SOUTHSIDE BANCSHARES INC
Form 10-Q/A
April 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-12247

SOUTHSIDE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	75-1848732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 S. Beckham, Tyler, Texas	75701
(Address of principal executive offices)	(Zip Code)

903-531-7111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the issuer's common stock, par value $1.25, outstanding as of July 31, 2011 was 16,450,207 shares.

Explanatory Note

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q for the period ended June 30, 2011, which was originally filed with the Securities and Exchange Commission (the "SEC") on August 8, 2011 (the "Original Filing"). This amendment is being filed to reflect the restatement of i) the quarterly results of Southside Bancshares, Inc. (the "Company"), as discussed in Note 2 to the unaudited consolidated financial statements contained herein, and ii) other information related to such restated financial information. Except for Items 1, 2 and 4 of Part I and Item 6 of Part II, no other information included in the Original Filing is amended by this Form 10-Q/A.

During the preparation of the Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"), the Company determined that in periods prior to December 31, 2011, it incorrectly accounted for securities acquired with a significant purchase premium that included an embedded derivative. These securities were mainly acquired in 2010 and 2011. Pursuant to GAAP, the Company is required to bifurcate and account for the embedded derivative separately or to account for the securities including the embedded derivative at fair value through income, if the bifurcation was impractical. The Company determined that valuing the embedded derivative separately was not readily identifiable and measurable and as such, cannot be bifurcated. Therefore, the Company determined that all securities meeting the above criteria should be reflected at fair value with the change in fair value reflected through income.

In addition, the Company determined that during the first three quarters of 2011, it incorrectly priced securities acquired with a significant premium and did not account for the impairment of FHLB advance option fees that became impaired during the third quarter of 2011.

The Company evaluated the effect of these three errors and concluded that they were immaterial to any of the previously issued consolidated financial statements except for the unaudited consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2011. Accordingly, on March 8, 2012, the Company filed a Form 8-K reporting that the Audit Committee of the Board of Directors of the Company determined based on the recommendation of management, that the Company should restate its unaudited consolidated financial statements in each of these Quarterly Reports on Form 10-Q. In addition, the Company revised its 2010 consolidated financial statements in the 2011 Form 10-K to correct for these errors.

See Note 2 – Restatement to Previously Issued Financial Statements contained in the Notes to Financial Statements included in this Form 10-Q/A which further describes the effect of this restatement.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Form 10-Q/A includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the items noted above, no other information included in the Original Filing is being amended by this Form 10-Q/A. This Form 10-Q/A continues to speak as of the date of the Original Filing and we have not updated the filing to reflect events occurring subsequent to the date of the Original Filing other than those associated with the restatement of the Company's financial statements. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings with the SEC subsequent to the Original Filing, including any amendments to those filings.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(UNAUDITED) (in thousands, except share amounts)	June 30, 2011 (Restated)	December 31, 2010
ASSETS		
Cash and due from banks	$46,090	$56,188
Interest earning deposits	2,364	22,885
Total cash and cash equivalents	48,454	79,073
Investment securities:		
Available for sale, at estimated fair value	302,038	299,344
Held to maturity, at amortized cost	1,996	1,495
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	783,588	886,574
Securities carried at fair value through income	367,140	72,176
Held to maturity, at amortized cost	385,221	405,367
FHLB stock, at cost	25,524	34,712
Other investments, at cost	2,064	2,064
Loans held for sale	2,738	6,583
Loans:		
Loans	1,038,808	1,077,920
Less: allowance for loan losses	(19,409)	(20,711)
Net Loans	1,019,399	1,057,209
Premises and equipment, net	50,568	50,144
Goodwill	22,034	22,034
Other intangible assets, net	642	777
Interest receivable	19,403	18,033
Deferred tax asset	–	6,603
Other assets	87,659	57,571
TOTAL ASSETS	$3,118,468	$2,999,759
LIABILITIES AND EQUITY		
Deposits:		
Noninterest bearing	$515,591	$423,304
Interest bearing	1,723,946	1,711,124
Total Deposits	2,239,537	2,134,428
Short-term obligations:		
Federal funds purchased and repurchase agreements	3,077	3,844
FHLB advances	254,803	189,094
Other obligations	2,909	2,651
Total Short-term obligations	260,789	195,589
Long-term obligations:		
FHLB advances	277,979	373,479
Long-term debt	60,311	60,311
Total Long-term obligations	338,290	433,790
Deferred tax liability	2,396	–

Other liabilities	30,862	20,378
TOTAL LIABILITIES	2,871,874	2,784,185
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 11)		
Shareholders' equity:		
Common stock - $1.25 par, 40,000,000 shares authorized, 18,474,045 shares issued in 2011 and 17,660,312 shares issued in 2010	23,092	22,075
Paid-in capital	178,450	162,877
Retained earnings	63,738	64,179
Treasury stock (2,023,838 shares at cost)	(28,377)	(28,377)
Accumulated other comprehensive income (loss)	7,695	(6,293)
TOTAL SHAREHOLDERS' EQUITY	244,598	214,461
Noncontrolling interest	1,996	1,113
TOTAL EQUITY	246,594	215,574
TOTAL LIABILITIES AND EQUITY	$3,118,468	$2,999,759

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 (Restated)	2010	2011 (Restated)	2010
Interest income				
Loans	$17,130	$17,437	$34,401	$35,202
Investment securities – taxable	20	26	38	52
Investment securities – tax-exempt	3,209	3,017	6,438	5,843
Mortgage-backed and related securities	13,310	10,282	24,607	24,559
FHLB stock and other investments	52	59	132	141
Other interest earning assets	3	4	13	15
Total interest income	33,724	30,825	65,629	65,812
Interest expense				
Deposits	4,051	4,733	8,087	9,738
Short-term obligations	1,705	1,867	3,434	3,547
Long-term obligations	3,401	4,855	7,282	10,081
Total interest expense	9,157	11,455	18,803	23,366
Net interest income	24,567	19,370	46,826	42,446
Provision for loan losses	1,860	2,260	3,998	6,127
Net interest income after provision for loan losses	22,707	17,110	42,828	36,319
Noninterest income				
Deposit services	4,028	4,400	7,907	8,464
Gain on sale of securities available for sale	3,920	6,661	5,471	15,016
Gain on sale of securities carried at fair value through income	84	–	338	–
Total other-than-temporary impairment losses	–	–	–	(39)
Portion of loss recognized in other comprehensive income (before taxes)	–	–	–	(36)
Net impairment losses recognized in earnings	–	–	–	(75)
Fair value gain (loss) – securities	2,456	–	4,083	–
Gain on sale of loans	282	399	565	680
Trust income	645	561	1,296	1,091
Bank owned life insurance income	261	285	547	570
Other	959	864	2,064	1,797
Total noninterest income	12,635	13,170	22,271	27,543
Noninterest expense				
Salaries and employee benefits	11,622	11,215	23,313	22,157
Occupancy expense	1,778	1,662	3,499	3,305
Equipment expense	525	472	1,018	909
Advertising, travel & entertainment	550	544	1,103	1,081
ATM and debit card expense	266	212	481	379
Director fees	200	216	391	393
Supplies	161	206	385	476
Professional fees	457	539	1,012	945
Postage	186	231	365	417

Telephone and communications	345	346	682	719
FDIC Insurance	735	689	1,498	1,368
Other	1,291	1,647	3,101	3,282
Total noninterest expense	18,116	17,979	36,848	35,431
Income before income tax expense	17,226	12,301	28,251	28,431
Provision for income tax expense	4,100	2,530	5,886	6,485
Net income	13,126	9,771	22,365	21,946
Less: Net income attributable to the noncontrolling interest	(493)	(519)	(1,358)	(1,049)
Net income attributable to Southside Bancshares, Inc.	$12,633	$9,252	$21,007	$20,897
Earnings per common share – basic	$0.77	$0.56	$1.28	$1.26
Earnings per common share – diluted	$0.77	$0.56	$1.28	$1.26
Dividends paid per common share	$0.17	$0.17	$0.34	$0.34

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(in thousands, except share amounts)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accu- mulated- Other Compre- hensive Income (Loss)	Noncon- trolling Interest	Total Equity
Balance at December 31, 2009	$ 20,928	$ 146,357	$ 53,812	$ (23,545)	$ 4,229	$ 468	$ 202,249
Comprehensive income:							
Net Income			20,897			1,049	21,946
Net unrealized gains on available for sale securities, net of tax					9,008		9,008
Reclassification adjustment for gains on sales of available for sale securities included in net income, net of tax					(9,760)		(9,760)
Noncredit portion of other-than-temporary impairment losses on available for sale securities, net of tax					23		23
Reclassification of other-than-temporary impairment charges on available for sale securities included in net income, net of tax					49		49
Adjustment to net periodic benefit cost, net of tax					407		407
Total comprehensive income							21,673
Issuance of common stock (106,936 shares)	134	767					901
Purchase of common stock (1,101 shares)				(24)			(24)
Tax benefit of incentive stock options		316					316
Capital distribution to noncontrolling interest						(310)	(310)

shareholders							
Dividends paid on common stock ($0.34 per share)			(5,241)				(5,241)
Stock dividend declared	943	14,570	(15,513)				–
Balance at June 30, 2010	$ 22,005	$ 162,010	$ 53,955	$ (23,569)	$ 3,956	$ 1,207	$ 219,564
Balance at December 31, 2010	$ 22,075	$ 162,877	$ 64,179	$ (28,377)	$ (6,293)	$ 1,113	$ 215,574
Comprehensive income:							
Net Income			21,007			1,358	22,365
Net unrealized gains on available for sale securities, net of tax					17,082		17,082
Reclassification adjustment for gains on sales of available for sale securities included in net income, net of tax					(3,556)		(3,556)
Adjustment to net periodic benefit cost, net of tax					462		462
Total comprehensive income							36,353
Issuance of common stock (28,869 shares)	36	531					567
Stock compensation expense		26					26
Tax benefit of incentive stock options		2					2
Capital distribution to noncontrolling interest shareholders						(475)	(475)
Dividends paid on common stock ($0.34 per share)			(5,453)				(5,453)
Stock dividend declared	981	15,014	(15,995)				–
Balance at June 30, 2011 (Restated)	$ 23,092	$ 178,450	$ 63,738	$ (28,377)	$ 7,695	$ 1,996	$ 246,594

