

WILSON BANK HOLDING CO

Form 10-Q

May 10, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

Mark One

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

For the quarterly period ended March 31, 2011

or

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 0-20402

WILSON BANK HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Tennessee

62-1497076

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

623 West Main Street, Lebanon, TN

37087

(Address of principal executive offices)

Zip Code

(615) 444-2265

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 No

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 No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock outstanding: 7,268,870 shares at May 10, 2011

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WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
March 31, 2011 and December 31, 2010
(Unaudited)

| | March 31, 2011 | December 31, 2010 |
|--|--|----------------------|
| | (Dollars in Thousands Except Per Share Amounts) | |
| Assets | | |
| Loans | \$ 1,097,743 | \$ 1,095,268 |
| Less: Allowance for loan losses | (22,048) | (22,177) |
| Net loans | 1,075,695 | 1,073,091 |
| Securities: | | |
| Held to maturity, at cost (market value \$15,660 and \$13,690, respectively) | 15,277 | 13,396 |
| Available-for-sale, at market (amortized cost \$254,386 and \$282,453, respectively) | 251,254 | 277,032 |
| Total securities | 266,531 | 290,428 |
| Loans held for sale | 4,015 | 7,845 |
| Restricted equity securities | 3,012 | 3,012 |
| Federal funds sold | 24,635 | 3,225 |
| Total earning assets | 1,373,888 | 1,377,601 |
| Cash and due from banks | 50,227 | 35,057 |
| Bank premises and equipment, net | 32,215 | 31,941 |
| Accrued interest receivable | 6,352 | 6,252 |
| Deferred income tax asset | 8,777 | 9,629 |
| Other real estate | 15,279 | 13,741 |
| Other assets | 7,789 | 8,572 |
| Goodwill | 4,805 | 4,805 |
| Other intangible assets, net | 409 | 508 |
| Total assets | \$ 1,499,741 | \$ 1,488,106 |
| Liabilities and Shareholders Equity | | |
| Deposits | \$ 1,338,479 | \$ 1,331,282 |
| Securities sold under repurchase agreements | 6,152 | 6,536 |
| Accrued interest and other liabilities | 7,378 | 5,955 |

| | | |
|---|--------------|--------------|
| Total liabilities | 1,352,009 | 1,343,773 |
| Shareholders' equity: | | |
| Common stock, \$2.00 par value; authorized 15,000,000 shares, issued 7,268,203 and 7,225,088 shares, respectively | 14,536 | 14,450 |
| Additional paid-in capital | 45,382 | 43,790 |
| Retained earnings | 89,747 | 89,439 |
| Net unrealized losses on available-for-sale securities, net of income taxes of \$1,199 and \$2,075, respectively | (1,933) | (3,346) |
| Total shareholders' equity | 147,732 | 144,333 |
| Total liabilities and shareholders' equity | \$ 1,499,741 | \$ 1,488,106 |

See accompanying notes to consolidated financial statements (unaudited).

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Months Ended March 31, 2011 and 2010
(Unaudited)

| | 2011 | 2010 |
|---|--|-----------|
| | (Dollars in Thousands Except per Share Amounts) | |
| Interest income: | | |
| Interest and fees on loans | \$ 16,239 | \$ 16,835 |
| Interest and dividends on securities: | | |
| Taxable securities | 1,461 | 2,192 |
| Exempt from Federal income taxes | 110 | 119 |
| Interest on loans held for sale | 54 | 30 |
| Interest on Federal funds sold | 15 | 18 |
| Interest and dividends on restricted securities | 36 | 22 |
| Total interest income | 17,915 | 19,216 |
| Interest expense: | | |
| Interest on negotiable order of withdrawal accounts | 551 | 630 |
| Interest on money market and savings accounts | 690 | 841 |
| Interest on certificates of deposit | 3,442 | 5,230 |
| Interest on securities sold under repurchase agreements | 14 | 23 |
| Interest on Federal funds purchased | 2 | |
| Total interest expense | 4,699 | 6,724 |
| Net interest income before provision for loan losses | 13,216 | 12,492 |
| Provision for loan losses | 1,969 | 2,106 |
| Net interest income after provision for loan losses | 11,247 | 10,386 |
| Non-interest income: | | |
| Service charges on deposit accounts | 1,288 | 1,292 |
| Other fees and commissions | 1,640 | 1,373 |
| Gain on sale of loans | 300 | 319 |
| Gain on sale of securities | | 50 |
| Total non-interest income | 3,228 | 3,034 |
| Non-interest expense: | | |
| Salaries and employee benefits | 5,332 | 5,051 |
| Occupancy expenses, net | 572 | 572 |
| Furniture and equipment expense | 247 | 366 |
| Data processing expense | 314 | 317 |

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| | | |
|---|-----------|-----------|
| Directors fees | 200 | 210 |
| Other operating expenses | 3,224 | 2,568 |
| Loss on sale of other assets | 5 | 9 |
| Loss on sale of other real estate | 551 | 104 |
| Total non-interest expense | 10,445 | 9,197 |
| Earnings before income taxes | 4,030 | 4,223 |
| Income taxes | 1,554 | 1,638 |
| Net earnings | \$ 2,476 | \$ 2,585 |
| Weighted average number of shares outstanding-basic | 7,258,143 | 7,171,624 |
| Weighted average number of shares outstanding-diluted | 7,265,259 | 7,178,105 |
| Basic earnings per common share | \$.34 | \$.36 |
| Diluted earnings per common share | \$.34 | \$.36 |
| Dividends per share | \$.30 | \$.30 |

See accompanying notes to consolidated financial statements (unaudited).

Table of Contents**WILSON BANK HOLDING COMPANY*****Consolidated Statements of Comprehensive Earnings
Three Months Ended March 31, 2011 and 2010
(Unaudited)***

| | 2011 | 2010 |
|--|----------------|----------|
| | (In Thousands) | |
| Net earnings | \$ 2,476 | \$ 2,585 |
| Other comprehensive earnings, net of tax: | | |
| Unrealized gains on available-for-sale securities arising during period, net of taxes of \$876 and \$190, respectively | 1,413 | 306 |
| Reclassification adjustment for net gains included in net earnings, net of taxes of \$0 and \$19, respectively | | (31) |
| Other comprehensive earnings | 1,413 | 275 |
| Comprehensive earnings | \$ 3,889 | \$ 2,860 |

See accompanying notes to consolidated financial statements (unaudited).

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2011 and 2010
Increase in Cash and Cash Equivalents
(Unaudited)

| | 2011 | 2010 |
|---|----------------|-----------|
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Interest received | \$ 18,328 | \$ 18,715 |
| Fees and commissions received | 2,928 | 2,665 |
| Proceeds from sale of loans held for sale | 19,760 | 15,919 |
| Origination of loans held for sale | (15,630) | (13,907) |
| Interest paid | (5,777) | (7,638) |
| Cash paid to suppliers and employees | (7,386) | (7,218) |
| Income taxes paid | (403) | (742) |
| Net cash provided by operating activities | 11,820 | 7,794 |
| Cash flows from investing activities: | | |
| Purchase of held-to-maturity securities | (2,025) | |
| Purchase of available-for-sale securities | (4,970) | (90,609) |
| Proceeds from maturities, calls and principal payments of available for sale securities | 32,542 | 48,584 |
| Proceeds from sale of other real estate | 1,424 | 1,174 |
| Proceeds from maturities, calls and principal payments of held-to-maturity securities | 126 | 728 |
| Decrease (increase) in loans made to customers | (8,097) | 3,568 |
| Purchase of premises and equipment | (598) | (44) |
| Proceeds from sale of other assets | 41 | 27 |
| Net cash provided by (used in) investing activities | 18,443 | (36,572) |
| Cash flows from financing activities: | | |
| Net increase in non-interest bearing, savings and NOW deposit accounts | 24,503 | 45,008 |
| Net increase (decrease) in time deposits | (17,306) | 15,585 |
| Decrease in securities sold under repurchase agreements | (384) | (875) |
| Repayment of Federal Home Loan Bank advances | | (9) |
| Dividends paid | (2,168) | (2,144) |
| Proceeds from sale of common stock pursuant to dividend reinvestment plan | 1,626 | 1,529 |
| Proceeds from sale of common stock pursuant to exercise of stock options | 46 | 63 |
| Repurchase of common stock | | (225) |
| Net cash provided by financing activities | 6,317 | 58,932 |
| Net increase in cash and cash equivalents | 36,580 | 30,154 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 38,282 | 31,512 |
| Cash and cash equivalents at end of period | \$ 74,862 | \$ 61,666 |

See accompanying notes to consolidated financial statements (unaudited).

