

PROSPERITY BANCSHARES INC

Form 425

April 27, 2012

Filed by Prosperity Bancshares, Inc.

Pursuant to Rule 425 under the Securities Act of 1933

Subject Companies: American State Financial Corporation

Commission File No. 333-180760

East Texas Financial Services, Inc.

Commission File No. 333-179100

Prosperity Bancshares, Inc.® First Quarter Earnings Up 7.7%

- 1Q 2012 Earnings Per Share of \$0.77 (diluted)

- Linked quarter loan growth 2.9% (11.6% annualized)

- Linked quarter deposit growth 6.0% (24.0% annualized)

- Non-Performing Assets 0.16% of Average Earning Assets

HOUSTON, April 27, 2012 /PRNewswire/ -- Prosperity Bancshares, Inc.® (NYSE: PB), the parent company of Prosperity Bank®, reported net income for the three months ended March 31, 2012 of \$36.487 million or \$0.77 per diluted common share, an increase in net income of \$2.609 million or 7.7%, compared with \$33.878 million or \$0.72 per diluted common share for the same period in 2011.

"I am proud to report another quarter of increased earnings and strong performance for our company. I want to recognize our customers, our associates, our shareholders and our directors for their support of our company. Without any of these groups we would not be enjoying the success we are experiencing today. We appreciate the dedication and loyalty they continue to give to our company," commented David Zalman, Chairman and Chief Executive Officer.

"I continue to be pleased with the positive recognition we have received this year. After being named by Forbes in December as the 'Best Bank in America for 2012,' we were pleased to learn last week that we ranked 3rd in Texas for customer satisfaction by J.D. Powers and Associates, up from number 13 last year. We all work very hard to give our customers a positive experience by living up to our service commitment daily which is: Greet the customer with a smile; Address the customer by name; Try to say YES instead of NO; and Thank the customer for banking with us.

We are very excited about our upcoming merger with American State Financial Corporation. After the merger, we expect to have approximately \$15 billion in assets with 215 locations throughout Texas to serve all of our customers. Our company is fortunate to be located in one the fastest growing states in the nation with one of the best economies" continued Zalman.

In addition to Prosperity's GAAP (generally accepted accounting principles) financial reporting, Prosperity's management includes certain non-GAAP financial measures to evaluate its performance. Specifically, Prosperity reviews return on average tangible common equity, tangible book value per share and the tangible equity to tangible assets ratio. Prosperity has included in this Earnings Release information relating to these non-GAAP financial measures for the applicable periods presented. Please refer to the "Notes to Selected Financial Data" at the end of this Earnings Release for a reconciliation of these non-GAAP financial measures.

Results of operations for the three months ended March 31, 2012

For the three months ended March 31, 2012, net income was \$36.487 million compared with \$33.878 million for the same period in 2011. Net income per diluted common share was \$0.77 for the three months ended March 31, 2012 and \$0.72 for the same period in 2011. Returns on average assets, average common equity and average tangible common equity, each on annualized basis, for the three months ended March 31, 2012 were 1.39%, 9.15% and 22.57%, respectively. Prosperity's efficiency ratio (excluding net gains and losses on the sale of assets) was 42.23% for the three months ended March 31, 2012.

Net interest income before provision for credit losses for the three months ended March 31, 2012 increased 1.8% to \$81.846 million compared with \$80.413 million during the same period in 2011. The increase in net interest income was primarily due to growth in average earning assets of \$929.799 million or 11.3% from \$8.208 billion at March 31, 2011 to \$9.137 billion at March 31, 2012. The net interest margin on a tax equivalent basis decreased 38 basis points to 3.64% for the three months ended March 31, 2012 compared with 4.02% for the same period in 2011 and decreased 18 basis points from 3.82% reported for the three months ended December 31, 2011. The 18 basis point linked quarter decrease was due in part to decreased asset yields combined with an 11.3% increase in average earning assets.

Non-interest income increased \$78,000 or 0.6% to \$13.945 million for the three months ended March 31, 2012 compared with \$13.867 million for the same period in 2011. The increase was mainly attributable to an increase in debit card and ATM card income and a gain on sale of ORE, partially offset by a decrease in NSF fees.

Non-interest expense decreased \$1.236 million or 3.0% to \$40.459 million for the three months ended March 31, 2012 compared with \$41.695 million for the same period in 2011. The decrease was mainly attributable to a decrease in regulatory assessments and FDIC insurance and a decrease in CDI amortization.

Loans at March 31, 2012 were \$3.875 billion, an increase of \$301.942 million or 8.5%, compared with \$3.573 billion at March 31, 2011. Loans increased 2.9% (11.6% annualized) or \$108.956 million on a linked quarter basis compared with loans of \$3.766 billion at December 31, 2011. As reflected in the table below, linked quarter loans at March 31, 2012 were impacted by the loans acquired in connection with the Texas Bankers acquisition. Excluding the loans acquired in this acquisition, linked quarter loans increased 8.7% on an annualized basis.

Deposits at March 31, 2012 were \$8.544 billion, an increase of \$728.067 million or 9.3%, compared with \$7.816 billion at March 31, 2011. Linked quarter deposits increased \$484.197 million or 6.0% (24.0% annualized) from

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\$8.060 billion at December 31, 2011. As reflected in the table below, linked quarter deposits at March 31, 2012 were impacted by the deposits assumed in connection with the Texas Bankers, Inc. acquisition. Excluding the deposits assumed in this acquisition, linked quarter deposits increased 21.2% on an annualized basis.

Balance Sheet Data (at period end) Mar 31, 2012 Dec 31, 2011 Mar 31, 2011
(In thousands) (Unaudited) (Unaudited) (Unaudited)

Loans:

| | | | |
|-----------------------------|------------------|------------------|------------------|
| Acquired with Texas Bankers | \$ 27,053 | \$ 0 | \$ 0 |
| All other | <u>3,847,809</u> | <u>3,765,906</u> | <u>3,572,920</u> |
| Total Loans | \$ 3,874,862 | \$ 3,765,906 | \$ 3,572,920 |

Deposits:

| | | | |
|-----------------------------|------------------|------------------|------------------|
| Acquired with Texas Bankers | \$ 56,085 | \$ 0 | \$ 0 |
| All other | <u>8,488,366</u> | <u>8,060,254</u> | <u>7,816,384</u> |
| Total Deposits | \$ 8,544,451 | \$ 8,060,254 | \$ 7,816,384 |

Average loans increased 8.6% or \$302.467 million to \$3.819 billion for the three months ended March 31, 2012 compared with \$3.517 billion for the same period of 2011. Linked quarter average loans increased 1.8% or \$69.068 million from \$3.750 billion for the three months ended December 31, 2011. Average deposits increased 9.5% or \$730.208 million to \$8.429 billion for the three months ended March 31, 2012 compared with \$7.698 billion for the same period of 2011. Linked quarter average deposits increased 6.7% or \$529.483 million from \$7.899 billion for the three months ended December 31, 2011.

At March 31, 2012, Prosperity had \$10.890 billion in total assets, \$3.875 billion in loans and \$8.544 billion in deposits. Assets, loans and deposits at March 31, 2012 increased 12.0%, 8.5% and 9.3%, respectively, compared with their level at March 31, 2011.

