NEWS RELEASE

Southside Bancshares, Inc. Announces Annual Earnings

2/2/2006

TYLER, Texas, Feb. 2 /PRNewswire-FirstCall/ -- B. G. Hartley, Chairman and Chief Executive Officer of Southside Bancshares, Inc. (Nasdaq: SBSI), ("Southside Bank or the Company") reported financial results for the year ended December 31, 2005.

For the three months ended December 31, 2005 Southside reported net income of $3,487,000, compared to $3,700,000 for the same period in 2004, a decrease of $213,000, or 5.8%. Earnings per fully diluted share were $0.29 for the three months ended December 31, 2005 compared to $0.30 for the same period in 2004.

Southside reported net income of $14,592,000 for the year ended December 31, 2005 compared to $16,099,000 for the same period in 2004. The decrease in net income of $1,507,000, or 9.4%, is a direct result of a reduction in income from the sale of available for sale securities, net of tax, of $1.7 million when comparing the year ended December 31, 2005, to the same period in 2004. Earnings per fully diluted share were $1.21 for the year ended December 31, 2005, compared to $1.32 for the same period in 2004, a decrease of $0.11, or 8.3%. When comparing the year ended December 31, 2005 with the same period in 2004, net income, excluding gains on sales of available for sale securities, net of tax, reflected a slight increase of $163,000 or 1.1%. Earnings per fully diluted share attributable to the sale of securities were $0.15 for the year ended December 31, 2004 compared to $0.01 for the same period in 2005.

The annual return on average shareholders' equity for the year ended December 31, 2005 was 13.88% compared to 15.31% for the same period in 2004. The annual return on average assets was 0.86% for the year ended December 31, 2005, compared to 1.07% for the same period in 2004.

Deposit and Loan Growth

We are pleased to report the Company experienced strong deposit growth during the three months ended December 31, 2005, as deposits increased $89.5 million. We are gratified deposits continued to grow at an excellent pace during the fourth quarter with $69.7 million of that growth resulting from our expanding branch network and continued market penetration. The remaining $19.8 million of the deposit growth was the result of the Company issuing callable brokered certificates of deposits. These brokered deposits have maturities out to five years with calls as short as three months. Overall during 2005, deposits increased $169.8 million, or 18.0%, to $1.1 billion at December 31, 2005 when compared to December 31, 2004.

During the year ended December 31, 2005, the Company experienced solid loan growth as loans, net of unearned discount, increased $56.3 million, or 9.0% from December 31, 2004. The Company's loan growth slowed during the three months ended December 31, 2005, as loans, net of unearned discount, increased $1.2 million, or 0.2%. The Company anticipates loan growth levels for 2006 will exceed the percentage growth for the fourth quarter of 2005 and should be more in line with the percentage growth experienced during the twelve month period ended December 31, 2005. Asset quality improved as non- performing assets decreased $466,000, or 13.2%, to $3.1 million at December 31, 2005 when compared to $3.5 million at December 31, 2004. We believe that the Company's asset quality ratios as reported in this earnings release remain sound.

Branch Expansion Continues

During the fourth quarter Southside opened its 31st banking center in Palestine, Texas, approximately 50 miles southwest of Tyler. The addition of the banking center in Palestine should complement and enhance Southside's southern expansion efforts which already includes banking centers in Jacksonville and Bullard. During January 2006 Southside opened a loan production office in Forney, Texas approximately 20 miles east of Dallas. Southside has also purchased property in Gun Barrel City where it plans to open a branch facility during 2006. Southside also expects to open a branch in Athens during 2006. The Company's ongoing investments in de novo branches has and will continue to impact short-term earnings, however, the Company believes the potential long-term benefits to the Company should greatly outweigh the short-term expense.

Net Interest Income

While net interest income increased for the year ended December 31, 2005, it was basically flat during the fourth quarter of 2005 as a result of margin compression. As is impacting all banks, some more than others, short-term yields increased significantly during 2005 while long-term yields increased less, creating what is called a flat yield curve, where short-term yields are relatively flat compared to long-term yields. The result for Southside was a

reduction in the net interest margin to 2.72% for the three months ended December 31, 2005 when compared to 3.09% for the same period in 2004. For the twelve months ended December 31, 2005, the net interest margin was 2.85% compared to 3.08% for the same period in 2004. Should the yield curve remain flat or invert, the net interest margin could come under additional pressure during 2006.