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
(UNAUDITED)
(in thousands)

	Six Months Ended June 30,	
	2011 (Restated)	2010
OPERATING ACTIVITIES:		
Net income	$22,365	$21,946
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,646	1,568
Amortization of premium	16,782	18,038
Accretion of discount and loan fees	(2,327)	(2,545)
Provision for loan losses	3,998	6,127
Stock compensation expense	26	–
Deferred tax expense (benefit)	1,467	171
Gain on sale of securities carried at fair value through income	(338)	–
Gain on sale of securities available for sale	(5,471)	(15,016)
Fair value (gain) loss – securities	(4,083)	–
Net other-than-temporary impairment losses	–	75
Loss (gain) on sale of assets	3	(7)
Loss on retirement of assets	90	–
Impairment on other real estate owned	145	20
Gain on sale of other real estate owned	(221)	(12)
Net change in:		
Interest receivable	(1,370)	1,098
Other assets	(2,593)	(1,513)
Interest payable	(575)	(548)
Other liabilities	2,364	2,799
Loans held for sale	3,845	(681)
Net cash provided by operating activities	35,753	31,520
INVESTING ACTIVITIES:		
Securities held to maturity:		
Purchases	(6,394)	(258,935)
Maturities, calls and principal repayments	23,373	38,012
Securities available for sale:		
Purchases	(350,206)	(775,431)
Sales	326,701	799,647
Maturities, calls and principal repayments	138,176	209,582
Securities carried at fair value through income:		
Purchases	(344,728)	–
Sales	16,248	–
Maturities, calls and principal repayments	13,919	–
Proceeds from redemption of FHLB stock	14,811	2,638
Purchases of FHLB stock and other investments	(5,623)	(105)
Net decrease in loans	32,740	8,995

Purchases of premises and equipment	(2,169)	(3,600)
Proceeds from sales of premises and equipment	6	38
Proceeds from sales of other real estate owned	306	722
Proceeds from sales of repossessed assets	2,767	2,740
Net cash (used in) provided by investing activities	(140,073)	24,303

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
(UNAUDITED) (continued)
(in thousands)

	Six Months Ended June 30,	
	2011 (Restated)	2010
FINANCING ACTIVITIES:		
Net increase in demand and savings accounts	87,107	135,317
Net increase (decrease) in certificates of deposit	22,511	(57,713)
Net decrease in federal funds purchased and repurchase agreements	(767)	(9,552)
Proceeds from FHLB advances	3,349,032	4,261,610
Repayment of FHLB advances	(3,378,823)	(4,387,008)
Net capital distributions to noncontrolling interest in consolidated entities	(475)	(310)
Tax benefit of incentive stock options	2	316
Purchase of common stock	–	(24)
Proceeds from the issuance of common stock	567	901
Dividends paid	(5,453)	(5,241)
Net cash provided by (used in) financing activities	73,701	(61,704)
Net decrease in cash and cash equivalents	(30,619)	(5,881)
Cash and cash equivalents at beginning of period	79,073	52,166
Cash and cash equivalents at end of period	$48,454	$46,285
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	$19,378	$23,914
Income taxes paid	$3,500	$4,650
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of other repossessed assets and real estate through foreclosure	$2,779	$3,747
Adjustment to pension liability	$(711)	$(626)
5% stock dividend	$15,995	$15,513
Unsettled trades to purchase securities	$(9,145)	$(2,280)
Unsettled trades to sell securities	$31,919	$24,396

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

In this report, the words “the Company,” “we,” “us,” and “our” refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries. The words “Southside” and “Southside Bancshares” refer to Southside Bancshares, Inc. The words “Southside Bank” and “the Bank” refer to Southside Bank (which, subsequent to the internal merger of Fort Worth National Bank (“FWNB”) with and into Southside Bank, includes FWNB). “FWBS” refers to Fort Worth Bancshares, Inc., a bank holding company acquired by Southside of which FWNB was a wholly-owned subsidiary. “SFG” refers to Southside Financial Group, LLC, of which Southside Bank owned a 50% interest as of June 30, 2011 and consolidates for financial reporting. On July 15, 2011, Southside Bank acquired the remaining 50% interest in SFG.

The consolidated balance sheet as of June 30, 2011, and the related consolidated statements of income, equity and cash flows and notes to the financial statements for the three and six month periods ended June 30, 2011 and 2010 are unaudited; in the opinion of management, all adjustments necessary for a fair statement of such financial statements have been included. Such adjustments consisted only of normal recurring items. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of management’s estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2010. All share data has been adjusted to give retroactive recognition to stock splits and stock dividends.

Summary of Significant Accounting and Reporting Policies

Securities Carried at Fair Value through Income. Debt securities purchased at significant premiums that contain an embedded derivative where the embedded derivative is not readily identifiable and measurable and as such cannot be bifurcated, are classified as securities carried at fair value through income. Fair value is determined using quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services. Changes in fair value are reported through the income statement as fair value gain (loss) – securities.

FHLB Advance Option Fees. Option fees paid to the FHLB giving us the option to enter into long-term advance commitments at specified interest rates in the future are capitalized and reviewed for impairment. Once the option is exercised, the FHLB advance option fee is amortized over the term of the advance as interest expense.

For a description of our other significant accounting and reporting policies, refer to Note 1 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Accounting Standards

ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements.” ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value

hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy became effective for us on January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for us on January 1, 2010. See Note 10 – Fair Value Measurement.

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ASU No. 2010-20, “Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. ASU 2010-20 became effective for our financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for our financial statements that include periods on or after January 1, 2011.

ASU No. 2011-01, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (Topic 310)”, was issued January 2011 deferring the new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. As a result of the issuance of Update 2011-02, the provisions of Update 2011-01 are effective for the first interim or annual period beginning on or after June 15, 2011 or September 30, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. We do not expect the adoption of the Update to have a material effect on our financial statements at the date of adoption.

ASU No. 2011-02, “Receivables (Topic 310) - A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 is not expected to have a significant impact on our financial statements.

ASU No. 2011-03, “Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements.” ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for us on January 1, 2012 and is not expected to have a significant impact on our consolidated financial statements.

ASU 2011-04, “Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU 2011-04 amends Topic 820, “Fair Value Measurements and Disclosures,” to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on our consolidated financial statements.

ASU 2011-05, “Comprehensive Income (Topic 220) - Presentation of Comprehensive Income.” ASU 2011-05 amends Topic 220, “Comprehensive Income,” to require that all nonowner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on our consolidated financial statements.

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2. Restatement of Previously Issued Financial Statements

During the preparation of the 2011 Form 10-K, we determined that in periods prior to December 31, 2011, we incorrectly accounted for securities acquired with a significant purchase premium that included an embedded derivative. These securities were mainly acquired in 2010 and 2011. Pursuant to GAAP, we are required to bifurcate and account for the embedded derivative separately or to account for the securities including the embedded derivative at fair value through income, if the bifurcation was impractical. We determined that valuing the embedded derivative separately was not readily identifiable and measurable and as such, cannot be bifurcated. Therefore, we determined that all securities meeting the above criteria should be reflected at fair value with the change in fair value reflected through income.

In addition to the error related to the accounting for securities with an embedded derivative mentioned above, we determined that during the first two quarters of 2011, we incorrectly priced securities acquired with a significant premium.

We evaluated the effect of these errors and concluded that they were immaterial to any of the previously issued consolidated financial statements except for the unaudited consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2011. Accordingly, on March 8, 2012, we filed a Form 8-K reporting that our Audit Committee of the Board of Directors determined based on the recommendation of management, that we should restate our unaudited consolidated financial statements in each of these Quarterly Reports on Form 10-Q. In addition, we revised our 2010 consolidated financial statements in the 2011 Form 10-K to correct for these errors.

The aggregate income resulting from the changes in the fair value of certain securities for the first two quarters of 2011 was approximately $4.1 million, which should have been recorded between the first two quarterly periods of 2011.

The correction of the errors resulted in an increase in net income of $1.6 million for the three months ended June 30, 2011 resulting in net income attributable to Southside Bancshares, Inc. of $12.6 million for that period, and an increase in net income of approximately $2.7 million for the six months ended June 30, 2011, resulting in net income attributable to Southside Bancshares, Inc. of $21.0 million for that period.

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A summary of the adjustments made and their effect on the financial statements is presented below (dollars in thousands):

Consolidated Balance Sheet	As of June 30, 2011		
	As Originally Reported	Corrections	As Restated
Mortgage-backed and related securities:			
Available for sale, at estimated fair value (1)	$1,136,961	$(353,373)	$783,588
Securities carried at fair value through income (1)	–	367,140	367,140
Held to maturity, at amortized cost (1)	395,728	(10,507)	385,221
Total assets	3,115,208	3,260	3,118,468
Deferred tax liability (2)	1,255	1,141	2,396
Total liabilities	2,870,733	1,141	2,871,874
Retained earnings (3)	61,472	2,266	63,738
Accumulated other comprehensive income (loss) (4)	7,842	(147)	7,695
Total shareholders' equity	242,479	2,119	244,598
Total equity	244,475	2,119	246,594
Total liabilities and equity	3,115,208	3,260	3,118,468

"As Originally Reported" reflects balances reported in the June 30, 2011 Form 10-Q filed on August 8, 2011.