Asset Quality

Non-performing assets totaled \$14.873 million or 0.16% of average earning assets at March 31, 2012 compared with \$12.888 million or 0.16% of average earning assets at March 31, 2011 and \$12.052 million or 0.14% of average earning assets at December 31, 2011. The allowance for credit losses was 1.33% of total loans at March 31, 2012 compared with 1.45% at March 31, 2011 and 1.37% of total loans at December 31, 2011.

Non-performing assets

| (In thousands) | Mar 31, 2012 | Dec 31, 2011 | Mar 31, 2011 |
|---|--------------------|--------------------|--------------------|
| | Amount # | Amount # | Amount # |
| Construction | \$ 4,116 26 | \$ 4,649 28 | \$ 6,511 37 |
| Agriculture and agriculture real estate | 67 4 | 49 3 | 17 2 |
| 1-4 family (including home equity) | 3,207 35 | 3,689 38 | 383,130 25 |
| Commercial real estate (including multi-family) | 6,773 16 | 2,877 9 | 2,299 7 |
| Commercial | 690 15 | 767 17 | 861 12 |
| Consumer | <u>20</u> <u>5</u> | <u>21</u> <u>4</u> | <u>70</u> <u>9</u> |
| Total | \$ 14,873 101 | \$ 12,052 99 | \$ 12,888 92 |

The provision for credit losses was \$150,000 for the three months ended March 31, 2012 and \$1.700 million for the three months ended March 31, 2011. Net charge-offs were \$102,000 for the three months ended March 31, 2012 and \$1.524 million for the three months ended March 31, 2011.

Net Charge-offs

Three Months Three Months Three Months

| (In thousands) | Ended | Ended | Ended |
|--|--------------|--------------|--------------|
| | Mar 31, 2012 | Dec 31, 2011 | Mar 31, 2011 |
| 1-4 family (including home equity) | \$ 50 | \$ 676 | \$ 226 |
| Agriculture | 0 | 153 | (1) |
| Commercial | (15) | 843 | 216 |
| Commercial RE (including multi-family) | 18 | 218 | 320 |
| Construction | 22 | -- | 697 |
| Consumer | <u>27</u> | <u>179</u> | <u>66</u> |
| Total | \$ 102 | \$ 2,069 | \$ 1,524 |

Conference Call

Prosperity's management team will host a conference call on Friday, April 27, 2012 at 10:30 a.m. Eastern Daylight Time (9:30 a.m. Central Daylight Time) to discuss Prosperity's first quarter earnings. Individuals and investment professionals may participate in the call by dialing 800-895-0198. The reference code is PBTX.

Alternatively, individuals may listen to the live webcast of the presentation by visiting Prosperity's website at www.prosperitybanktx.com. The webcast may be accessed directly from Prosperity's Investor Relations page by clicking on the "1st Quarter Results and Webcast" link.

Acquisition of American State Financial Corporation

On February 27, 2012, Prosperity announced the signing of a definitive merger agreement with American State Financial Corporation and its wholly owned subsidiary American State Bank (collectively referred to as "ASB") whereby American State Bank will be merged with and into Prosperity Bank. This is the fourth transaction announced by Prosperity within the past few months.

American State Bank operates thirty-seven (37) full service banking offices in eighteen (18) counties across West Texas. As of March 31, 2012, ASB, on a consolidated basis, reported total assets of \$3.16 billion, total loans of \$1.24 billion and total deposits of \$2.51 billion.

Under the terms of the definitive agreement, Prosperity will issue up to 8,525,000 shares of Prosperity common stock plus \$178.5 million in cash for all outstanding shares of American State Financial Corporation capital stock, subject to certain conditions and potential adjustment.

Pending Acquisition of East Texas Financial Services, Inc.

On December 9, 2011, Prosperity announced the signing of a definitive agreement to acquire East Texas Financial Services, Inc. (OTC BB: FFBT) and its wholly-owned subsidiary, First Federal Bank Texas ("FirstBank").

First Bank operates four (4) banking offices in the Tyler MSA, including three (3) locations in Tyler, Texas and one (1) location in Gilmer, Texas. As of March 31, 2012, First Bank reported total assets of \$208.6 million, total loans of \$153.5 million and total deposits of \$127.6 million.

Under the terms of the definitive agreement, Prosperity will issue up to 531,000 shares of Prosperity common stock for all outstanding shares of East Texas Financial Services capital stock, subject to certain conditions and potential adjustments.

Acquisition of The Bank Arlington

On April 1, 2012, Prosperity completed the previously announced acquisition of The Bank Arlington. The Bank Arlington operated one (1) banking office in Arlington, Texas, in the Dallas/Fort Worth CMSA. As of March 31, 2012, The Bank Arlington reported total assets of \$37.3 million, total loans of \$22.8 million and total deposits of \$33.2 million.

Prosperity now operates thirty-two (32) banking centers in the Dallas/Fort Worth CMSA.

Under the terms of the agreement, Prosperity issued 135,389 shares of Prosperity common stock for all outstanding shares of The Bank Arlington capital stock.

Acquisition of Texas Bankers, Inc.

On January 1, 2012, Prosperity completed the previously announced acquisition of Texas Bankers, Inc. and its wholly-owned subsidiary, Bank of Texas, Austin, Texas.

The three (3) Bank of Texas banking offices in the Austin, Texas CMSA consisted of a location in Rollingwood, which was consolidated with Prosperity's Westlake location and remains in Bank of Texas' Rollingwood banking office; one banking center in downtown Austin, which was consolidated into Prosperity's downtown Austin location; and another banking center in Thorndale. Prosperity now operates thirty-four (34) banking centers in the Central Texas area including Austin and San Antonio.

Texas Bankers, Inc. reported, on a consolidated basis, total assets of \$77.0 million, total loans of \$27.6 million and total deposits of \$70.4 million on December 31, 2011.

Under the terms of the agreement, Prosperity issued 314,953 shares of Prosperity common stock for all outstanding shares of Texas Bankers capital stock which resulted in a premium of \$5.2 million.

Prosperity Bancshares, Inc.®

Prosperity Bancshares Inc.®, recently named "America's Best Bank" by Forbes, is a \$10.9 billion Houston, Texas based regional financial holding company, formed in 1983. Operating under a community banking philosophy and seeking to develop broad customer relationships based on service and convenience, Prosperity offers a variety of traditional loan and deposit products to its customers, which consist primarily of small and medium sized businesses and consumers. In addition to established banking products, Prosperity offers a complete line of services including: Internet Banking services at <http://www.prosperitybanktx.com>, Retail Brokerage Services, MasterMoney Debit Cards, and 24 hour voice response banking. Prosperity currently operates one hundred seventy six (176) full service banking locations; fifty-nine (59) in the Houston area; twenty (20) in the South Texas area including Corpus Christi and Victoria; thirty-two (32) in the Dallas/Fort Worth area; twenty-one (21) in the East Texas area; thirty-four (34) in the Central Texas area including Austin and San Antonio; and ten (10) in the Bryan/College Station area.

| Bryan/College Station Area - Dallas/Fort Worth Area - | | Gun Barrel City | Bay City |
|--|--------------------|------------------------|-----------------|
| | | Jacksonville | Beaumont |
| Bryan | Dallas - | Kerens | Cinco Ranch |
| Bryan-East | Abrams Centre | Longview | Cleveland |
| Bryan-North | Balch Springs | Mount Vernon | East Bernard |
| Caldwell | Camp Wisdom | Palestine | El Campo |
| College Station | Cedar Hill | Rusk | Dayton |
| Greens Prairie | Central Expressway | Seven Points | Galveston |
| Madisonville | East Renner | Teague | Groves |
| Navasota | Frisco | Tyler | Hempstead |
| Rock Prairie | Frisco-West | Tyler-University | Hitchcock |