Non-Interest Expense

The Company took strategic action during the fourth quarter of 2005, designed to improve the relationship between compensation and profitability and reduce expense volatility. As previously announced, the Company reduced future pension plan volatility by reducing future benefits for current plan participants and froze entrance to new participants. Additionally, effective in 2006, compensation for a large number of relationship managers was changed to better align compensation with productivity and profitability. Over the long-term a greater percentage of this group's total compensation should become variable.

Net Income

The decrease in net income for the three months ended December 31, 2005, when compared to the same period in 2004, was primarily attributable to an increase in noninterest expense of $613,000, or 5.9%, an increase in provision for loan losses of $116,000, or 29.0% and a decrease in income from the sale of available for sale securities of $50,000, or 16.1%. Noninterest expense increased primarily as a result of a $435,000, or 6.9% increase in salaries and employee benefits due to higher staffing levels as a result of continued branch expansion and the Company's regional lending initiative, salary increases and increases in retirement expense.

The following items partially offset the decrease in net income for the three months ended December 31, 2005, when compared to the same period in 2004. Noninterest income, excluding gains on sales of securities, was $5.2 million for the fourth quarter of 2005, an increase of $531,000, or 11.3%, over the fourth quarter of 2004. The increase was primarily a result of an increase in deposit services fee income. Provision for federal tax expense of $779,000 for the fourth quarter of 2005, decreased $39,000, or 4.8%, from the fourth quarter of 2004 primarily as a result of a decrease in taxable income. The effective tax rate as a percentage of pre-tax income was 18.3% for the three months ended December 31, 2005 compared to 18.1% for the three months ended December 31, 2004. The increase in the effective tax rate was due to the increase in taxable income as a percentage of total income.

As discussed above, the decrease in net income for the year ended December 31, 2005, when compared to the same period in 2004 was attributable to a decrease in gains on available for sale securities. Also contributing to the decrease in net income was an increase in non-interest expense of $2.8 million, or 7.0% and an increase in provision for loan losses of $538,000, or 58.2%. These decreases in net income were partially offset by an increase in net interest income of $1.9 million, or 4.7%, an increase in non- interest income, excluding security gains, of $1.9

million, or 9.8%, and a decrease in federal income tax expense of $659,000, or 16.7%.

About Southside Bancshares

Southside Bancshares, Inc. is a $1.8 billion holding company that owns 100% of Southside Bank. The bank currently has thirty-one banking centers in East Texas and operates a network of 37 ATMs.

To learn more about Southside Bancshares, Inc., please visit our investor relations website at **www.southside.com/investor** . Our investor relations site provides a detailed overview of our activities, financial information, and historical stock price data. To receive e-mail notification of company news, events, and stock activity, please register on the E-mail Notification portion of the website. Questions or comments may be directed to Susan Hill at (903) 531-7220, or **susanh@southside.com** .

Forward Looking Information

Statements in this news release that are based on other than historical fact are "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward looking statements provide current expectations of future events. These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. These statements may include words such as "expect," "estimate," "project," "anticipate," "believe," "could," "should," "may," "intend," "probability," "risk," "target," "objective," "plans," "potential," and similar expressions. Forward-looking statements are subject to significant risks and uncertainties and the Company's actual results may differ materially from the results discussed in the forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual income gains and losses could materially differ from those that have been estimated. Other factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, the following:

* general economic conditions, either globally, nationally, in the State of Texas, or in the specific markets in which the Company operates;
* legislation or regulatory changes which adversely affect the businesses in which the Company is engaged;
* adverse changes in Government Sponsored Enterprises (the "GSE") status or financial condition impacting the GSE guarantees or ability to pay or issue debt;
* economic or other disruptions caused by acts of terrorism in the United States, Europe or other areas;

* changes in the interest rate yield curve such as flat, inverted or steep yield curves, or changes in the interest rate environment which impact interest margins and may impact prepayments on the mortgage-backed securities portfolio;
* changes impacting the leverage strategy;
* significant increases in competition in the banking and financial services industry;
* changes in consumer spending, borrowing and saving habits;
* technological changes;
* the Company's ability to increase market share and control expenses;
* the effect of changes in federal or state tax laws;
* the effect of compliance with legislation or regulatory changes;
* the effect of changes in accounting policies and practices; and
* the costs and effects of unanticipated litigation.