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Three Months Ended March 31, 2011 and 2010
Increase in Cash and Cash Equivalents
(Unaudited)

| | 2011 | 2010 |
|---|----------------|--------------|
| | (In Thousands) | |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Net earnings | \$ 2,476 | \$ 2,585 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 936 | 599 |
| Stock option compensation | 6 | 5 |
| Provision for loan losses | 1,969 | 2,106 |
| Loss on sale of other real estate | 551 | 104 |
| Loss on sale of other assets | 5 | 9 |
| Gain on sale of securities | | (50) |
| Decrease in loans held for sale | 3,830 | 1,693 |
| Decrease in deferred tax assets, net | (24) | (252) |
| Increase in taxes payable | 1,175 | 1,148 |
| Decrease in other assets, net | 584 | 159 |
| Increase in other liabilities | 1,490 | 1,166 |
| Increase in interest receivable | (100) | (564) |
| Decrease in interest payable | (1,078) | (914) |
| Total adjustments | \$ 9,344 | \$ 5,209 |
| Net cash provided by operating activities | \$ 11,820 | \$ 7,794 |
| Supplemental schedule of non-cash activities: | | |
| Unrealized gain in value of securities available-for-sale, net of income taxes of \$876 and \$171 for the quarters ended March 31, 2011 and 2010, respectively. | \$ 1,413 | \$ 275 |
| Non-cash transfers from loans to other real estate | \$ 7,485 | \$ 2,627 |
| Non-cash transfers from other real estate to loans | \$ 3,972 | \$ 169 |
| Non-cash transfers from loans to other assets | \$ 11 | \$ 47 |
| See accompanying notes to consolidated financial statements (unaudited). | | |

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WILSON BANK HOLDING COMPANY
FORM 10-Q, CONTINUED
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Business Wilson Bank Holding Company (the Company) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Wilson Bank & Trust (the Bank). The Bank is a commercial bank headquartered in Lebanon, Tennessee. The Bank provides a full range of banking services in its primary market areas of Wilson, Davidson, Rutherford, Trousdale, Dekalb, and Smith Counties, Tennessee.

Basis of Presentation The accompanying unaudited, consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes appearing in the 2010 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and accounts are eliminated in consolidation.

Accounting Standards Codification In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission (SEC). Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable beginning in third quarter 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references except for SFAS references that have not been integrated into the codification.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments.

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FORM 10-Q, CONTINUED****Recently Adopted Accounting Pronouncements**

In April 2011, FASB issued ASU No. 2011-02 *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered troubled debt restructurings. The Company is continuing to evaluate the impact of adoption of this ASU.

Note 2. Loans and Allowance for Loan Losses

The following schedule details the loans of the Company at March 31, 2011 and December 31, 2010:

| | (In Thousands) | |
|-------------------------------------|-------------------|----------------------|
| | March 31, 2011 | December 31, 2010 |
| Mortgage Loans on real estate | | |
| Residential 1-4 family | \$ 353,939 | 351,237 |
| Multifamily | 9,378 | 8,711 |
| Commercial | 371,224 | 347,381 |
| Construction and land development | 169,220 | 176,842 |
| Farmland | 37,054 | 38,369 |
| Second mortgages | 14,943 | 15,373 |
| Equity lines of credit | 35,911 | 36,861 |
| | | |
| Total mortgage loans on real estate | 991,669 | 974,774 |
| | | |
| Commercial loans | 51,507 | 57,249 |
| | | |
| Agriculture loans | 2,648 | 3,017 |
| | | |
| Consumer installment loans | | |
| Personal | 45,089 | 52,574 |
| Credit cards | 2,955 | 3,160 |
| Total consumer installment loans | 48,044 | 55,734 |
| | | |
| Other loans | 5,386 | 5,841 |
| | 1,099,254 | 1,096,615 |
| | | |
| Net deferred loan fees | (1,511) | (1,347) |

| | | |
|---------------------------------|--------------|--------------|
| Total loans | 1,097,743 | 1,095,268 |
| Less: Allowance for loan losses | (22,048) | (22,177) |
| Net Loans | \$ 1,075,695 | \$ 1,073,091 |

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WILSON BANK HOLDING COMPANY
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Transactions in the allowance for loan losses for the quarter ending March 31, 2011 and 2010 are summarized as follows:

| | <i>In Thousands</i> | | | | | | | | | | |
|---|------------------------------|---------------------------|---------------------------|----------------------------|----------|---------------------|---------------------------------|------------|--------------|-----------------------------|---------|
| | Residential 1-4 Family | Commercial Multifamily | Commercial Real Estate | Commercial Construction | Farmland | Second Mortgages | Equity Lines of Credit | Commercial | Agricultural | Installment and Other | Total |
| March 31, 2011 | | | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | | | |
| Beginning balance | \$ 5,140 | 46 | 7,285 | 5,558 | 988 | 276 | 767 | 1,163 | 67 | 887 | 22,177 |
| Provision | 960 | 6 | (276) | 1,690 | (53) | (47) | (57) | (62) | (27) | (165) | 1,969 |
| Charge-offs | (292) | | (863) | (885) | | | (87) | | | (112) | (2,239) |
| Recoveries | 22 | | 4 | 2 | | 1 | 16 | 5 | | 91 | 141 |
| Ending balance | \$ 5,830 | 52 | 6,150 | 6,365 | 935 | 230 | 639 | 1,106 | 40 | 701 | 22,048 |
| Ending balance individually evaluated for impairment | \$ 1,653 | | 2,535 | 2,464 | 327 | 15 | | 670 | | | 7,664 |
| Ending balance collectively evaluated for impairment | \$ 4,177 | 52 | 3,615 | 3,901 | 608 | 215 | 639 | 436 | 40 | 701 | 14,384 |
| Ending balance loans acquired with | \$ | | | | | | | | | | |

deteriorated
credit
quality

Loans:

| | | | | | | | | | | | |
|-------------------|------------|-------|---------|---------|--------|--------|--------|--------|-------|--------|-----------|
| Ending balance | \$ 353,939 | 9,378 | 371,224 | 169,220 | 37,054 | 14,943 | 35,911 | 51,507 | 2,648 | 53,430 | 1,099,254 |
|-------------------|------------|-------|---------|---------|--------|--------|--------|--------|-------|--------|-----------|

| | | | | | | | | | | | |
|---|-----------|-----|--------|--------|-------|-----|-----|-------|--|--|--------|
| Ending balance individually evaluated for impairment | \$ 12,000 | 415 | 16,097 | 23,655 | 4,694 | 767 | 201 | 1,114 | | | 58,943 |
|---|-----------|-----|--------|--------|-------|-----|-----|-------|--|--|--------|

| | | | | | | | | | | | |
|---|------------|-------|---------|---------|--------|--------|--------|--------|-------|--------|-----------|
| Ending balance collectively evaluated for impairment | \$ 341,939 | 8,963 | 355,127 | 145,565 | 32,360 | 14,176 | 35,710 | 50,393 | 2,648 | 53,430 | 1,040,311 |
|---|------------|-------|---------|---------|--------|--------|--------|--------|-------|--------|-----------|