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| | | | |
|-----------------------------|--------------------------------|---------------------------|---------------------------|
| Wellborn Road | Independence | Winnsboro | Katy |
| | Kiest | | Liberty |
| Central Texas Area - | McKinney | | Magnolia |
| | McKinney-Stonebridge | Houston Area - | Mont Belvieu |
| Austin - | Midway | | Nederland |
| 183 | Preston Forest | Houston - | Needville |
| Allandale | Preston Road | Aldine | Shadow Creek |
| Cedar Park | Red Oak | Allen Parkway | Sweeny |
| Congress | Sachse | Bellaire | Tomball |
| Lakeway | The Colony | Beltway | Waller |
| Liberty Hill | Turtle Creek | Clear Lake | West Columbia |
| Northland | Westmoreland | Copperfield | Wharton |
| Oak Hill | | Cypress | Winnie |
| Parmer Lane | | Downtown | Wirt |
| Research Blvd | Fort Worth - | Eastex | |
| Westlake | Haltom City | Fairfield | |
| | Keller | First Colony | South Texas Area - |
| | Roanoke | Gessner | |
| Other Central Texas | | | |
| | Stockyards | Gladebrook | Corpus Christi - |
| Locations - | | | |
| Bastrop | | Harrisburg | Airline |
| Cuero | | Heights | Carmel |
| | Other Dallas/Fort Worth | | |
| Dime Box | | Highway 6 West | Northwest |
| | Locations - | | |
| Dripping Springs | Arlington | Hillcroft | Saratoga |
| Elgin | Azle | Little York | Water Street |
| Flatonia | Ennis | Medical Center | |
| Georgetown | Gainesville | Memorial Drive | Other South Texas |
| Gonzales | Mesquite | Northside | Locations - |
| Hallettsville | Muenster | Pasadena | Alice |
| Kingsland | Sanger | Pecan Grove | Aransas Pass |
| La Grange | Waxahachie | Piney Point | Beeville |
| Lexington | | River Oaks | Edna |
| New Braunfels | | Royal Oaks | Goliad |
| Pleasanton | East Texas Area - | Sugar Land | Kingsville |
| Round Rock | Athens | SW Medical Center | Mathis |
| San Antonio | Athens-South | Tanglewood | Padre Island |
| Schulenburg | Blooming Grove | Uptown | Palacios |
| Seguin | Canton | Waugh Drive | Port Lavaca |
| Smithville | Carthage | West University | Portland |
| Thorndale | Corsicana | Woodcreek | Rockport |
| Weimar | Crockett | | Sinton |
| Yoakum | Eustace | Other Houston Area | Victoria |
| Yorktown | Grapeland | Locations - | Victoria-North |

In connection with the proposed merger of American State Financial Corporation into Prosperity Bancshares, Inc., Prosperity has filed with the Securities and Exchange Commission a registration statement on Form S-4 to register the shares of Prosperity's common stock to be issued to the shareholders of American State Financial Corporation. The

registration statement includes a proxy statement/prospectus which will be sent to the shareholders of American State Financial Corporation seeking their approval of the proposed transaction.

WE URGE INVESTORS AND SECURITY HOLDERS TO READ THE REGISTRATION STATEMENT ON FORM S-4, THE PROXY STATEMENT/PROSPECTUS INCLUDED WITHIN THE REGISTRATION STATEMENT ON FORM S-4 AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IN CONNECTION WITH THE PROPOSED TRANSACTION BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT PROSPERITY, AMERICAN STATE FINANCIAL CORPORATION AND THE PROPOSED TRANSACTION.

In connection with the proposed merger of East Texas Financial Services, Inc. into Prosperity, Prosperity has filed with the Securities and Exchange Commission a registration statement on Form S-4 to register the shares of Prosperity's common stock to be issued to the stockholders of East Texas Financial Services. The registration statement includes a proxy statement/prospectus which was sent to the stockholders of East Texas Financial Services seeking their approval of the proposed transaction.

WE URGE INVESTORS AND SECURITY HOLDERS TO READ THE REGISTRATION STATEMENT ON FORM S-4, THE PROXY STATEMENT/PROSPECTUS INCLUDED WITHIN THE REGISTRATION STATEMENT ON FORM S-4 AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IN CONNECTION WITH THE PROPOSED TRANSACTION BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT PROSPERITY, EAST TEXAS FINANCIAL SERVICES AND THE PROPOSED TRANSACTION.

Investors and security holders may obtain free copies of these documents through the website maintained by the Securities and Exchange Commission at <http://www.sec.gov>. Documents filed with the SEC by Prosperity will be available free of charge by directing a request by telephone or mail to Prosperity Bancshares, Inc., Prosperity Bank Plaza, 4295 San Felipe, Houston, Texas 77027 Attn: Investor Relations. Prosperity's telephone number is (281) 269-7199.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: This release contains, and the remarks by Prosperity's management on the conference call may contain, forward-looking statements within the meaning of the securities laws that are based on current expectations, assumptions, estimates and projections about Prosperity, and its subsidiaries. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, many of which are outside of Prosperity's control, which may cause actual results to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties include but are not limited to whether Prosperity can: successfully identify acquisition targets and integrate the businesses of acquired companies and banks; continue to sustain its current internal growth rate or total growth rate; provide products and services that appeal to its customers; continue to have access to debt and equity capital markets; and achieve its sales objectives. Other risks include, but are not limited to: the possibility that credit quality could deteriorate; actions of competitors; changes in laws and regulations (including changes in governmental interpretations of regulations and changes in accounting standards); a deterioration or downgrade in the credit quality and credit agency ratings of the securities in Prosperity's securities portfolio; customer and consumer demand, including customer and consumer response to marketing; effectiveness of spending, investments or programs; fluctuations in the cost and availability of supply chain resources; economic conditions, including currency rate fluctuations and interest rate fluctuations; weather; and the stock price volatility associated with "small-cap" companies. These and various other factors are discussed in Prosperity's Annual Report on Form 10-K for the year ended December 31, 2011 and other reports and statements Prosperity has filed with the SEC. Copies of the SEC filings for Prosperity Bancshares'® may be downloaded from the Internet at no charge from www.prosperitybanktx.com.

