,230)
Cash and cash equivalents at beginning of year	52,166	66,774	76,004
Cash and cash equivalents at end of year	$ 79,073	$ 52,166	$ 66,774
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:			
Interest paid	$ 46,186	$ 54,293	$ 59,895
Income taxes paid	$ 10,650	$ 17,500	$ 11,525
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisition of other repossessed assets and real estate through foreclosure	$ 6,990	$ 8,560	$ 6,078
Adjustment to pension liability	$ 5,531	$ (4,099)	$ 11,025
5% stock dividend	$ 15,513	$ 13,527	$ 14,246
Unsettled trades to purchase securities	$ (145)	$ (2,573)	$ –
Unsettled trades to sell securities	$ –	$ 8,084	$ –
Unsettled issuances of brokered CDs	$ 4,960	$ 19,842	$ –

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

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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 (“Southside Bank”), and our nonbank subsidiaries, are summarized below.

Organization and Basis of Presentation. The consolidated financial statements include the accounts of Southside Bancshares, Inc., Southside Delaware Financial Corporation, Southside Bank, Southside Financial Group and the nonbank subsidiaries. We offer 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 U.S. generally accepted accounting principles (“GAAP”) 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.

We determine if we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. We consolidate voting interest entities in which we have all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

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

Basic and Diluted Earnings per Common Share. Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of stock options granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in “Note 2 – Earnings Per Share.”

Comprehensive Income. Comprehensive income includes all changes in shareholders’ equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of comprehensive income include the after tax effect of changes in the fair value of securities available for sale, changes in the funded status of defined benefit retirement plans and the non credit portion of other-than-temporary impairment. Comprehensive income is reported in the accompanying consolidated statements of changes in shareholders’ equity and in “Note 3 – Comprehensive (Loss) Income.”

Loans. All loans are stated at principal outstanding net of unearned discount and other deferred expenses or fees. Interest income on loans is recognized using the level yield method. 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 allowance for loan losses, and any unamortized 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 we 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 our impaired loans are collateral-dependent, and as such, are measured for impairment based on the fair value of the collateral.

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Loans Acquired Through Transfer. Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that we will be unable to collect all contractually required payment receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Loans Held For Sale. Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

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

Allowance for Loan Losses. An allowance 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 allowance 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 collectability 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 ("OREO") includes real estate acquired in full or partial settlement of loan obligations. OREO is initially carried at the fair market value of the collateral net of estimated selling costs. 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 allowance for loan losses. Any subsequent reduction in fair market value net of estimated selling costs is charged to noninterest expense. 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. We use the specific identification method to determine the basis for computing realized gain or loss. We account 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. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services.

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Unrealized gains and losses on AFS securities are excluded from earnings and reported net of tax in Accumulated Other Comprehensive Income until realized. We adopted the provisions of FASB ASC Topic 320, "Investments - Debt and Equity Securities" in 2009. Declines in the fair value of securities below their cost will be reflected in earnings as realized losses to the extent the impairment is deemed to be other-than-temporary credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income unless there is no ability or intent to hold to recovery.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Securities with limited marketability, such as stock in the FHLB, are carried at cost and assessed for other-than-temporary impairment.

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 15 to 40 years for premises and three to 10 years for equipment. Leasehold improvements are generally depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements. Maintenance and repairs are charged to income as incurred while major improvements and replacements are capitalized.

Goodwill and Other Intangibles. Intangible assets consist primarily of core deposits and customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Goodwill and intangible assets that have indefinite useful lives are subject to at least an annual impairment test and more frequently if a triggering event occurs. If any such impairment is determined, a write-down is recorded.

We measured our goodwill for impairment at December 31, 2010. At December 31, 2010, the fair value of the reporting unit was greater than the carrying value of the reporting unit. As a result, we did not record any goodwill impairment for the year ended December 31, 2010 and we had no cumulative goodwill impairment.

Repurchase Agreements. We sell certain securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of the securities underlying the agreements remains in the asset account. We determine the type of securities to pledge. Generally we pledge U. S. agency mortgage-backed securities.

Income Taxes. We file 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.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the

balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, assumptions used in the defined benefit plan and the fair values of financial instruments. The status of contingencies are particularly subject to change and significant assumptions used in periodic evaluation of securities for other-than-temporary impairment.

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Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. 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.

Stock Options. Stock-based compensation transactions are recognized as compensation cost in the income statement based on their fair values on the date of the grant.

Loss Contingencies. Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Trust Assets. Assets of our trust department, other than cash on deposit at Southside Bank, are not included in the accompanying financial statements because they are not our assets.

General. Certain prior period amounts have been reclassified to conform to current year presentation and had no impact on net income, equity, or cash flows.

Accounting Pronouncements:

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF") and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Accounting Standards Update ("ASU") No. 2009-17, "Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The provisions of ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on our consolidated financial statements.

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and

settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for us beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for us on January 1, 2010. See "Note 13 – Fair Value Measurements."

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ASU No. 2010-18 “Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset”. ASU 2010-18 provides that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The provisions of ASU 2010-18 did not have a significant impact on our consolidated financial statements.

ASU No. 2010-20. “Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 is effective for our financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for our financial statements that include periods beginning on or after January 1, 2011.

