NEWS RELEASE

Southside Bancshares, Inc. Announces Third Quarter Earnings

11/1/2006

TYLER, Texas, Nov. 1 /PRNewswire-FirstCall/ -- B. G. Hartley, Chairman and Chief Executive Officer of Southside Bancshares, Inc. (Nasdaq: SBSI) ("Southside" or the "Company") is pleased to report financial results for the three months ended September 30, 2006.

Net income increased to $4,052,000 for the three months ended September 30, 2006, compared to $3,833,000 for the same period in 2005, an increase of $219,000, or 5.7%. Mr. Hartley stated that Southside is extremely gratified by the increase in net income for the third quarter of 2006, given the additional operating expenses associated with opening four branches since September 30, 2005 as well as the challenging interest rate environment over the same period. De novo branch expansion as well as the investment associated with the regional lending focus has and will continue to impact short-term net income. It is management's belief that potential long-term benefits associated with these internal investments should greatly outweigh the initial costs.

Earnings per fully diluted share were $0.32 for the three months ended September 30, 2006 compared to $0.31 for the same period in 2005, an increase of $0.01 or 3.2%. The return on average shareholders' equity for the three months ended September 30, 2006 was 14.67% compared to 14.29% for the same period in 2005. The annual return on average assets was 0.86% for the three months ended September 30, 2006, compared to 0.88% for the same period in 2005.

As a part of management's continued evaluation of noninterest expense, department managers completed an evaluation of work flow that identified opportunities to increase productivity primarily through the use of technology investments with less personnel expense. In certain departments the evaluations identified the ability to

utilize part-time employees to better staff for peak customer transaction periods in lieu of full-time employees. In addition, through normal attrition management is utilizing productivity gains to not replace all of these positions. The combination of these initiatives resulted in a reduction of full-time employees. Management estimates the annualized impact associated with this strategy will be approximately $800,000. Part of this savings should begin to be reflected in net income during the fourth quarter of 2006 and management believes additional savings may be realized in future quarters as management continues to implement productivity opportunities.

Southside reported net income of $10,823,000 for the nine months ended September 30, 2006, a decrease of $282,000, or 2.5%, when compared to the same period in 2005. Earnings per fully diluted share were $0.85 for the nine months ended September 30, 2006, compared to $0.88 for the same period in 2005, a decrease of $0.03, or 3.4%. The return on average shareholders' equity for the nine months ended September 30, 2006 was 13.26% compared to 14.17% for the same period in 2005. The annual return on average assets was 0.78% for the nine months ended September 30, 2006, compared to 0.88% for the same period in 2005.

Loan and Deposit Growth

Southside's Texas footprint has expanded over the past several years through the opening of strategically placed branches, which remains a central part of our business strategy to position for future success. Loan and deposit growth, as measured in dollars, is detailed below. Another critical portion of Southside's business strategy is the focus on increasing the number of accounts. Management believes that consistent success in growing the number of deposit accounts will continue to provide Southside significant opportunities to enhance fee income as well as market additional products to these account holders. 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 three months ended September 30, 2006, as loans increased $17.6 million, or 2.4%, to $741.5 million from $723.9 million at June 30, 2006. During the nine months ended September 30, 2006, loans increased $61.2 million, or 9.0%, to $741.5 million from $680.4 million at December 31, 2005. Loan growth during 2006 has occurred primarily in commercial loans, 1-4 family residential loans, and commercial real estate loans. The on-going growth in loans is significant given the increasing competition in the Texas banking market. Additionally, the 2006 loan growth was accompanied by a 15.0% decrease in nonperforming assets. Loans increased $62.4 million, or 9.2%, to $741.5 million at September 30, 2006 when compared to $679.2 million at September 30, 2005.

During the three months ended September 30, 2006, deposits increased $15.8 million, or 1.3%, to $1.21 billion from $1.20 billion at June 30, 2006. The growth in deposits for the three months ended September 30, 2006 was solely the result of an increase in brokered CDs of $19.5 million. During the nine months ended September 30, 2006, the Company's deposits increased $100.1 million, or 9.0% to $1.21 billion from $1.11 billion at December 31, 2005.