Prosperity Bancshares, Inc. ®**Financial Highlights****(Dollars and share amounts in thousands, except per share data)**

| | Three Months Ended | | | | |
|---|--------------------|---------------|---------------|---------------|---------------|
| | Mar 31, 2012 | Dec 31, 2011 | Sept 30, 2011 | June 30, 2011 | Mar 31, 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Selected Earnings and Per Share Data | | | | | |
| Total interest income | \$ 91,616 | \$ 89,658 | \$ 93,189 | \$ 95,652 | \$ 93,409 |
| Total interest expense | <u>9,770</u> | <u>9,571</u> | <u>10,651</u> | <u>12,022</u> | <u>12,996</u> |
| Net interest income | 81,846 | 80,087 | 82,538 | 83,630 | 80,413 |
| Provision for credit losses | <u>150</u> | <u>1,150</u> | <u>950</u> | <u>1,400</u> | <u>1,700</u> |
| Net interest income after provision for credit losses | 81,696 | 78,937 | 81,588 | 82,230 | 78,713 |
| Total non-interest income | 13,945 | 14,065 | 14,581 | 13,530 | 13,867 |
| Total non-interest expense | <u>40,459</u> | <u>38,385</u> | <u>41,151</u> | <u>42,514</u> | <u>41,695</u> |
| Net income before taxes | 55,182 | 54,617 | 55,018 | 53,246 | 50,885 |
| Federal income taxes | <u>18,695</u> | <u>18,211</u> | <u>18,645</u> | <u>18,154</u> | <u>17,007</u> |
| Net income | \$ 36,487 | \$ 36,406 | \$ 36,373 | \$ 35,092 | \$ 33,878 |
| Basic earnings per share | \$0.77 | \$0.78 | \$0.78 | \$0.75 | \$0.72 |
| Diluted earnings per share | \$0.77 | \$0.77 | \$0.77 | \$0.75 | \$0.72 |
| Period end shares outstanding | 47,297 | 46,910 | 46,893 | 46,888 | 46,782 |
| Weighted average shares outstanding (basic) | 47,238 | 46,893 | 46,890 | 46,864 | 46,733 |
| Weighted average shares outstanding (diluted) | 47,411 | 47,028 | 47,033 | 47,057 | 46,942 |

Prosperity Bancshares, Inc. ®**Financial Highlights****(Dollars in thousands)**

| | Three Months Ended | | | |
|--|--------------------|---------------|---------------|---------------|
| | Mar 31, 2012 | Mar 31, 2011 | Dec 31, 2011 | Dec 31, 2010 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Balance Sheet Averages | | | | |
| Total loans | \$ 3,818,991 | \$ 3,516,524 | \$ 3,749,923 | \$ 3,421,698 |
| Investment securities | 5,192,257 | 4,677,900 | 4,596,017 | 4,542,433 |
| Federal funds sold and other temporary investments | <u>126,154</u> | <u>13,179</u> | <u>62,035</u> | <u>14,305</u> |
| Total earning assets | 9,137,402 | 8,207,603 | 8,407,975 | 7,978,436 |
| Allowance for credit losses | (51,601) | (51,697) | (51,713) | (51,551) |
| Cash and due from banks | 157,979 | 137,811 | 136,856 | 133,620 |
| Goodwill | 928,417 | 924,412 | 924,537 | 923,687 |

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| | | | | |
|--------------------------------|----------------|----------------|----------------|----------------|
| Core deposit intangibles (CDI) | 20,102 | 27,711 | 21,890 | 29,822 |
| Other real estate | 8,640 | 12,745 | 9,803 | 13,121 |
| Fixed assets, net | 163,190 | 159,261 | 160,261 | 160,177 |
| Other assets | <u>136,012</u> | <u>143,768</u> | <u>119,870</u> | <u>133,839</u> |
| Total assets | \$ 10,500,141 | \$ 9,561,614 | \$ 9,729,479 | \$ 9,321,151 |

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Non-interest bearing deposits | \$ 1,970,942 | \$ 1,672,590 | \$ 1,924,037 | \$ 1,661,448 |
| Interest bearing deposits | <u>6,457,659</u> | <u>6,025,803</u> | <u>5,975,081</u> | <u>5,791,726</u> |
| Total deposits | 8,428,601 | 7,698,393 | 7,899,118 | 7,453,174 |
| Securities sold under repurchase agreements | 53,304 | 51,609 | 60,999 | 77,759 |
| Federal funds purchased and other borrowings | 272,760 | 191,945 | 66,834 | 198,677 |
| Junior subordinated debentures | 85,055 | 91,063 | 85,055 | 92,265 |
| Other liabilities | 65,137 | 59,556 | 60,628 | 54,429 |
| Shareholders' equity(A) | <u>1,595,284</u> | <u>1,469,048</u> | <u>1,556,845</u> | <u>1,444,847</u> |
| Total liabilities and equity | \$ 10,500,141 | \$ 9,561,614 | \$ 9,729,479 | \$ 9,321,151 |

(A) Includes \$13,425, \$14,150, \$14,515 and \$17,516 in average after-tax unrealized gains (losses) on available for sale securities for the three month periods ending March 31, 2012, March 31, 2011, December 31, 2011 and December 31, 2010, respectively.

| Income Statement Data | Three Months Ended | | | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Mar 31, 2012 (Unaudited) | Mar 31, 2011 (Unaudited) | Dec 31, 2011 (Unaudited) | Dec 31, 2010 (Unaudited) |
| Interest on loans | \$ 53,217 | \$ 52,200 | \$ 53,899 | \$ 52,722 |
| Interest on securities | 38,321 | 41,204 | 35,719 | 39,708 |
| Interest on federal funds sold and other temporary investments | <u>78</u> | <u>5</u> | <u>40</u> | <u>6</u> |
| Total interest income | <u>91,616</u> | <u>93,409</u> | <u>89,658</u> | <u>92,436</u> |
| Interest expense - deposits | 8,791 | 11,512 | 8,682 | 11,749 |
| Interest expense - debentures | 663 | 1,147 | 632 | 803 |
| Interest expense - other | <u>316</u> | <u>337</u> | <u>257</u> | <u>375</u> |
| Total interest expense | <u>9,770</u> | <u>12,996</u> | <u>9,571</u> | <u>12,927</u> |
| Net interest income (B) | 81,846 | 80,413 | 80,087 | 79,509 |
| Provision for credit losses | <u>150</u> | <u>1,700</u> | <u>1,150</u> | <u>2,900</u> |
| Net interest income after provision for credit losses | <u>81,696</u> | <u>78,713</u> | <u>78,937</u> | <u>76,609</u> |
| Non-sufficient funds (NSF) fees | 5,389 | 6,107 | 5,860 | 6,905 |
| Debit card and ATM card income | 3,836 | 3,452 | 4,189 | 3,261 |
| Service charges on deposit accounts | 2,441 | 2,483 | 2,515 | 2,614 |
| Net (loss)/gain on sale of assets | (7) | 165 | -- | 2 |
| Net gain/(loss) on sale of ORE | 418 | (160) | (473) | (915) |
| Other non-interest income | <u>1,868</u> | <u>1,820</u> | <u>1,974</u> | <u>2,038</u> |
| Total non-interest income | <u>13,945</u> | <u>13,867</u> | <u>14,065</u> | <u>13,905</u> |

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|--|---------------|---------------|---------------|---------------|
| Salaries and benefits (C) | 23,252 | 23,204 | 21,258 | 21,421 |
| CDI amortization | 1,695 | 2,034 | 1,879 | 2,172 |
| Net occupancy and equipment | 3,557 | 3,648 | 3,655 | 3,975 |
| Depreciation | 2,035 | 2,021 | 2,051 | 1,999 |
| Data processing and software amortization | 1,532 | 1,672 | 1,417 | 1,515 |
| Regulatory assessments and FDIC insurance | 1,548 | 3,001 | 1,518 | 2,812 |
| ORE Expense | 691 | 292 | 680 | 1,013 |
| Other non-interest expense | <u>6,149</u> | <u>5,823</u> | <u>5,927</u> | <u>6,320</u> |
| Total non-interest expense | <u>40,459</u> | <u>41,695</u> | <u>38,385</u> | <u>41,227</u> |
| Net income before taxes | 55,182 | 50,885 | 54,617 | 49,287 |
| Federal income taxes | <u>18,695</u> | <u>17,007</u> | <u>18,211</u> | <u>16,489</u> |
| Net income available to common shareholders | \$ 36,487 | \$ 33,878 | \$ 36,406 | \$ 32,798 |

(B) Net interest income on a tax equivalent basis would be \$82,742, \$81,302, \$80,937 and \$80,238, for the three months ended March 31, 2012, March 31, 2011, December 31, 2011 and December 31, 2010, respectively.

