NEWS RELEASE

Southside Bancshares, Inc. Announces an Increase in Fourth Quarter and Annual Earnings

1/25/2007

TYLER, Texas, Jan. 25 /PRNewswire-FirstCall/ -- Southside Bancshares, Inc. (Nasdaq: SBSI) ("Southside" or the "Company") reports financial results for the three months and year ended December 31, 2006.

Net income increased 19.8%, or $692,000 for the three months ended December 31, 2006, to $4.2 million from $3.5 million for the same period in 2005. For the year ended December 31, 2006, net income increased $410,000, or 2.8% to $15.0 million when compared to $14.6 million for the same period in 2005.

B. G. Hartley, Chairman and Chief Executive Officer, stated, "Southside had an excellent and especially gratifying year during 2006. Our success in achieving these results was due to the significant progress we made on a number of previously discussed key initiatives, intended to increase revenues and contain costs. The success of the initiatives more than offset the additional operating expenses associated with opening four de novo branches since September 30, 2005, and the increasingly challenging interest rate environment experienced during 2006."

Earnings per fully diluted share increased 22.2%, or $0.06 and 2.6%, or $0.03 for the three months and year ended December 31, 2006, to $0.33 and $1.18, respectively, when compared to $0.27 and $1.15 for the same periods in 2005.

The return on average shareholders' equity for the three months and year ended December 31, 2006 were 14.11% and 13.48%, respectively, compared to 13.05% and 13.88%, respectively, for the same periods in 2005. The annual return on average assets were 0.88% and 0.81%, respectively, for the three months and year ended December 31, 2006, compared to 0.79% and 0.86%, respectively, for the same periods in 2005.

Loan and Deposit Growth

The Company continued to experience solid loan growth during the three months ended December 31, 2006, as loans increased $17.6 million, or 2.4%, to $759.1 million from $741.5 million at September 30, 2006. During the year ended December 31, 2006, Southside experienced strong loan growth as loans increased $78.8 million, or 11.6%, to $759.1 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 consistent growth in loans is significant given the increasing competition in the Texas banking markets we serve. Additionally, the 2006 loan growth was accompanied by a 31.0% decrease in nonperforming assets.

Commenting on the loan growth, B. G. Hartley said, "Our marketplace in Texas has continued to expand over the past several years through the opening of branches in strategic market areas. Positioning for future success, with de novo branching a key element, remains a central part of our business strategy. In addition to the loan and deposit growth, another critical portion of Southside's business strategy is the focus on increasing the number of accounts and relationships. Continued growth in the number of deposit accounts should provide Southside significant opportunities to enhance fee income. Our goal is to become the primary financial provider for these account holders, thereby creating value from within by utilizing this additional organic growth source.

During the three months ended December 31, 2006, deposits increased $71.6 million, or 5.9%, to $1.28 billion from $1.21 billion at September 30, 2006. During the year ended December 31, 2006, the Company's deposits increased $171.7 million, or 15.5% to $1.28 billion from $1.11 billion at December 31, 2005. Approximately $68.0 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. While the Company has attempted to maintain a disciplined deposit pricing strategy, the current competitive environment could pressure the net interest margin in the coming quarters. The remaining $103.7 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 December 31, 2006 totaled $123.5 million compared to $19.8 million at December 31, 2005. We believe these callable-brokered CDs offer the Company significant long-term flexibility.

Net Interest Income

Net interest income decreased $81,000, or 0.8% to $10.2 million for the three months ended December 31, 2006, when compared to $10.3 million for the same period in 2005. 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. This 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 2.45% and 1.65%, respectively, for the three months ended December 31, 2006 compared to 2.72% and 2.13%, respectively, for the same period in 2005 and 2.51% and 1.75%, respectively, for the three months ended September 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 2007.

Net Income for the Three Months

The increase in net income for the three months ended December 31, 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 $721,000, or 13.7%, for the three months ended December 31, 2006, compared to the same period in 2005. The increases in noninterest income were primarily results of increases in deposit services income, trust income, gain on sale of loans, and other income. Provision for loan losses decreased $391,000, or 75.8%, for the three months ended December 31, 2006, compared to the same period in 2005.

Partially offsetting the increase in net income, Federal income tax expense increased $497,000, or 63.8%, for the three months ended December 31, 2006, when compared to the same period in 2005. Federal 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 December 31, 2006, when compared to the same period in 2005.

