

Southside Bancshares, Inc. Announces Net Income for the Three Months Ended March 31, 2012

5/3/2012

TYLER, Texas, May 3, 2012 (GLOBE NEWSWIRE) -- Southside Bancshares, Inc. ("Southside" or the "Company") (Nasdaq:SBSI) today reported its financial results for the three months ended March 31, 2012.

Southside reported net income of \$10.1 million for the three months ended March 31, 2012, an increase of \$1.8 million, or 21.1%, when compared to the same period in 2011. Diluted earnings per common share increased \$0.09, or 18.4%, to \$0.58 for the three months ended March 31, 2012 when compared to \$0.49 for the same period in 2011.

The return on average shareholders' equity for the three months ended March 31, 2012, was 15.34%, a decrease when compared to 15.65% for the same period in 2011. The return on average assets increased to 1.26% for the three months ended March 31, 2012 from 1.12% for the same period in 2011.

"We are exceptionally pleased to report our results after a very active first quarter of 2012," said Sam Dawson, President and Chief Executive Officer of Southside Bancshares, Inc. "Our earnings were driven by an increase in the gain on sale of securities and an increase in net interest income. The first quarter will be remembered by the strategic investment portfolio restructuring motivated by the accounting treatment of premium mortgage-backed securities. During the first quarter we sold all of our securities carried at fair value through income and replaced many of these securities with agency mortgage-backed securities with lower premiums, and to a lesser extent Texas municipal securities. In addition, we achieved another quarter of very solid loan growth as the tentative economic recovery seemed to take hold in our market area. I am quite pleased with the performance of our team during this both active and positive quarter."

"During the first quarter, we were pleased to announce an 11% increase in our cash dividend as well as a 5% stock dividend. We are glad to be in a position to provide tangible rewards to our shareholders. We are quite proud to have earned our way through this profound economic cycle thus far."

"Lending continues to be strong as our loan portfolio expanded \$53.7 million, or 4.9%, during the quarter, which follows solid growth during the fourth quarter in 2011. In addition our nonperforming asset totals remain relatively low and our credit costs have decreased despite the reserve for loan losses required as a result of this quarter's loan growth."

"The events of the first quarter once again reaffirmed our confidence in our business strategy, in particular our strategy of maintaining a large average securities portfolio, as a hedge against a prolonged low interest environment. As the economy gains a stronger foothold, we expect to generate additional loans, and the percentage of the securities portfolio should begin to decrease."

"Our commitment to our service areas remains strong. Our balance sheet strategy serves the purpose of providing earnings as well as managing our interest rate risk. In essence, it is one tool we utilize in order to serve our communities better. Even the most innovative banker needs a strong balance sheet in order to serve the customer as well as reward the shareholders. Our prosperity is tied to the communities we serve. We look forward to a year of mutual growth and prosperity."

Loans and Deposits

For the three months ended March 31, 2012, total loans increased by \$53.7 million, or 4.9%, when compared to December 31, 2011. During the three months ended March 31, 2012, real estate 1-4 family increased \$43.5 million, loans to individuals increased \$6.4 million, real estate other increased \$2.0 million, and commercial loans increased \$2.2 million.

Nonperforming assets increased during the first quarter by \$721,000, or 5.5%, to \$13.9 million, or 0.43% of total assets at March 31, 2012, when compared to 0.40% at December 31, 2011. This increase is primarily a result of an increase in nonaccrual loans.

During the three months ended March 31, 2012, deposits net of brokered deposits, increased \$66.9 million, or 3.1%, compared to December 31, 2011, as we called approximately \$78 million of higher cost brokered CDs.

Net Interest Income

Net interest income increased \$1.7 million, or 7.8%, to \$24.0 million for the three months ended March 31, 2012,

when compared to \$22.3 million for the same period in 2011. For the three months ended March 31, 2012, our net interest spread remained at 3.26% when compared to the same period in 2011. The net interest margin decreased to 3.52% for the three months ended March 31, 2012 compared to 3.55% for the same period in 2011.

Net Income for the Three Months

The increase in net income for the three months ended March 31, 2012, when compared to the same period in 2011, was a result of an increase in the gain on sale of securities, an increase in net interest income offset by an increase in the provision for loan losses.

Noninterest expense decreased \$210,000, or 1.1%, for the three months ended March 31, 2012, compared to the same period in 2011 due to a decrease in FDIC insurance expense.

About Southside Bancshares, Inc.

Southside Bancshares, Inc. is a bank holding company with approximately \$3.22 billion in assets that owns 100% of Southside Bank. Southside Bank currently has 48 banking centers in Texas and operates a network of 50 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 **susan.hill@southside.com**.