2. EARNINGS PER SHARE

Earnings per share attributable to Southside Bancshares, Inc. on a basic and diluted basis as required by FASB ASC Topic 260, "Earnings Per Share," 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,		
	2010	2009	2008
Basic and Diluted Earnings:			
Net Income – Southside Bancshares, Inc.	$ 39,491	$ 44,396	$ 30,696
Basic weighted-average shares outstanding:	15,733	15,615	15,319
Add: Stock options	27	142	338
Diluted weighted-average shares outstanding	15,760	15,757	15,657
Basic Earnings Per Share:			

Net Income – Southside Bancshares, Inc.	$	2.51	$	2.84	$	2.00
Diluted Earnings Per Share:						
Net Income – Southside Bancshares, Inc.	$	2.51	$	2.82	$	1.96

For the years ended December 31, 2010, 2009 and 2008, there were no antidilutive options.

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3. COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income as required by FASB ASC Topic 220 “Comprehensive Income,” are as follows (in thousands):

	Year Ended December 31, 2010		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding gains arising during period	$14,212	$(4,974)	$9,238
Non credit portion of other-than-temporary impairment losses on the AFS securities	36	(13)	23
Less: reclassification adjustment for gains included in net income	25,789	(9,026)	16,763
Less: reclassification of other-than-temporary impairment charges on AFS securities included in net income	(75)	26	(49)
Net unrealized losses on securities	(11,466)	4,013	(7,453)
Change in pension plans	(5,531)	1,936	(3,595)
Other comprehensive loss	$(16,997)	$5,949	$(11,048)

	Year Ended December 31, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$37,269	$(13,044)	$24,225
Non credit portion of other-than-temporary impairment losses on the AFS securities	(2,730)	955	(1,775)
Less: reclassification adjustment for gains included in net income	33,446	(11,706)	21,740
Less: reclassification of other-than-temporary impairment charges on AFS securities included in net income	(3,000)	1,050	(1,950)
Net unrealized gains on securities	4,093	(1,433)	2,660
Change in pension plans	4,099	(1,434)	2,665
Other comprehensive income	$8,192	$(2,867)	$5,325

	Year Ended December 31, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$28,805	$(10,125)	$18,680
Less: reclassification adjustment for gains included in net income	12,334	(4,317)	8,017
Net unrealized gains on securities	16,471	(5,808)	10,663
Change in pension plans	(11,025)	3,973	(7,052)
Other comprehensive income	$5,446	$(1,835)	$3,611

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The components of accumulated other comprehensive (loss) income, net of tax, as of December 31, 2010 and 2009, are reflected in the table below (in thousands):

	Years Ended December 31,	
	2010	2009
Unrealized gains on AFS securities	$8,706	$16,159
Net unfunded liability for defined benefit plans	(15,525)	(11,930)
Total	$(6,819)	$4,229

4. CASH AND DUE FROM BANKS

We are required to maintain cash reserve balances with the Federal Reserve Bank. The reserve balances were $250,000 as of December 31, 2010 and 2009.

5. SECURITIES

The amortized cost and estimated market value of investment and mortgage-backed securities as of December 31, 2010 and 2009, are reflected in the tables below (in thousands):

	December 31, 2010				
		Gross	Gross Unrealized Losses		Estimated
AVAILABLE FOR SALE:	Amortized Cost	Unrealized Gains	OTTI	Other	Fair Value
Investment Securities:					
U.S. Treasury	$4,700	$–	$–	$–	$4,700
State and Political Subdivisions	296,357	4,445	–	6,540	294,262
Other Stocks and Bonds	3,117	1	2,736	–	382
Mortgage-backed Securities:					
U.S. Government Agencies	149,402	5,311	–	179	154,534
Government-Sponsored Enterprises	777,921	16,049	–	2,461	791,509
Total	$1,231,497	$25,806	$2,736	$9,180	$1,245,387

	December 31, 2010				
		Gross	Gross Unrealized Losses		Estimated
HELD TO MATURITY:	Amortized Cost	Unrealized Gains	OTTI	Other	Fair Value
Investment Securities:					
State and Political Subdivisions	$1,012	$44	$–	$–	$1,056
Other Stocks and Bonds	483	14	–	–	497
Mortgage-backed Securities:					
U.S. Government Agencies	21,888	631	–	55	22,464
Government-Sponsored Enterprises	395,974	8,743	–	609	404,108
Total	$419,357	$9,432	$–	$664	$428,125

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Explanation of Responses:

	December 31, 2009				
		Gross	Gross		Estimated
	Amortized	Unrealized	Unrealized Losses		Fair
AVAILABLE FOR SALE:	Cost	Gains	OTTI	Other	Value
Investment Securities:					
U.S. Treasury	$4,898	$1	$–	$–	$4,899
State and Political Subdivisions	250,391	9,431	–	296	259,526
Other Stocks and Bonds	3,383	3	2,730	21	635
Mortgage-backed Securities:					
U.S. Government Agencies	126,264	3,725	–	407	129,582
Government-Sponsored Enterprises	1,092,659	20,787	–	4,846	1,108,600
Total	$1,477,595	$33,947	$2,730	$5,570	$1,503,242

	December 31, 2009				
		Gross	Gross		Estimated
	Amortized	Unrealized	Unrealized Losses		Fair
HELD TO MATURITY:	Cost	Gains	OTTI	Other	Value
Investment Securities:					
State and Political Subdivisions	$1,013	$103	$–	$–	$1,116
Other Stocks and Bonds	480	22	–	–	502
Mortgage-backed Securities:					
U.S. Government Agencies	16,677	534	–	36	17,175
Government-Sponsored Enterprises	225,988	5,248	–	766	230,470
Total	$244,158	$5,907	$–	$802	$249,263