Ending
balance
loans
acquired
with
deteriorated
credit
quality

\$

**March 31,
2010**

**Allowance
for loan
losses:**

| | | | | | | | | | | | |
|----------------------|----------|-----|---------|-------|-------|-------|-------|-------|------|-------|---------|
| Beginning balance | \$ 4,268 | 25 | 4,499 | 3,412 | 151 | 521 | 788 | 1,625 | 38 | 1,320 | 16,647 |
| Provision | 1,588 | (2) | (1,504) | 759 | 1,110 | 226 | 486 | (597) | (26) | 66 | 2,106 |
| Charge-offs | (382) | | (10) | (21) | | (144) | (570) | (37) | | (245) | (1,409) |
| Recoveries | 4 | | | | | 1 | | 1 | 1 | 60 | 67 |
| | \$ 5,478 | 23 | 2,985 | 4,150 | 1,261 | 604 | 704 | 992 | 13 | 1,201 | 17,411 |

| | | | | | | | | | | | | |
|--|------------|-------|---------|---------|--------|--------|--------|--------|-------|--------|--|-----------|
| Ending balance | | | | | | | | | | | | |
| Ending balance individually evaluated for impairment | \$ 2,506 | | 308 | 2,882 | 898 | 210 | 162 | 200 | | | | 7,166 |
| Ending balance collectively evaluated for impairment | \$ 2,972 | 23 | 2,677 | 1,268 | 363 | 394 | 542 | 792 | 13 | 1,201 | | 10,245 |
| Ending balance loans acquired with deteriorated credit quality | \$ | | | | | | | | | | | |
| Loans: | | | | | | | | | | | | |
| Ending balance | \$ 361,942 | 5,490 | 315,138 | 191,340 | 46,794 | 17,318 | 35,828 | 66,879 | 2,885 | 65,459 | | 1,109,073 |
| Ending balance individually evaluated for impairment | \$ 11,816 | | 1,280 | 8,183 | 7,343 | 800 | 301 | 420 | | | | 30,143 |
| Ending balance collectively evaluated for impairment | \$ 350,126 | 5,490 | 313,858 | 183,157 | 39,451 | 16,518 | 35,527 | 66,459 | 2,885 | 65,459 | | 1,078,930 |

Ending
balance
loans
acquired
with
deteriorated
credit
quality \$

At March 31, 2011, the Company had certain impaired loans of \$15,395,000 which were on non accruing interest status. At December 31, 2010, the Company had certain impaired loans of \$22,161,000 which were on non accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company's impaired loans at March 31, 2011 and December 31, 2010.

| | <i>In Thousands</i> | | | | |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| March 31, 2011 | | | | | |
| With no related allowance recorded: | | | | | |
| Residential 1-4 family | \$ 2,922 | 2,922 | | 3,367 | 52 |
| Multifamily | 415 | 415 | | 411 | 6 |
| Commercial real estate | 1,647 | 1,647 | | 2,704 | 29 |
| Construction | 8,534 | 8,534 | | 9,528 | 50 |
| Farmland | 2,647 | 2,647 | | 1,324 | 19 |
| Second mortgages | 606 | 606 | | 656 | |
| Equity lines of credit | 201 | 201 | | 101 | 3 |
| Commercial | 204 | 204 | | 204 | 3 |
| Agricultural | | | | | |
| | \$ 17,176 | 17,176 | | 18,295 | 162 |
| With allowance recorded: | | | | | |
| Residential 1-4 family | \$ 9,078 | 9,078 | 1,653 | 8,448 | 87 |
| Multifamily | | | | | |
| Commercial real estate | 14,450 | 14,450 | 2,535 | 16,568 | 156 |
| Construction | 15,121 | 15,121 | 2,464 | 11,834 | 71 |
| Farmland | 2,047 | 2,047 | 327 | 1,957 | 11 |
| Second mortgages | 161 | 161 | 15 | 163 | |
| Equity lines of credit | | | | 435 | |
| Commercial | 910 | 910 | 670 | 910 | 6 |
| Agricultural | | | | 78 | |
| | \$ 41,767 | 41,767 | 7,664 | 40,393 | 331 |

| | | | | | |
|------------------------|-----------|--------|-------|--------|-----|
| Total | | | | | |
| Residential 1-4 family | 12,000 | 12,000 | 1,653 | 11,815 | 139 |
| Multifamily | 415 | 415 | | 411 | 6 |
| Commercial real estate | 16,097 | 16,097 | 2,535 | 19,272 | 185 |
| Construction | 23,655 | 23,655 | 2,464 | 21,362 | 121 |
| Farmland | 4,694 | 4,694 | 327 | 3,281 | 30 |
| Second mortgages | 767 | 767 | 15 | 819 | |
| Equity lines of credit | 201 | 201 | | 536 | 3 |
| Commercial | 1,114 | 1,114 | 670 | 1,114 | 9 |
| Agricultural | | | | 78 | |
| | \$ 58,943 | 58,943 | 7,664 | 58,688 | 493 |

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| | <i>In Thousands</i> | | | | |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| December 31, 2010 | | | | | |
| With no related allowance recorded: | | | | | |
| Residential 1-4 family | \$ 3,811 | 3,811 | | 5,876 | 472 |
| Multifamily | 406 | 406 | | 464 | 26 |
| Commercial real estate | 3,760 | 4,260 | | 4,780 | 136 |
| Construction | 10,522 | 10,844 | | 6,950 | 256 |
| Farmland | | | | 1,790 | |
| Second mortgages | 706 | 706 | | 644 | 1 |
| Equity lines of credit | | | | 601 | |
| Commercial | 204 | 204 | | 689 | 11 |
| Agricultural | | | | 39 | |
| | \$ 19,409 | 20,231 | | 21,833 | 902 |
| With allowance recorded: | | | | | |
| Residential 1-4 family | \$ 7,818 | 7,890 | 1,275 | 9,890 | 351 |
| Multifamily | | | | | |
| Commercial real estate | 18,686 | 18,686 | 3,816 | 15,027 | 347 |
| Construction | 8,546 | 8,914 | 1,782 | 8,426 | 392 |
| Farmland | 1,866 | 1,866 | 231 | 3,848 | 68 |
| Second mortgages | 164 | 164 | 15 | 337 | |
| Equity lines of credit | 869 | 869 | 159 | 418 | 32 |
| Commercial | 910 | 910 | 670 | 569 | 25 |
| Agricultural | 155 | 155 | 25 | 39 | 10 |
| | \$ 39,014 | 39,454 | 7,973 | 38,554 | 1,225 |
| Total | | | | | |
| Residential 1-4 family | 11,629 | 11,701 | 1,275 | 15,766 | 823 |
| Multifamily | 406 | 406 | | 464 | 26 |
| Commercial real estate | 22,446 | 22,946 | 3,816 | 19,807 | 483 |
| Construction | 19,068 | 19,758 | 1,782 | 15,376 | 648 |
| Farmland | 1,866 | 1,866 | 231 | 5,638 | 68 |
| Second mortgages | 870 | 870 | 15 | 981 | 1 |
| Equity lines of credit | 869 | 869 | 159 | 1,019 | 32 |
| Commercial | 1,114 | 1,114 | 670 | 1,258 | 36 |

| | | | | | |
|--------------|-----------|--------|-------|--------|-------|
| Agricultural | 155 | 155 | 25 | 78 | 10 |
| | \$ 58,423 | 59,685 | 7,973 | 60,387 | 2,127 |

Impaired loans also include loans that the Company may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Company may have to otherwise incur. These loans are classified as impaired loans and, if on non accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date. At March 31, 2011, there were \$7.2 million of accruing restructured loans that remain in a performing status. At December 31, 2010, there were \$8.8 million of accruing restructured loans.

Potential problem loans, which include nonperforming assets, amounted to approximately \$66.9 million at March 31, 2011 compared to \$63.1 million at December 31, 2010. Potential problem loans represent those loans with a well defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Company's primary regulator, for loans classified as special mention, substandard, or doubtful, excluding the impact of nonperforming loans.