"As Restated" reflects the final restated balances.

"Corrections" reflect changes to the originally reported balances and are described below.

Balance Sheet Corrections:

(1) The decrease in mortgage-backed securities available for sale and held to maturity for the six months ended June 30, 2011 reflects the reclassification of securities with an embedded derivative and purchased at a significant premium, which we have defined as greater than 111.111%, to securities carried at fair value through income.

(2) The correction to the deferred tax liability occurred as a result of recording the fair value on the securities through income rather than accumulated other comprehensive income. In addition, the deferred tax liability changed as a result of the deferral of tax deductibility of the fair value gains on securities carried at fair value through income.

(3) Retained earnings increased due to the increase in fair value gains on securities carried at fair value through income for the six months ended June 30, 2011.

(4) Accumulated other comprehensive income increased as a result of reversing the incorrect fair values on the securities previously classified as available for sale at June 30, 2011.

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Consolidated Statement of Income	For the six months ended June 30, 2011		
	As Originally Reported	Corrections	As Restated
Gain on sale of securities available for sale (1)	$5,809	$(338)	$5,471
Gain on sale of securities carried at fair value through income (1)	–	338	338
Fair value gain (loss) – securities (2)	–	4,083	4,083
Total noninterest income	18,188	4,083	22,271
Income before income tax expense	24,168	4,083	28,251
Provision for income tax expense (3)	4,457	1,429	5,886
Net income	19,711	2,654	22,365
Net income attributable to Southside Bancshares, Inc.	18,353	2,654	21,007
Earnings per common share – basic	1.12	0.16	1.28
Earnings per common share – diluted	1.12	0.16	1.28

Consolidated Statement of Income	For the three months ended June 30, 2011		
	As Originally Reported	Corrections	As Restated
Gain on sale of securities available for sale (1)	$4,004	$(84)	$3,920
Gain on sale of securities carried at fair value through income (1)	–	84	84
Fair value gain (loss) – securities (2)	–	2,456	2,456
Total noninterest income	10,179	2,456	12,635
Income before income tax expense	14,770	2,456	17,226
Provision for income tax expense (3)	3,241	859	4,100
Net income	11,529	1,597	13,126
Net income attributable to Southside Bancshares, Inc.	11,036	1,597	12,633
Earnings per common share – basic	0.67	0.10	0.77
Earnings per common share – diluted	0.67	0.10	0.77

"As Originally Reported" reflects balances reported in the June 30, 2011 Form 10-Q filed on August 8, 2011.

"As Restated" reflects the final restated balances.

"Corrections" reflect changes to the originally reported balances and are described below.

Income Statement Corrections:

(1) The change in gains on securities available for sale is a result of reclassifying gains on sales of securities carried at fair value through income separately in the statement of income.

(2) The correction to fair value gain (loss) – securities is a result of recording the changes in fair value on securities carried at fair value through the income statement rather than accumulated other comprehensive income.

(3) The change in provision (benefit) for income tax expense is a direct result of the changes in income.

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	As of and for the six months ended June 30, 2011		
	As Originally Reported	Corrections	As Restated
Consolidated Statement of Changes in Equity			
Retained earnings:			
Balance, beginning of period	$64,567	$(388)	$64,179
Net income attributable to Southside Bancshares, Inc.	18,353	2,654	21,007
Balance, end of period	61,472	2,266	63,738
Accumulated other comprehensive income (loss):			
Balance, beginning of period	(6,819)	526	(6,293)
Net unrealized gains on available for sale securities, net of tax	17,975	(893)	17,082
Reclassification adjustment for gains on sales of available for sale securities included in net income, net of tax	(3,776)	220	(3,556)
Net change in accumulated other comprehensive income (loss)	14,661	(673)	13,988
Balance, end of period	7,842	(147)	7,695
Total shareholders' equity	242,479	2,119	244,598
Total equity	244,475	2,119	246,594
Comprehensive income:			
Net income	19,711	2,654	22,365
Net change in accumulated other comprehensive income (loss)	14,661	(673)	13,988
Comprehensive income	34,372	1,981	36,353
Comprehensive income attributable to Southside Bancshares, Inc.	33,014	1,981	34,995
Consolidated Statement of Cash Flow			
Operating Activities:			
Net income	$19,711	$2,654	$22,365
Deferred tax expense (benefit)	38	1,429	1,467
Gain on sale of securities carried at fair value through income	–	(338)	(338)
Gain on sale of securities available for sale	(5,809)	338	(5,471)
Fair value gain (loss) – securities	–	(4,083)	(4,083)
Net cash provided by operating activities	35,753	–	35,753
Investing Activities:			
Securities held to maturity:			
Maturities, calls and principal repayments	24,730	(1,357)	23,373
Securities available for sale:			
Purchases	(694,934)	344,728	(350,206)
Sales	342,949	(16,248)	326,701
Maturities, calls and principal repayments	150,738	(12,562)	138,176
Securities carried at fair value through income:			
Purchases	–	(344,728)	(344,728)

Sales	–	16,248	16,248
Maturities, calls and principal repayments	–	13,919	13,919
Net cash used in investing activities	(140,073)	–	(140,073)

“As Originally Reported” reflects balances reported in the June 30, 2011 Form 10-Q filed on August 8, 2011.

“As Restated” reflects the final restated balances.

“Corrections” reflect changes to the originally reported balances.

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3. Earnings Per Share - (2011 Restated)

Earnings per share attributable to Southside Bancshares, Inc. on a basic and diluted basis have been adjusted to give retroactive recognition to stock splits and stock dividends and is calculated as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic and Diluted Earnings:				
Net Income - Southside Bancshares, Inc.	$ 12,633	$ 9,252	$ 21,007	$ 20,897
Basic weighted-average shares outstanding	16,439	16,605	16,432	16,573
Add: Stock options	6	30	5	48
Diluted weighted-average shares outstanding	16,445	16,635	16,437	16,621
Basic Earnings Per Share:				
Net Income - Southside Bancshares, Inc.	$ 0.77	$ 0.56	$ 1.28	$ 1.26
Diluted Earnings Per Share:				
Net Income - Southside Bancshares, Inc.	$ 0.77	$ 0.56	$ 1.28	$ 1.26

On March 31, 2011, our board of directors declared a 5% stock dividend to common stock shareholders of record as of April 20, 2011, and payable on May 11, 2011.

During the second quarter, our board of directors approved equity grants in the form of stock options and restricted stock units. These equity grants were made pursuant to the shareholder-approved Southside Bancshares, Inc. 2009 Incentive Plan.

For the three and six month periods ended June 30, 2011, there were approximately 6,000 and 12,000 antidilutive options, respectively. For the three and six months ended June 30, 2010, there were no antidilutive options.

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4. Comprehensive Income (Loss) - (2011 Restated)

The components of other comprehensive income (loss) are as follows (in thousands):

	Six Months Ended June 30, 2011		
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$26,280	$(9,198)	$17,082
Less: reclassification adjustment for gains included in net income	5,471	(1,915)	3,556
Net unrealized gains on securities	20,809	(7,283)	13,526
Change in pension plans	711	(249)	462
Other comprehensive income	$21,520	$(7,532)	$13,988

	Three Months Ended June 30, 2011		
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$20,126	$(7,044)	$13,082
Less: reclassification adjustment for gains included in net income	3,920	(1,372)	2,548
Net unrealized gains on securities	16,206	(5,672)	10,534
Change in pension plans	356	(125)	231
Other comprehensive income	$16,562	$(5,797)	$10,765

	Six Months Ended June 30, 2010		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding gains arising during period	$13,859	$(4,851)	$9,008
Noncredit portion of other-than-temporary impairment losses on the AFS securities	36	(13)	23
Less: reclassification adjustment for gains included in net income	15,016	(5,256)	9,760
Less: reclassification of other-than-temporary impairment charges on AFS securities included in net income	(75)	26	(49)
Net unrealized losses on securities	(1,046)	366	(680)
Change in pension plans	626	(219)	407
Other comprehensive loss	$(420)	$147	$(273)

	Three Months Ended June 30, 2010		
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$12,998	$(4,550)	$8,448
Noncredit portion of other-than-temporary impairment losses on the AFS securities	–	–	–
Less: reclassification adjustment for gains included in net income	6,661	(2,332)	4,329
Less: reclassification of other-than-temporary impairment charges on AFS securities included in net income	–	–	–

Net unrealized gains on securities	6,337	(2,218)	4,119
Change in pension plans	379	(133)	246
Other comprehensive income	$6,716	$(2,351)	$4,365

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5. Securities - (2011 Restated)

The amortized cost and estimated market value of investment and mortgage-backed securities as of June 30, 2011 and December 31, 2010, are reflected in the tables below (in thousands):

	June 30, 2011				
		Gross	Gross Unrealized Losses		
	Amortized	Unrealized	Noncredit		Estimated
AVAILABLE FOR SALE:	Cost	Gains	OTTI	Other	Fair Value
Investment Securities:					
State and Political Subdivisions	$292,413	$10,379	$–	$1,711	$301,081
Other Stocks and Bonds	2,925	–	1,968	–	957
Mortgage-backed Securities:					
U.S. Government Agencies	142,383	7,392	–	97	149,678
Government-Sponsored Enterprises	612,512	21,701	–	303	633,910
Total	$1,050,233	$39,472	$1,968	$2,111	$1,085,626

	June 30, 2011				
		Gross	Gross Unrealized Losses		
	Amortized	Unrealized	Noncredit		Estimated
HELD TO MATURITY:	Cost	Gains	OTTI	Other	Fair Value
Investment Securities:					
U.S. Treasury	$500	$–	$	$–	$500
State and Political Subdivisions	1,011	123	–	–	1,134
Other Stocks and Bonds	485	16	–	–	501
Mortgage-backed Securities:					
U.S. Government Agencies	18,679	868	–	–	19,547
Government-Sponsored Enterprises	366,542	14,688	–	7	381,223
Total	$387,217	$15,695	$–	$7	$402,905