The following table represents the unrealized loss on securities for the years ended December 31, 2010 and 2009 (in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2010:						
Available for Sale						
State and Political Subdivisions	$136,671	$6,501	$270	$39	$136,941	$6,540
Other Stocks and Bonds	–	–	189	2,736	189	2,736
Mortgage-Backed Securities	312,985	2,475	21,779	165	334,764	2,640
Total	$449,656	$8,976	$22,238	$2,940	$471,894	$11,916
Held to Maturity						
Mortgage-Backed Securities	$52,676	$644	$1,104	$20	$53,780	$664
Total	$52,676	$644	$1,104	$20	$53,780	$664
As of December 31, 2009:						
Available for Sale						
State and Political Subdivisions	$14,520	$160	$2,953	$136	$17,473	$296
Other Stocks and Bonds	–	–	441	2,751	441	2,751

Mortgage-Backed Securities	391,889	5,250	1,065	3	392,954	5,253
Total	$406,409	$5,410	$4,459	$2,890	$410,868	$8,300
Held to Maturity						
Mortgage-Backed Securities	$19,705	$802	$–	$–	$19,705	$802
Total	$19,705	$802	$–	$–	$19,705	$802

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When it is determined that a decline in fair value of HTM and AFS securities is other-than-temporary, the carrying value of the security is reduced to its estimated fair value, with a corresponding charge to earnings for the credit portion and the non credit portion to other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, we do not currently intend to sell the securities and it is not more likely than not that we will be required to sell the security before the anticipated recovery of its amortized cost basis.

The turmoil in the capital markets had a significant impact on our estimate of fair value for certain of our securities. We believe the market values are reflective of illiquidity and credit impairment. At December 31, 2010, we have in AFS Other Stocks and Bonds, $2.9 million amortized cost basis in pooled trust preferred securities (“TRUPs”). Those securities are structured products with cash flows dependent upon securities issued by U.S. financial institutions, including banks and insurance companies. Our estimate of fair value at December 31, 2010 for the TRUPs is approximately $189,000 and reflects the market illiquidity. With the exception of the TRUPs, to the best of management’s knowledge and based on our consideration of the qualitative factors associated with each security, there were no securities in our investment and mortgage-backed securities portfolio at December 31, 2010 with an other-than-temporary impairment.

Given the facts and circumstances associated with the TRUPs we performed detailed cash flow modeling for each TRUP using an industry-accepted cash flow model. Prior to loading the required assumptions into the model we reviewed the financial condition of each of the underlying issuing banks within the TRUP collateral pool that had not deferred or defaulted as of December 31, 2010. Management’s best estimate of a deferral assumption was assigned to each issuing bank based on the category in which it fell. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Based on that detailed analysis, we have concluded that the other-than-temporary impairment, which captures the credit component in compliance with FASB ASC Topic 320, “Investments – Debt and Equity Securities,” was estimated at $3.1 million and $3.0 million at December 31, 2010 and 2009, respectively. The non credit charge to other comprehensive income was estimated at $2.7 million at December 31, 2010 and 2009. Therefore, the carrying amount of the TRUPs was written down with $75,000 and $3.0 million recognized in earnings for the years ended December 31, 2010 and 2009, respectively. The cash flow model assumptions represent management’s best estimate and consider a variety of qualitative factors, which include, among others, the credit rating downgrades, the severity and duration of the mark-to-market loss, and the structural nuances of each TRUP. Management believes that the detailed review of the collateral and cash flow modeling support the conclusion that the TRUPs had an other-than-temporary impairment at December 31, 2010. We will continue to update our assumptions and the resulting analysis each reporting period to reflect changing market conditions. Additionally, we do not currently intend to sell the TRUPs and it is not more likely than not that we will be required to sell the TRUPs before the anticipated recovery of their amortized cost basis.

The table below provides more detail on the TRUPs at December 31, 2010 (dollars in thousands).

TRUP	Par	Credit Loss	Amortized Cost	Fair Value	Tranche	Credit Rating
1	$2,000	$1,075	$925	$125	C1	Ca
2	2,000	550	1,450	36	B1	Ca
3	2,000	1,450	550	28	B2	C
	$6,000	$3,075	$2,925	$189		

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The following table presents the impairment activity related to credit loss, which is recognized in earnings, and the impairment activity related to all other factors, which are recognized in other comprehensive income (in thousands).

	Year Ended December 31, 2010		
	Impairment Related to Credit Loss	Impairment Related to All Other Factors	Total Impairment
Balance, beginning of the period	$3,000	$2,730	$5,730
Charges on securities for which other-than-temporary impairment charges were not previously recognized	–	–	–
Additional charges on securities for which other-than-temporary impairment charges were previously recognized	75	(36)	39
Balance, end of the period	$3,075	$2,694	$5,769

	Year Ended December 31, 2009		
	Impairment Related to Credit Loss	Impairment Related to All Other Factors	Total Impairment
Balance, beginning of the period	$–	$–	$–
Charges on securities for which other-than-temporary impairment charges were not previously recognized	3,000	2,730	5,730
Additional charges on securities for which other-than-temporary impairment charges were previously recognized	–	–	–
Balance, end of the period	$3,000	$2,730	$5,730

Interest income recognized on AFS and HTM securities for the years presented:

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
U.S. Treasury	$ 8	$ 40	$ 115
U.S. Government Agencies	–	678	690
State and Political Subdivisions	10,926	7,797	5,414
Other Stocks and Bonds	46	147	414
Mortgage-backed Securities	50,130	65,463	55,470
Total interest income on securities	$ 61,110	$ 74,125	$ 62,103

There were no securities transferred from AFS to HTM during 2009 and 2010. There were no sales from the HTM portfolio during the years ended December 31, 2010, 2009 or 2008. There were $419.4 million and $244.2 million of securities classified as HTM for the years ended December 31, 2010 and 2009, respectively.

