NEWS RELEASE

Southside Bancshares, Inc. Announces Second Quarter Earnings NASDAQ Global Select Market Symbol - 'SBSI'

8/2/2006

TYLER, Texas, Aug. 2 /PRNewswire-FirstCall/ -- B. G. Hartley, Chairman and Chief Executive Officer of Southside Bancshares, Inc. (Nasdaq: SBSI) ("Southside" or the "Company") reported financial results for the three months ended June 30, 2006.

For the three months ended June 30, 2006, the Company reported net income of $3,543,000, compared to $3,697,000 for the same period in 2005, a decrease of $154,000, or 4.2%. Earnings per fully diluted share were $0.28 for the three months ended June 30, 2006 compared to $0.29 for the same period in 2005, a decrease of $0.01, or 3.4%.

Southside reported net income of $6,771,000 for the six months ended June 30, 2006, a decrease of $501,000, or 6.9%, when compared to the same period in 2005. Earnings per fully diluted share were $0.53 for the six months ended June 30, 2006, compared to $0.57 for the same period in 2005, a decrease of $0.04, or 7.0%.

The return on average shareholders' equity for the six months ended June 30, 2006 was 12.53% compared to 14.10% for the same period in 2005. The annual return on average assets was 0.74% for the six months ended June 30, 2006, compared to 0.88% for the same period in 2005.

Loan and Deposit Growth

The opening of several branch locations and expansion of Southside's Texas footprint over the past few years has

been a central part of the Company's business strategy. Southside's branch expansion has been a story of investment, growth, and positioning for future success. On-going de novo branch expansion has impacted and will continue to impact short-term net income, but in management's view, should enhance franchise value and future earnings potential in the long-term. Loan and deposit growth, as measured in dollars, is detailed below. The success of another critical portion of Southside's business strategy which is focused on increasing the number of accounts is partially lost in these dollar comparisons. Consistent growth in the number of accounts provides Southside significant opportunities to cross- sell these account holders. The continued increase in accounts in the deposit area is especially encouraging. Our goal is to become the primary financial provider for these account holders, thereby creating value from within utilizing this additional organic growth source.

The Company continued to experience solid loan growth during the six months ended June 30, 2006, as loans increased $43.6 million, or 6.4%, to $723.9 million from $680.4 million at December 31, 2005. The loan growth during 2006 occurred primarily in commercial real estate loans, 1-4 family residential loans, and commercial loans. The growth in loans is especially gratifying given the increasing competition in the Texas market. Loans increased $64.7 million, or 9.8%, to $723.9 million, for the six months ended June 30, 2006 when compared to $659.2 million for the same period in 2005. We believe that the Company's asset quality ratios as reported in this earnings release continue to remain sound.

During the six months ended June 30, 2006, the Company's deposits increased $84.2 million to $1.20 billion from $1.11 billion at December 31, 2005. Approximately $17.2 million of the overall growth in deposits during 2006 resulted from our expanding branch network and continued market penetration. Price related competition for deposits has intensified. The Company has attempted to maintain a disciplined deposit pricing strategy; nevertheless, the current competitive pricing environment could likely pressure the net interest margin in the coming quarters. The remaining $67.0 million of the deposit growth was the result of the Company issuing callable-brokered certificates of deposits with long-term maturities where the Company controls numerous call options. Brokered deposits at June 30, 2006 totaled $86.8 million compared to $19.8 million at December 31, 2005. We believe these callable-brokered CDs offer the Company significant long-term flexibility. Deposits increased $188.7 million, or 18.8%, to $1.20 billion, for the six months ended June 30, 2006 when compared to $1.01 billion for the same period in 2005.