	December 31, 2010				
		Gross	Gross Unrealized Losses		
	Amortized	Unrealized	Noncredit		Estimated
AVAILABLE FOR SALE:	Cost	Gains	OTTI	Other	Fair Value
Investment Securities:					
U.S. Treasury	$4,700	$–	$–	$–	$4,700
State and Political Subdivisions	296,357	4,445	–	6,540	294,262
Other Stocks and Bonds	3,117	1	2,736	–	382
Mortgage-backed Securities:					
U.S. Government Agencies	145,136	5,296	–	159	150,273
Government-Sponsored Enterprises	721,908	16,035	–	1,642	736,301
Total	$1,171,218	$25,777	$2,736	$8,341	$1,185,918

	December 31, 2010				
		Gross	Gross Unrealized Losses		
	Amortized	Unrealized	Noncredit		Estimated
HELD TO MATURITY:	Cost	Gains	OTTI	Other	Fair Value
Investment Securities:					

State and Political Subdivisions	$1,012	$44	$–	$–	$1,056
Other Stocks and Bonds	483	14	–	–	497
Mortgage-backed Securities:					
U.S. Government Agencies	20,821	566	–	55	21,332
Government-Sponsored Enterprises	384,546	8,576	–	589	392,533
Total	$406,862	$9,200	$–	$644	$415,418

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Securities carried at fair value through income were as follows (in thousands):

	At June 30, 2011	At December 31, 2010
Mortgage-backed Securities:		
U.S. Government Agencies	$14,410	$ 5,392
Government-Sponsored Enterprises	352,730	66,784
Total	$367,140	$ 72,176

Net gains and losses on securities carried at fair value through income were as follows (in thousands):

	Six Months Ended June 30, 2011	2010
Net gain on sales transactions	$338	$–
Net mark-to-market gains (losses)	4,083	–
Net gain on securities carried at fair value through income	$4,421	$–

	Three Months Ended June 30, 2011	2010
Net gain on sales transactions	$ 84	$ –
Net mark-to-market gains (losses)	2,456	–
Net gain on securities carried at fair value through income	$ 2,540	$ –

The following table represents the unrealized loss on securities for the six months ended June 30, 2011 and year ended December 31, 2010 (in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011:						
Available for Sale						
State and Political Subdivisions	$66,071	$1,672	$271	$39	$66,342	$1,711
Other Stocks and Bonds	–	–	957	1,968	957	1,968
Mortgage-Backed Securities	87,734	370	4,977	30	92,711	400
Total	$153,805	$2,042	$6,205	$2,037	$160,010	$4,079
Held to Maturity						
Mortgage-Backed Securities	$568	$7	$–	$–	$568	$7
Total	$568	$7	$–	$–	$568	$7
As of December 31, 2010:						
Available for Sale						
State and Political Subdivisions	$136,671	$6,501	$270	$39	$136,941	$6,540
Other Stocks and Bonds	–	–	189	2,736	189	2,736
Mortgage-Backed Securities	267,014	1,712	12,184	89	279,198	1,801
Total	$403,685	$8,213	$12,643	$2,864	$416,328	$11,077

Held to Maturity						
Mortgage-Backed Securities	$52,676	$644	$–	$–	$52,676	$644
Total	$52,676	$644	$–	$–	$52,676	$644

When it is determined that a decline in fair value of Held to Maturity (“HTM”) and Available for Sale (“AFS”) securities is other-than-temporary, the carrying value of the security is reduced to its estimated fair value, with a corresponding charge to earnings for the credit portion and the noncredit portion to other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, we do not currently intend to sell the securities and it is not more likely than not that we will be required to sell the security before the anticipated recovery of its amortized cost basis.

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The turmoil in the capital markets had a significant impact on our estimate of fair value for certain of our securities. We believe the market values are reflective of illiquidity and credit impairment. At June 30, 2011, we have in AFS Other Stocks and Bonds, $2.9 million amortized cost basis in pooled trust preferred securities ("TRUPs"). Those securities are structured products with cash flows dependent upon securities issued by U.S. financial institutions, including banks and insurance companies. Our estimate of fair value at June 30, 2011 for the TRUPs is approximately $957,000 and reflects the market illiquidity. With the exception of the TRUPs, to the best of management's knowledge and based on our consideration of the qualitative factors associated with each security, there were no securities in our investment and mortgage-backed securities portfolio at June 30, 2011 with an other-than-temporary impairment.

Given the facts and circumstances associated with the TRUPs we performed detailed cash flow modeling for each TRUP using an industry-accepted cash flow model. Prior to loading the required assumptions into the model we reviewed the financial condition of each of the underlying issuing banks within the TRUP collateral pool that had not deferred or defaulted as of June 30, 2011. Management's best estimate of a deferral assumption was assigned to each issuing bank based on the category in which it fell. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Based on that detailed analysis, we have concluded that the other-than-temporary impairment, which captures the credit component in compliance with FASB ASC Topic 320, "Investments – Debt and Equity Securities," was estimated at $3.1 million at both June 30, 2011 and December 31, 2010. The noncredit charge to other comprehensive income was estimated at $2.0 million and $2.7 million at June 30, 2011 and December 31, 2010, respectively. The carrying amount of the TRUPs was written down with $75,000 and $3.0 million recognized in earnings for the six months ended June 30, 2010 and for the year ended December 31, 2009, respectively. There was no additional write-down of the TRUPs recognized in earnings for the six months ended June 30, 2011. The cash flow model assumptions represent management's best estimate and consider a variety of qualitative factors, which include, among others, the credit rating downgrades, the severity and duration of the mark-to-market loss, and the structural nuances of each TRUP. Management believes that the detailed review of the collateral and cash flow modeling support the conclusion that the TRUPs had an other-than-temporary impairment at June 30, 2011. We will continue to update our assumptions and the resulting analysis each reporting period to reflect changing market conditions. Additionally, we do not currently intend to sell the TRUPs and it is not more likely than not that we will be required to sell the TRUPs before the anticipated recovery of their amortized cost basis.

The table below provides more detail on the TRUPs at June 30, 2011 (in thousands).

TRUP	Par	Credit Loss	Amortized Cost	Fair Value	Tranche	Credit Rating
1	$2,000	$1,075	$925	$300	C1	Ca
2	2,000	550	1,450	354	B1	C
3	2,000	1,450	550	303	B2	C
	$6,000	$3,075	$2,925	$957		

The following table presents the impairment activity related to credit loss, which is recognized in earnings, and the impairment activity related to all other factors, which are recognized in other comprehensive income (in thousands).

	Six Months Ended June 30, 2011		
	Impairment Related to Credit Loss	Impairment Related to All Other Factors	Total Impairment

Balance, beginning of the period	$ 3,075	$ 2,694	$ 5,769
Charges on securities for which other-than-temporary impairment charges were not previously recognized	–	–	–
Additional charges on securities for which other-than-temporary impairment charges were previously recognized	–	–	–
Balance, end of the period	$ 3,075	$ 2,694	$ 5,769

	Three Months Ended June 30, 2011		
	Impairment Related to Credit Loss	Impairment Related to All Other Factors	Total Impairment
Balance, beginning of the period	$ 3,075	$ 2,694	$ 5,769
Charges on securities for which other-than-temporary impairment charges were not previously recognized	–	–	–
Additional charges on securities for which other-than-temporary impairment charges were previously recognized	–	–	–
Balance, end of the period	$ 3,075	$ 2,694	$ 5,769

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Interest income recognized on securities for the periods presented (in thousands):

	Six Months Ended	
	June 30, 2011	June 30, 2010
U.S. Treasury	$ 6	$ 4
State and Political Subdivisions	6,452	5,864
Other Stocks and Bonds	18	27
Mortgage-backed Securities	24,607	24,559
Total interest income on securities	$ 31,083	$ 30,454

	Three Months Ended	
	June 30, 2011	June 30, 2010
U.S. Treasury	$ 5	$ 2
State and Political Subdivisions	3,215	3,028
Other Stocks and Bonds	9	13
Mortgage-backed Securities	13,310	10,282
Total interest income on securities	$ 16,539	$ 13,325

There were no securities transferred from AFS to HTM during the six months ended June 30, 2011 or 2010. There were no sales from the HTM portfolio during the six months ended June 30, 2011 or 2010. There were $387.2 million of securities classified as HTM for the six months ended June 30, 2011 compared to $406.9 million of securities classified as HTM for the year ended December 31, 2010.

Of the $5.5 million in net securities gains from the AFS portfolio for the six months ended June 30, 2011, there were $5.6 million in realized gains and $115,000 in realized losses. Of the $15.0 million in net securities gains from the AFS portfolio for the six months ended June 30, 2010, there were $17.2 million in realized gains and $2.2 million in realized losses.

The amortized cost and fair value of securities at June 30, 2011 are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are presented in total by category due to the fact that mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

	June 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Available for sale securities:		
Investment Securities		
Due in one year or less	$ 2,636	$ 2,661
Due after one year through five years	7,001	7,188
Due after five years through ten years	25,640	26,728

Due after ten years		260,061		265,461
		295,338		302,038
Mortgage-backed securities		754,895		783,588
Total	$	1,050,233	$	1,085,626

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	June 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Held to maturity securities:		
Investment Securities		
Due in one year or less	$ 500	$ 500
Due after one year through five years	–	–
Due after five years through ten years	485	501
Due after ten years	1,011	1,134
	1,996	2,135
Mortgage-backed securities	385,221	400,770
Total	$ 387,217	$ 402,905

Investment and mortgage-backed securities with book values of $908.0 million at June 30, 2011 and $977.4 million at December 31, 2010 were pledged to collateralize Federal Home Loan Bank ("FHLB") advances, repurchase agreements, public funds and trust deposits or for other purposes as required by law.