The Company disclaims any obligation to update any factors or to announce publicly the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

	At December 31, 2005	At December 31, 2004
	(dollars in thousands) (unaudited)	
Selected Financial Condition Data (at end of period)		
Total assets	$1,783,462	$1,619,643
Loans, net of unearned discount	680,364	624,019
Allowance for loan losses	7,090	6,942
Mortgage-backed and related securities:		
Available for sale	592,435	479,475
Held to maturity	229,321	241,058
Investment securities available for sale	121,240	133,535
Marketable equity securities available for sale	29,607	26,819
Deposits	1,110,813	940,986
Long-term obligations	229,032	351,287
Shareholders' equity	109,290	104,697
Nonperforming assets	3,057	3,523
Nonaccrual loans	1,731	2,248
Loans 90 days past due	945	827
Restructured loans	226	193

Other real estate owned	145	214
Repossessed assets	10	41
Assets Quality Ratios:		
Nonaccruing loans to total loans	0.25%	0.36%
Allowance for loan losses to nonaccruing loans	409.59	308.81
Allowance for loan losses to nonperforming assets	231.93	197.05
Allowance for loan losses to total loans	1.04	1.11
Nonperforming assets to total assets	0.17	0.22
Net charge-offs to average loans	0.20	0.07
Capital Ratios:		
Shareholders' equity to total assets	6.13	6.46
Average shareholders' equity to average total assets	6.20	6.98

LOAN PORTFOLIO COMPOSITION

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

	At December 31, 2005	At December 31, 2004
	(dollars in thousands) (unaudited)	
Real Estate Loans:		
Construction	$35,765	$32,877
1-4 Family Residential	199,812	168,784
Other	162,147	153,998
Commercial Loans	91,456	80,808
Municipal Loans	109,003	103,963
Loans to Individuals	82,181	83,589
Total Loans	$680,364	$624,019

	At or for the Three Months Ended December 31,		At or for the Twelve Months Ended December 31,	
	2005	2004	2005	2004
	(dollars in thousands)		(dollars in thousands)	

	(unaudited)		(unaudited)	
Selected Operating Data:				
Total interest income	$21,079	$17,785	$79,681	$67,000
Total interest expense	10,798	7,500	38,422	27,606
Net interest income	10,281	10,285	41,259	39,394
Provision for loan losses	516	400	1,463	925
Net interest income after provision for loan losses	9,765	9,885	39,796	38,469
Non-interest income				
Deposit services	3,745	3,369	14,594	13,793
Gain on sale of securities available for sale	260	310	228	2,759
Gain on sale of loans	374	386	1,807	1,644
Trust income	389	354	1,422	1,248
Bank owned life insurance	278	184	951	812
Other	458	420	2,246	1,647
Total non-interest income	5,504	5,023	21,248	21,903
Non-interest expense				
Salaries and employee benefits	6,697	6,262	27,479	25,395
Net occupancy expense	1,078	1,021	4,257	4,120
Equipment expense	223	210	847	759
Advertising, travel & entertainment	510	544	1,967	1,852
ATM expense	181	149	648	628
Director fees	218	208	677	646
Supplies	173	180	628	608
Professional fees	181	240	764	1,023
Postage	149	145	572	561
Other	1,593	1,431	5,320	4,729
Total non-interest expense	11,003	10,390	43,159	40,321
Income before federal tax expense	4,266	4,518	17,885	20,051
Income tax expense	779	818	3,293	3,952
Net income	$3,487	$3,700	$14,592	$16,099
Common Share Data:				
Weighted-average basic shares outstanding	11,545	11,535	11,471	11,496
Weighted-average diluted shares outstanding	12,034	12,218	12,035	12,174
Net income per common share				
Basic	$0.30	$0.32	$1.27	$1.40
Diluted	0.29	0.30	1.21	1.32
Book value per common share	---	---	9.43	9.06
Cash dividend declared per common share	0.13	0.12	0.46	0.42
Selected Performance Ratios:				