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FORM 10-Q, CONTINUED****Credit Quality Indicators***In Thousands*

| | Residential 1-4 Family | Multifamily | Commercial Real Estate | Construction | Farmland | Second Mortgages | Equity Lines of Credit | Commercial | Agricultural | Installment and Other | Total |
|---|------------------------------|--------------|------------------------------|----------------|---------------|---------------------|---------------------------------|---------------|--------------|-----------------------------|------------------|
| Credit Risk Profile by Internally Assigned Grade | | | | | | | | | | | |
| March 31, 2011 | | | | | | | | | | | |
| Pass | \$ 336,252 | \$ 8,881 | \$ 354,941 | \$ 145,345 | \$ 32,176 | \$ 13,409 | \$ 35,466 | \$ 50,319 | \$ 2,640 | \$ 52,908 | 1,032,337 |
| Special mention | 9,850 | | 6,261 | 3,568 | 2,988 | 580 | 326 | 45 | | 121 | 23,739 |
| Substandard | 7,837 | 497 | 10,022 | 20,307 | 1,890 | 954 | 119 | 1,143 | 8 | 401 | 43,178 |
| Doubtful | | | | | | | | | | | |
| Total | \$ 353,939 | 9,378 | 371,224 | 169,220 | 37,054 | 14,943 | 35,911 | 51,507 | 2,648 | 53,430 | 1,099,254 |
| December 31, 2010 | | | | | | | | | | | |
| Pass | \$ 333,971 | 8,226 | 324,880 | 160,457 | 36,333 | 13,838 | 35,834 | 56,053 | 2,852 | 61,005 | 1,033,449 |
| Special mention | 9,567 | | 5,873 | 726 | 340 | 588 | 276 | 50 | 155 | 166 | 17,741 |
| Substandard | 7,699 | 485 | 16,628 | 15,659 | 1,696 | 947 | 751 | 1,146 | 10 | 404 | 45,425 |
| Doubtful | | | | | | | | | | | |
| Total | \$ 351,237 | 8,711 | 347,381 | 176,842 | 38,369 | 15,373 | 36,861 | 57,249 | 3,017 | 61,575 | 1,096,615 |

Note 3. Debt and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. Debt and equity securities at March 31, 2011 and December 31, 2010 are summarized as follows:

| March 31, 2011 Securities Available-For-Sale <i>In Thousands</i> | | | |
|--|------------------------------|-------------------------------|------------------------------|
| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |

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| | | | | |
|--|------------|--------|----------|------------|
| U.S. Government and Federal agencies | \$ 2,003 | \$ 6 | \$ | \$ 2,009 |
| U.S. Government-sponsored enterprises (GSEs)* | 130,807 | 58 | 2,096 | 128,769 |
| Mortgage-backed: | | | | |
| GSE residential | 120,054 | 145 | 1,306 | 118,893 |
| Obligations of states and political Subdivisions | 1,522 | 61 | | \$ 1,583 |
| | \$ 254,386 | \$ 270 | \$ 3,402 | \$ 251,254 |

| | | | | |
|--|-----------------------------|------------|------------|-----------|
| | March 31, 2011 | | | |
| | Securities Held-To-Maturity | | | |
| | <i>In Thousands</i> | | | |
| | Amortized | Gross | Gross | Estimated |
| | Cost | Unrealized | Unrealized | Market |
| | | Gains | Losses | Value |
| Mortgage-backed: | | | | |
| GSE residential | \$ 2,740 | \$ 37 | \$ 3 | \$ 2,774 |
| Obligations of states and political Subdivisions | 12,537 | 365 | 16 | 12,886 |
| | \$ 15,277 | \$ 402 | \$ 19 | \$ 15,660 |

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Banks, and government National Mortgage Association.

| | | | | |
|--|-------------------------------|------------|------------|------------|
| | December 31, 2010 | | | |
| | Securities Available-For-Sale | | | |
| | <i>In Thousands</i> | | | |
| | Amortized | Gross | Gross | Estimated |
| | Cost | Unrealized | Unrealized | Market |
| | | Gains | Losses | Value |
| U.S. Government and Federal Agencies | \$ 2,004 | \$ 8 | \$ | \$ 2,012 |
| U.S. Government-sponsored enterprises (GSEs)* | 157,089 | 235 | 2,646 | 154,678 |
| Mortgage-backed: | | | | |
| GSE residential | 121,838 | 31 | 3,069 | 118,800 |
| Obligations of states and political subdivisions | 1,522 | 27 | 7 | 1,542 |
| | \$ 282,453 | \$ 301 | \$ 5,722 | \$ 277,032 |

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| | December 31, 2010 | | | |
|--|-----------------------------|------------------------------|-------------------------------|------------------------------|
| | Securities Held-To-Maturity | | | |
| | <i>In Thousands</i> | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| Mortgage-backed: | | | | |
| GSE residential | \$ 1,637 | \$ 19 | \$ 6 | \$ 1,650 |
| Obligations of states and political subdivisions | 11,759 | 369 | 88 | 12,040 |
| | \$ 13,396 | \$ 388 | \$ 94 | \$ 13,690 |

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Banks, and government National Mortgage Association.

The amortized cost and estimated market value of debt securities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Held-to-Maturity | | Available-for-sale | |
|--|---------------------|------------------------------|--------------------|------------------------------|
| | <i>In Thousands</i> | | | |
| | Amortized Cost | Estimated Market Value | Amortized Cost | Estimated Market Value |
| Due in one year or less | \$ 1,630 | \$ 1,638 | \$ 2,350 | \$ 2,363 |
| Due after one year through five years | 5,111 | 5,332 | 71,556 | 70,766 |
| Due after five years through ten years | 3,533 | 3,649 | 92,254 | 90,701 |
| Due after ten years | 5,003 | 5,041 | 88,226 | 87,424 |
| | \$ 15,277 | \$ 15,660 | \$ 254,386 | \$ 251,254 |

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2011 and December 31, 2010.

| | <i>In Thousands, Except Number of Securities</i> | | | | | | | |
|---|--|----------------------|--|-------------------|----------------------|--|---------------|----------------------|
| | Less than 12 Months | | | 12 Months or More | | | Total | |
| | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses |
| March 31, 2011 Held to Maturity Securities: | | | | | | | | |

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| | | | | | | | |
|--|------------|----------|----|----|----|------------|----------|
| Debt securities: | | | | | | | |
| Mortgage-backed: | | | | | | | |
| GSE residential | \$ 1,182 | \$ 3 | 2 | \$ | \$ | \$ 1,182 | \$ 3 |
| Obligations of states and political subdivisions | 1,142 | 16 | 6 | | | 1,142 | 16 |
| | \$ 2,324 | \$ 19 | 8 | \$ | \$ | \$ 2,324 | \$ 19 |
| <u>Available-for-Sale</u> <u>Securities:</u> | | | | | | | |
| Debt securities: | | | | | | | |
| U.S. Government and Federal agencies | \$ | \$ | | \$ | \$ | \$ | \$ |
| GSEs | 99,487 | 2,096 | 34 | | | 99,487 | 2,096 |
| Mortgage-backed: | | | | | | | |
| GSE residential | 88,022 | 1,306 | 26 | | | 88,022 | 1,306 |
| Obligations of states and political subdivisions | | | | | | | |
| | \$ 187,509 | \$ 3,402 | 60 | \$ | \$ | \$ 187,509 | \$ 3,402 |

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| | <i>In Thousands, Except Number of Securities</i> | | | | | | Total | |
|--|--|-------------------|-------------------------------|-------------------|-------------------|-------------------------------|------------|-------------------|
| | Less than 12 Months | | | 12 Months or More | | | Fair Value | Unrealized Losses |
| | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses | Number of Securities Included | | |
| December 31, 2010 | | | | | | | | |
| Held to Maturity Securities: | | | | | | | | |
| Debt securities: | | | | | | | | |
| Mortgage-backed: | | | | | | | | |
| GSE residential | \$ 1,034 | \$ 6 | 1 | \$ | \$ | | \$ 1,034 | \$ 6 |
| Obligations of states and political subdivisions | 3,278 | 88 | 14 | | | | 3,278 | 88 |
| | \$ 4,312 | \$ 94 | 15 | \$ | \$ | | \$ 4,312 | \$ 94 |
| Available-for-Sale Securities: | | | | | | | | |
| Debt securities: | | | | | | | | |
| U.S. Government and Federal agencies | \$ | \$ | | \$ | \$ | | \$ | \$ |
| GSEs | 102,458 | 2,646 | 36 | | | | 102,458 | 2,646 |
| Mortgage-backed: | | | | | | | | |
| GSE residential | 113,512 | 3,069 | 34 | | | | 113,512 | 3,069 |
| Obligations of states and political subdivisions | 345 | 7 | 1 | | | | 345 | 7 |
| | \$ 216,315 | \$ 5,722 | 71 | \$ | \$ | | \$ 216,315 | \$ 5,722 |

Because the Company does not intend to sell these securities and it is not more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2011.