Securities with limited marketability, such as FHLB stock and other investments, are carried at cost, which approximates its fair value and assessed for other-than-temporary impairment. These securities have no maturity date.

6. Loans and Allowance for Probable Loan Losses

The following table sets forth loan totals for the periods presented (in thousands):

	At June 30, 2011	At December 31, 2010
Real Estate Loans:		
Construction	$ 108,851	$ 115,094
1-4 Family residential	221,283	219,031
Other	193,341	200,723
Commercial loans	134,197	148,761
Municipal loans	200,537	196,594
Loans to individuals	180,599	197,717
Total loans	$ 1,038,808	$ 1,077,920

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Allowance for Loan Losses

The allowance for loan losses is based on the most current review of the loan portfolio and is validated by multiple processes. First, the bank utilizes historical data to establish general reserve amounts for each class of loans. While we track several years of data, we primarily review one year data because we found during the 1980's that longer periods would not respond quickly enough to market conditions. Second, our lenders have the primary responsibility for identifying problem loans and estimating necessary reserves based on customer financial stress and underlying collateral. These recommendations are reviewed by the Senior lender, the Special Assets department, and the Loan Review department and are signed off on by the President. Third, the Loan Review department does independent reviews of the portfolio on an annual basis. The Loan Review department follows a board-approved annual loan review scope. The loan review scope encompasses a number of metrics that takes into consideration the size of the loan, the type of credit extended, the seasoning of the loan and the performance of the loan. The loan review scope as it relates to size, focuses more on larger dollar loan relationships, typically, for example, aggregate debt of $500,000 or greater. The Loan Review officer also tracks specific reserves for loans by type compared to general reserves to determine trends in comparative reserves as well as losses not reserved for prior to charge off to determine the efficiency of the specific reserve process.

At each review, a subjective analysis methodology is used to grade the respective loan. Categories of grading vary in severity from loans that do not appear to have a significant probability of loss at the time of review to loans that indicate a probability that the entire balance of the loan will be uncollectible. If full collection of the loan balance appears unlikely at the time of review, estimates of future expected cash flows or appraisals of the collateral securing the debt are used to allocate the necessary allowances. The internal loan review department maintains a list of all loans or loan relationships that are graded as having more than the normal degree of risk associated with them. In addition, a list of specifically reserved loans or loan relationships of $50,000 or more is updated on a quarterly basis in order to properly allocate necessary allowances and keep management informed on the status of attempts to correct the deficiencies noted with respect to the loan.

For loans to individuals the methodology associated with determining the appropriate allowance for losses on loans primarily consists of an evaluation of individual payment histories, remaining term to maturity and underlying collateral support.

Industry experience indicates that a portion of our loans will become delinquent and a portion of the loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit of the borrower and the ability of the borrower to make payments on the loan. Our determination of the adequacy of allowance for loan losses is based on various considerations, including an analysis of the risk characteristics of various classifications of loans, previous loan loss experience, specific loans which would have loan loss potential, delinquency trends, estimated fair value of the underlying collateral, current economic conditions, the views of the bank regulators (who have the authority to require additional allowances), and geographic and industry loan concentration.

Consumer loans at SFG are reserved for based on general estimates of loss at the time of purchase for current loans. SFG loans experiencing past due status or extension of maturity characteristics are reserved for at significantly higher levels based on the circumstances associated with each specific loan. In general the reserves for SFG are calculated based on the past due status of the loan. For reserve purposes, the portfolio has been segregated by past due status and by the remaining term variance from the original contract. During repayment, loans that pay late will take longer to pay out than the original contract. Additionally, some loans may be granted extensions for extenuating payment circumstances. The remaining term extensions increase the risk of collateral deterioration and accordingly, reserves are increased to recognize this risk.

For SFG automobile loan pools purchased after August 1, 2010, additional reserve methods have been added. New pools purchased are reserved at their estimated annual loss. Thereafter, the reserve is adjusted based on the actual performance versus projected performance. Additionally, during the fourth quarter of 2010, data mining measures were further enhanced to track migration within risk tranches. Reserves are adjusted quarterly to match the migration metrics.

Credit Quality Indicators

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We use the following definitions for risk ratings:

- Satisfactory (Rating 1 – 4) – This rating is assigned to all satisfactory loans. This category, by definition, should consist of completely acceptable credit. Credit and collateral exceptions should not be present, although their presence would not necessarily prohibit a loan from being rated Satisfactory, if deficiencies are in process of correction. These loans will not be included in the Watch List.

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- Satisfactory (Rating 5) – Special Treatment Required – (Pass Watch) – These loans require some degree of special treatment, but not due to credit quality. This category does not include loans specially mentioned or adversely classified by the Loan Review Officer or regulatory authorities; however, particular attention must be accorded such credits due to characteristics such as:

- A lack of, or abnormally extended payment program;
- A heavy degree of concentration of collateral without sufficient margin;
- A vulnerability to competition through lesser or extensive financial leverage;
- A dependence on a single, or few customers, or sources of supply and materials without suitable substitutes or alternatives.

- Special Mention (Rating 6) – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

- Substandard (Rating 7) – Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful (Rating 8) – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation, in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

- Loss (Rating 9) – Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Loans not meeting risk ratings six through nine are reserved for as a group of similar type pass rated credits and included in the general portion of the allowance for loan losses.

The general portion of the loan loss allowance is reflective of historical charge-off levels for similar loans adjusted for changes in current conditions and other relevant factors. These factors are likely to cause estimated losses to differ from historical loss experience and include:

- Changes in lending policies or procedures, including underwriting, collection, charge-off, and recovery procedures;
- Changes in local, regional and national economic and business conditions including entry into new markets;
- Changes in the volume or type of credit extended;
- Changes in the experience, ability, and depth of lending management;
- Changes in the volume and severity of past due, nonaccrual, restructured, or classified loans;
- Changes in loan review or Board oversight; and,
- Changes in the level of concentrations of credit.

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The following table details activity in the Allowance for Loan Losses by portfolio segment for the periods presented (in thousands):

	Six Months Ended June 30, 2011							
	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,585	$ 1,988	$3,354	$ 3,746	$607	$ 7,978	$ 453	$20,711
Provision for loan losses	210	181	(524)	(231)	3	3,288	1,071	3,998
Loans charged off	(9)	(383)	(80)	(927)	–	(5,672)	–	(7,071)
Recoveries of loans charged off	14	93	273	328	–	1,063	–	1,771
Balance at end of period	$2,800	$ 1,879	$3,023	$ 2,916	$610	$ 6,657	$ 1,524	$19,409

	Three Months Ended June 30, 2011							
	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,832	$ 1,808	$3,321	$ 3,497	$605	$ 7,121	$ 596	$19,780
Provision for loan losses	(37)	107	(376)	(421)	5	1,654	928	1,860
Loans charged off	(9)	(64)	–	(377)	–	(2,573)	–	(3,023)
Recoveries of loans charged off	14	28	78	217	–	455	–	792
Balance at end of period	$2,800	$ 1,879	$3,023	$ 2,916	$610	$ 6,657	$ 1,524	$19,409

	Six Months Ended June 30, 2010							
	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$3,080	$ 1,460	$3,175	$ 3,184	$400	$ 7,321	$ 1,276	$19,896
Provision for loan losses	(192)	471	359	991	114	4,396	(12)	6,127
Loans charged off	(873)	(116)	(200)	(965)	–	(6,321)	–	(8,475)
Recoveries of loans charged off	165	5	–	157	–	1,408	–	1,735
	$2,180	$ 1,820	$3,334	$ 3,367	$514	$ 6,804	$ 1,264	$19,283

Balance at end of period								

	Three Months Ended June 30, 2010							
		Real Estate						
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,417	$ 1,589	$3,119	$ 3,219	$514	$ 7,267	$ 1,343	$19,468
Provision for loan losses	(387)	237	215	401	–	1,873	(79)	2,260
Loans charged off	–	(8)	–	(352)	–	(3,189)	–	(3,549)
Recoveries of loans charged off	150	2	–	99	–	853	–	1,104
Balance at end of period	$2,180	$ 1,820	$3,334	$ 3,367	$514	$ 6,804	$ 1,264	$19,283

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	Six Months Ended June 30, 2011							
	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Ending balance – individually evaluated for impairment	$1,154	$818	$635	$ 1,275	$118	$444	$ –	$4,444
Ending balance – collectively evaluated for impairment	1,646	1,061	2,388	1,641	492	6,213	1,524	14,965
Balance at end of period	$2,800	$1,879	$3,023	$ 2,916	$610	$6,657	$ 1,524	$19,409

	Six Months Ended June 30, 2010							
	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Ending balance – individually evaluated for impairment	$921	$684	$815	$ 1,466	$133	$567	$ –	$4,586
Ending balance – collectively evaluated for impairment	1,259	1,136	2,519	1,901	381	6,237	1,264	14,697
Balance at end of period	$2,180	$1,820	$3,334	$ 3,367	$514	$6,804	$ 1,264	$19,283

The following table details activity of the Reserve for Unfunded Loan Commitments for the periods presented (in thousands):

	Six Months Ended June 30,	
	2011	2010
Reserve For Unfunded Loan Commitments:		
Balance at beginning of period	$ 30	$ 5
Provision for losses on unfunded loan commitments	(8)	35
Balance at end of period	$ 22	$ 40

	Three Months Ended June 30,	
	2011	2010
Reserve For Unfunded Loan Commitments:		
Balance at beginning of period	$ 30	$ 20
Provision for losses on unfunded loan commitments	(8)	20