Return on average assets	0.79%	0.94%	0.86%	1.07%
Return on average shareholders' equity	13.05	13.51	13.88	15.31
Average yield on interest earning assets	5.35	5.13	5.27	5.05
Average yield on interest bearing liabilities	3.22	2.53	2.96	2.41
Net interest spread	2.13	2.60	2.31	2.64
Net interest margin	2.72	3.09	2.85	3.08
Average interest earning assets to average interest bearing liabilities	122.79	123.55	122.17	122.62
Non-interest expense to average total assets	2.50	2.65	2.54	2.68
Efficiency ratio	66.92	64.78	65.27	64.46

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Years Ended

December 31, 2005

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$657,938	$40,927	6.22%
Loans Held for Sale	4,469	212	4.74%
Securities:			
Investment Securities (Taxable) (D)	51,431	1,978	3.85%
Investment Securities (Tax-Exempt) (C) (D)	66,023	4,696	7.11%
Mortgage-backed Securities (D)	773,973	34,584	4.47%
Marketable Equity Securities	28,099	1,032	3.67%
Interest Earning Deposits	644	24	3.73%
Federal Funds Sold	995	30	3.02%
Total Interest Earning Assets	1,583,572	83,483	5.27%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	42,280		
Bank Premises and Equipment	31,504		
Other Assets	45,625		
Less: Allowance for Loan Loss	(6,945)		
Total Assets	$1,696,036		

LIABILITIES AND SHAREHOLDERS' EQUITY

INTEREST BEARING LIABILITIES:			
Savings Deposits	$50,502	$524	1.04%
Time Deposits	354,360	11,221	3.17%
Interest Bearing Demand Deposits	313,815	5,476	1.74%
Short-term Interest Bearing Liabilities	282,283	9,892	3.50%
Long-term Interest Bearing Liabilities - FHLB Dallas	274,673	10,004	3.64%
Long-term Debt (E)	20,619	1,305	6.24%
Total Interest Bearing Liabilities	1,296,252	38,422	2.96%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	280,036		
Other Liabilities	14,649		
Total Liabilities	1,590,937		
SHAREHOLDERS' EQUITY	105,099		
Total Liabilities and Shareholders' Equity	$1,696,036		
NET INTEREST INCOME		$45,061	
NET YIELD ON AVERAGE EARNING ASSETS			2.85%
NET INTEREST SPREAD			2.31%

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Years Ended

December 31, 2004

	AVG. BALANCE	AVG. INTEREST	AVG. YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$604,658	$36,921	6.11%
Loans Held for Sale	3,570	180	5.04%
Securities:			
Investment Securities (Taxable) (D)	45,400	1,072	2.36%
Investment Securities (Tax-Exempt) (C) (D)	75,048	5,333	7.11%

Mortgage-backed Securities (D)	643,323	26,845	4.17%
Marketable Equity Securities	24,309	477	1.96%
Interest Earning Deposits	634	8	1.26%
Federal Funds Sold	6,886	67	0.97%
Total Interest Earning Assets	1,403,828	70,903	5.05%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	37,881		
Bank Premises and Equipment	30,576		
Other Assets	40,376		
Less: Allowance for Loan Loss	(6,597)		
Total Assets	$1,506,064		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$48,456	$234	0.48%
Time Deposits	319,083	7,847	2.46%
Interest Bearing Demand Deposits	281,452	2,027	0.72%
Short-term Interest Bearing Liabilities	181,779	6,499	3.58%
Long-term Interest Bearing Liabilities - FHLB Dallas	293,499	10,076	3.43%
Long-term Debt (E)	20,619	923	4.40%
Total Interest Bearing Liabilities	1,144,888	27,606	2.41%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	246,477		
Other Liabilities	9,534		
Total Liabilities	1,400,899		
SHAREHOLDERS' EQUITY	105,165		
Total Liabilities and Shareholders' Equity	$1,506,064		
NET INTEREST INCOME	$43,297		
NET YIELD ON AVERAGE EARNING ASSETS			3.08%
NET INTEREST SPREAD			2.64%

(A) Loans are shown net of unearned discount. Interest on loans includes fees on loans which are not material in amount.
(B) Interest income includes taxable-equivalent adjustments of $2,287 and $2,216 for the years ended December 31, 2005 and 2004, respectively.
(C) Interest income includes taxable-equivalent adjustments of $1,515 and $1,687 for the years ended December 31, 2005 and 2004, respectively.
(D) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.