The carrying values of the Company's investment securities could decline in the future if the financial condition of issuers deteriorate and management determines it is probable that the Company will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future given the current economic environment.

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Note 4. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share for the Company begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options.

The following is a summary of components comprising basic and diluted earnings per share (EPS) for the three months ended March 31, 2011 and 2010:

| | Three Months Ended March 31, | |
|--|--|-----------|
| | 2011 | 2010 |
| | (Dollars in Thousands Except Per Share Amounts) | |
| Basic EPS Computation: | | |
| Numerator Earnings available to common Stockholders | \$ 2,476 | \$ 2,585 |
| Denominator Weighted average number of common shares outstanding | 7,258,143 | 7,171,624 |
| Basic earnings per common share | \$.34 | \$.36 |
| Diluted EPS Computation: | | |
| Numerator Earnings available to common Stockholders | \$ 2,476 | \$ 2,585 |
| Denominator Weighted average number of common shares outstanding | 7,258,143 | 7,171,624 |
| Dilutive effect of stock options | 7,116 | 6,481 |
| | 7,265,259 | 7,178,105 |
| Diluted earnings per common share | \$.34 | \$.36 |

Note 5. Fair Value Measurements

In September 2006, the FASB issued ASC 820, Fair Value Measurements and Disclosures. FASB ASC 820, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. FASB ASC 820 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available for sale Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy.

Other real estate Other real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is initially recorded at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and any subsequent adjustments to the fair value are recorded as a component of foreclosed real estate expense. Other real estate is included in Level 3 of the valuation hierarchy.

Other assets Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies. The carrying amount of the cash surrender value of bank owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Company would receive should the policies be surrendered. The Company reflects these assets within Level 3 of the valuation hierarchy.

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The following tables present the financial instruments carried at fair value as of March 31, 2011, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (dollars in thousands)

Fair Value Measurements at March 31, 2011

| <i>(in Thousands)</i> | Carrying Value at March 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|---|--|---|--|
| Assets: | | | | |
| Available-for-sale securities | \$ 251,254 | \$ 2,009 | \$ 249,245 | \$ |
| Cash surrender value | 1,568 | | | 1,568 |

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at March 31, 2011

| <i>(in Thousands)</i> | Carrying Value at March 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-----------------------|---|--|---|--|
| Assets: | | | | |
| Impaired loans | \$ 51,279 | \$ | \$ | \$ 51,279 |
| Other real estate | 15,279 | | | 15,279 |
| Reposessed assets | 6 | | | 6 |

Changes in level 3 fair value measurements

The table below includes a roll forward of the balance sheet amounts for the three months ended March 31, 2011 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurements. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

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Three months ended, March 31, 2011 *(in thousands)*

| | Assets | Liabilities |
|--|----------|-------------|
| Fair Value, January 1, 2011 | \$ 1,554 | \$ |
| Total realized gains included in income | 14 | |
| Purchases, issuances and settlements, net | | |
| Transfers in and/or (out) of Level 3 | | |
| | | |
| Fair Value, March 31, 2011 | \$ 1,568 | \$ |
| | | |
| Total realized gains (losses) included in income related to financial assets and liabilities still on the consolidated balance sheet at March 31, 2011 | \$ | \$ |

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2011 and December 31, 2010. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Cash, Due From Banks and Federal Funds Sold The carrying amounts of cash, due from banks, and federal funds sold approximate their fair value.

Securities held to maturity Estimated fair values for securities held to maturity are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Mortgage loans held-for-sale Mortgage loans held-for-sale are carried at the lower of cost or fair value and are classified within Level 2 of the valuation hierarchy. The inputs for valuation of these assets are based on the anticipated sales price of these loans as the loans are usually sold within a few weeks of their origination.

Deposits, Securities Sold Under Agreements to Repurchase, Federal Home Loan Bank Advances The carrying amounts of demand deposits, savings deposits, securities sold under agreements to repurchase, floating rate advances from the Federal Home Loan Bank and floating rate subordinated debt approximate their fair values. Fair values for certificates of deposit and fixed rate advances from the Federal Home Loan Bank are estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities.

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The carrying value and estimated fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010 are as follows:

| | <i>In Thousands</i> | | | |
|---|---------------------|---------------|--------------------|---------------|
| | March 31, 2011 | | December 31, 2010 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and short-term Investments | \$ 74,862 | 74,862 | \$ 38,282 | 38,282 |
| Securities available-for-sale | 251,254 | 251,254 | 277,032 | 277,032 |
| Securities, held to maturity | 15,277 | 15,660 | 13,396 | 13,690 |
| Loans, net of unearned Interest | 1,097,743 | | 1,095,268 | |
| Less: allowance for loan Losses | 22,048 | | 22,177 | |
| Loans, net of allowance | 1,075,695 | 1,077,725 | 1,073,091 | 1,075,663 |
| Loans held for sale | 4,015 | 4,015 | 7,845 | 7,845 |
| Restricted equity securities | 3,012 | 3,012 | 3,012 | 3,012 |
| Accrued interest receivable | 6,352 | 6,352 | 6,252 | 6,252 |
| Cash surrender value of life insurance | 1,568 | 1,568 | 1,554 | 1,554 |
| Other real estate | 15,279 | 15,279 | 13,741 | 13,741 |
| Financial liabilities: | | | | |
| Deposits | 1,338,479 | 1,345,565 | 1,331,282 | 1,339,747 |
| Securities sold under repurchase agreements | 6,152 | 6,152 | 6,536 | 6,536 |
| Accrued interest payable | 2,672 | 2,672 | 3,762 | 3,762 |
| Unrecognized financial instruments: | | | | |
| Commitments to extend credit | | | | |
| Standby letters of credit | | | | |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion is to provide insight into the financial condition and results of operations of the Company and its subsidiary. This discussion should be read in conjunction with the consolidated financial statements. Reference should also be made to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for a more complete discussion of factors that impact liquidity, capital and the results of operations.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements regarding, among other things, the anticipated financial and operating results of the Company. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

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In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions investors that future financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. The words expect, intend, should, may, could, believe, suspect, anticipate, seek, plan, estimate and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical fact may also be considered forward-looking. Such forward-looking statements involve known and unknown risks and uncertainties, including, but not limited to those described in the Company's Annual Report on Forms 10-K and also includes, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for these losses, (ii) greater than anticipated deterioration in the real estate market conditions in the Company's market areas, (iii) increased competition with other financial institutions, (iv) the deterioration of the economy in the Company's market area, (v) continuation of the extremely low short-term interest rate environment or rapid fluctuations in short-term interest rates, (vi) significant downturns in the business of one or more large customers, (vii) changes in state or Federal regulations, policies, or legislation applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act, (viii) changes in capital levels and loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments, (ix) inadequate allowance for loan losses, (x) the effectiveness of the Company's activities in improving, resolving or liquidating lower quality assets, (xi) results of regulatory examinations, and (xii) loss of key personnel. These risks and uncertainties may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. The Company's future operating results depend on a number of factors which were derived utilizing numerous assumptions that could cause actual results to differ materially from those projected in forward-looking statements.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses and the assessment of impairment of the intangibles resulting from our mergers with Dekalb Community Bank and Community Bank of Smith County in 2005 have been critical to the determination of our financial position and results of operations.