Of the $25.8 million in net securities gains from the AFS portfolio for the year ended December 31, 2010, there were $28.3 million in realized gains and $2.5 million in realized losses. Of the $33.4 million in net securities gains from the AFS portfolio for the year ended December 31, 2009, there were $33.5 million in realized gains and $0.1 million in realized losses. Of the $12.3 million in net securities gains from the AFS portfolio for the year ended December 31, 2008, there were $12.5 million in realized gains and $0.2 million in realized losses.

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The amortized cost and fair value of securities at December 31, 2010, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are presented in total by category due to the fact that mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

	December 31, 2010	
	Amortized Cost	Fair Value
	(in thousands)	
Available for sale securities:		
Investment Securities		
Due in one year or less	$8,594	$8,632
Due after one year through five years	5,876	6,041
Due after five years through ten years	20,968	21,681
Due after ten years	268,736	262,990
	304,174	299,344
Mortgage-backed securities	927,323	946,043
Total	$1,231,497	$1,245,387

	December 31, 2010	
	Amortized Cost	Fair Value
	(in thousands)	
Held to maturity securities:		
Investment Securities		
Due in one year or less	$–	$–
Due after one year through five years	–	–
Due after five years through ten years	483	497
Due after ten years	1,012	1,056
	1,495	1,553
Mortgage-backed securities	417,862	426,572
Total	$419,357	$428,125

Investment and mortgage-backed securities with book values of $977.4 million and $1.06 billion were pledged as of December 31, 2010 and 2009, respectively, to collateralize FHLB advances, repurchase agreements, public funds and trust deposits or for other purposes as required by law.

Securities with limited marketability, such as FHLB stock and other investments, are carried at cost, which approximates its fair value and assessed for other-than-temporary impairment. These securities have no maturity date.

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6. LOANS AND ALLOWANCE FOR PROBABLE LOAN LOSSES

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

	December 31, 2010	December 31, 2009
	(in thousands)	
Real Estate Loans:		
Construction	$115,094	$105,268
1-4 family residential	219,031	217,677
Other	200,723	212,731
Commercial loans	148,761	159,529
Municipal loans	196,594	150,111
Loans to individuals	197,717	188,260
Total loans	1,077,920	1,033,576
Less: Allowance for loan losses	20,711	19,896
Net loans	$1,057,209	$1,013,680

Loans to Affiliated Parties

In the normal course of business, we make loans to certain of our own executive officers and directors and their related interests. As of December 31, 2010 and 2009, these loans totaled $4.5 million and $3.9 million, respectively. These loans represented 2.1% and 2.0% of shareholders' equity as of December 31, 2010 and 2009, 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.

Allowance for Loan Losses

The allowance for loan losses is based on the most current review of the loan portfolio and is validated by multiple processes. First, the bank utilized historical data to establish general reserve amounts for each class of loans. While we track several years of data, we primarily review one year data because we found during the 1980's that longer periods would not respond quickly enough to market conditions. Second, our lenders have the primary responsibility for identifying problem loans and estimating necessary reserves based on customer financial stress and underlying collateral. These recommendations are reviewed by the Senior lender, the Special Assets department, and the Loan Review department and are signed off on by the President. Third, the Loan Review department does independent reviews of the portfolio on an annual basis. The Loan Review department follows a board approved annual loan review scope. The loan review scope encompasses a number of metrics that takes into consideration the size of the loan, the type of credit extended, the seasoning of the loan along with the performance of the loan. The loan review scope as it relates to size, focuses more on larger dollar loan relationships, typically, for example, aggregate debt of $500,000 or greater. The Loan Review officer also tracks specific reserves for loans by type compared to general reserves to determine trends in comparative reserves as well as losses not reserved for prior to charge off to determine the efficiency of the specific reserve process.

At each review, a subjective analysis methodology is used to grade the respective loan. Categories of grading vary in severity from loans that do not appear to have a significant probability of loss at the time of review to loans that

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 of future expected cash flows or appraisals of the collateral securing the debt are used to allocate the necessary allowances. The internal loan review department maintains a list of all loans or loan relationships that are graded as having more than the normal degree of risk associated with them. In addition, a list of specifically reserved loans or loan relationships of $50,000 or more is updated on a quarterly basis in order to properly allocate necessary allowances and keep management informed on the status of attempts to correct the deficiencies noted with respect to the loan.

For loans to individuals the methodology associated with determining the appropriate allowance for losses on loans primarily consists of an evaluation of individual payment histories, remaining term to maturity and underlying collateral support.

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Industry experience indicates that a portion of our 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 our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit of the borrower and the ability of the borrower to make payments on the loan. Our 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 bank regulators (who have the authority to require additional allowances), and geographic and industry loan concentration.

Consumer loans at SFG are reserved for based on general estimates of loss at the time of purchase for current loans. SFG loans experiencing past due status or extension of maturity characteristics are reserved for at significantly higher levels based on the circumstances associated with each specific loan. In general the reserves for SFG are calculated based on the past due status of the loan. For reserve purposes, the portfolio has been segregated by past due status and by the remaining term variance from the original contract. During repayment, loans that pay late will take longer to pay out than the original contract. Additionally, some loans may be granted extensions for extenuating payment circumstances. The remaining term extensions increase the risk of collateral deterioration and accordingly, reserves are increased to recognize this risk.