Approximately $13.6 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 environment could pressure the net interest margin in the coming quarters. The remaining $86.5 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 September 30, 2006 totaled $106.3 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 $189.6 million, or 18.6%, to $1.21 billion, at September 30, 2006 when compared to $1.02 billion at September 30, 2005.

Net Interest Income

Net interest income for both three month periods ended September 30, 2006 and 2005 was $10.4 million. The net interest margin and net interest spread were impacted by the significant increase in short-term interest rates during 2005 and 2006 combined with significantly smaller increases in long-term interest rates which resulted in an inverted yield curve, where short-term interest rates were higher than long-term interest rates. As a result, the Company's net interest margin and net interest spread decreased to 2.51% and 1.75%, respectively, for the three months ended September 30, 2006 compared to 2.80% and 2.25%, respectively for the same period in 2005 and 2.61% and 1.90%, respectively for the three months ended June 30, 2006. Should the yield curve remain inverted or invert more, the Company's net interest margin and spread could come under additional pressure during the remainder of 2006.

Net Income for the Three Months

The increase in net income for the three months ended September 30, 2006 was primarily attributable to an increase in noninterest income and a decrease in provision for loan losses. Noninterest income, excluding gain on sale of available for sale securities, increased $582,000, or 10.9%, for the three months ended September 30, 2006, compared to the same period in 2005. The increases in noninterest income were primarily results of increases in deposit services income, gain on sale of loans, and other income, which resulted from numerous increases. Gain on sale of securities increased $230,000, for the three months ended September 30, 2006, compared to the same period in 2005. Provision for loan losses decreased $259,000, or 53.4%, for the three months ended September 30, 2006, compared to the same period in 2005.

The following items partially offset the increase in net income for the three months ended September 30, 2006, when compared to the same period in 2005. Noninterest expense increased primarily as a result of increases in salary and employee benefits, occupancy expense and other noninterest expense. Salaries and employee benefits

increased $168,000, or 2.5%, during the three months ended September 30, 2006, when compared to the same period 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 $168,000, or 15.9%, for the three months ended September 30, 2006, compared to the same period in 2005 due primarily to branch expansion. Other noninterest expense increased $182,000, or 16.5% for the three months ended September 30, 2006, compared to the same period in 2005, primarily as a result of increases in computer fees, taxes other than real estate, telephone expense, bank analysis fees, student loan origination fee and lender fee expense, and website expense. Income tax expense increased $229,000, or 24.9%, for the three months ended September 30, 2006, when compared to the same period in 2005. Income tax expense increased as a result of the decrease in tax-exempt income as a percentage of pre-tax income for the three months ended September 30, 2006, when compared to the same period in 2005.

Net Income for the Nine Months

The decrease in net income for the nine months ended September 30, 2006 was primarily attributable to an increase in noninterest expense and income tax expense. Noninterest expense increased $2.0 million, or 6.1%, for the nine months ended September 30, 2006, compared to the same period in 2005. Noninterest expense increased primarily as a result of increases in salary and employee benefits, occupancy expense, and, other noninterest expense. Salaries and employee benefits increased $892,000, or 4.3%, during the nine months ended September 30, 2006, when compared to the same period 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 $419,000, or 13.2%, for the nine months ended September 30, 2006, compared to the same period in 2005 due primarily to branch expansion. Other noninterest expense increased $320,000, or 9.3% for the nine months ended September 30, 2006, compared to the same period in 2005, primarily as a result of increases in computer fees, taxes other than real estate, telephone expense, bank analysis fees, student loan origination fee expense, and stored value card expense that were partially offset by decreases in other losses. Income tax expense increased $310,000, or 12.3%, for the nine months ended September 30, 2006, when compared to the same period in 2005. Income tax expense increased as a result of the decrease in tax-exempt income as a percentage of pre-tax income for the nine months ended September 30, 2006 when compared to the same period in 2005.