Allowance for Loan Losses (allowance). Our management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a confirming event has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, is deemed to be uncollectible.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means that both the interest and principal payments of a loan will be collected as scheduled in the loan agreement.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). The impairment is recognized through the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral, less estimated disposal costs. If the measure of the impaired loan is less than the recorded investment in the loan, the Company recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses. Management believes it follows appropriate accounting and regulatory guidance in determining impairment and accrual status of impaired loans.

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The level of allowance maintained is believed by management to be adequate to absorb probable losses inherent in the portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

In assessing the adequacy of the allowance, we also consider the results of our ongoing loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, the input from our independent loan reviewers, and reviews that may have been conducted by bank regulatory agencies as part of their usual examination process. We incorporate loan review results in the determination of whether or not it is probable that we will be able to collect all amounts due according to the contractual terms of a loan.

As part of management's quarterly assessment of the allowance, management divides the loan portfolio into twelve segments based on bank call reporting requirements. Each segment is then analyzed such that an allocation of the allowance is estimated for each loan segment.

The allowance allocation begins with a process of estimating the probable losses in each of the twelve loan segments. The estimates for these loans are based on our historical loss data for that category over the last eight quarters.

The estimated loan loss allocation for all twelve loan portfolio segments is then adjusted for several environmental factors. The allocation for environmental factors is particularly subjective and does not lend itself to exact mathematical calculation. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified, as of the balance sheet date, and are based upon quarterly trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, credit concentration changes, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures and other influencing factors. These environmental factors are considered for each of the twelve loan segments and the allowance allocation, as determined by the processes noted above for each component, is increased or decreased based on the incremental assessment of these various environmental factors.

We then test the resulting allowance by comparing the balance in the allowance to industry and peer information. Our management then evaluates the result of the procedures performed, including the result of our testing, and concludes on the appropriateness of the balance of the allowance in its entirety. The board of directors reviews and approves the assessment prior to the filing of quarterly and annual financial information.

Impairment of Intangible Assets. Long-lived assets, including purchased intangible assets subject to amortization, such as our core deposit intangible asset, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

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Goodwill and intangible assets that have indefinite useful lives are evaluated for impairment annually and are evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. That annual assessment date is December 31. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill.

Results of Operations

Net earnings decreased 4.2% to \$2,476,000 for the three months ended March 31, 2011 from \$2,585,000 in the first quarter of 2010. The decrease in net earnings was primarily due to a 13.6% increase in non-interest expense, offset by a 5.8% increase in the net interest income and a 6.4% increase in non-interest income. Net interest margin for the quarter ended March 31, 2011 was 3.77% as compared to 3.21% for the first quarter of 2010. The increase in net interest margin reflects the Company's ability to continue to reduce cost of funds, primarily deposit rates, while also growing its funding base.

Net Interest Income

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Company's earnings. The Company's interest income, excluding tax equivalent adjustments, decreased \$1,301,000, or 6.8%, to \$17,915,000 during the three months ended March 31, 2011, reflecting the continuing impact of low interest rate policies initiated by the Federal Reserve Board and the negative impact of higher non-accrual loan balances. The ratio of average earning assets to total average assets was 94.2% and 95.6% for the quarters ended March 31, 2011 and March 31, 2010, respectively.

Interest expense decreased \$2,025,000, or 30.1%, to \$4,699,000 for the three months ended March 31, 2011 compared to the same period in 2010. The decrease for the quarter ended March 31, 2011 was due to a decrease in the rates paid on deposits, particularly time deposits, reflecting the low interest rate environment and a shift in the mix of deposits from certificates of deposits to transaction and money market accounts.

Interest expense declined more than interest income and resulted in an increase in net interest income, before the provision for loan losses, of \$724,000, or 5.8%, for the first three months of 2011 as compared to the first quarter of 2010.

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FORM 10-Q, CONTINUED*****Provision for Loan Losses**

The provision for loan losses was \$1,969,000 and \$2,106,000, respectively, for the first three months of 2011 and 2010, respectively. The decrease in the provision was primarily related to Management's quarterly assessment of the allowance for loan losses. The allowance for loan losses is based on past loan experience and other factors which, in management's judgment, deserve current recognition in estimating possible loan losses. Such factors include, growth and composition of the loan portfolio, review of specific problem loans, review of updated appraisals and borrower financial information, the recommendations of the Company's regulators, and current economic conditions that may affect the borrower's ability to repay. Management has in place a system designed for monitoring its loan portfolio and identifying potential problem loans. Net charge-offs of \$2,098,000 exceeded the provision by \$129,000 and decreased the allowance for loan losses to \$22,048,000, a decrease of 0.6% from \$22,177,000 at December 31, 2010. The allowance for loan losses was 2.01% and 2.02% of total loans outstanding at March 31, 2011 and December 31, 2010, respectively.

Management believes the allowance for loan losses at March 31, 2011 to be adequate, but if economic conditions continue to deteriorate beyond management's current expectations and additional charge-offs are incurred, the allowance for loan losses may require an increase through additional provision for loan losses which would negatively impact earnings.

Non-Interest Income

The components of the Company's non-interest income include service charges on deposit accounts, gains on the sale of investments, other fees and commissions, and gain on sale of loans. Total non-interest income for the three months ended March 31, 2011 increased to \$3,228,000 from \$3,034,000, or 6.4%, for the same period in 2010. Gain on sale of loans decreased \$19,000, or 6.0%, to \$300,000 relating primarily to the decrease in mortgage originations and refinancings which occurred during the first quarter of 2011 as compared to the first quarter of 2010. The Company's non-interest income in 2011 was also reduced from the first quarter of 2010 because of the much higher gain on sale of investments from portfolio restructuring in the 2010 period. Service charges on deposit accounts decreased \$4,000, or 0.3%, to \$1,288,000 for the three months ended March 31, 2011 when compared to the same period in 2010. Other fees and commissions increased \$267,000, or 19.5%, in the first quarter of 2011 when compared to 2010. Other fees and commissions include income on brokerage accounts, insurance policies sold, and various other fees.

Non-Interest Expenses

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, data processing expenses, directors' fees, advertising and marketing expenses, expenses associated with carrying and selling other real estate, and other operating expenses. Total non-interest expenses increased \$1,248,000, or 13.6%, during the first three months of 2011 compared to the same period in 2010. The increase in non-interest expenses is primarily attributable to an increase in salaries and employee benefits as the Company begins to expand with the opening of two new offices in May and July of 2011. Other operating expenses for the three months ended March 31, 2011 increased to \$3,224,000 from \$2,568,000 for the three months ended March 31, 2010, relating primarily to an increase in other real estate owned caused by an increase in costs associated with the disposal and maintenance of other real estate.

Income Taxes

The Company's income tax expense was \$1,554,000 for the three months ended March 31, 2011, a decrease of \$84,000 over the comparable period in 2010. The percentage of income tax expense to net income before taxes was 38.6% and 38.8% for the periods ended March 31, 2011 and 2010, respectively.

Table of Contents**WILSON BANK HOLDING COMPANY
FORM 10-Q, CONTINUED****Financial Condition****Balance Sheet Summary**

The Company's total assets increased 0.8% to \$1,499,741,000 during the three months ended March 31, 2011 from \$1,488,106,000 at December 31, 2010. Loans, net of allowance for loan losses, totaled \$1,075,695,000 at March 31, 2011, a 0.2% increase from \$1,073,091,000 at December 31, 2010. Securities decreased \$23,897,000, or 8.2%, to \$266,531,000 at March 31, 2011 and Federal funds sold increased \$21,410,000 to \$24,635,000 at March 31, 2011 from \$3,225,000 at December 31, 2010, resulting from a growth in deposits that exceeded loan growth and a reduction in securities.