Net Interest Income

Net interest income increased $326,000, or 3.2%, to $10.5 million for the three months ended June 30, 2006, when compared to $10.2 million for the same period in 2005. However, the net interest margin and net interest spread were impacted by the significant increase in short-term interest rates during 2005 and the first half of 2006 combined with a smaller increase in long-term interest rates which resulted in a slightly inverted yield curve, where

short- term interest rates are slightly higher than long-term interest rates. As a result, the Company's net interest margin and net interest spread were reduced to 2.61% and 1.90%, respectively, for the three months ended June 30, 2006 compared to 2.90% and 2.38% for the same period in 2005 and 2.72% and 2.08% compared to the three months ended March 31, 2006. Should the yield curve remain inverted or flat, the Company's net interest margin and spread could come under additional pressure during the remainder of 2006.

Net Income

The decrease in net income was primarily attributable to an increase in noninterest expense of $485,000, or 4.4%, and $1.4 million, or 6.3%, for the three and six months ended June 30, 2006, respectively, compared to the same periods in 2005, and an increase in the provision for loan losses of $221,000, or 97.4%, and $267,000, or 57.8%, for the three and six months ended June 30, 2006, respectively, compared to the same periods in 2005. Provision for loan losses increased as a result of increases in average loans and losses on overdrafts. Noninterest expense increased primarily as a result of increases in salary and employee benefits and occupancy expense. Salaries and employee benefits increased $162,000, or 2.3%, and $724,000, or 5.2%, during the three and six months ended June 30, 2006, respectively, when compared to the same periods in 2005 due to normal salary increases and higher staffing levels associated with the Company's continued branch expansion and regional lending initiative. Occupancy expense increased $119,000, or 11.0%, and $251,000, or 11.8%, for the three and six months ended June 30, 2006, respectively, compared to the same periods in 2005 due primarily to branch expansion.

The following items partially offset the decrease in net income for the three and six months ended June 30, 2006, when compared to the same period in 2005. Net interest income was $10.5 million and $21.1 million, for the three and six months ended June 30, 2006, respectively, compared to $10.2 million and $20.6 million, for the same periods in 2005, respectively, representing increases of $326,000, or 3.2%, and $516,000, or 2.5%, respectively. Noninterest income, excluding security gains, increased $413,000, or 7.6%, and $415,000, or 4.0%, for the three and six months ended June 30, 2006, respectively, when compared to the same periods in 2005. The increases in noninterest income were primarily results of increases in deposit services income, Trust income, and other income, which resulted from numerous increases, the largest of which was a recovery of a prior year loss. Gain on sale of securities available for sale increased $280,000, or 500.0% for the six months ended June 30, 2006 compared to the same period in 2005.

About Southside Bancshares, Inc.

Southside Bancshares, Inc. is a $1.88 billion holding company that owns 100% of Southside Bank. The bank currently has 34 banking centers in East Texas and operates a network of 39 ATMs.

To learn more about Southside Bancshares, Inc., please visit our investor relations website at

http://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 Statements

Certain statements of other than historical fact that are contained in this document and in written material, press releases and oral statements issued by or on behalf of the Company, 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 and the Company's actual results may differ materially from the results discussed in the forward-looking statements. For example, discussions of the effect of the Company's expansion, including expectations of the costs and profitability of such expansion, trends in asset quality and earnings from growth, and certain market risk disclosures 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, 2005 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 June 30, 2006	At December 31, 2005
	(dollars in thousands)	

	(unaudited)	
Selected Financial Condition Data (at end of period)		
Total assets	$1,875,676	$1,783,462
Loans	723,924	680,364
Allowance for loan losses	7,346	7,090
Mortgage-backed and related securities:		
Available for sale	653,046	592,435
Held to maturity	245,812	229,321
Investment securities:		
Available for sale	88,598	121,240
Held to Maturity	1,348	---
Federal Home Loan Bank stock, at cost	27,364	28,729
Deposits	1,195,058	1,110,813
Long-term obligations	157,469	229,032
Shareholders' equity	105,156	109,290
Nonperforming assets	3,237	3,057
Nonaccrual loans	1,424	1,731
Loans 90 days past due	692	945
Restructured loans	239	226
Other real estate owned	841	145
Repossessed assets	41	10
Assets Quality Ratios:		
Nonaccruing loans to total loans	0.20%	0.25%
Allowance for loan losses to nonaccruing loans	515.87	409.59
Allowance for loan losses to nonperforming assets	226.94	231.93
Allowance for loan losses to total loans	1.01	1.04
Nonperforming assets to total assets	0.17	0.17
Net charge-offs to average loans	0.14	0.20
Capital Ratios:		
Shareholders' equity to total assets	5.61	6.13
Average shareholders' equity to average total assets	5.94	6.20