(C) Salaries and benefits includes stock-based compensation expense of \$1,215, \$708, \$972 and \$825 for the three months ended March 31, 2012, March 31, 2011, December 31, 2011 and December 31, 2010, respectively.

Prosperity Bancshares, Inc.®

Financial Highlights

(Dollars and share amounts in thousands, except per share data)

| | As of and for the | | | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Three Months Ended | | | |
| Common Share and Other Data | Mar 31, 2012 (Unaudited) | Mar 31, 2011 (Unaudited) | Dec 31, 2011 (Unaudited) | Dec 31, 2010 (Unaudited) |
| Employees - FTE | 1,690 | 1,672 | 1,664 | 1,708 |
| Book value per share | \$ 34.03 | \$ 31.65 | \$ 33.41 | \$ 31.11 |
| Tangible book value per share | \$ 13.98 | \$ 11.31 | \$ 13.25 | \$ 10.70 |
| Period end shares outstanding | 47,297 | 46,782 | 46,910 | 46,684 |
| Weighted average shares outstanding (basic) | 47,238 | 46,733 | 46,893 | 46,671 |
| Weighted average shares outstanding (diluted) | 47,411 | 46,942 | 47,028 | 46,818 |
| Non-accrual loans | \$ 7,142 | \$ 2,279 | \$ 3,578 | \$ 4,439 |
| Accruing loans 90 or more days past due | 0 | 76 | 0 | 189 |
| Restructured loans | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total non-performing loans | 7,142 | 2,355 | 3,578 | 4,628 |
| Reposessed assets | 13 | 68 | 146 | 161 |
| Other real estate | <u>7,718</u> | <u>10,465</u> | <u>8,328</u> | <u>11,053</u> |
| Total non-performing assets | \$ 14,873 | \$ 12,888 | \$ 12,052 | \$ 15,842 |

| | | | | | | | | |
|--|----|--------|----|--------|----|--------|----|--------|
| Allowance for credit losses at end of period | \$ | 51,642 | \$ | 51,760 | \$ | 51,594 | \$ | 51,584 |
| Net charge-offs | \$ | 102 | \$ | 1,524 | \$ | 2,069 | \$ | 2,670 |
| Basic earnings per share | \$ | 0.77 | \$ | 0.72 | \$ | 0.78 | \$ | 0.70 |
| Diluted earnings per share | \$ | 0.77 | \$ | 0.72 | \$ | 0.77 | \$ | 0.70 |

Prosperity Bancshares, Inc.®
Financial Highlights

| Performance Ratios | Three Months Ended | | | |
|---|---|---|---|---|
| | Mar 31, 2012 (Unaudited) | Mar 31, 2011 (Unaudited) | Dec 31, 2011 (Unaudited) | Dec 31, 2010 (Unaudited) |
| Return on average assets (annualized) | 1.39% | 1.42% | 1.50% | 1.41% |
| Return on average common equity (annualized) | 9.15% | 9.22% | 9.35% | 9.08% |
| Return on average tangible common equity (annualized) | 22.57% | 26.22% | 23.86% | 26.70% |
| Net interest margin(D) (tax equivalent) (annualized) | 3.64% | 4.02% | 3.82% | 3.99% |
| Efficiency ratio(E) | 42.23% | 44.30% | 40.77% | 44.13% |
| Asset Quality Ratios | | | | |
| Non-performing assets to average earning assets | 0.16% | 0.16% | 0.14% | 0.20% |
| Non-performing assets to loans and other real estate | 0.38% | 0.36% | 0.32% | 0.45% |
| Net charge-offs to average loans | 0.00% | 0.04% | 0.06% | 0.08% |
| Allowance for credit losses to total loans | 1.33% | 1.45% | 1.37% | 1.48% |
| Common Stock Market Price | | | | |
| High | \$47.60 | \$42.92 | \$41.74 | \$39.96 |
| Low | \$39.66 | \$38.23 | \$31.31 | \$30.37 |
| Period end market price | \$45.80 | \$42.77 | \$40.35 | \$39.28 |

(D) Net interest margin for all periods presented is calculated on an actual 365 or 366 day basis.

(E) The efficiency ratio is calculated by dividing total non-interest expense (excluding provision for credit losses) by net interest income plus non-interest income (excluding net gains and losses on the sale of assets). Additionally, taxes are not part of this calculation.

Prosperity Bancshares, Inc.®
Financial Highlights
(Dollars in thousands)

| | Mar 31, 2012 (Unaudited) | Dec 31, 2011 (Unaudited) | Sept 30, 2011 (Unaudited) | June 30, 2011 (Unaudited) |
|---------------------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| Loan Portfolio (at period end) | | | | |
| Commercial | \$ 475,860 12.3% | \$ 439,854 11.7% | \$ 451,541 12.1% | \$ 455,791 12.4% |
| Construction | 484,295 12.5% | 482,140 12.8% | 490,193 13.1% | 483,581 13.2% |
| 1-4 family residential | 1,036,318 26.7% | 1,007,266 26.8% | 981,388 26.3% | 941,250 25.7% |
| Home equity | 149,597 3.9% | 146,999 3.8% | 139,553 3.7% | 131,213 3.6% |
| Commercial real estate | 1,473,925 38.0% | 1,441,226 38.3% | 1,426,704 38.2% | 1,411,501 38.5% |
| Agriculture | 178,474 4.6% | 170,234 4.5% | 168,011 4.5% | 160,780 4.4% |
| Consumer | <u>76,393</u> 2.0% | <u>78,187</u> 2.1% | <u>80,240</u> 2.1% | <u>81,132</u> 2.2% |
| Total loans | \$ 3,874,862 | \$ 3,765,906 | \$3,737,630 | \$3,665,248 |

Deposit Types (at period end)

| | | | | |
|--------------------------|----------------------|------------------------|------------------------|------------------------|
| Non-interest bearing DDA | \$ 2,088,749 24.4% | \$ 1,972,226 24.5% | \$1,861,907 23.9% | \$1,788,756 23.3% |
| Interest bearing DDA | 1,671,760 19.5% | 1,532,701 19.0% | 1,332,914 17.1% | 1,358,649 17.7% |
| Money market | 2,312,107 27.1% | 2,042,243 25.3% | 1,995,248 25.6% | 1,878,679 24.5% |
| Savings | 554,211 6.5% | 514,780 6.4% | 498,451 6.4% | 471,082 6.1% |
| Time < \$100 | 938,911 11.0% | 968,806 12.0% | 1,005,672 12.9% | 1,037,492 13.6% |
| Time > \$100 | <u>978,713</u> 11.5% | <u>1,029,498</u> 12.8% | <u>1,104,547</u> 14.1% | <u>1,133,034</u> 14.8% |
| Total deposits | \$ 8,544,451 | \$ 8,060,254 | \$7,798,739 | \$7,667,692 |