Balance at end of period	$	22	$	40

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The following table sets forth the balance in the recorded investment in loans by portfolio segment based on impairment method as described in the allowance for loan losses methodology discussion for the periods presented (in thousands):

June 30, 2011	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$8,285	$8,488	$7,857	$6,514	$709	$1,460	$33,313
Loans collectively evaluated for impairment	100,566	212,795	185,484	127,683	199,828	179,139	1,005,495
Total ending loans balance	$108,851	$221,283	$193,341	$134,197	$200,537	$180,599	$1,038,808

December 31, 2010	Construction	Real Estate 1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$10,355	$8,331	$10,688	$12,144	$738	$1,625	$43,881
Loans collectively evaluated for impairment	104,739	210,700	190,035	136,617	195,856	196,092	1,034,039
Total ending loans balance	$115,094	$219,031	$200,723	$148,761	$196,594	$197,717	$1,077,920

The following table sets forth loans by credit quality indicator for the periods presented (in thousands):

June 30, 2011	Pass	Pass Watch	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate Loans:							
Construction	$100,454	$747	$594	$6,980	$76	$–	$108,851
1-4 Family residential	212,906	871	1,236	5,650	620	–	221,283
Other	185,484	95	3,285	4,172	305	–	193,341
Commercial loans	127,683	1,825	268	4,294	127	–	134,197
Municipal loans	199,829	258	–	450	–	–	200,537
Loans to individuals	168,536	8,084	–	2,679	1,278	22	180,599
Total	$994,892	$11,880	$5,383	$24,225	$2,406	$22	$1,038,808

December 31, 2010	Pass	Pass Watch	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate Loans:							
Construction	$104,739	$761	$1,420	$8,174	$–	$–	$115,094
1-4 Family residential	210,699	812	1,379	5,332	809	–	219,031
Other	190,036	102	4,784	5,418	298	85	200,723
Commercial loans	136,617	2,273	1,224	8,403	199	45	148,761
Municipal loans	195,856	258	–	480	–	–	196,594
Loans to individuals	182,174	8,766	27	4,564	2,175	11	197,717
Total	$1,020,121	$12,972	$8,834	$32,371	$3,481	$141	$1,077,920

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The following table sets forth nonperforming assets for the periods presented:

	At June 30, 2011	At December 31, 2010
	(in thousands)	
Nonaccrual loans	$13,208	$14,524
Accruing loans past due more than 90 days	8	7
Restructured loans	1,757	2,320
Other real estate owned	412	220
Repossessed assets	318	638
Total Nonperforming Assets	$15,703	$17,709

Nonaccrual and Past Due Loans

Nonaccrual loans are those loans which are 90 days or more delinquent and collection in full of both the principal and interest is in doubt. Additionally, some loans that are not delinquent may be placed on nonaccrual status due to doubts about full collection of principal or interest. When a loan is categorized as nonaccrual, the accrual of interest is discontinued and the accrued balance is reversed for financial statement purposes. Payments of contractual interest are recognized as income only to the extent that full recovery of the principal balance of the loan is reasonably certain. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Other factors, such as the value of collateral securing the loan and the financial condition of the borrower must be considered in judgments as to potential loan loss.

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of the expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, in addition to relying on third party appraisals, we use assumptions such as discount rates, and methodologies, such as comparison to the recent selling price of similar assets, consistent with those that would be utilized by unrelated third parties performing a valuation.

Nonaccrual loans and accruing loans past due more than 90 days include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table sets forth the recorded investment in nonaccrual and accruing loans past due more than 90 days by class of loans for the periods presented (in thousands):

	June 30, 2011		December 31, 2010	
	Nonaccrual	Accruing Loans Past Due More Than 90 Days	Nonaccrual	Accruing Loans Past Due More Than 90 Days
Real Estate Loans:				
Construction	$3,983	$ –	$4,730	$ –
1-4 Family residential	2,741	–	2,353	–

Other	2,194	–	1,428	–
Commercial loans	1,797	–	1,799	–
Loans to individuals	2,493	8	4,214	7
Total	$13,208	$ 8	$14,524	$ 7

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The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 by class of loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Real Estate Loans:						
Construction	$867	$211	$3,983	$5,061	$103,790	$108,851
1-4 Family residential	3,578	721	2,741	7,040	214,243	221,283
Other	595	170	2,194	2,959	190,382	193,341
Commercial loans	1,233	155	1,797	3,185	131,012	134,197
Municipal loans	–	–	–	–	200,537	200,537
Loans to individuals	3,116	793	2,501	6,410	174,189	180,599
Total	$9,389	$2,050	$13,216	$24,655	$1,014,153	$1,038,808

Impaired loans, primarily nonaccrual loans, were as follows (in thousands):

	June 30, 2011	December 31, 2010
Loans with no allocated allowance for loan losses	$27	$69
Loans with allocated allowance for loan losses	14,903	16,699
Total	$14,930	$16,768
Amount of the allowance for loan losses allocated	$3,142	$3,864

At any time a potential loss is recognized in the collection of principal, proper reserves should be allocated. Loans are charged off when deemed uncollectible. Loans are charged down as soon as collection by liquidation is evident to the liquidation value of the collateral net of liquidation costs, if any, and placed in nonaccrual status.

Interest income recognized on nonaccrual and restructured loans by class of loans for the period presented (in thousands):

	June 30, 2011	
	Interest Income Recognized	Accruing Interest at Original Contracted Rate
Real Estate Loans:		
Construction	$6	$143
1-4 Family residential	47	85
Other	29	87
Commercial loans	5	43
Municipal loans	–	–
Loans to individuals	253	447

Total					$340	$805

The following table sets forth impaired loans by class of loans for the periods presented (in thousands). Average recorded investment is reported on a year-to-date basis.

June 30, 2011	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Loan Losses Allocated	Average Recorded Investment
Real Estate Loans:						
Construction	$4,829	$–	$3,983	$3,983	$591	$4,155
1-4 Family residential	2,819	–	2,741	2,741	489	2,524
Other	2,606	–	2,194	2,194	227	1,865
Commercial loans	1,850	–	1,797	1,797	684	1,876
Municipal loans	–	–	–	–	–	–
Loans to individuals	4,399	27	4,188	4,215	1,151	5,409
Total	$16,503	$27	$14,903	$14,930	$3,142	$15,829

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December 31, 2010	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Loan Losses Allocated	Average Recorded Investment
Real Estate Loans:						
Construction	$6,045	$–	$4,730	$4,730	$562	$6,013
1-4 Family residential	2,453	–	2,354	2,354	426	1,250
Other	1,807	–	1,428	1,428	179	1,445
Commercial loans	1,826	–	1,799	1,799	719	1,950
Municipal loans	–	–	–	–	–	–
Loans to individuals	6,854	69	6,388	6,457	1,978	7,904
Total	$18,985	$69	$16,699	$16,768	$3,864	$18,562

7. Long-term Obligations

Long-term obligations are summarized as follows (in thousands):

	June 30, 2011	December 31, 2010
FHLB Advances (1)	$277,979	$373,479
Long-term Debt (2)		
Southside Statutory Trust III Due 2033 (3)	20,619	20,619
Southside Statutory Trust IV Due 2037 (4)	23,196	23,196
Southside Statutory Trust V Due 2037 (5)	12,887	12,887
Magnolia Trust Company I Due 2035 (6)	3,609	3,609
Total Long-term Debt	60,311	60,311
Total Long-term Obligations	$338,290	$433,790

(1) At June 30, 2011, the weighted average cost of these advances was 3.61%. FHLB Advances have maturities ranging from July 2012 through July 2028.
(2) This long-term debt consists of trust preferred securities that qualify under the risk-based capital guidelines as Tier 1 capital, subject to certain limitations.
(3) This debt carries an adjustable rate of 3.18575% through September 29, 2011 and adjusts quarterly at a rate equal to three-month LIBOR plus 294 basis points.
(4) This debt carries a fixed rate of 6.518% through October 30, 2012 and thereafter, adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.
(5) This debt carries a fixed rate of 7.48% through December 15, 2012 and thereafter, adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.
(6) This debt carries an adjustable rate of 2.0585% through August 22, 2011 and thereafter, adjusts quarterly at a rate equal to three-month LIBOR plus 180 basis points.

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Beginning in September 2010 and continuing into the first quarter of 2011, we entered into the option to fund between one and a half and two years forward from the advance commitment date $200 million par in long-term advance commitments from the FHLB at the rates on the date the option was purchased. The fee, included in other assets in our consolidated balance sheet, will be amortized over the term of the advance when we exercise the advance commitments. Should we determine the advance commitments will not be exercised, or they are impaired, the fee will be expensed in the period determination is made.

Below is a table detailing the optional advance commitment terms (dollars in thousands):

Advance Commitment		Option Expiration Date	Advance Commitment Term at Exercise Date	Advance Commitment Rate	Option Fee Paid	
$	25,000	09/20/12	36 months	1.325%	$	1,105
	25,000	09/20/12	48 months	1.674%		1,410
	20,000	10/09/12	36 months	1.153%		789
	20,000	10/09/12	48 months	1.466%		1,042
	20,000	10/09/12	60 months	1.807%		1,216
	20,000	05/17/12	48 months	1.710%		917
	20,000	05/17/12	60 months	2.085%		1,102
	20,000	03/18/13	60 months	2.510%		1,528
	15,000	03/18/13	36 months	1.622%		828
	15,000	03/18/13	48 months	2.086%		1,017
$	200,000				$	10,954

8. Employee Benefit Plans

The components of net periodic benefit cost are as follows (in thousands):

	Six Months Ended June 30,							
	Defined Benefit Pension Plan				Restoration Plan			
	2011		2010		2011		2010	
Service cost	$	768	$	681	$	87	$	77
Interest cost		1,490		1,416		198		192
Expected return on assets		(1,941)		(1,826)		–		–
Net loss recognition		581		503		151		145
Prior service credit amortization		(21)		(21)		(1)		(1)
Net periodic benefit cost	$	877	$	753	$	435	$	413

	Three Months Ended June 30,							
	Defined Benefit Pension Plan				Restoration Plan			
	2011		2010		2011		2010	
Service cost	$	374	$	342	$	44	$	48
Interest cost		749		738		98		120
Expected return on assets		(969)		(947)		–		–
Net loss recognition		296		290		70		100
Prior service credit amortization		(11)		(11)		–		–
Net periodic benefit cost	$	439	$	412	$	212	$	268

Employer Contributions. We previously disclosed in our financial statements for the year ended December 31, 2010, that we expected to contribute $2.0 million to our defined benefit pension plan and $80,000 to our restoration plan in 2011. As of June 30, 2011, we had contributed $1.0 million to our defined benefit plan, and contributions of $40,000 had been made to our restoration plan.