LOAN PORTFOLIO COMPOSITION

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

	At June 30, 2006	At December 31, 2005	At June 30, 2005
	(in thousands) (unaudited)		
Real Estate Loans:			
Construction	$33,084	$35,765	$40,050
1-4 Family Residential	222,332	199,812	184,785
Other	173,776	162,147	158,117
Commercial Loans	104,623	91,456	85,762
Municipal Loans	105,316	109,003	113,123
Loans to Individuals	84,793	82,181	77,394
Total Loans	$723,924	$680,364	$659,231

	At or for the Three Months Ended June 30,		At or for the Six Months Ended June 30,	
	2006 (dollars in thousands) (unaudited)	2005	2006 (dollars in thousands) (unaudited)	2005
Selected Operating Data:				
Total interest income	$23,925	$19,288	$46,494	$38,164
Total interest expense	13,388	9,077	25,388	17,574
Net interest income	10,537	10,211	21,106	20,590
Provision for loan losses	448	227	729	462
Net interest income after provision for loan losses	10,089	9,984	20,377	20,128
Noninterest income				
Deposit services	3,947	3,687	7,416	7,074
Gain (loss) on sale of securities available for sale	101	160	224	(56)
Gain on sale of loans	469	649	842	1,019
Trust income	403	310	807	639
Bank owned life insurance income	265	253	509	442
Other	782	554	1,267	1,252
Total noninterest income	5,967	5,613	11,065	10,370
Noninterest expense				
Salaries and employee benefits	7,310	7,148	14,730	14,006
Occupancy expense	1,201	1,082	2,374	2,123
Equipment expense	225	213	428	420
Advertising, travel & entertainment	472	471	924	1,017
ATM expense	275	162	445	302
Director fees	167	156	312	315
Supplies	168	175	352	321

Professional fees	318	249	633	499
Postage	155	139	305	274
Other	1,272	1,283	2,494	2,356
Total noninterest expense	11,563	11,078	22,997	21,633
Income before federal tax expense	4,493	4,519	8,445	8,865
Income tax expense	950	822	1,674	1,593
Net income	$3,543	$3,697	$6,771	$7,272
Common Share Data:				
Weighted-average basic shares outstanding	12,240	11,984	12,218	12,012
Weighted-average diluted shares outstanding	12,702	12,589	12,690	12,651
Net income per common share				
Basic	$0.29	$0.31	$0.55	$0.60
Diluted	0.28	0.29	0.53	0.57
Book value per common share	---	---	8.57	8.80
Cash dividend declared per common share	0.11	0.11	0.22	0.22
Selected Performance Ratios:				
Return on average assets	0.77%	0.89%	0.74%	0.88%
Return on average shareholders' equity	13.30	14.40	12.53	14.10
Average yield on interest earning assets	5.69	5.25	5.64	5.23
Average yield on interest bearing liabilities	3.79	2.87	3.65	2.79
Net interest spread	1.90	2.38	1.99	2.44
Net interest margin	2.61	2.90	2.67	2.94
Average interest earning assets to average interest bearing liabilities	122.80	122.10	122.67	121.71
Noninterest expense to average total assets	2.51	2.68	2.53	2.63
Efficiency ratio	67.16	66.61	68.37	65.62

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Six Months Ended
June 30, 2006