Net Income for the Year

The increase in net income for the year ended December 31, 2006 was primarily attributable to an increase in net interest income, noninterest income and a decrease in provision for loan losses. Net interest income increased $409,000, or 1.0%, for the year ended December 31, 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 year ended December 31, 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 gain on sale of available for sale securities, increased $1.7 million, or 8.2%, for the year ended December 31, 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 $515,000, or 225.9%, for the year ended December 31, 2006 compared to the same period in 2005. Provision for loan losses decreased $383,000, or 26.2%, for the year ended December 31, 2006, compared to the same period in 2005.

The following items partially offset the increase in net income for the year ended December 31, 2006, when compared to the same period in 2005. Noninterest expense increased $1.8 million, or 4.2%, for the year ended December 31, 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 ATM expense. Salaries and employee benefits

increased $796,000, or 2.9%, during the year ended December 31, 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 $520,000, or 12.2%, ATM expense increased $307,000, or 47.4%, and Federal income tax expense increased $807,000, or 24.5%, for the year ended December 31, 2006, when compared to the same period in 2005. Occupancy expense increased primarily due to branch expansion and Federal income tax expense increased as a result of the decrease in tax-exempt income as a percentage of pre-tax income for the year ended December 31, 2006 when compared to the same period in 2005.

About Southside Bancshares, Inc.

Southside Bancshares, Inc. is a bank holding company with approximately $1.89 billion in assets that owns 100% of Southside Bank. Southside Bank currently has 35 banking centers in East Texas and operates a network of 40 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, which could cause the Company's actual results to 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 December 31, 2006	At December 31, 2005
	(dollars in thousands) (unaudited)	
Selected Financial Condition Data (at end of period)		
Total assets	$1,890,976	$1,783,462
Loans	759,147	680,364
Allowance for loan losses	7,193	7,090
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	643,164	592,435
Held to maturity, at cost	226,162	229,321
Investment securities:		
Available for sale, at estimated fair value	98,952	121,240
Held to maturity, at cost	1,351	---
Federal Home Loan Bank stock, at cost	25,614	28,729
Deposits	1,282,475	1,110,813
Long-term obligations	149,998	229,032
Shareholders' equity	110,604	109,290
Nonperforming assets	2,110	3,057
Nonaccrual loans	1,333	1,731
Loans 90 days past due	128	945
Restructured loans	220	226
Other real estate owned	351	145
Repossessed assets	78	10
Asset Quality Ratios:		
Nonaccruing loans to total loans	0.18%	0.25%
Allowance for loan losses to		

nonaccruing loans	539.61	409.59
Allowance for loan losses to nonperforming assets	340.90	231.93
Allowance for loan losses to total loans	0.95	1.04
Nonperforming assets to total assets	0.11	0.17
Net charge-offs to average loans	0.14	0.20
Capital Ratios:		
Shareholders' equity to total assets	5.85	6.13
Average shareholders' equity to average total assets	5.99	6.20

LOAN PORTFOLIO COMPOSITION

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

	At December 31, 2006	At December 31, 2005
	(in thousands) (unaudited)	
Real Estate Loans:		
Construction	$39,588	$35,765
1-4 Family Residential	227,354	199,812
Other	181,047	162,147
Commercial Loans	118,962	91,456
Municipal Loans	106,155	109,003
Loans to Individuals	86,041	82,181
Total Loans	$759,147	$680,364

	At or for the Three Months Ended December 31,		At or for the Years Ended December 31,	
	2006	2005	2006	2005
	(dollars in thousands) (unaudited)		(dollars in thousands) (unaudited)	
Selected Operating Data:				
Total interest income	$25,357	$21,079	$96,952	$79,681
Total interest expense	15,157	10,798	55,284	38,422
Net interest income	10,200	10,281	41,668	41,259