Loan to Deposit Ratio 45.3% 46.7% 47.9% 47.8%

Construction Loans (at period end)

| | | | | |
|-----------------------------------|---------------------|----------------------|----------------------|----------------------|
| Single family residential | \$ 142,584 29.4% | \$ 136,030 28.2% | \$ 126,926 25.9% | \$ 124,995 25.8% |
| construction | | | | |
| Land development | 41,177 8.5% | 43,084 8.9% | 44,400 9.1% | 46,405 9.6% |
| Raw land | 63,006 13.0% | 61,177 12.7% | 64,178 13.1% | 69,769 14.4% |
| Residential lots | 88,054 18.2% | 86,848 18.0% | 88,600 18.1% | 86,515 17.9% |
| Commercial lots | 51,642 10.7% | 49,645 10.3% | 54,016 11.0% | 54,419 11.3% |
| Commercial construction and other | <u>97,832</u> 20.2% | <u>105,356</u> 21.9% | <u>112,073</u> 22.8% | <u>101,478</u> 21.0% |
| Total construction loans | \$ 484,295 | \$ 482,140 | \$ 490,193 | \$ 483,581 |

Prosperity Bancshares, Inc.®
Financial Highlights
(Dollars in thousands)

Balance Sheet Data Mar 31, 2012 Dec 31, 2011 Sept 30, 2011 June 30, 2011 Mar 31, 2011
(Unaudited) (Unaudited) (Unaudited) (Unaudited) (Unaudited)

(at period end)

| | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| Total loans | \$ 3,874,862 | \$ 3,765,906 | \$ 3,737,630 | \$ 3,665,248 | \$ 3,572,920 |
| Investment securities (F) | 5,646,529 | 4,658,936 | 4,430,530 | 4,641,664 | 4,798,642 |
| Federal funds sold | 445 | 642 | 294 | 350 | 517 |
| Allowance for credit losses | (51,642) | (51,594) | (52,513) | (51,932) | (51,760) |
| Cash and due from banks | 151,467 | 212,800 | 211,261 | 145,910 | 145,521 |
| Goodwill | 929,161 | 924,537 | 924,537 | 924,537 | 924,537 |
| Core deposit intangibles | 19,301 | 20,996 | 22,874 | 24,799 | 26,742 |
| Other real estate | 7,718 | 8,328 | 8,216 | 8,841 | 10,465 |
| Fixed assets, net | 162,676 | 159,656 | 160,099 | 160,119 | 159,050 |
| Other assets | <u>149,438</u> | <u>122,464</u> | <u>124,159</u> | <u>137,611</u> | <u>136,313</u> |
| Total assets | \$ 10,889,955 | \$ 9,822,671 | \$ 9,567,087 | \$ 9,657,147 | \$ 9,722,947 |
| Demand deposits | \$ 2,088,749 | \$ 1,972,226 | \$ 1,861,907 | \$ 1,788,756 | \$ 1,730,427 |
| Interest bearing deposits | <u>6,455,702</u> | <u>6,088,028</u> | <u>5,936,832</u> | <u>5,878,936</u> | <u>6,085,957</u> |
| Total deposits | 8,544,451 | 8,060,254 | 7,798,739 | 7,667,692 | 7,816,384 |
| Securities sold under repurchase agreements | 58,481 | 54,883 | 66,166 | 91,288 | 51,847 |
| Federal funds purchased and other borrowings | 527,536 | 12,790 | 13,583 | 248,839 | 228,092 |
| Junior subordinated debentures | 85,055 | 85,055 | 85,055 | 85,055 | 85,055 |
| Other liabilities | <u>64,899</u> | <u>42,424</u> | <u>62,205</u> | <u>52,625</u> | <u>61,071</u> |
| Total liabilities | 9,280,422 | 8,255,406 | 8,025,748 | 8,145,499 | 8,242,449 |
| Shareholders' equity (G) | <u>1,609,533</u> | <u>1,567,265</u> | <u>1,541,339</u> | <u>1,511,648</u> | <u>1,480,498</u> |
| Total liabilities and equity | \$ 10,889,955 | \$ 9,822,671 | \$ 9,567,087 | \$ 9,657,147 | \$ 9,722,947 |

(F) Includes \$19,542, \$20,726, \$24,278, \$23,647 and \$21,088 in unrealized gains on available for sale securities for the quarterly periods ending March 31, 2012, December 31, 2011, September 30, 2011, June 30, 2011 and March 31, 2011, respectively.

(G) Includes \$12,702, \$13,472, \$15,781, \$15,371 and \$13,707 in after-tax unrealized gains on available for sale securities for the quarterly periods ending March 31, 2012, December 31, 2011, September 30, 2011, June 30, 2011 and March 31, 2011, respectively.

Prosperity Bancshares, Inc.®

Financial Highlights

(Dollars in thousands)

| Income Statement Data | Three Months Ended | | | | |
|--|-----------------------------|-----------------------------|------------------------------|------------------------------|-----------------------------|
| | Mar 31, 2012 (Unaudited) | Dec 31, 2011 (Unaudited) | Sept 30, 2011 (Unaudited) | June 30, 2011 (Unaudited) | Mar 31, 2011 (Unaudited) |
| Interest on loans | \$ 53,217 | \$ 53,899 | \$ 54,471 | \$ 53,703 | \$ 52,200 |
| Interest on securities | 38,321 | 35,719 | 38,714 | 41,943 | 41,204 |
| Interest on federal funds sold and other earning assets | <u>78</u> | <u>40</u> | <u>4</u> | <u>6</u> | <u>5</u> |
| Total interest income | <u>91,616</u> | <u>89,658</u> | <u>93,189</u> | <u>95,652</u> | <u>93,409</u> |
| Interest expense - deposits | 8,791 | 8,682 | 9,717 | 11,064 | 11,512 |
| Interest expense - debentures | 663 | 632 | 607 | 598 | 1,147 |
| Interest expense - other | <u>316</u> | <u>257</u> | <u>327</u> | <u>360</u> | <u>337</u> |