The following items partially offset the decrease in net income for the nine months ended September 30, 2006, when compared to the same period in 2005. Net interest income increased $490,000, or 1.6%, for the nine months ended September 30, 2006 when compared to the same period in 2005. Net interest income increased as a result of increases in the Company's average interest earning assets during the nine months of 2006 when compared to the same period in 2005, which more than offset the decrease in the Company's net interest spread and margin during the same period. Noninterest income, excluding security gains, increased $997,000, or 6.3%, for the nine

months ended September 30, 2006, when compared to the same period in 2005. The increases in noninterest income were primarily results of increases in deposit services income, Trust income, and other income. Gain on sale of securities available for sale increased $510,000 for the nine months ended September 30, 2006 compared to the same period in 2005.

About Southside Bancshares, Inc.

Southside Bancshares, Inc. is a bank holding company with approximately $1.88 billion in assets 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 Sept. 30, 2006	At Dec. 31, 2005	At Sept. 30, 2005
	(dollars in thousands) (unaudited)		
Selected Financial Condition Data (at end of period)			
Total assets	$1,881,291	$1,783,462	$1,733,735
Loans	741,534	680,364	679,169
Allowance for loan losses	7,354	7,090	7,038
Mortgage-backed and related securities:			
Available for sale	656,787	592,435	564,547
Held to maturity	236,259	229,321	229,113
Investment securities:			
Available for sale	85,679	121,240	109,659
Held to Maturity	1,349	---	---
Federal Home Loan Bank stock, at cost	26,308	28,729	28,444
Deposits	1,210,881	1,110,813	1,021,320
Long-term obligations	164,887	229,032	276,584
Shareholders' equity	116,649	109,290	105,447
Nonperforming assets	2,599	3,057	2,309
Nonaccrual loans	1,213	1,731	1,211
Loans 90 days past due	625	945	555
Restructured loans	223	226	242
Other real estate owned	441	145	121
Repossessed assets	97	10	180
Assets Quality Ratios:			
Nonaccruing loans to total loans	0.16%	0.25%	0.18%
Allowance for loan losses to nonaccruing loans	606.27	409.59	581.17
Allowance for loan losses to nonperforming assets	282.95	231.93	304.81
Allowance for loan losses to total loans	0.99	1.04	1.04
Nonperforming assets to total assets	0.14	0.17	0.13

Net charge-offs to average loans	0.13	0.20	0.17
Capital Ratios:			
Shareholders' equity to total assets	6.20	6.13	6.08
Average shareholders' equity to average total assets	5.91	6.20	6.24

LOAN PORTFOLIO COMPOSITION

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

	At Sept. 30, 2006	At Dec. 31, 2005	At Sept. 30, 2005
	(in thousands) (unaudited)		
Real Estate Loans:			
Construction	$35,717	$35,765	$39,667
1-4 Family Residential	226,128	199,812	195,342
Other	176,636	162,147	162,886
Commercial Loans	114,090	91,456	86,280
Municipal Loans	100,994	109,003	112,797
Loans to Individuals	87,969	82,181	82,197
Total Loans	$741,534	$680,364	$679,169

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2006 (dollars in thousands) (unaudited)	2005 (dollars in thousands) (unaudited)	2006	2005
Selected Operating Data:				
Total interest income	$25,101	$20,438	$71,595	$58,602
Total interest expense	14,739	10,050	40,127	27,624
Net interest income	10,362	10,388	31,468	30,978
Provision for loan losses	226	485	955	947
Net interest income after provision for loan losses	10,136	9,903	30,513	30,031
Noninterest income				
Deposit services	4,036	3,775	11,452	10,849
Gain (loss) on sale of securities available for sale	254	24	478	(32)