Provision for loan losses	125	516	1,080	1,463
Net interest income after provision for loan losses	10,075	9,765	40,588	39,796
Noninterest income				
Deposit services	4,030	3,745	15,482	14,594
Gain on sale of securities available for sale	265	260	743	228
Gain on sale of loans	454	374	1,817	1,807
Trust income	481	389	1,711	1,422
Bank owned life insurance income	298	278	1,067	951
Other	702	458	2,661	2,246
Total noninterest income	6,230	5,504	23,481	21,248
Noninterest expense				
Salaries and employee benefits	6,601	6,697	28,275	27,479
Occupancy expense	1,179	1,078	4,777	4,257
Equipment expense	232	223	899	847
Advertising, travel & entertainment	452	510	1,742	1,967
ATM expense	256	181	955	648
Director fees	144	218	587	677
Supplies	133	173	637	628
Professional fees	380	485	1,386	1,339
Postage	158	149	618	572
Telephone & communications	194	157	723	593
Other	1,121	1,132	4,368	4,152
Total noninterest expense	10,850	11,003	44,967	43,159
Income before Federal income tax expense	5,455	4,266	19,102	17,885
Provision for Federal income tax expense	1,276	779	4,100	3,293
Net income	$4,179	$3,487	$15,002	$14,592
Common Share Data:				
Weighted-average basic shares outstanding	12,322	12,123	12,260	12,046
Weighted-average diluted shares outstanding	12,778	12,637	12,732	12,638
Net income per common share				
Basic	$0.34	$0.29	$1.22	$1.21
Diluted	0.33	0.27	1.18	1.15
Book value per common share	---	---	8.95	8.98
Cash dividend declared per common share	0.14	0.13	0.47	0.46
Selected Performance Ratios:				
Return on average assets	0.88%	0.79%	0.81%	0.86%
Return on average shareholders' equity	14.11	13.05	13.48	13.88
Average yield on interest earning assets	5.84	5.35	5.74	5.27

Average yield on interest bearing liabilities	4.19	3.22	3.89	2.96
Net interest spread	1.65	2.13	1.85	2.31
Net interest margin	2.45	2.72	2.57	2.85
Average interest earning assets to average interest bearing liabilities	123.44	122.79	122.98	122.17
Noninterest expense to average total assets	2.28	2.50	2.42	2.54
Efficiency ratio	63.73	66.92	66.27	65.27

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

	December 31, 2006			December 31, 2005		
	AVG. BALANCE	INTEREST	AVG. YIELD	AVG. BALANCE	INTEREST	AVG. YIELD
ASSETS						
INTEREST EARNING ASSETS:						
Loans (1) (2)	$722,252	$48,397	6.70%	$657,938	$40,927	6.22%
Loans Held for Sale	4,651	246	5.29%	4,469	212	4.74%
Securities:						
Investment Securities (Taxable) (4)	54,171	2,498	4.61%	51,431	1,978	3.85%
Investment Securities (Tax-Exempt) (3) (4)	43,931	3,134	7.13%	66,023	4,696	7.11%
Mortgage-backed and Related Securities (4)	891,015	44,401	4.98%	773,973	34,584	4.47%
Federal Home Loan Bank Stock & Other Investments, at cost	27,969	1,409	5.04%	28,099	1,032	3.67%
Interest Earning Deposits	692	35	5.06%	644	24	3.73%
Federal Funds Sold	1,148	57	4.97%	995	30	3.02%
Total Interest Earning Assets	1,745,829	100,177	5.74%	1,583,572	83,483	5.27%
NONINTEREST EARNING ASSETS:						
Cash and Due From						

Banks	42,906			42,280			
Bank Premises and Equipment	33,298			31,504			
Other Assets	42,716			45,625			
Less: Allowance for Loan Losses	(7,231)			(6,945)			
Total Assets	$1,857,518			$1,696,036			
LIABILITIES AND SHAREHOLDERS' EQUITY							
INTEREST BEARING LIABILITIES:							
Savings Deposits	$50,764	645	1.27%	$50,502	524	1.04%	
Time Deposits	467,174	20,516	4.39%	354,360	11,221	3.17%	
Interest Bearing Demand Deposits	349,375	9,529	2.73%	313,815	5,476	1.74%	
Short-term Interest Bearing Liabilities	376,696	16,534	4.39%	282,283	9,892	3.50%	
Long-term Interest Bearing Liabilities - FHLB	154,983	6,379	4.12%	274,673	10,004	3.64%	
Long-term Debt (5)	20,619	1,681	8.04%	20,619	1,305	6.24%	
Total Interest Bearing Liabilities	1,419,611	55,284	3.89%	1,296,252	38,422	2.96%	
NONINTEREST BEARING LIABILITIES:							
Demand Deposits	314,241			280,036			
Other Liabilities	12,403			14,649			
Total Liabilities	1,746,255			1,590,937			
SHAREHOLDERS' EQUITY	111,263			105,099			
Total Liabilities and Shareholders' Equity	$1,857,518			$1,696,036			
NET INTEREST INCOME	$44,893			$45,061			
NET YIELD ON AVERAGE EARNING ASSETS	2.57%			2.85%			
NET INTEREST SPREAD	1.85%			2.31%			

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

(2) Interest income includes taxable-equivalent adjustments of $2,230 and $2,287 for the years ended December 31, 2006 and 2005, respectively.