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$704,827	$22,952	6.57%
Loans Held for Sale	4,645	117	5.08%
Securities:			
Investment Securities (Taxable) (D)	59,593	1,337	4.52%
Investment Securities (Tax-Exempt)(C) (D)	44,994	1,591	7.13%
Mortgage-backed Securities (D)	874,318	21,386	4.93%
Federal Home Loan Bank stock & Other Investments, at cost	29,056	694	4.82%
Interest Earning Deposits	691	17	4.96%
Federal Funds Sold	693	15	4.36%
Total Interest Earning Assets	1,718,817	48,109	5.64%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	45,926		
Bank Premises and Equipment	33,534		
Other Assets	41,854		
Less: Allowance for Loan Loss	(7,139)		
Total Assets	$1,832,992		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$50,663	$312	1.24%
Time Deposits	433,362	8,827	4.11%
Interest Bearing Demand Deposits	357,837	4,519	2.55%
Short-term Interest Bearing Liabilities	368,963	7,587	4.15%
Long-term Interest Bearing Liabilities - FHLB	169,749	3,345	3.97%
Long-term Debt (E)	20,619	798	7.70%
Total Interest Bearing Liabilities	1,401,193	25,388	3.65%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	311,844		
Other Liabilities	11,014		
Total Liabilities	1,724,051		
SHAREHOLDERS' EQUITY	108,941		
Total Liabilities and Shareholders' Equity	$1,832,992		

NET INTEREST INCOME	$22,721
NET YIELD ON AVERAGE EARNING ASSETS	2.67%
NET INTEREST SPREAD	1.99%

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Six Months Ended
June 30, 2005

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$640,177	$19,441	6.12%
Loans Held for Sale	4,811	108	4.53%
Securities:			
Investment Securities (Taxable) (D)	54,670	978	3.61%
Investment Securities (Tax-Exempt)(C) (D)	72,633	2,553	7.09%
Mortgage-backed Securities (D)	744,863	16,546	4.48%
Federal Home Loan Bank stock & Other Investments, at cost	27,340	453	3.34%
Interest Earning Deposits	725	10	2.78%
Federal Funds Sold	1,159	15	2.61%
Total Interest Earning Assets	1,546,378	40,104	5.23%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	41,843		
Bank Premises and Equipment	30,344		
Other Assets	46,076		
Less: Allowance for Loan Loss	(6,920)		
Total Assets	$1,657,721		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$50,872	$239	0.95%
Time Deposits	339,916	4,890	2.90%
Interest Bearing Demand Deposits	307,435	2,298	1.51%
Short-term Interest Bearing Liabilities	244,794	4,089	3.37%
Long-term Interest Bearing Liabilities - FHLB	306,952	5,459	3.59%

Long-term Debt (E)	20,619	599	5.78%
Total Interest Bearing Liabilities	1,270,588	17,574	2.79%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	269,138		
Other Liabilities	14,014		
Total Liabilities	1,553,740		
SHAREHOLDERS' EQUITY	103,981		
Total Liabilities and Shareholders' Equity	$1,657,721		
NET INTEREST INCOME	$22,530		
NET YIELD ON AVERAGE EARNING ASSETS			2.94%
NET INTEREST SPREAD			2.44%

(A) Interest on loans includes fees on loans which are not material in amount.

(B) Interest income includes taxable-equivalent adjustments of $1,113 and $1,131 for the six months ended June 30, 2006 and 2005, respectively.