Gain on sale of loans	521	414	1,363	1,433
Trust income	423	394	1,230	1,033
Bank owned life insurance income	260	231	769	673
Other	692	536	1,959	1,788
Total noninterest income	6,186	5,374	17,251	15,744
Noninterest expense				
Salaries and employee benefits	6,944	6,776	21,674	20,782
Occupancy expense	1,224	1,056	3,598	3,179
Equipment expense	239	204	667	624
Advertising, travel & entertainment	366	440	1,290	1,457
ATM expense	254	165	699	467
Director fees	131	144	443	459
Supplies	152	134	504	455
Professional fees	373	355	1,006	854
Postage	155	149	460	423
Other	1,282	1,100	3,776	3,456
Total noninterest expense	11,120	10,523	34,117	32,156
Income before federal tax expense	5,202	4,754	13,647	13,619
Income tax expense	1,150	921	2,824	2,514
Net income	$4,052	$3,833	$10,823	$11,105
Common Share Data:				
Weighted-average basic shares outstanding	12,280	12,034	12,239	12,019
Weighted-average diluted shares outstanding	12,755	12,613	12,714	12,638
Net income per common share				
Basic	$0.33	$0.32	$0.88	$0.92
Diluted	0.32	0.31	0.85	0.88
Book value per common share	---	---	9.48	8.72
Cash dividend declared per common share	0.11	0.11	0.33	0.33
Selected Performance Ratios:				
Return on average assets	0.86%	0.88%	0.78%	0.88%
Return on average shareholders' equity	14.67	14.29	13.26	14.17
Average yield on interest earning assets	5.81	5.28	5.70	5.25
Average yield on interest bearing liabilities	4.06	3.03	3.79	2.87
Net interest spread	1.75	2.25	1.91	2.38
Net interest margin	2.51	2.80	2.61	2.89
Average interest earning assets to average interest bearing liabilities	123.12	122.41	122.82	121.95
Noninterest expense to average total assets	2.35	2.42	2.47	2.56
Efficiency ratio	64.66	62.96	67.12	64.72

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

	Nine Months Ended					
	September 30, 2006			September 30, 2005		
	AVG. BALANCE	AVG. INTEREST	AVG. YIELD	AVG. BALANCE	AVG. INTEREST	AVG. YIELD
ASSETS						
INTEREST EARNING ASSETS:						
Loans (A) (B)	$713,764	$35,564	6.66%	$650,862	$30,043	6.17%
Loans Held for Sale	4,783	191	5.34%	4,467	160	4.79%
Securities:						
Investment Securities (Taxable) (D)	55,865	1,906	4.56%	51,893	1,451	3.74%
Investment Securities (Tax-Exempt) (C) (D)	44,793	2,389	7.13%	69,499	3,691	7.10%
Mortgage-backed Securities (D)	887,269	32,907	4.96%	761,223	25,379	4.46%
Federal Home Loan Bank stock & Other Investments, at cost	28,467	1,046	4.91%	27,686	736	3.55%
Interest Earning Deposits	703	24	4.56%	666	15	3.01%
Federal Funds Sold	1,038	37	4.77%	1,168	25	2.86%
Total Interest Earning Assets	1,736,682	74,064	5.70%	1,567,464	61,500	5.25%
NONINTEREST EARNING ASSETS:						
Cash and Due From Banks	43,823			41,579		
Bank Premises and Equipment	33,420			30,817		
Other Assets	41,307			46,520		
Less: Allowance for Loan Loss	(7,212)			(6,918)		
Total Assets	$1,848,020			$1,679,462		
LIABILITIES AND SHAREHOLDERS' EQUITY						
INTEREST BEARING						

LIABILITIES:						
Savings Deposits	$50,806	$479	1.26%	$50,868	$381	1.00%
Time Deposits	450,543	14,340	4.26%	347,037	7,871	3.03%
Interest Bearing Demand Deposits	350,740	6,965	2.66%	309,039	3,749	1.62%
Short-term Interest Bearing Liabilities	380,764	12,236	4.30%	266,924	6,810	3.41%
Long-term Interest Bearing Liabilities - FHLB	160,517	4,864	4.05%	290,875	7,875	3.62%
Long-term Debt (E)	20,619	1,243	7.95%	20,619	938	6.00%
Total Interest Bearing Liabilities	1,413,989	40,127	3.79%	1,285,362	27,624	2.87%
NONINTEREST BEARING LIABILITIES:						
Demand Deposits	313,043			274,850		
Other Liabilities	11,827			14,445		
Total Liabilities	1,738,859			1,574,657		
SHAREHOLDERS' EQUITY	109,161			104,805		
Total Liabilities and Shareholders' Equity	$1,848,020			$1,679,462		
NET INTEREST INCOME		$33,937			$33,876	
NET YIELD ON AVERAGE EARNING ASSETS			2.61%			2.89%
NET INTEREST SPREAD			1.91%			2.38%