The Southside Bancshares, Inc. logo is available at **<http://www.globenewswire.com/newsroom/prs/?pkgid=9555>**

Forward-Looking Statements

Certain statements of other than historical fact that are contained in this document and in other written material, press releases and oral statements issued by or on behalf of the Company, a bank holding company, may be considered to be "forward-looking statements" within the meaning of and subject to the protections of the Private Securities Litigation Reform Act of 1995. 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," "appear," "believe," "could," "should," "may," "intend," "probability," "risk," "target," "objective," "plans," "potential," and similar expressions. Forward-looking statements are statements with respect to the Company's beliefs, plans, expectations, objectives, goals, anticipations, assumptions, estimates, intentions and future performance and are

subject to significant known and unknown risks and uncertainties, which could cause the Company's actual results to differ materially from the results discussed in the forward-looking statements. For example, discussions about trends in asset quality and earnings and certain market risk disclosures, including the impact of interest rate uncertainty, are based upon information presently available to management and 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.

Additional information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 under "Forward-Looking Information" and Item 1A. "Risk Factors," and in the Company's other filings with the Securities and Exchange Commission. 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 March 31, 2012 | At December 31, 2011 | At March 31, 2011 |
|-------------------------|----------------------------|-------------------------|
| (dollars in thousands) | | |
| (unaudited) | | |

Selected Financial Condition Data (at end of period):

| | | | |
|---|--------------|--------------|--------------|
| Total assets | \$ 3,217,444 | \$ 3,303,817 | \$ 3,101,890 |
| Loans | 1,140,893 | 1,087,230 | 1,063,644 |
| Allowance for loan losses | 20,074 | 18,540 | 19,780 |
| Mortgage-backed and related securities: | | | |
| Available for sale, at estimated fair value | 1,133,701 | 716,126 | 874,693 |
| Securities carried at fair value through income | – | 647,759 | 233,260 |
| Held to maturity, at amortized cost | 349,248 | 365,631 | 396,579 |
| Investment securities: | | | |
| Available for sale, at estimated fair value | 291,928 | 282,956 | 320,720 |
| Held to maturity, at amortized cost | 1,010 | 1,496 | 1,495 |
| Federal Home Loan Bank stock, at cost | 32,407 | 33,869 | 29,216 |
| Deposits | 2,310,452 | 2,321,671 | 2,200,823 |
| Long-term obligations | 341,929 | 321,035 | 382,553 |
| Equity | 259,879 | 258,927 | 225,557 |

| | | | |
|--|--------|--------|--------|
| Nonperforming assets | 13,909 | 13,188 | 17,193 |
| Nonaccrual loans | 11,088 | 10,299 | 14,289 |
| Accruing loans past due more than 90 days | 1 | 5 | 63 |
| Restructured loans | 2,119 | 2,109 | 2,036 |
| Other real estate owned | 538 | 453 | 452 |
| Repossessed assets | 163 | 322 | 353 |
| Asset Quality Ratios: | | | |
| Nonaccruing loans to total loans | 0.97% | 0.95% | 1.34% |
| Allowance for loan losses to nonaccruing loans | 181.04 | 180.02 | 138.43 |
| Allowance for loan losses to nonperforming assets | 144.32 | 140.58 | 115.05 |
| Allowance for loan losses to total loans | 1.76 | 1.71 | 1.86 |
| Nonperforming assets to total assets | 0.43 | 0.40 | 0.55 |
| Net charge-offs to average loans | 0.55 | 0.92 | 1.16 |
| Capital Ratios: | | | |
| Shareholders' equity to total assets | 8.08 | 7.84 | 7.21 |
| Average shareholders' equity to average total assets | 8.20 | 7.69 | 7.19 |

Loan Portfolio Composition

The following table sets forth loan totals by category for the periods presented:

| | At March 31, 2012 | At December 31, 2011 | At March 31, 2011 |
|------------------------|-------------------------|----------------------------|-------------------------|
| | | (in thousands) | |
| | | (unaudited) | |
| Real Estate Loans: | | | |
| Construction | \$ 111,924 | \$ 111,361 | \$ 111,635 |
| 1-4 Family Residential | 291,020 | 247,479 | 218,178 |
| Other | 208,536 | 206,519 | 202,986 |
| Commercial Loans | 145,730 | 143,552 | 143,265 |
| Municipal Loans | 206,230 | 207,261 | 198,561 |
| Loans to Individuals | 177,453 | 171,058 | 189,019 |
| Total Loans | <u>\$ 1,140,893</u> | <u>\$ 1,087,230</u> | <u>\$ 1,063,644</u> |