(C) Interest income includes taxable-equivalent adjustments of $502 and $809 for the six months ended June 30, 2006 and 2005, 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 June 30, 2006 and 2005, loans totaling $1,424 and $1,710, 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
June 30, 2006

	AVG. BALANCE	AVG. INTEREST	YIELD
ASSETS			

INTEREST EARNING ASSETS:			
Loans (A) (B)	$715,423	$11,816	6.62%
Loans Held for Sale	4,826	64	5.32%
Securities:			
Investment Securities (Taxable) (D)	51,840	594	4.60%
Investment Securities (Tax-Exempt) (C) (D)	40,557	720	7.12%
Mortgage-backed Securities (D)	897,645	11,149	4.98%
Federal Home Loan Bank stock & Other Investments, at cost	28,507	350	4.92%
Interest Earning Deposits	825	8	3.89%
Federal Funds Sold	543	6	4.43%
Total Interest Earning Assets	1,740,166	24,707	5.69%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	43,345		
Bank Premises and Equipment	33,549		
Other Assets	39,442		
Less: Allowance for Loan Loss	(7,200)		
Total Assets	$1,849,302		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$51,402	$165	1.29%
Time Deposits	460,139	4,897	4.27%
Interest Bearing Demand Deposits	354,549	2,342	2.65%
Short-term Interest Bearing Liabilities	378,536	4,037	4.28%
Long-term Interest Bearing Liabilities - FHLB	151,794	1,534	4.05%
Long-term Debt (E)	20,619	413	7.92%
Total Interest Bearing Liabilities	1,417,039	13,388	3.79%
NONINTEREST BEARING LIABILITIES:			
Demand Deposits	313,422		
Other Liabilities	11,958		
Total Liabilities	1,742,419		
SHAREHOLDERS' EQUITY	106,883		
Total Liabilities and Shareholders' Equity	$1,849,302		
NET INTEREST INCOME	$11,319		
NET YIELD ON AVERAGE EARNING ASSETS			2.61%
NET INTEREST SPREAD			1.90%

AVERAGE BALANCES AND YIELDS
(dollars in thousands)
(unaudited)
Three Months Ended
June 30, 2005

	AVG. BALANCE	AVG. INTEREST	AVG. YIELD
ASSETS			
INTEREST EARNING ASSETS:			
Loans (A) (B)	$649,080	$9,958	6.15%
Loans Held for Sale	4,635	50	4.33%
Securities:			
Investment Securities (Taxable) (D)	48,344	470	3.90%
Investment Securities (Tax-Exempt) (C) (D)	68,970	1,223	7.11%
Mortgage-backed Securities (D)	746,381	8,305	4.46%
Federal Home Loan Bank stock & Other Investments, at cost	27,469	237	3.46%
Interest Earning Deposits	886	7	3.17%
Federal Funds Sold	1,278	9	2.82%
Total Interest Earning Assets	1,547,043	20,259	5.25%
NONINTEREST EARNING ASSETS:			
Cash and Due From Banks	40,241		
Bank Premises and Equipment	30,286		
Other Assets	48,671		
Less: Allowance for Loan Loss	(6,867)		
Total Assets	$1,659,374		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings Deposits	$51,113	$130	1.02%
Time Deposits	349,216	2,632	3.02%
Interest Bearing Demand Deposits	305,639	1,252	1.64%
Short-term Interest Bearing Liabilities	248,793	2,149	3.46%
Long-term Interest Bearing Liabilities - FHLB	291,662	2,599	3.57%
Long-term Debt (E)	20,619	315	6.04%
Total Interest Bearing Liabilities	1,267,042	9,077	2.87%
NONINTEREST BEARING LIABILITIES:			

Demand Deposits	275,185	
Other Liabilities	14,181	
Total Liabilities	1,556,408	
SHAREHOLDERS' EQUITY	102,966	
Total Liabilities and Shareholders' Equity	$1,659,374	
NET INTEREST INCOME	$11,182	
NET YIELD ON AVERAGE EARNING ASSETS		2.90%
NET INTEREST SPREAD		2.38%

(A) Interest on loans includes fees on loans which are not material in amount.
(B) Interest income includes taxable-equivalent adjustments of $552 and $579 for the three months ended June 30, 2006 and 2005, respectively.
(C) Interest income includes taxable-equivalent adjustments of $230 and $392 for the three months ended June 30, 2006 and 2005, 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 June 30, 2006 and 2005, loans totaling $1,424 and $1,710, 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.

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