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9. Share-based Incentive Plans

2009 Incentive Plan (the "2009 Incentive Plan")

On April 16, 2009, our shareholders approved the Southside Bancshares, Inc. 2009 Incentive Plan (the "2009 Incentive Plan"), which is a stock-based incentive compensation plan. A total of 1,157,625 shares of our common stock were reserved and available for issuance pursuant to awards granted under the 2009 Incentive Plan. Under the 2009 Incentive Plan, we were authorized to grant nonqualified stock options ("NQSOs"), restricted stock units ("RSUs") or any combination thereof to certain officers. During the three months ended June 30, 2011, we granted RSUs and NQSOs pursuant to the 2009 Incentive Plan.

As of June 30, 2011, there were 204,202 nonvested awards outstanding. For the three and six months ended June 30, 2011, there was $26,000 share-based compensation expense related to the 2009 Incentive Plan. As of June 30, 2010, there were no awards granted or nonvested. There was no share-based compensation expense for the three and six months ended June 30, 2010.

As of June 30, 2011, there was $1.6 million of unrecognized compensation cost related to the 2009 Incentive Plan for the nonvested awards granted in June 2011. The cost is expected to be recognized over a weighted-average period of 3.49 years.

The fair value of each NQSO granted is estimated on the date of grant using the Black-Scholes method of option pricing with the following weighted-average assumptions for grants in 2011: dividend yield of 3.54%; risk-free interest rate of 2.30%; expected life of 6.5 and 7.0 years for the three-year and four-year vesting schedule, respectively; and expected volatility of 42.07% and 41.50% for the three-year and four-year vesting schedule, respectively.

The NQSOs which have contractual terms of 10 years and vest in equal annual installments over either a three- or four-year period.

The fair value of each RSU is the ending stock price on the date of grant. The RSUs vest in equal annual installments over either a three- or four-year period.

Each award is evidenced by an award agreement that specifies the option price, if applicable, the duration of the award, the number of shares to which the award pertains, and such other provisions as the Board determines.

1993 Incentive Stock Option Plan ("the ISO Plan")

In April 1993, we adopted the Southside Bancshares, Inc. 1993 Incentive Stock Option Plan ("the ISO Plan"), a stock-based incentive compensation plan. The ISO Plan expired March 31, 2003.

As of June 30, 2011 and 2010, there were no nonvested shares for the ISO Plan. For the six months ended June 30, 2011 and 2010, there was no stock-based compensation expense related to the ISO Plan.

As of June 30, 2011 and 2010, there was no unrecognized compensation cost related to the ISO Plan for nonvested options granted in March 2003.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes method of option pricing with the following weighted-average assumptions for grants in 2003: dividend yield of 1.93%; risk-free interest rate of 4.93%; expected life of six years; and expected volatility of 28.90%.

Under the ISO Plan, we were authorized to issue shares of common stock pursuant to "Awards" granted in the form of incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended). Before the ISO Plan expired, awards were granted to selected employees and directors. No stock options have been available for grant under the ISO Plan since its expiration in March 2003.

The ISO Plan provided that the exercise price of any stock option not be less than the fair market value of the common stock on the date of grant. The outstanding stock options have contractual terms of 10 years. All options vest on a graded schedule, 20% per year for five years, beginning on the first anniversary date of the grant date.

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A combined summary of activity in our share-based plans as of June 30, 2011 is presented below:

		Restricted Stock Units Outstanding		Stock Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Exercise Price
Balance, January 2011	1,157,625	–	$ –	10,825	$ 10.38
Granted	(204,202)	33,392	19.19	170,810	19.19
Stock options exercised	–	–	–	(838)	10.38
Stock awards vested	–	–	–	–	–
Forfeited	–	–	–	–	–
Canceled/expired	–	–	–	–	–
Balance, June 30, 2011	953,423	33,392	$ 19.19	180,797	$ 18.70

Other information regarding options outstanding and exercisable as of June 30, 2011 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Number of Shares	Weighted-Average Exercise Price
$ 10.38 –10.38	9,987	$ 10.38	1.75	9,987	$ 10.38
19.19 –19.19	170,810	19.19	9.94	–	–
Total	180,797	$ 18.70	9.49	9,987	$ 10.38

The total intrinsic value (i.e., the amount by which the fair value of the underlying common stock exceeds the exercise price of a stock option on exercise date) of outstanding stock options and exercisable stock options was $207,000 and $95,000 at June 30, 2011, respectively.

The total intrinsic value of stock options exercised during the six months ended June 30, 2011 and 2010 was $7,000 and $1.3 million, respectively.

Cash received from stock option exercises for the six months ended June 30, 2011 and 2010 was $9,000 and $356,000, respectively. The tax benefit realized for the deductions related to the stock option exercises was $2,000 and $316,000 for the six months ended June 30, 2011 and 2010, respectively.

10. Fair Value Measurement - (2011 Restated)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent,

(ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

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Valuation techniques including the market approach, the income approach and/or the cost approach are utilized to determine fair value. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. An entity must consider all aspects of nonperforming risk, including the entity's own credit standing when measuring fair value of a liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. A fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale – U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Securities Carried at Fair Value through Income – U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

We review the prices supplied by the independent pricing service, as well as their underlying pricing methodologies and their Statement on Standards for Attestation Engagements – Reporting on Controls of a Service Organization ("SSAE 16") for reasonableness and to ensure such prices are aligned with traditional pricing matrices. We validate prices supplied by the independent pricing service by comparison to prices obtained from, in most cases, three additional third party sources. For securities where prices are outside a reasonable range, we further review those securities to determine what a reasonable price estimate is for that security, given available data.

Certain financial assets are measured at fair value in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of fair value accounting or write-downs of individual assets. Transfers

between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our monthly and/or quarterly valuation process. There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2011.

Loans Held for Sale - These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds, which are based on sales contracts and commitments and are considered Level 2 inputs. At June 30, 2011, based on our estimates of fair value, no valuation allowance was recognized.

Impaired Loans – Certain impaired loans may be reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria or appraisals. At June 30, 2011, the impact of loans with specific reserves based on the fair value of the collateral was reflected in our allowance for loans losses.

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The following table summarizes impaired loans measured at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon fair value of the underlying collateral utilizing Level 3 valuation inputs as follows (in thousands):

	At June 30, 2011	At December 31, 2010	At June 30, 2010
Carrying Value	$14,930	$ 16,768	$18,354
Valuation Allowance	3,142	3,864	3,675
Total Reported Fair Value	$11,788	$ 12,904	$14,679

Certain nonfinancial assets and nonfinancial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain nonfinancial assets measured at fair value on a nonrecurring basis include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other nonfinancial long-lived assets (such as real estate owned) that are measured at fair value in the event of an impairment.

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	As of June 30, 2011			
Securities Available For Sale	Level 1 Input	Level 2 Input	Level 3 Input	Total Fair Value
Investment Securities:				
State and Political Subdivisions	$–	$301,081	$–	$301,081
Other Stocks and Bonds	–	–	957	957
Mortgage-backed Securities:				
U.S. Government Agencies	–	149,678	–	149,678
Government-Sponsored Enterprise	–	633,910	–	633,910
Total	$–	$1,084,669	$957	$1,085,626

	As of June 30, 2011			
Securities Carried at Fair Value through Income	Level 1 Input	Level 2 Input	Level 3 Input	Total Fair Value
Mortgage-backed Securities:				
U.S. Government Agencies	$–	$14,410	$–	$14,410
Government-Sponsored Enterprise	–	352,730	–	352,730
Total	$–	$367,140	$–	$367,140

	As of December 31, 2010			
Securities Available For Sale	Level 1 Input	Level 2 Input	Level 3 Input	Total Fair Value
Investment Securities:				
U.S. Treasury	$4,700	$–	$–	$4,700
State and Political Subdivisions	–	294,262	–	294,262

Other Stocks and Bonds	193	–	189	382
Mortgage-backed Securities:				
U.S. Government Agencies	–	150,273	–	150,273
Government-Sponsored Enterprise	–	736,301	–	736,301
Total	$4,893	$1,180,836	$189	$1,185,918

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Securities Carried at Fair Value through Income	As of December 31, 2010 Level 1 Input	Level 2 Input	Level 3 Input	Total Fair Value
Mortgage-backed Securities:				
U.S. Government Agencies	$–	$5,392	$–	$5,392
Government-Sponsored Enterprise	–	66,784	–	66,784
Total	$–	$72,176	$–	$72,176

The following tables present additional information about financial assets and liabilities measured at fair value on a recurring basis and for which we have utilized Level 3 inputs to determine fair value (in thousands):

Other Stocks and Bonds	Six Months Ended June 30, 2011	2010
Balance at Beginning of Period	$189	$270
Total gains or losses (realized/unrealized):		
Included in earnings (or changes in net assets)	–	(75)
Included in other comprehensive income (loss)	768	(8)
Purchases	–	–
Issuances	–	–
Settlements	–	–
Transfers in and/or out of Level 3	–	–
Balance at End of Period	$957	$187
The amount of total gains or losses for the periods included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at reporting date	$–	$(75)

Other Stocks and Bonds	Three Months Ended June 30, 2011	2010
Balance at Beginning of Period	$1,005	$231
Total gains or losses (realized/unrealized):		
Included in earnings (or changes in net assets)	–	–
Included in other comprehensive income (loss)	(48)	(44)
Purchases	–	–
Issuances	–	–
Settlements	–	–
Transfers in and/or out of Level 3	–	–
Balance at End of Period	$957	$187
	$–	$–

The amount of total gains or losses for the periods included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at reporting date

We reported at fair value through income certain of our mortgage-backed securities with embedded derivatives and purchased at a significant premium, which we defined as greater than 111.111% as opposed to bifurcating the embedded derivative and valuing it on a stand alone basis as these embedded derivatives are not readily identifiable and measurable and as such cannot be bifurcated. At June 30, 2011, we had $367.1 million classified as securities carried at fair value through income. The changes in fair value recorded in income was an increase of $2.5 million and $4.1 million, respectively, for the three and six months ended June 30, 2011. At June 30, 2011, we had no securities classified as securities carried at fair value through income. We did not have any changes in fair value recorded in income during the three and six months ended June 30, 2010.