For loans originated after August 1, 2010, additional reserve methods have been added. New pools purchased are reserved at their estimated annual loss. Thereafter, the reserve is adjusted based on the actual performance versus projected performance. Additionally, during the fourth quarter of 2010, data mining measures were further enhanced to track migration within risk tranches. Reserves are adjusted quarterly to match the migration metrics.

Credit Quality Indicators:

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We use the following definitions for risk ratings:

- Satisfactory (Rating 1 – 4) – This rating is assigned to all satisfactory loans. This category, by definition, should consist of completely acceptable credit. Credit and collateral exceptions should not be present, although their presence would not necessarily prohibit a loan from being rated Satisfactory, if deficiencies are in process of correction. These loans will not be included in the Watch List.

- Satisfactory (Rating 5) – Special Treatment Required – (Pass Watch) – These loans require some degree of special treatment, but not due to credit quality. This category does not include loans specially mentioned or adversely classified by the Loan Review Officer or regulatory authorities; however, particular attention must be accorded such credits due to characteristics such as:

  - A lack of, or abnormally extended payment program;
  - A heavy degree of concentration of collateral without sufficient margin;
  - A vulnerability to competition through lesser or extensive financial leverage;
  - A dependence on a single, or few customers, or sources of supply and materials without suitable substitutes or alternatives.

- Special Mention (Rating 6) – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for

the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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- Substandard (Rating 7) – Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful (Rating 8) – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation, in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

- Loss (Rating 9) – Loans classified Loss are considered uncollectible and of such little value that there continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Loans not meeting risk ratings six through nine are reserved for as a group of similar type pass rated credits and included in the general portion of the allowance for loan losses.

The general portion of the loan loss allowance is reflective of historical charge-off levels for similar loans adjusted for changes in current conditions and other relevant factors. These factors are likely to cause estimated losses to differ from historical loss experience and include:

- Changes in lending policies or procedures, including underwriting, collection, charge-off, and recovery procedures;
- Changes in local, regional and national economic and business conditions including entry into new markets;
- Changes in the volume or type of credit extended;
- Changes in the experience, ability, and depth of lending management;
- Changes in the volume and severity of past due, nonaccrual, restructured, or classified loans;
- Changes in loan review or Board oversight; and,
- Changes in the level of concentrations of credit.

The following is a summary of the Allowance for Loan Losses and Reserve for Unfunded Loan Commitments for the years ended December 31, 2010, 2009 and 2008:

	Years Ended December 31,		
	2010	2009	2008
	(in thousands)		
Allowance For Loan Losses:			
Balance at beginning of year	$ 19,896	$ 16,112	$ 9,753
Provision for loan losses	13,737	15,093	13,675
Loans charged off	(16,413)	(13,147)	(9,197)
Recoveries of loans charged off	3,491	1,838	1,881
Balance at end of year	$ 20,711	$ 19,896	$ 16,112
Reserve For Unfunded Loan Commitments:			
Balance at beginning of year	$ 5	$ 7	$ 50
Provision for losses on unfunded loan commitments	25	(2)	(43)
Balance at end of year	$ 30	$ 5	$ 7

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as described in the allowance for loan losses methodology discussion as of December 31, 2010 (in thousands):

	Allowance for Loan Losses Ending Allowance Balance Attributable to Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance
Real Estate Loans:			
Construction	$1,214	$ 1,371	$2,585
1-4 Family residential	832	1,156	1,988
Other	914	2,440	3,354
Commercial loan	1,986	1,760	3,746
Municipal loan	125	482	607
Loans to individuals	442	7,536	7,978
Unallocated	–	453	453
Total	$5,513	$ 15,198	$20,711

	Loans Individually Evaluated for Impairment	Loans Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Real Estate Loans:			
Construction	$10,355	$ 104,739	$115,094
1-4 Family residential	8,331	210,700	219,031
Other	10,688	190,035	200,723
Commercial loan	12,144	136,617	148,761
Municipal loan	738	195,856	196,594
Loans to individuals	1,625	196,092	197,717
Total	$43,881	$ 1,034,039	$1,077,920

The following table presents weighted average risk grades and classified loans by class in Risk Grades 7, 8 and 9 as of December 31, 2010 (in thousands):

	Weighted Average Risk Grade	Classified Loans

Real Estate Loans:		
Construction	7.00	$8,174
1-4 family residential	7.13	6,140
Other	7.08	5,802
Commercial loans	7.03	8,647
Municipal Loans	7.00	480
Loans to individuals	7.33	6,751
Total		$35,994

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Nonaccrual and Past Due Loans

Nonaccrual loans are those loans which are 90 days or more 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. 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. 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.

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of the expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, in addition to relying on third party appraisals, we use assumptions such as discount rates, and methodologies, such as comparison to the recent selling price of similar assets, consistent with those that would be utilized by unrelated third parties performing a valuation.

Nonaccrual loans and accruing loans past due more than 90 days include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual and accruing loans past due more than 90 days by class of loans as of December 31, 2010 (in thousands):

	Nonaccrual	Accruing Loans Past Due More Than 90 Days
Real Estate Loans:		
Construction	$4,730	$–
1-4 family residential	2,353	–
Other	1,428	–
Commercial loans	1,799	–
Municipal Loans	–	–
Loans to individuals	4,214	7
Total	$14,524	$7

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The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Real Estate Loans:						
Construction	$515	$655	$4,730	$5,900	$109,194	$115,094
1-4 Family residential	3,437	641	2,353	6,431	212,600	219,031
Other	350	399	1,428	2,177	198,546	200,723
Commercial loan	500	227	1,799	2,526	146,235	148,761
Municipal loan	–	–	–	–	196,594	196,594
Loans to individuals	6,477	1,306	4,221	12,004	185,713	197,717
Total	$11,279	$3,228	$14,531	$29,038	$1,048,882	$1,077,920

Impaired loans were as follows (in thousands):

	2010	2009
Year-end loans with no allocated allowance for loan losses	$ 69	$ 287
Year-end loans with allocated allowance for loan losses	16,699	20,226
Total	$ 16,768	$ 20,513
Amount of the allowance for loan losses allocated	$ 3,864	$ 5,027

At any time a potential loss is recognized in the collection of principal, proper reserves should be allocated. Loans are charged off when deemed uncollectible. Loans are charged down as soon as collection by liquidation is evident to the liquidation value of the collateral net of liquidation costs, if any, and placed in nonaccrual status.