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

(B) Interest income includes taxable-equivalent adjustments of $1,710 and $1,713 for the nine months ended September 30, 2006 and 2005, respectively.

(C) Interest income includes taxable-equivalent adjustments of $759 and $1,185 for the nine months ended September 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 September 30, 2006 and 2005, loans totaling $1,213 and $1,211, 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					
	September 30, 2006			September 30, 2005		
	AVG. BALANCE	AVG. INTEREST	AVG. YIELD	AVG. BALANCE	AVG. INTEREST	AVG. YIELD
ASSETS						
INTEREST EARNING ASSETS:						
Loans (A) (B)	$731,345	$12,612	6.84%	$671,882	$10,602	6.26%
Loans Held for Sale	5,054	74	5.81%	3,791	52	5.44%
Securities:						
Investment Securities (Taxable) (D)	48,530	569	4.65%	46,429	473	4.04%
Investment Securities (Tax-Exempt) (C) (D)	44,398	798	7.13%	63,334	1,138	7.13%
Mortgage-backed Securities (D)	912,751	11,521	5.01%	793,412	8,833	4.42%
Federal Home Loan Bank stock & Other Investments, at cost	27,309	352	5.11%	28,366	283	3.96%
Interest Earning Deposits	726	7	3.83%	550	5	3.61%
Federal Funds Sold	1,718	22	5.08%	1,185	10	3.35%
Total Interest Earning Assets	1,771,831	25,955	5.81%	1,608,949	21,396	5.28%
NONINTEREST EARNING ASSETS:						
Cash and Due From Banks	39,685			41,058		
Bank Premises and Equipment	33,197			31,747		
Other Assets	40,230			47,395		
Less: Allowance for						

Loan Loss	(7,356)			(6,914)		
Total Assets	$1,877,587			$1,722,235		
LIABILITIES AND SHAREHOLDERS' EQUITY						
INTEREST BEARING LIABILITIES:						
Savings Deposits	$51,089	$167	1.30%	$50,857	$142	1.11%
Time Deposits	484,344	5,513	4.52%	361,048	2,981	3.28%
Interest Bearing Demand Deposits	336,778	2,446	2.88%	312,195	1,451	1.84%
Short-term Interest Bearing Liabilities	403,981	4,649	4.57%	310,463	2,721	3.48%
Long-term Interest Bearing Liabilities - FHLB	142,352	1,519	4.23%	259,245	2,416	3.70%
Long-term Debt (E)	20,619	445	8.44%	20,619	339	6.43%
Total Interest Bearing Liabilities	1,439,163	14,739	4.06%	1,314,427	10,050	3.03%
NONINTEREST BEARING LIABILITIES:						
Demand Deposits	315,404			286,088		
Other Liabilities	13,427			15,292		
Total Liabilities	1,767,994			1,615,807		
SHAREHOLDERS' EQUITY	109,593			106,428		
Total Liabilities and Shareholders' Equity	$1,877,587			$1,722,235		
NET INTEREST INCOME	$11,216			$11,346		
NET YIELD ON AVERAGE EARNING ASSETS	2.51%			2.80%		
NET INTEREST SPREAD	1.75%			2.25%		

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

(B) Interest income includes taxable-equivalent adjustments of $597 and $582 for the three months ended September 30, 2006 and 2005, respectively.

(C) Interest income includes taxable-equivalent adjustments of $257 and $376 for the three months ended September 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 September 30, 2006 and 2005, loans totaling $1,213 and $1,211, 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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