| | At or for the Three Months Ended March 31, | |
|---|--|---------------|
| | 2012 | 2011 |
| | (dollars in thousands) (unaudited) | |
| Selected Operating Data: | | |
| Total interest income | \$ 31,716 | \$ 31,905 |
| Total interest expense | <u>7,720</u> | <u>9,646</u> |
| Net interest income | 23,996 | 22,259 |
| Provision for loan losses | <u>3,052</u> | <u>2,138</u> |
| Net interest income after provision for loan losses | <u>20,944</u> | <u>20,121</u> |
| Noninterest income | | |
| Deposit services | 3,748 | 3,879 |
| Gain on sale of securities available for sale | 5,972 | 1,551 |
| (Loss) gain on sale of securities carried at fair value through income | (485) | 254 |
| Total other-than-temporary impairment losses | — | — |
| Portion of loss recognized in other comprehensive income (before taxes) | <u>(141)</u> | <u>—</u> |
| Net impairment losses recognized in earnings | (141) | — |
| Fair value gain - securities | — | 1,627 |
| FHLB advance option impairment charges | (472) | — |
| Gain on sale of loans | 131 | 283 |
| Trust income | 677 | 651 |
| Bank owned life insurance income | 266 | 286 |
| Other | <u>1,111</u> | <u>1,105</u> |
| Total noninterest income | <u>10,807</u> | <u>9,636</u> |
| Noninterest expense | | |
| Salaries and employee benefits | 11,833 | 11,691 |
| Occupancy expense | 1,758 | 1,721 |
| Equipment expense | 510 | 493 |
| Advertising, travel & entertainment | 604 | 553 |
| ATM and debit card expense | 279 | 215 |
| Director fees | 268 | 191 |
| Supplies | 159 | 224 |

| | | |
|--|------------------|-----------------|
| Professional fees | 551 | 555 |
| Postage | 175 | 179 |
| Telephone and communications | 406 | 337 |
| FDIC insurance | 470 | 763 |
| Other | 1,509 | 1,810 |
| Total noninterest expense | <u>18,522</u> | <u>18,732</u> |
| Income before income tax expense | 13,229 | 11,025 |
| Provision for income tax expense | <u>3,090</u> | <u>1,786</u> |
| Net income | 10,139 | 9,239 |
| Less: Net income attributable to the noncontrolling interest | — | (865) |
| Net income attributable to Southside Bancshares, Inc. | <u>\$ 10,139</u> | <u>\$ 8,374</u> |

Common share data attributable to Southside Bancshares, Inc:

| | | |
|---|---------|---------|
| Weighted-average basic shares outstanding | 17,324 | 17,247 |
| Weighted-average diluted shares outstanding | 17,333 | 17,252 |
| Net income per common share | | |
| Basic | \$ 0.58 | \$ 0.49 |
| Diluted | 0.58 | 0.49 |
| Book value per common share | 14.99 | 12.96 |
| Cash dividend paid per common share | 0.18 | 0.17 |

| | |
|--|-------------|
| At or for the Three Months Ended March 31, | |
| <u>2012</u> | <u>2011</u> |
| (unaudited) | |

Selected Performance Ratios:

| | | |
|--|-------|-------|
| Return on average assets | 1.26% | 1.12% |
| Return on average shareholders' equity | 15.34 | 15.65 |
| Average yield on interest earning assets | 4.56 | 4.93 |

| | | |
|--|--------|--------|
| Average yield on interest bearing liabilities | 1.30 | 1.67 |
| Net interest spread | 3.26 | 3.26 |
| Net interest margin | 3.52 | 3.55 |
| Average interest earnings assets to average interest bearing liabilities | 125.28 | 120.77 |
| Noninterest expense to average total assets | 2.30 | 2.52 |
| Efficiency ratio | 57.18 | 59.64 |

The analysis below shows average interest earning assets and interest bearing liabilities together with the average yield on the interest earning assets and the average cost of the interest bearing liabilities.