The following table presents the interest income recognized on nonaccrual and restructured loans by class of loans for the year ended December 31, 2010 (in thousands):

	Interest Income Recognized	Accruing Interest at Original Contracted Rate
Real Estate Loans:		
Construction	$4	$356
1-4 family residential	49	139
Other	16	117
Commercial loans	8	48
Municipal Loans	–	–
Loans to individuals	980	1,547
Total	$1,057	$2,207

The amount of interest recognized on loans that were nonaccruing or restructured during the year was $1.2 million and $1.1 million for the years ended December 31, 2009 and 2008, respectively. If these loans had been accruing interest at their original contracted rates, related income would have been $1.7 million and $1.8 million for the years ended December 31, 2009 and 2008, respectively.

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The following table presents impaired loans by class of loans as of December 31, 2010 in (thousands):

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Loan Losses Allocated	Average Recorded Investment
Real Estate Loans:						
Construction	$ 6,045	$–	$4,730	$4,730	$562	$6,013
1-4 family residential	2,453	–	2,354	2,354	426	1,250
Other	1,807	–	1,428	1,428	179	1,445
Commercial Loans	1,826	–	1,799	1,799	719	1,950
Municipal Loans	–	–	–	–	–	–
Loans to individuals	6,854	69	6,388	6,457	1,978	7,904
Total	$ 18,985	$69	$16,699	$16,768	$3,864	$18,562

For the years ended December 31, 2010 and 2009, the average recorded investment in impaired loans was approximately $18.6 million and $16.1 million, respectively.

7. PREMISES AND EQUIPMENT

	December 31, 2010	December 31, 2009
	(in thousands)	
Premises	$59,569	$54,010
Furniture and equipment	22,949	22,053
	82,518	76,063
Less: accumulated depreciation	32,374	29,586
Total	$50,144	$46,477

Depreciation expense was $3.2 million, $2.9 million and $2.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

8. OTHER REAL ESTATE OWNED

For the years ended December 31, 2010 and 2009, the total of OREO was $220,000 and $1.9 million, respectively. OREO is reflected in other assets in our consolidated balance sheet.

For the years ended December 31, 2010, 2009 and 2008, losses on impairment or sale of OREO were $173,000, $781,000 and $174,000, respectively.

For the years ended December 31, 2010, 2009 and 2008, OREO operating expense exceeded income by $157,000, $141,000 and $83,000, respectively.

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9. INTEREST BEARING DEPOSITS

	December 31, 2010	December 31, 2009
	(in thousands)	
Savings deposits	$79,466	$70,192
Money market demand deposits	118,794	114,447
Platinum money market deposits	247,192	209,194
NOW demand deposits	181,850	163,465
Certificates and other time deposits of $100,000 or more	215,799	227,838
Certificates and other time deposits under $100,000	342,950	342,412
Public fund deposits	525,073	348,872
Total	$1,711,124	$1,476,420

At December 31, 2010 and 2009, interest-bearing public funds deposits included $238.7 million and $147.7 million in savings and interest bearing checking accounts, $286.1 million and $201.0 million in time deposits of $100,000 or more and $256,000 and $218,000 in time deposits under $100,000, respectively.

For the years ended December 31, 2010, 2009 and 2008, interest expense on time deposits of $100,000 or more was $5.4 million, $8.3 million and $10.0 million, respectively.

At December 31, 2010, the scheduled maturities of certificates and other time deposits, including public funds, are as follows (in thousands):

2011	$559,887
2012	90,282
2013	11,124
2014	16,421
2015 and thereafter	167,386
	$845,100

At December 31, 2010, we had a total of $20.0 million of short-term and $141.3 million in long-term brokered certificates of deposit (“CDs”) that represented 7.6% of our deposits. These brokered CDs mature within six years and are reflected in the CDs under $100,000 category. At December 31, 2009, we had $131.2 million in brokered CDs. We utilized long-term brokered CDs because the brokered CDs better matched overall ALCO objectives at the time of issuance by protecting us with fixed rates should interest rates increase, while providing us options to call the funding should interest rates decrease. Our current policy allows for a maximum of $165 million in brokered CDs.

The aggregate amount of demand deposit overdrafts that have been reclassified as loans were $1.3 million and $1.1 million for December 31, 2010 and 2009, respectively.