Total liabilities increased by 0.6% to \$1,352,009,000 during the three months ended March 31, 2011 compared to \$1,343,773,000 at December 31, 2010. This increase was composed primarily of a \$7,197,000 increase in total deposits from \$1,331,282,000 at December 31, 2010 to \$1,338,479,000 at March 31, 2011. The increase in deposits included an increase in demand deposits, NOW and savings accounts of \$24,503,000 offset by a decrease in time deposits of \$17,306,000. Securities sold under repurchase agreements decreased \$384,000 during the quarter ended March 31, 2011.

Non Performing Assets

The following tables present the Company's non-accrual loans and past due loans as of March 31, 2011 and December 31, 2010.

Loans on Nonaccrual Status

| | <i>In Thousands</i> | |
|------------------------|---------------------|-----------|
| | 2011 | 2010 |
| Residential 1-4 family | \$ 3,075 | 3,611 |
| Multifamily | | |
| Commercial real estate | 391 | 7,465 |
| Construction | 9,528 | 7,850 |
| Farmland | 1,305 | 1,308 |
| Second mortgages | 606 | 770 |
| Equity lines of credit | | 667 |
| Commercial | 490 | 490 |
| Installment and other | | |
| Total | \$ 15,395 | \$ 22,161 |

Age Analysis of Past Due Loans

| | | | | <i>In Thousands</i> | | | Recorded Investment Greater Than 90 Days and Accruing |
|------------------------------|------------------------------|----------------------------|-------------------|---------------------|----------------|--|---|
| 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans | | |
| | | | | | | | |

March 31, 2011

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| | | | | | | | |
|--|-----------|-------|--------|--------|-----------|-----------|-------|
| Residential 1-4 family | \$ 6,757 | 1,006 | 4,734 | 12,497 | 341,442 | 353,939 | 1,659 |
| Multifamily | 53 | | | 53 | 9,325 | 9,378 | |
| Commercial real estate | 2,077 | 301 | 616 | 2,994 | 368,230 | 371,224 | 225 |
| Construction | 1,537 | 3,147 | 9,544 | 14,228 | 154,992 | 169,220 | 16 |
| Farmland | 234 | | 2,728 | 2,962 | 34,092 | 37,054 | 1,423 |
| Second mortgages | 507 | 92 | 810 | 1,409 | 13,534 | 14,943 | 204 |
| Equity lines of credit | 188 | | | 188 | 35,723 | 35,911 | |
| Commercial | 332 | 521 | 491 | 1,344 | 50,163 | 51,507 | 1 |
| Agricultural, installment and other | 757 | 147 | 116 | 1,020 | 55,058 | 56,078 | 116 |
| Total | \$ 12,442 | 5,214 | 19,039 | 36,695 | 1,062,559 | 1,099,254 | 3,644 |

December 31, 2010

| | | | | | | | |
|--|-----------|-------|--------|--------|-----------|-----------|-------|
| Residential 1-4 family | \$ 5,714 | 1,080 | 5,141 | 11,935 | 339,302 | 351,237 | 1,530 |
| Multifamily | 53 | | 79 | 132 | 8,579 | 8,711 | 79 |
| Commercial real estate | 558 | 200 | 7,673 | 8,431 | 338,950 | 347,381 | 208 |
| Construction | 1,830 | 160 | 8,028 | 10,018 | 166,824 | 176,842 | 178 |
| Farmland | 1,572 | 188 | 1,651 | 3,411 | 34,958 | 38,369 | 343 |
| Second mortgages | 215 | 48 | 890 | 1,153 | 14,220 | 15,373 | 120 |
| Equity lines of credit | 73 | | 667 | 740 | 36,121 | 36,861 | |
| Commercial | 330 | 2 | 492 | 824 | 56,425 | 57,249 | 2 |
| Agricultural, installment and other | 872 | 159 | 108 | 1,139 | 63,453 | 64,592 | 108 |
| Total | \$ 11,217 | 1,837 | 24,729 | 37,783 | 1,058,832 | 1,096,615 | 2,568 |

Generally, at the time a loan is placed on nonaccrual status, all interest accrued on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. A nonaccrual loan may be restored to accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt.

Non-performing loans, which included non-accrual loans and loans 90 days past due, at March 31, 2011 totaled \$19,039,000, a decrease from \$24,729,000 at December 31, 2010. The decrease in non-performing loans during the three months ended March 31, 2011 of \$5,690,000 is due primarily to a decrease in non-performing real estate mortgage loans of \$7,213,000, and a decrease in commercial loans of \$1,000, off-set in part by an increase in non-performing construction real estate mortgage loans of \$1,516,000 and an increase in non-performing consumer loans of \$8,000. The decrease in non-performing loans relates primarily to the transfer of two large loan relationships to other real estate. Management believes that it is probable that it will incur losses on these loans but believes that these losses should not exceed the amount in the allowance for loan losses already allocated to these loans, unless there is further deterioration of local real estate values.

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Other loans may be classified as impaired when the current net worth and financial capacity of the borrower or of the collateral pledged, if any, is viewed as inadequate. Such loans generally have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Company's criteria for nonaccrual status.

The decrease in impaired loans in the three months ended March 31, 2011 was primarily due to foreclosure and subsequent sale of one large commercial real estate loan. The Company's market areas continue to experience a weakened residential and commercial real estate market. Home builders and developers continue to experience stress during the current recession due to a combination of reduced demand for residential real estate and the resulting price and collateral value declines. Housing starts in the Company's market areas are at very low levels. The allowance for loan loss related to impaired loans was measured based upon the estimated fair value of related collateral.

Loans are charged-off in the month when the determination is made that a loss will be incurred. Net charge-offs for the three months ended March 31, 2011 were \$2,098,000 as compared to \$1,342,000 for the three months ended March 31, 2010, an increase of 56.3% in the most recent period.

The collateral values securing potential problem loans, including impaired loans, based on estimates received by management, total approximately \$92,548,000 (\$91,838,000 related to real property and 710,000 related to various other types of loans). The internally classified loans have increased \$3,751,000, or 5.9%, from \$63,166,000 at December 31, 2010. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

The largest category of internally graded loans at March 31, 2011 was real estate mortgage loans. Included within this category are residential real estate construction and development loans, including loans to home builders and developers of land, as well as one to four family mortgage loans, and commercial real estate loans. Residential real estate loans, including construction and land development, that are internally classified totaled \$44,038,000 and \$36,698,000 at March 31, 2011 and December 31, 2010, respectively, that have been graded accordingly due to bankruptcies, inadequate cash flows and delinquencies. Borrowers within this segment have continued to experience stress during the current recession due to a combination of declining demand for residential real estate and the resulting price and collateral declines. In addition, housing starts in the Company's market areas continue to slow. An extended recessionary period will likely cause the Company's real estate mortgage loans to continue to underperform and may result in increased levels of internally graded loans which, if they continue to deteriorate, may negatively impact the Company's results of operation. Management does not anticipate losses on these loans to exceed the amount already allocated to loan losses, unless there is further deterioration of local real estate values.

Liquidity and Asset Management

The Company's management seeks to maximize net interest income by managing the Company's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers and fund attractive investment opportunities. Higher levels of liquidity bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher interest expense involved with extending liability maturities.

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Liquid assets include cash and cash equivalents and investment securities and money market instruments that will mature within one year. At March 31, 2011, the Company's liquid assets totaled \$233,259,000. The Company maintains a formal asset and liability management process to quantify, monitor and control interest rate risk and to assist management in maintaining stability in the net interest margin under varying interest rate environments. The Company accomplishes this process through the development and implementation of lending, funding and pricing strategies designed to maximize net interest income under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

Analysis of rate sensitivity and rate gap analysis are the primary tools used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Included in the analysis are cash flows and maturities of financial instruments held for purposes other than trading, changes in market conditions, loan volumes and pricing and deposit volume and mix. These assumptions are inherently uncertain, and, as a result, net interest income can not be precisely estimated nor can the impact of higher or lower interest rates on net interest income be precisely predicted. Actual results will differ due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management's strategies, among other factors.