| AVERAGE BALANCES AND YIELDS | | | | | | |
|--|---------------------|-----------------|--------------|---------------------|-----------------|--------------|
| (dollars in thousands) | | | | | | |
| (unaudited) | | | | | | |
| Three Months Ended | | | | | | |
| | March 31, 2012 | | | March 31, 2011 | | |
| | AVG | AVG | AVG | AVG | AVG | AVG |
| | <u>BALANCE</u> | <u>INTEREST</u> | <u>YIELD</u> | <u>BALANCE</u> | <u>INTEREST</u> | <u>YIELD</u> |
| ASSETS | | | | | | |
| INTEREST EARNING ASSETS: | | | | | | |
| Loans (1) (2) | \$ 1,109,652 | \$ 17,690 | 6.41% | \$ 1,069,043 | \$ 18,205 | 6.91% |
| Loans Held For Sale | 1,706 | 17 | 4.01% | 3,722 | 37 | 4.03% |
| Securities: | | | | | | |
| Investment Securities (Taxable)(4) | 4,674 | 31 | 2.67% | 9,056 | 18 | 0.81% |
| Investment Securities (Tax-Exempt)(3)(4) | 249,405 | 3,990 | 6.43% | 305,066 | 4,786 | 6.36% |
| Mortgage-backed and Related Securities (4) | <u>1,578,892</u> | <u>12,163</u> | 3.10% | <u>1,396,622</u> | <u>11,297</u> | 3.28% |
| Total Securities | 1,832,971 | 16,184 | 3.55% | 1,710,744 | 16,101 | 3.82% |
| FHLB stock and other investments, at cost | 33,905 | 79 | 0.94% | 32,485 | 80 | 1.00% |
| Interest Earning Deposits | <u>21,275</u> | <u>6</u> | 0.11% | <u>16,062</u> | <u>10</u> | 0.25% |
| Total Interest Earning Assets | 2,999,509 | 33,976 | 4.56% | 2,832,056 | 34,433 | 4.93% |
| NONINTEREST EARNING ASSETS: | | | | | | |
| Cash and Due From Banks | 42,895 | | | 45,705 | | |
| Bank Premises and Equipment | 50,593 | | | 50,371 | | |
| Other Assets | 169,151 | | | 110,987 | | |
| Less: Allowance for Loan Loss | <u>(19,057)</u> | | | <u>(20,053)</u> | | |
| Total Assets | <u>\$ 3,243,091</u> | | | <u>\$ 3,019,066</u> | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| INTEREST BEARING LIABILITIES: | | | | | | |

| | | | | | | |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Savings Deposits | \$ 92,767 | 37 | 0.16% | \$ 80,882 | 60 | 0.30% |
| Time Deposits | 861,133 | 2,477 | 1.16% | 845,905 | 2,801 | 1.34% |
| Interest Bearing Demand Deposits | <u>855,379</u> | <u>881</u> | 0.41% | <u>790,440</u> | <u>1,175</u> | 0.60% |
| Total Interest Bearing Deposits | 1,809,279 | 3,395 | 0.75% | 1,717,227 | 4,036 | 0.95% |
| Short-term Interest Bearing Liabilities | 256,701 | 1,592 | 2.49% | 219,113 | 1,729 | 3.20% |
| Long-term Interest Bearing Liabilities – FHLB Dallas | 267,935 | 1,903 | 2.86% | 348,401 | 3,076 | 3.58% |
| Long-term Debt (5) | <u>60,311</u> | <u>830</u> | 5.54% | <u>60,311</u> | <u>805</u> | 5.41% |
| Total Interest Bearing Liabilities | 2,394,226 | 7,720 | 1.30% | 2,345,052 | 9,646 | 1.67% |
| NONINTEREST BEARING LIABILITIES: | | | | | | |
| Demand Deposits | 528,956 | | | 430,368 | | |
| Other Liabilities | <u>54,065</u> | | | <u>25,163</u> | | |
| Total Liabilities | 2,977,247 | | | 2,800,583 | | |
| | | | | | | |
| SHAREHOLDERS' EQUITY (6) | <u>265,844</u> | | | <u>218,483</u> | | |
| Total Liabilities and Shareholders' Equity | <u>\$ 3,243,091</u> | | | <u>\$ 3,019,066</u> | | |
| | | | | | | |
| NET INTEREST INCOME | | <u>\$ 26,256</u> | | | <u>\$ 24,787</u> | |
| NET INTEREST MARGIN ON AVERAGE EARNING ASSETS | | | <u>3.52%</u> | | | <u>3.55%</u> |
| NET INTEREST SPREAD | | | <u>3.26%</u> | | | <u>3.26%</u> |

(1) Interest on loans includes fees on loans that are not material in amount.

(2) Interest income includes taxable-equivalent adjustments of \$937 and \$971 for the three months ended March 31, 2012 and March 31, 2011, respectively.

(3) Interest income includes taxable-equivalent adjustments of \$1,323 and \$1,557 for the three months ended March 31, 2012 and March 31, 2011, respectively.

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

(5) Represents junior subordinated debentures issued by us to Southside Statutory Trust III, IV, and V in connection with the issuance by Southside Statutory Trust III of \$20 million of trust preferred securities, Southside Statutory Trust IV of \$22.5 million of trust preferred securities, Southside Statutory Trust V of \$12.5 million of trust preferred securities and junior subordinated debentures issued by Fort Worth Bancshares, Inc. to Magnolia Trust Company I in connection with the issuance by Magnolia Trust Company I of \$3.5 million of trust preferred securities.

(6) Includes average equity of noncontrolling interest of \$1,505 for the three months ended March 31, 2011.

Note: As of March 31, 2012 and March 31, 2011, loans totaling \$11,088 and \$14,289, 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.

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Source: Southside Bancshares, Inc.