10. SHORT-TERM BORROWINGS

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

	Years Ended December 31, 2010		2009	
	(dollars in thousands)			
Federal funds purchased and repurchase agreements				
Balance at end of period	$3,844		$13,325	
Average amount outstanding during the period (1)	6,699		19,270	
Maximum amount outstanding during the period (2)	13,187		46,983	
Weighted average interest rate during the period (3)	3.1	%	2.7	%
Interest rate at end of period	3.3	%	2.7	%
FHLB advances				
Balance at end of period	$189,094		$322,351	
Average amount outstanding during the period (1)	300,428		187,467	
Maximum amount outstanding during the period (2)	401,893		322,351	
Weighted average interest rate during the period (3)	2.4	%	2.2	%
Interest rate at end of period	3.6	%	1.5	%
Other obligations				
Balance at end of period	$2,651		$2,760	
Average amount outstanding during the period (1)	2,522		2,311	
Maximum amount outstanding during the period (2)	3,135		3,962	
Weighted average interest rate during the period (3)	0.2	%	–	
Interest rate at end of period	0.7	%	–	

(1) The average amount outstanding during the period was computed by dividing the total daily outstanding principal balances by the number of days in the period.
(2) The maximum amount outstanding at any month-end during the period.
(3) The weighted average interest rate during the period was computed by dividing the actual interest expense by the average balance outstanding during the period.

Southside Bank has four lines of credit for the purchase of federal funds. Three $15.0 million and one $10.0 million unsecured lines of credit have been established with Bank of America, Frost Bank, Sterling Bank and TIB – The Independent Bankers Bank, respectively. At December 31, 2010, the amount of additional funding Southside Bank could obtain from FHLB using unpledged securities at FHLB was approximately $377.3 million, net of FHLB stock purchases required. There were no federal funds purchased at December 31, 2010 or 2009. Southside Bank obtained $32.0 million letters of credit from FHLB as collateral for a portion of its public fund deposits.

Securities sold under agreements to repurchase are secured by borrowings and are stated at the amount of cash received in connection with the transaction. Securities sold under agreements to repurchase totaled $3.8 million at December 31, 2010. There were $13.3 million sold under agreements to repurchase at December 31, 2009.

Other obligations consist primarily of a treasury tax and loan account.

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Explanation of Responses:

11. LONG-TERM OBLIGATIONS

	Years Ended December 31,			
	2010		2009	
	(dollars in thousands)			
FHLB advances				
Balance at end of period	$ 373,479		$ 532,519	
Weighted average interest rate during the period (1)	3.6	%	3.6	%
Interest rate at end of period	3.6	%	3.7	%
Long-term debt (2)				
Balance at end of period	$ 60,311		$ 60,311	
Weighted average interest rate during the period (1)	5.4	%	5.7	%
Interest rate at end of period	5.3	%	5.3	%

Maturities of fixed rate long-term obligations based on scheduled repayments at December 31, 2010 are as follows (in thousands):

	Under 1 Year	Due 1-5 Years	Due 6-10 Years	Over 10 Years	Total
FHLB advances	$2,269	$362,195	$6,297	$2,718	$373,479
Long-term debt	–	–	–	60,311	60,311
Total long-term obligations	$2,269	$362,195	$6,297	$63,029	$433,790

FHLB advances represent borrowings with fixed interest rates ranging from 1.2% to 7.6% and with maturities of one to eighteen years. FHLB advances are collateralized by FHLB stock, nonspecified real estate loans and mortgage-backed securities.

	Years Ended December 31,	
	2010	2009
	(in thousands)	
Long-term Debt		
Southside Statutory Trust III Due 2033 (3)	$20,619	$20,619
Southside Statutory Trust IV Due 2037 (4)	23,196	23,196
Southside Statutory Trust V Due 2037 (5)	12,887	12,887
Magnolia Trust Company I Due 2035 (6)	3,609	3,609
Total Long-term Debt	$60,311	$60,311

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

(2) This long-term debt consists of trust preferred securities that qualify under the risk-based capital guidelines as Tier 1 capital, subject to certain limitations.

(3)

This debt carries an adjustable rate of 3.24281% through March 30, 2011 and adjusts quarterly at a rate equal to three-month LIBOR plus 294 basis points.

(4) This debt carries a fixed rate of 6.518% through October 30, 2012 and thereafter, adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.

(5) This debt carries a fixed rate of 7.48% through December 15, 2012 and thereafter, adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.

(6) This debt carries an adjustable rate of 2.08438% through February 22, 2011 and adjusts quarterly at a rate equal to three-month LIBOR plus 180 basis points.

The long-term debt was $60.3 million for the years ended December 31, 2010 and 2009. During the third quarter ended September 30, 2007, we issued $36.1 million of junior subordinated debentures in connection with the issuance of trust preferred securities by our subsidiaries Southside Statutory Trusts IV and V. The $36.1 million in debentures were issued to fund the purchase of FWBS. In addition, as a result of the acquisition, we assumed $3.6 million of junior subordinated debentures issued to Magnolia Trust Company I.

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Beginning in September 2010 and continuing into the fourth quarter of 2010, we entered into the option to fund between one and a half and two years forward from the advance commitment date $150 million par in long-term advance commitments from the FHLB at the rates on the date the option was purchased. The fee, included in other assets in our consolidated balance sheet, will be amortized over the term of the advance as long as it is probable we will exercise the advance commitments. Should we determine the advance commitments will not be exercised, the fee will be expensed in the period determination is made.

Below is a table detailing the optional advance commitment terms (dollars in thousands):

Advance Commitment	Option Expiration Date	Advance Commitment Term at Exercise Date	Advance Commitment Rate	Option Fee Paid
$ 25,000	09/20/12	36 months	1.325 %	$ 1,105
25,000	09/20/12	48 months	1.674 %	1,410
20,000	10/09/12	36 months	1.153 %	789
20,000	10/09/12	48 months	1.466 %	1,042
20,000	10/09/12	60 months	1.807 %	1,216
20,000	05/17/12	48 months	1.710 %	917
20,000	05/17/12	60 months	2.085 %	1,102
$ 150,000				$ 7,581

12. EMPLOYEE BENEFITS

Southside Bank has a deferred compensation agreement with 18 of its executive officers, which generally provides for payment of an aggregate amount of $8.3 million over a maximum period of 15 years after retirement or death. Deferred compensation expense was $256,000, $257,000 and $1.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. For the years ended December 31, 2010 and 2009, the deferred compensation plan liability totaled $3.9 million and $3.7 million, respectively.