The Company's primary source of liquidity is a stable core deposit base. In addition, loan payments, investment security maturities and short-term borrowings provide a secondary source.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long term earnings through funds management/interest rate risk management. The Company's rate sensitivity position has an important impact on earnings. Senior management of the Company meets monthly to analyze the rate sensitivity position of the Company's subsidiary bank. These meetings focus on the spread between the Company's cost of funds and interest yields generated primarily through loans and investments.

The Company's securities portfolio consists of earning assets that provide interest income. For those securities classified as held-to-maturity, the Company has the ability and intent to hold these securities to maturity or on a long-term basis. Securities classified as available-for-sale include securities intended to be used as part of the Company's asset/liability strategy and/or securities that may be sold in response to changes in interest rate, prepayment risk, the need or desire to increase capital and similar economic factors. Securities totaling approximately \$4,019,000 mature or will be subject to rate adjustments within the next twelve months.

A secondary source of liquidity is the Company's loan portfolio. At March 31, 2011, loans totaling approximately \$297.7 million either will become due or will be subject to rate adjustments within twelve months from that date. Continued emphasis will be placed on structuring adjustable rate loans.

As for liabilities, certificates of deposit of \$100,000 or greater totaling approximately \$197.3 million will become due or reprice during the next twelve months. Historically, there has been no significant reduction in immediately withdrawable accounts such as negotiable order of withdrawal accounts, money market demand accounts, demand deposit accounts and regular savings accounts. Management anticipates that there will be no significant withdrawals from these accounts in the future.

Management believes that with present maturities, the anticipated growth in deposit base, and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future. At the present time there are no known trends or any known commitments, demands, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity changing in a materially adverse way.

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Off Balance Sheet Arrangements

At March 31, 2011, we had unfunded loan commitments outstanding of \$169.8 million and outstanding standby letters of credit of \$19.1 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Company's bank subsidiary has the ability to liquidate Federal funds sold or securities available-for-sale or on a short-term basis to borrow and purchase Federal funds from other financial institutions. Additionally, the Company's bank subsidiary could sell participations in these or other loans to correspondent banks. As mentioned above, the Company's bank subsidiary has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, its investment security maturities and short-term borrowings.

Capital Position and Dividends

At March 31, 2011, total shareholders' equity was \$147,732,000, or 9.9% of total assets, which compares with \$144,333,000, or 9.7% of total assets at December 31, 2010. The dollar increase in shareholders' equity during the three months ended March 31, 2011 results from the Company's net income of \$2,476,000, proceeds from the issuance of common stock related to exercise of stock options of \$46,000, the net effect of a \$2,289,000 unrealized gain on investment securities less applicable income taxes of \$876,000, cash dividends declared of \$2,168,000, of which \$1,626,000 was reinvested under the Company's dividend reinvestment plan, and \$6,000 related to stock option compensation.

The Company and the Bank are subject to regulatory capital requirements administered by the Federal Deposit Insurance Corporation, the Federal Reserve and the Tennessee Department of Financial Institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

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As of March 31, 2011 and December 31, 2010, the Company and the Bank are considered to be well capitalized under regulatory definitions. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables:

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2011 and December 31, 2010, are also presented in the tables:

| | <i>Actual</i> | | <i>Minimum Capital Requirement</i> | | <i>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</i> | |
|--|---------------|--------------|------------------------------------|--------------|---|--------------|
| | <i>Amount</i> | <i>Ratio</i> | <i>Amount</i> | <i>Ratio</i> | <i>Amount</i> | <i>Ratio</i> |
| March 31, 2011: | | | | | | |
| <i>Total capital to risk weighted assets:</i> | | | | | | |
| <i>Consolidated</i> | \$ 158,858 | 13.9% | \$ 91,429 | 8.0% | N/A | N/A |
| <i>Wilson Bank</i> | 156,187 | 13.6 | 91,875 | 8.0 | \$ 114,843 | 10.0% |
| <i>Tier 1 capital to risk weighted assets:</i> | | | | | | |
| <i>Consolidated</i> | 144,451 | 12.6 | 46,857 | 4.0 | N/A | N/A |
| <i>Wilson Bank</i> | 141,780 | 12.4 | 45,736 | 4.0 | 68,603 | 6.0 |
| <i>Tier 1 capital to average assets:</i> | | | | | | |
| <i>Consolidated</i> | 144,451 | 9.8 | 58,960 | 4.0 | N/A | N/A |
| <i>Wilson Bank</i> | 141,780 | 9.6 | 59,075 | 4.0 | 73,874 | 5.0 |

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| | <i>Actual</i> | | <i>Minimum Capital Requirement</i> | | <i>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</i> | |
|---|-------------------------------|--------------|------------------------------------|--------------|---|--------------|
| | <i>Amount</i> | <i>Ratio</i> | <i>Amount</i> | <i>Ratio</i> | <i>Amount</i> | <i>Ratio</i> |
| | <i>(dollars in thousands)</i> | | | | | |
| December 31, 2010: | | | | | | |
| <i>Total capital to risk weighted assets:</i> | | | | | | |
| <i>Consolidated</i> | \$ 157,373 | 13.2% | \$ 95,378 | 8.0% | N/A | N/A |
| <i>Wilson Bank</i> | 154,156 | 12.9 | 95,601 | 8.0 | \$ 119,501 | 10.0% |
| <i>Tier 1 capital to risk weighted assets:</i> | | | | | | |
| <i>Consolidated</i> | 142,366 | 11.9 | 47,854 | 4.0 | N/A | N/A |
| <i>Wilson Bank</i> | 139,132 | 11.7 | 47,566 | 4.0 | 71,350 | 6.0 |
| <i>Tier 1 capital to average assets:</i> | | | | | | |
| <i>Consolidated</i> | 142,366 | 9.6 | 59,319 | 4.0 | N/A | N/A |
| <i>Wilson Bank</i> | 139,132 | 9.3 | 59,842 | 4.0 | 74,802 | 5.0 |
| <u>Impact of Inflation</u> | | | | | | |

Although interest rates are significantly affected by inflation, the inflation rate is immaterial when reviewing the Company's results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Company's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. Based upon the nature of the Company's operations, the Company is not subject to foreign currency exchange or commodity price risk.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Company's rate sensitivity position has an important impact on earnings. Senior management of the Company meets monthly to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments. There have been no material changes in reported market risks during the three months ended March 31, 2011.

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Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designated to ensure that information required to be disclosed by the Company: in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, its Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 1A. RISK FACTORS

Except as set forth below, there were no material changes to the Company's risk factors as previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010:

The effectiveness of the Company's asset management activities are critical to its ability to improve, resolve or liquidate nonperforming loans and other real estate and thereby reduce loan losses and other real estate expense.

Over the past two years, the Company has undertaken various initiatives to enhance its credit review, loan administration and special asset management and administration procedures, and believes that these enhancements have begun to reduce the levels of our problem and potential problem assets. However, continued improvement is dependent to a degree on market conditions and other factors beyond the Company's control and the Company is unable to successfully manage its problem and potential problem assets in a timely matter, it could experience materially increased loan losses and other real estate expenses.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) None
- (b) Not applicable.
- (c) None

Item 3. DEFAULTS UPON SENIOR SECURITIES

- (a) None
- (b) Not applicable.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

(a) Exhibits

- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILSON BANK HOLDING COMPANY

(Registrant)

DATE: May 10, 2011

/s/ Randall Clemons

Randall Clemons

President and Chief Executive Officer

DATE: May 10, 2011

/s/ Lisa Pominski

Lisa Pominski

Senior Vice President & Chief Financial
Officer