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| | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| Total interest expense | <u>9,770</u> | <u>9,571</u> | <u>10,651</u> | <u>12,022</u> | <u>12,996</u> |
| Net interest income | 81,846 | 80,087 | 82,538 | 83,630 | 80,413 |
| Provision for credit losses | <u>150</u> | <u>1,150</u> | <u>950</u> | <u>1,400</u> | <u>1,700</u> |
| Net interest income after provision for credit losses | <u>81,696</u> | <u>78,937</u> | <u>81,588</u> | <u>82,230</u> | <u>78,713</u> |
| Non-sufficient funds (NSF) fees | 5,389 | 5,860 | 6,249 | 6,226 | 6,107 |
| Debit card and ATM card income | 3,836 | 4,189 | 3,941 | 3,809 | 3,452 |
| Service charges on deposit accounts | 2,441 | 2,515 | 2,472 | 2,511 | 2,483 |
| Net (loss)/gain on sale of assets | (7) | -- | 17 | 195 | 165 |
| Net gain/(loss) on sale of ORE | 418 | (473) | 95 | (366) | (160) |
| Net loss on the sale of securities | -- | -- | -- | (581) | -- |
| Other non-interest income | <u>1,868</u> | <u>1,974</u> | <u>1,807</u> | <u>1,736</u> | <u>1,820</u> |
| Total non-interest income | <u>13,945</u> | <u>14,065</u> | <u>14,581</u> | <u>13,530</u> | <u>13,867</u> |
| Salaries and benefits | 23,252 | 21,258 | 23,601 | 23,994 | 23,204 |
| CDI amortization | 1,695 | 1,879 | 1,924 | 1,943 | 2,034 |
| Net occupancy and equipment | 3,557 | 3,655 | 3,784 | 3,547 | 3,648 |
| Depreciation | 2,035 | 2,051 | 2,041 | 2,037 | 2,021 |
| Data processing and software amortization | 1,532 | 1,417 | 1,954 | 1,780 | 1,672 |
| Regulatory assessments and FDIC insurance | 1,548 | 1,518 | 1,488 | 2,894 | 3,001 |
| ORE expense | 691 | 680 | 235 | 294 | 292 |
| Other non-interest expense | <u>6,149</u> | <u>5,927</u> | <u>6,124</u> | <u>6,025</u> | <u>5,823</u> |
| Total non-interest expense | <u>40,459</u> | <u>38,385</u> | <u>41,151</u> | <u>42,514</u> | <u>41,695</u> |
| Net income before taxes | 55,182 | 54,617 | 55,018 | <u>53,246</u> | 50,885 |
| Federal income taxes | <u>18,695</u> | <u>18,211</u> | <u>18,645</u> | <u>18,154</u> | <u>17,007</u> |
| Net income available to common shareholders | \$ 36,487 | \$ 36,406 | \$ 36,373 | \$ 35,092 | \$ 33,878 |

Prosperity Bancshares, Inc.®
Financial Highlights

| | Three Months Ended | | | | |
|--|---|--------------|----------------|---------------|--------------|
| | Mar 31, 2012 | Dec 31, 2011 | Sept. 30, 2011 | June 30, 2011 | Mar 31, 2011 |
| Comparative Quarterly Asset Quality, Performance & Capital Ratios | (Unaudited) (Unaudited) (Unaudited) (Unaudited) (Unaudited) | | | | |
| Return on average assets (annualized) | 1.39% | 1.50% | 1.52% | 1.45% | 1.42% |
| Return on average common equity (annualized) | 9.15% | 9.35% | 9.51% | 9.36% | 9.22% |
| Return on average tangible equity (annualized) | 22.57% | 23.86% | 25.03% | 25.56% | 26.22% |
| Net interest margin (tax equivalent) (annualized) | 3.64% | 3.82% | 4.02% | 4.06% | 4.02% |
| Employees - FTE | 1,690 | 1,664 | 1,678 | 1,675 | 1,672 |

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| | | | | | |
|--|---------|---------|---------|---------|---------|
| Efficiency ratio | 42.23% | 40.77% | 42.38% | 43.58% | 44.30% |
| Non-performing assets to average earning assets | 0.16% | 0.14% | 0.16% | 0.15% | 0.16% |
| Non-performing assets to loans and other real estate | 0.38% | 0.32% | 0.36% | 0.35% | 0.36% |
| Net charge-offs to average loans | 0.00% | 0.06% | 0.01% | 0.03% | 0.04% |
| Allowance for credit losses to total loans | 1.33% | 1.37% | 1.40% | 1.42% | 1.45% |
| Book value per share | \$34.03 | \$33.41 | \$32.87 | \$32.24 | \$31.65 |
| Tangible book value per share | \$13.98 | \$13.25 | \$12.67 | \$11.99 | \$11.31 |
| Tier 1 risk-based capital | 15.70% | 15.90% | 15.47% | 14.72% | 14.00% |
| Total risk-based capital | 16.80% | 17.09% | 16.69% | 15.93% | 15.21% |
| Tier 1 leverage capital | 7.68% | 7.89% | 7.70% | 7.24% | 6.97% |
| Tangible equity to tangible assets | 6.65% | 7.00% | 6.89% | 6.46% | 6.03% |
| Equity to assets | 14.78% | 15.96% | 16.11% | 15.65% | 15.23% |

Prosperity Bancshares, Inc.®
Supplemental Financial Data (Unaudited)
(Dollars in thousands)

| YIELD ANALYSIS | Three Months Ended March 31, 2012 | | | Three Months Ended March 31, 2011 | | |
|---|-----------------------------------|---------------------------------|--------------------|-----------------------------------|---------------------------------|--------------------|
| | Average Balance | Interest Earned / Interest Paid | Average Yield/Rate | Average Balance | Interest Earned / Interest Paid | Average Yield/Rate |
| Interest Earning Assets: | | | | | | |
| Loans | \$ 3,818,991 | \$ 53,217 | 5.60% | \$ 3,516,524 | \$ 52,200 | 6.02% |
| Investment securities | 5,192,257 | 38,321 | 2.95% | 4,677,900 | 41,204 | 3.52% |
| Federal funds sold and other earning assets | <u>126,154</u> | <u>78</u> | 0.25% | <u>13,179</u> | <u>5</u> | 0.15% |
| Total interest earning assets | 9,137,402 | <u>\$ 91,616</u> | 4.03% | 8,207,603 | <u>\$ 93,409</u> | 4.62% |
| Allowance for credit losses | (51,601) | | | (51,697) | | |
| Non-interest earning assets | <u>1,414,340</u> | | | <u>1,405,708</u> | | |
| Total assets | \$ 10,500,141 | | | \$ 9,561,614 | | |
| Interest Bearing Liabilities: | | | | | | |
| Interest bearing demand deposits | \$ 1,694,240 | | 0.49% | | | 0.61% |

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| | | | | | | |
|---|---------------------|-----------------|-------|---------------------|------------------|-------|
| | | \$ | | \$ | \$ | |
| | | 2,063 | | 1,489,160 | 2,238 | |
| Savings and money market deposits | 2,792,348 | 2,589 | 0.37% | 2,359,077 | 3,336 | 0.57% |
| Certificates and other time deposits | 1,971,071 | 4,139 | 0.84% | 2,177,566 | 5,938 | 1.11% |
| Securities sold under repurchase agreements | 53,304 | 37 | 0.28% | 51,609 | 69 | 0.54% |
| Federal funds purchased and other borrowings | 272,760 | 279 | 0.41% | 191,945 | 268 | 0.57% |
| Junior subordinated debentures | <u>85,055</u> | <u>663</u> | 3.14% | <u>91,063</u> | <u>1,147</u> | 5.11% |
| Total interest bearing liabilities | \$ 6,868,778 | <u>\$ 9,770</u> | 0.57% | \$ 6,360,420 | <u>\$ 12,996</u> | 0.83% |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing demand deposits | \$ 1,970,942 | | | \$ 1,672,590 | | |
| Other liabilities | <u>65,137</u> | | | <u>59,556</u> | | |
| Total liabilities | <u>\$ 8,904,857</u> | | | <u>\$ 8,092,566</u> | | |
| Shareholders' equity | <u>\$ 1,595,284</u> | | | <u>\$ 1,469,048</u> | | |
| Total liabilities and shareholders' equity | \$ 10,500,141 | | | \$ 9,561,614 | | |
| Net Interest Income & Margin | | \$ 81,846 | 3.60% | | \$ 80,413 | 3.97% |
| Net Interest Income & Margin (tax equivalent) | | \$ 82,742 | 3.64% | | \$ 81,302 | 4.02% |