(3) Interest income includes taxable-equivalent adjustments of $995 and $1,515 for the years ended December 31, 2006 and 2005, respectively.
(4) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.
(5) Southside Statutory Trust III

Note: As of December 31, 2006 and 2005, loans totaling $1,333 and $1,731, 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, 2006			December 31, 2005		
	AVG. BALANCE	INTEREST	AVG. YIELD	AVG. BALANCE	INTEREST	AVG. YIELD
ASSETS						
INTEREST EARNING ASSETS:						
Loans (1) (2)	$747,439	$12,833	6.81%	$678,937	$10,884	6.36%
Loans Held for Sale	4,259	55	5.12%	4,474	52	4.61%
Securities:						
Investment Securities (Taxable) (4)	49,146	592	4.78%	50,059	527	4.18%
Investment Securities (Tax-Exempt) (3) (4)	41,372	745	7.14%	55,709	1,005	7.16%
Mortgage-backed and Related Securities (4)	902,131	11,494	5.05%	811,805	9,205	4.50%
Federal Home Loan Bank Stock & Other Investments, at cost	26,490	363	5.44%	29,324	296	4.00%
Interest Earning Deposits	660	11	6.61%	580	9	6.16%
Federal Funds Sold	1,473	20	5.39%	481	5	4.12%
Total Interest Earning Assets	1,772,970	26,113	5.84%	1,631,369	21,983	5.35%
NONINTEREST EARNING ASSETS:						

Cash and Due From Banks	40,185			44,363		
Bank Premises and Equipment	32,938			33,542		
Other Assets	46,897			42,972		
Less: Allowance for Loan Losses	(7,287)			(7,026)		
Total Assets	$1,885,703			$1,745,220		
LIABILITIES AND SHAREHOLDERS' EQUITY						
INTEREST BEARING LIABILITIES:						
Savings Deposits	$50,639	166	1.30%	$49,416	143	1.15%
Time Deposits	516,526	6,176	4.74%	376,090	3,350	3.53%
Interest Bearing Demand Deposits	345,325	2,564	2.95%	327,987	1,727	2.09%
Short-term Interest Bearing Liabilities	364,624	4,298	4.68%	327,861	3,082	3.73%
Long-term Interest Bearing Liabilities - FHLB	138,563	1,515	4.34%	226,595	2,129	3.73%
Long-term Debt (5)	20,619	438	8.31%	20,619	367	6.96%
Total Interest Bearing Liabilities	1,436,296	15,157	4.19%	1,328,568	10,798	3.22%
NONINTEREST BEARING LIABILITIES:						
Demand Deposits	317,794			295,426		
Other Liabilities	14,112			15,256		
Total Liabilities	1,768,202			1,639,250		
SHAREHOLDERS' EQUITY	117,501			105,970		
Total Liabilities and Shareholders' Equity	$1,885,703			$1,745,220		
NET INTEREST INCOME	$10,956			$11,185		
NET YIELD ON AVERAGE EARNING ASSETS	2.45%			2.72%		
NET INTEREST SPREAD	1.65%			2.13%		

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

(2) Interest income includes taxable-equivalent adjustments of $520 and $574 for the three months ended December 31, 2006 and 2005, respectively.
(3) Interest income includes taxable-equivalent adjustments of $236 and $330 for the three months ended December 31, 2006 and 2005, respectively.
(4) For the purpose of calculating the average yield, the average balance of securities is presented at historical cost.
(5) Southside Statutory Trust III

Note: As of December 31, 2006 and 2005, loans totaling $1,333 and $1,731, 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.

Contact: Susan Hill of Southside Bancshares, Inc., +1-903-531-7220, or susanh@southside.com