We provide accident and health insurance for substantially all employees through a self funded insurance program. Our healthcare plan was amended December 2006 to eliminate retiree health insurance for all current employees effective December 31, 2006. Effective July 31, 2007, the healthcare plan no longer provides health insurance coverage for any current retirees. The cost of health care benefits was $3.7 million, $3.6 million and $2.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. There were no retirees participating in the health insurance plan as of December 31, 2010 and 2009.

We have an Employee Stock Ownership Plan (the “ESOP”) which covers substantially all employees. Contributions to the ESOP are at the sole discretion of the board of directors. There was $250,000 contributed to the ESOP for each of the years ended December 31, 2010, 2009 and 2008. At December 31, 2010 and 2009, 320,699 and 289,093 shares of common stock were owned by the ESOP, respectively. The number of shares has 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.

We have an officer’s long-term disability income policy which provides coverage in the event they become disabled as defined under its terms. Individuals are automatically covered under the policy if they (a) have been elected as an officer, (b) have been an employee of Southside Bank for three years and (c) receive earnings of $50,000 or more on an annual basis. The policy provides, among other things, that should a covered individual become totally disabled he would receive two-thirds of his current salary, not to exceed $15,000 per month. The benefits paid out of the policy are limited by the benefits paid to the individual under the terms of our other Company sponsored benefit plans.

We entered into split dollar agreements with eight of our executive officers. The agreements provide we will be the beneficiary of bank owned life insurance ("BOLI") insuring the executives' lives. The agreements provide the executives the right to designate the beneficiaries of the death benefits guaranteed in each agreement. The agreements originally provided for death benefits of an initial aggregate amount of $4.5 million. The individual amounts are increased annually on the anniversary date of the agreement by inflation adjustment factors ranging from 3% to 5%. As of December 31, 2010, the expected death benefits total $5.7 million. The agreements also state that before and after the executive's retirement dates, we shall also pay an annual gross-up bonus to the executive in an amount sufficient to enable the executive to pay federal income tax on both the economic benefit and on the gross-up bonus. The expense required to

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record the post retirement liability associated with the split dollar post retirement bonuses was $41,000 and $70,000 for the years ended December 31, 2010 and 2009, respectively. There was no expense associated with the postretirement liability for the year ended December 31, 2008.

FASB ASC Topic 715, “Compensation-Retirement Benefits,” requires that for a split-dollar life insurance arrangement, an employer should recognize a liability for future benefits. We adopted FASB ASC Topic 715 as of January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings. The amount of the adjustment was $351,000. For the years ended December 31, 2010 and 2009, the split-dollar liability totaled $1.3 million and 1.2 million, respectively.

We have a defined benefit pension plan (“the 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.

On November 3, 2005, our board of directors approved amendments to the Plan which affected future participation in the Plan and reduced the accrual of future benefits.

Entrance into the Plan by new employees was frozen effective December 31, 2005. Employees hired after December 31, 2005 are not eligible to participate in the plan. All other employees are eligible to participate under the plan on the first day of the month coincident with or next following the first anniversary of hire. 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. We contribute amounts to the pension fund sufficient to satisfy funding requirements of the Employee Retirement Income Security Act.

Plan assets, which consist primarily of marketable equity and debt instruments, are valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate, the rate of salary increases and the estimated future return on plan assets. In determining the discount rate, we utilized a cash flow matching analysis to determine a range of appropriate discount rates for the defined benefit pension plan and restoration plans. In developing the cash flow matching analysis, we constructed a portfolio of high quality non-callable bonds (rated AA- or better) to match as closely as possible the timing of future benefit payments of the plans at December 31, 2010. Based on this cash flow matching analysis, we were able to determine an appropriate discount rate.

Salary increase assumptions are based upon historical experience and anticipated future management actions. The expected long-term rate of return assumption reflects the average return expected based on the investment strategies and asset allocation on the assets invested to provide for the Plan’s liabilities. We considered broad equity and bond indices, long-term return projections, and actual long-term historical Plan performance when evaluating the expected long-term rate of return assumption. At December 31, 2010, the weighted-average actuarial assumptions used to determine the benefit obligation of the Plan were: a discount rate of 5.63%; a long-term rate of return on Plan assets of 7.50%; and assumed salary increases of 4.50%. Material changes in pension benefit costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the number of Plan participants, changes in the level of benefits provided, changes in the discount rates, changes in the expected long-term rate of return, changes in the level of contributions to the Plan and other factors.

Plan assets included 175,205 shares of our stock at December 31, 2010 and 2009. Our stock included in Plan assets was purchased at fair market value. The number of shares has been adjusted as a result of stock splits and stock dividends. During 2010, our funded status decreased $2.4 million to an underfunded status of $19,000 at December 31, 2010 from a funded status of $2.4 million at December 31, 2009.

We have a nonfunded supplemental retirement plan (the "Restoration Plan") for our employees whose benefits under the principal retirement plan are reduced because of compensation deferral elections or limitations under federal tax laws.

We use a measurement date of December 31 for our plans.

2010		2009
Defined Benefit Pension Plan	Restoration Plan	