(E) Southside Statutory Trust III

Note: As of December 31, 2005 and 2004, loans totaling $1,731 and $2,248, respectively, were on nonaccrual status.
The policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent received when appropriate.

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Three Months Ended

December 31, 2005

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$678,937	$10,884	6.36%
Loans Held for Sale	4,474	52	4.61%
Securities:			
Investment Securities (Taxable) (D)	50,059	527	4.18%
Investment Securities (Tax-Exempt) (C) (D)	55,709	1,005	7.16%
Mortgage-backed Securities (D)	811,805	9,205	4.50%
Marketable Equity Securities	29,324	296	4.00%
Interest Earning Deposits	580	9	6.16%
Federal Funds Sold	481	5	4.12%
Total Interest Earning Assets	1,631,369	21,983	5.35%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	44,363		
Bank Premises and Equipment	33,542		
Other Assets	42,972		
Less: Allowance for Loan Loss	(7,026)		
Total Assets	$1,745,220		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$49,416	$143	1.15%
Time Deposits	376,090	3,350	3.53%
Interest Bearing Demand Deposits	327,987	1,727	2.09%
Short-term Interest Bearing			

Liabilities	327,861	3,082	3.73%
Long-term Interest Bearing Liabilities - FHLB Dallas	226,595	2,129	3.73%
Long-term Debt (E)	20,619	367	6.96%
Total Interest Bearing Liabilities	1,328,568	10,798	3.22%

NONINTEREST BEARING LIABILITIES:	
Demand Deposits	295,426
Other Liabilities	15,256
Total Liabilities	1,639,250
SHAREHOLDERS' EQUITY	105,970
Total Liabilities and Shareholders' Equity	$1,745,220
NET INTEREST INCOME	$11,185
NET YIELD ON AVERAGE EARNING ASSETS	2.72%
NET INTEREST SPREAD	2.13%

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Three Months Ended

December 31, 2004

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$617,870	$9,493	6.11%
Loans Held for Sale	4,701	46	3.89%
Securities:			
Investment Securities (Taxable) (D)	46,998	331	2.80%
Investment Securities (Tax-Exempt) (C) (D)	74,053	1,327	7.13%
Mortgage-backed Securities (D)	686,953	7,444	4.31%
Marketable Equity Securities	25,202	157	2.48%
Interest Earning Deposits	580	3	2.06%
Federal Funds Sold	1,666	7	1.67%
Total Interest Earning Assets	1,458,023	18,808	5.13%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	37,824		

Bank Premises and Equipment	30,387		
Other Assets	42,558		
Less: Allowance for Loan Loss	(6,814)		
Total Assets	$1,561,978		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$49,545	$82	0.66%
Time Deposits	318,852	2,086	2.60%
Interest Bearing Demand Deposits	285,984	716	1.00%
Short-term Interest Bearing Liabilities	199,980	1,741	3.46%
Long-term Interest Bearing Liabilities - FHLB Dallas	305,149	2,616	3.41%
Long-term Debt (E)	20,619	259	4.92%
Total Interest Bearing Liabilities	1,180,129	7,500	2.53%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	263,827		
Other Liabilities	9,038		
Total Liabilities	1,452,994		
SHAREHOLDERS' EQUITY	108,984		
Total Liabilities and Shareholders' Equity	$1,561,978		
NET INTEREST INCOME	$11,308		
NET YIELD ON AVERAGE EARNING ASSETS			3.09%
NET INTEREST SPREAD			2.60%

(A) Loans are shown net of unearned discount. Interest on loans includes fees on loans which are not material in amount.
(B) Interest income includes taxable-equivalent adjustments of $574 and $591 for the three months ended December 31, 2005 and 2004, respectively.
(C) Interest income includes taxable-equivalent adjustments of $330 and $432 for the three months ended December 31, 2005 and 2004, respectively.
(D) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.
(E) Southside Statutory Trust III

Note: As of December 31, 2005 and 2004, loans totaling $1,731 and $2,248, respectively, were on nonaccrual status.
The policy is to reverse previously accrued but unpaid interest on nonaccrual loans; thereafter, interest income is recorded to the extent

received when appropriate.

SOURCE Southside Bancshares, Inc.
-0- 02/02/2006
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ST: Texas
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