Prosperity Bancshares, Inc.®
Supplemental Financial Data (Unaudited)
(Dollars in thousands)

| YIELD ANALYSIS | Three Months Ended December 31, 2011 | | | Three Months Ended December 31, 2010 | | |
|---|--------------------------------------|---------------------------------|--------------------|--------------------------------------|---------------------------------|--------------------|
| | Average Balance | Interest Earned / Interest Paid | Average Yield/Rate | Average Balance | Interest Earned / Interest Paid | Average Yield/Rate |
| Interest Earning Assets: | | | | | | |
| Loans | \$ 3,749,923 | \$ 53,899 | 5.70% | \$ 3,421,698 | \$ 52,722 | 6.11% |
| Investment securities | 4,596,017 | 35,719 | 3.11% | 4,542,433 | 39,708 | 3.50% |
| Federal funds sold and other earning assets | <u>62,035</u> | <u>40</u> | 0.26% | <u>14,305</u> | <u>6</u> | 0.17% |
| Total interest earning assets | 8,407,975 | <u>\$ 89,658</u> | 4.23% | 7,978,436 | <u>\$ 92,436</u> | 4.60% |
| Allowance for credit losses | (51,713) | | | (51,551) | | |
| Non-interest earning assets | <u>1,373,217</u> | | | <u>1,394,266</u> | | |
| Total assets | \$ 9,729,479 | | | \$ 9,321,151 | | |
| Interest Bearing Liabilities: | | | | | | |
| Interest bearing demand deposits | \$ 1,363,900 | \$ 1,450 | 0.42% | \$ 1,291,312 | \$ 1,772 | 0.54% |
| Savings and money market deposits | 2,553,227 | 2,450 | 0.38% | 2,229,295 | 3,189 | 0.57% |
| Certificates and other time deposits | 2,057,954 | 4,782 | 0.92% | 2,271,119 | 6,788 | 1.19% |

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| | | | | | | |
|---|---------------------|-----------------|-------|---------------------|------------------|-------|
| Securities sold under repurchase agreements | 60,999 | 63 | 0.41% | 77,759 | 110 | 0.56% |
| Federal funds purchased and other borrowings | 66,834 | 194 | 1.15% | 198,677 | 265 | 0.53% |
| Junior subordinated debentures | <u>85,055</u> | <u>632</u> | 2.95% | <u>92,265</u> | <u>803</u> | 3.45% |
| Total interest bearing liabilities | \$ 6,187,969 | \$ <u>9,571</u> | 0.61% | \$ 6,160,427 | \$ <u>12,927</u> | 0.83% |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing demand deposits | \$ 1,924,037 | | | \$ 1,661,448 | | |
| Other liabilities | <u>60,628</u> | | | <u>54,429</u> | | |
| Total liabilities | <u>\$ 8,172,634</u> | | | <u>\$ 7,876,304</u> | | |
| Shareholders' equity | <u>\$ 1,556,845</u> | | | <u>\$ 1,444,847</u> | | |
| Total liabilities and shareholders' equity | \$ 9,729,479 | | | \$ 9,321,151 | | |
| Net Interest Income & Margin | | \$ 80,087 | 3.78% | | \$ 79,509 | 3.95% |
| Net Interest Income & Margin (tax equivalent) | | \$ 80,937 | 3.82% | | \$ 80,238 | 3.99% |

Prosperity Bancshares, Inc.®

Notes to Selected Financial Data (Unaudited)

(Dollars in thousands)

Consolidated Financial Highlights

NOTES TO SELECTED FINANCIAL DATA

Prosperity's management uses certain non-GAAP (generally accepted accounting principles) financial measures to evaluate its performance. Specifically, Prosperity reviews tangible book value per share, return on average tangible common equity and the tangible equity to tangible assets ratio for internal planning and forecasting purposes. Prosperity has included in this Earnings Release information relating to these non-GAAP financial measures for the applicable periods presented. Prosperity believes these non-GAAP financial measures provide information useful to investors in understanding Prosperity's financial results and Prosperity believes that its presentation, together with the accompanying reconciliations, provides a better understanding of factors and trends affecting Prosperity's business and allows investors to view performance in a manner similar to management, the entire financial services sector, bank stock analysts and bank regulators. Further, Prosperity believes that these non-GAAP measures provide useful information by excluding certain items that may not be indicative of its core operating earnings and business outlook. These non-GAAP measures should not be considered a substitute for GAAP basis measures and results and Prosperity strongly encourages investors to review its consolidated financial statements in their entirety and not to rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

Notes to Selected Financial Data (Unaudited)
(Dollars and share amounts in thousands)

| | Three months ended | | | | |
|--|--------------------|------------------|------------------|------------------|------------------|
| | Mar 31, 2012 | Dec 31, 2011 | Sept 30, 2011 | June 30, 2011 | Mar 31, 2011 |
| Non-GAAP Financial Measures | | | | | |
| Return on average tangible common equity: | | | | | |
| Net income | <u>\$ 36,487</u> | <u>\$ 36,406</u> | <u>\$ 36,373</u> | <u>\$ 35,092</u> | <u>\$ 33,878</u> |
| Average shareholders' equity | 1,595,284 | 1,556,845 | 1,529,718 | 1,499,385 | 1,469,048 |
| Less: Average goodwill and other intangible assets | <u>(948,519)</u> | <u>(946,427)</u> | <u>(948,351)</u> | <u>(950,265)</u> | <u>(952,123)</u> |
| Average tangible shareholders' equity | \$ 646,765 | \$ 610,418 | \$ 581,367 | \$ 549,120 | \$ 516,925 |
| Return on average tangible common equity (annualized): | 22.57% | 23.86% | 25.03% | 25.56% | 26.22% |
| Tangible book value per share: | | | | | |
| Shareholders' equity | \$1,609,533 | \$1,567,265 | \$ 1,541,339 | \$1,511,648 | \$1,480,498 |
| Less: Goodwill and other intangible assets | <u>(948,462)</u> | <u>(945,533)</u> | <u>(947,411)</u> | <u>(949,336)</u> | <u>(951,279)</u> |
| Tangible shareholders' equity | \$ 661,071 | \$ 621,732 | \$ 593,928 | \$ 562,312 | \$ 529,219 |
| Period end shares outstanding | 47,297 | 46,910 | 46,893 | 46,888 | 46,782 |
| Tangible book value per share: | \$ 13.98 | \$ 13.25 | \$ 12.67 | \$ 11.99 | \$ 11.3 |
| Tangible equity to tangible assets ratio: | | | | | |
| Tangible shareholders' equity | \$ 661,071 | \$ 621,732 | \$ 593,928 | \$ 562,312 | \$ 529,219 |
| Total assets | \$10,889,955 | \$9,822,671 | \$9,567,087 | \$9,657,147 | \$9,722,947 |
| Less: Goodwill and other intangible assets | <u>(948,462)</u> | <u>(945,533)</u> | <u>(947,411)</u> | <u>(949,336)</u> | <u>(951,279)</u> |
| Tangible assets | \$9,941,493 | \$8,877,138 | \$8,619,676 | \$8,707,811 | \$8,771,668 |
| Tangible equity to tangible assets ratio: | 6.65% | 7.00% | 6.89% | 6.46% | 6.03% |

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