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Assets and liabilities accounted for at fair value through income are initially measured at fair value with subsequent changes in fair value recognized in earnings. Such changes in the fair value of assets for which we reported at fair value through income are included in current period earnings with classification in the income statement line item reflected in the following table (in thousands):

	Six Months Ended June 30,	
	2011	2010
Changes in fair value included in net income:		
Mortgage-backed Securities:		
U.S. Government Agencies	$50	$–
Government-Sponsored Enterprises	4,033	–
Total	$4,083	$–

	Three Months Ended June 30,	
	2011	2010
Changes in fair value included in net income:		
Mortgage-backed Securities:		
U.S. Government Agencies	$61	$–
Government-Sponsored Enterprises	2,395	–
Total	$2,456	$–

Disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet is required, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other estimation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Such techniques and assumptions, as they apply to individual categories of our financial instruments, are as follows:

Cash and cash equivalents - The carrying amounts for cash and cash equivalents is a reasonable estimate of those assets' fair value.

Investment and mortgage-backed and related securities - Fair values for these securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services.

FHLB stock and other investments - The carrying amount of FHLB stock is a reasonable estimate of those assets’ fair value.

Loans receivable - For adjustable rate loans that reprice frequently and with no significant change in credit risk, the carrying amounts are a reasonable estimate of those assets' fair value. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Nonperforming loans are estimated using discounted cash flow analyses or the underlying value of the collateral where applicable.

Deposit liabilities - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount on demand at the reporting date, that is, the carrying value. Fair values for fixed rate certificates of deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Federal funds purchased and repurchase agreements - Federal funds purchased and repurchase agreements generally have an original term to maturity of one day and thus are considered short-term borrowings. Consequently, their carrying value is a reasonable estimate of fair value.

FHLB advances - The fair value of these advances is estimated by discounting the future cash flows using rates at which advances would be made to borrowers with similar credit ratings and for the same remaining maturities.

Long-term debt - The carrying amount for the long-term debt is estimated by discounting future cash flows using estimated rates at which long-term debt would be made to borrowers with similar credit ratings and for the remaining maturities. This type of debt is not issued as frequently since the economic crisis beginning in 2007 and change to the capital rates issued in 2010. Therefore, the discount rate is a best estimate.

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The following table presents our financial assets, financial liabilities, and unrecognized financial instruments at both their respective carrying amounts and fair value (in thousands):

	At June 30, 2011		At December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$48,454	$48,454	$79,073	$79,073
Investment securities:				
Available for sale, at estimated fair value	302,038	302,038	299,344	299,344
Held to maturity, at amortized cost	1,996	2,135	1,495	1,553
Mortgage-backed and related securities:				
Available for sale, at estimated fair value	783,588	783,588	886,574	886,574
Securities carried at fair value through income	367,140	367,140	72,176	72,176
Held to maturity, at amortized cost	385,221	400,770	405,367	413,865
FHLB stock and other investments, at cost	27,588	27,588	36,776	36,776
Loans, net of allowance for loan losses	1,019,399	1,023,990	1,057,209	1,066,125
Loans held for sale	2,738	2,738	6,583	6,583
Financial liabilities:				
Retail deposits	$2,239,537	$2,243,214	$2,134,428	$2,138,587
Federal funds purchased and repurchase agreements	3,077	3,077	3,844	3,844
FHLB advances	532,782	549,399	562,573	578,561
Long-term debt	60,311	45,918	60,311	50,673

As discussed earlier, the fair value estimate of financial instruments for which quoted market prices are unavailable is dependent upon the assumptions used. Consequently, those estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented in the above fair value table do not necessarily represent their underlying value.

The estimated fair value of our commitments to extend credit, credit card arrangements and letters of credit, was not material at June 30, 2011 or December 31, 2010.

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11. Off-Balance-Sheet Arrangements, Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet-Risk. In the normal course of business, we are a party to certain financial instruments, with off-balance-sheet risk, to meet the financing needs of our customers. These off-balance-sheet instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the financial statements. The contract or notional amounts of these instruments reflect the extent of involvement and exposure to credit loss that we have in these particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

We had outstanding unused commitments to extend credit of $118.1 million and $113.3 million at June 30, 2011 and December 31, 2010, respectively. Each commitment has a maturity date and the commitment expires on that date with the exception of credit card and ready reserve commitments, which have no stated maturity date. Unused commitments for credit card and ready reserve at June 30, 2011 and December 31, 2010 were $11.6 million and $11.5 million, respectively, and are reflected in the due after one year category. We had outstanding standby letters of credit of $5.7 million and $5.0 million at June 30, 2011 and December 31, 2010, respectively.

The scheduled maturities of unused commitments as of June 30, 2011 and December 31, 2010 were as follows (in thousands):

	June 30, 2011	December 31, 2010
Unused commitments:		
Due in one year or less	$79,493	$ 64,984
Due after one year	38,654	48,267
Total	$118,147	$ 113,251

We apply the same credit policies in making commitments and standby letters of credit as we do for on-balance-sheet instruments. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant and equipment.

Lease Commitments. We lease certain branch facilities and office equipment under operating leases. It is expected that certain leases will be renewed, or equipment replaced with new leased equipment, as these leases expire.

Securities. In the normal course of business we buy and sell securities. There were $9.1 million of unsettled trades to purchase securities at June 30, 2011. There were $31.9 million of unsettled trades to sell securities at June 30, 2011. There were no unsettled trades to sell securities at December 31, 2010. There were $145,000 of unsettled trades to purchase securities at December 31, 2010.

Deposits. There were no unsettled issuances of brokered CDs at June 30, 2011. There were $5.0 million of unsettled issuances of brokered CDs at December 31, 2010.

Litigation. We are involved with various litigation in the normal course of business. Management, after consulting with our legal counsel, believes that any liability resulting from litigation will not have a material effect on the financial position and results of operations and our liquidity.

12. Subsequent Events

On July 15, 2011, we purchased the remaining 50% interest in SFG increasing our ownership to 100%. The purchase price was $4.8 million. The purchase of the remaining 50% interest in SFG was a direct result of new regulations adopted as part of the Dodd–Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank”). Dodd Frank changed the manner in which we can do business through a nonbank entity. Given the importance of our SFG operations, we determined that purchasing the remaining 50% interest in this company and integrating its operations into Southside Bank would be in the bank’s best interest. In addition, SFG is already fully consolidated on our balance sheet and this purchase will not limit or change our ability to allocate capital in order to grow our franchise.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the consolidated financial condition, changes in financial condition, and results of our operations, and should be read and reviewed in conjunction with the financial statements, and the notes thereto, in this Quarterly Report on Form 10-Q/A and in our Annual Report on Form 10-K for the year ended December 31, 2010.

We reported an increase in net income for the three and six months ended June 30, 2011 compared to the same periods in 2010. Net income attributable to Southside Bancshares, Inc. for the three and six months ended June 30, 2011 was $12.6 million and $21.0 million, respectively, compared to $9.3 million and $20.9 million, respectively, for the same periods in 2010.

As more fully described in Note 2 of the Notes to Financial Statements, certain financial statement components for the three and six months ended June 30, 2011 have been restated to reflect securities carried at fair value through income. Throughout this discussion we will footnote tables that have been restated for the three and six months ended June 30, 2011 to reflect the impact of this restatement and we have updated our discussion to discuss changes between periods when comparing the restated amounts.

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 Southside Bancshares, Inc., 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 our 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 our actual results to differ materially from the results discussed in the forward-looking statements. For example, discussions of the effect of our 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. 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 we operate, including, without limitation, the deterioration of the commercial real estate, residential real estate, construction and development, credit and liquidity markets, which could cause an adverse change in our net interest margin, or a decline in the value of our assets, which could result in realized losses;
- legislation, regulatory changes or changes in monetary or fiscal policy that adversely affect the businesses in which we are engaged, including the impact of the Dodd-Frank Act, the Federal Reserve's actions with respect to interest rates and other regulatory responses to current economic conditions;
- adverse changes in the status or financial stability or credit rating of the U.S. Treasury-issued securities impacting the U.S. Treasury's guarantees or ability to pay or issue debt;
- adverse changes in the status or financial condition of the Government-Sponsored Enterprises (the "GSEs") impacting the GSEs' guarantees or ability to pay or issue debt;

- adverse changes in the credit portfolio of other U.S. financial institutions relative to the performance of certain of our investment securities;
- economic or other disruptions caused by acts of terrorism in the United States, Europe or other areas;