

WILSON BANK HOLDING CO  
Form 10-Q  
May 09, 2012

**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, 2012

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)

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|   |  |
|---|--|
| <b>Tennessee</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>62-1497076</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>623 West Main Street, Lebanon, TN</b><br>(Address of principal executive offices)  | <b>37087</b><br>(Zip Code)                                   |
| <b>(615) 444-2265</b><br>(Registrant's telephone number, including area code)         |  |

**Not Applicable**

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

Indicate by checkmark 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  (Do not check if a smaller reporting company) Smaller reporting company

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: 7,346,919 shares at May 9, 2012

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**Part I. Financial Information****Item 1. Financial Statements****WILSON BANK HOLDING COMPANY****Consolidated Balance Sheets****March 31, 2012 and December 31, 2011****(Unaudited)**

|   | March 31,<br>2012      | December 31,<br>2011 |
|---|------------------------|----------------------|
|   | (Dollars in Thousands) |                      |
| <u>Assets</u>   |                        |                      |
| Loans   | \$ 1,138,427           | \$ 1,123,258         |
| Less: Allowance for loan losses   | (25,801)               | (24,525)             |
| Net loans   | 1,112,626              | 1,098,733            |
| Securities:   |                        |                      |
| Held to maturity, at cost (market value \$16,101 and \$15,266, respectively)                                      | 15,357                 | 14,464               |
| Available-for-sale, at market (amortized cost \$323,786 and \$309,329, respectively)                              | 324,838                | 310,731              |
| Total securities  | 340,195                | 325,195              |
| Loans held for sale   | 12,690                 | 14,775               |
| Federal funds sold  | 30,710                 | 13,215               |
| Restricted equity securities  | 3,012                  | 3,012                |
| Total earning assets  | 1,499,233              | 1,454,930            |
| Cash and due from banks   | 47,207                 | 40,959               |
| Bank premises and equipment, net  | 35,545                 | 35,437               |
| Accrued interest receivable   | 5,820                  | 5,930                |
| Deferred income tax asset   | 8,646                  | 8,488                |
| Other real estate   | 20,158                 | 19,117               |
| Goodwill  | 4,805                  | 4,805                |
| Other intangible assets, net  | 13                     | 112                  |
| Other assets  | 7,402                  | 7,592                |
| Total assets  | \$ 1,628,829           | \$ 1,577,370         |
| <u>Liabilities and Shareholders' Equity</u>   |                        |                      |
| Deposits  | \$ 1,452,697           | \$ 1,406,042         |
| Securities sold under repurchase agreements   | 7,997                  | 7,419                |
| Accrued interest and other liabilities  | 8,688                  | 6,561                |
| Total liabilities   | 1,469,382              | 1,420,022            |
| Shareholders' equity:   |                        |                      |
| Common stock, \$2.00 par value; authorized 15,000,000 shares, issued 7,346,061 and 7,304,186 shares, respectively | 14,692                 | 14,608               |
| Additional paid-in capital  | 48,330                 | 46,734               |

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|   |              |              |
|---|--------------|--------------|
| Retained earnings   | 95,775       | 95,141       |
| Net unrealized gains on available-for-sale securities, net of income taxes of \$402 and \$537, respectively | 650          | 865          |
| Total shareholders' equity  | 159,447      | 157,348      |
| Total liabilities and shareholders' equity  | \$ 1,628,829 | \$ 1,577,370 |

See accompanying notes to consolidated financial statements (unaudited).

**WILSON BANK HOLDING COMPANY****Consolidated Statements of Earnings****Three Months Ended March 31, 2012 and 2011****(Unaudited)**

|   | <b>2012</b>  | <b>2011</b>   |
|---|--|---------------|
|   | (Dollars in Thousands Except<br>Per Share Amounts) |               |
| <b>Interest income:</b>                                     |  |               |
| Interest and fees on loans                                  | \$ 16,273  | \$ 16,239     |
| <b>Interest and dividends on securities:</b>                |  |               |
| Taxable securities  | 1,358  | 1,461         |
| Exempt from Federal income taxes                            | 101  | 110           |
| Interest on loans held for sale                             | 98   | 54            |
| Interest on Federal funds sold                              | 33   | 15            |
| Interest and dividends on restricted securities             | 42   | 36            |
| <b>Total interest income</b>                                | <b>17,905</b>                                      | <b>17,915</b> |
| <b>Interest Expense:</b>                                    |  |               |
| Interest on negotiable order of withdrawal accounts         | 506  | 551           |
| Interest on money market and savings accounts               | 757  | 690           |
| Interest on certificates of deposits                        | 2,670  | 3,442         |
| Interest on securities sold under repurchase agreements     | 14   | 14            |
| Interest on Federal funds purchased                         | 1  | 2             |
| <b>Total interest expense</b>                               | <b>3,948</b>                                       | <b>4,699</b>  |
| <b>Net interest income before provision for loan losses</b> | <b>13,957</b>                                      | <b>13,216</b> |
| Provision for loan loss                                     | 2,256  | 1,969         |
| <b>Net interest income after provision for loan losses</b>  | <b>11,701</b>                                      | <b>11,247</b> |
| <b>Non-interest income:</b>                                 |  |               |
| Service charges on deposit accounts                         | 1,210  | 1,288         |
| Other fees and commissions                                  | 1,833  | 1,640         |
| Gain on sale of loans                                       | 621  | 300           |
| Gain on sale of other assets                                | 3  |               |
| Gain on sale of securities                                  | 23   |               |
| <b>Total non-interest income</b>                            | <b>3,690</b>                                       | <b>3,228</b>  |
| <b>Non-interest expense:</b>                                |  |               |
| Salaries and employee benefits                              | 5,849  | 5,332         |
| Occupancy expenses, net                                     | 625  | 572           |
| Furniture and equipment expense                             | 273  | 247           |
| Data processing expense                                     | 309  | 314           |
| Director's fees   | 202  | 200           |
| Other operating expenses                                    | 2,720  | 3,224         |
| Loss on sale of other assets                                |  | 5             |
| Loss on sale of other real estate                           | 782  | 551           |

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|   |           |           |
|---|-----------|-----------|
| Total non-interest expense                        | 10,760    | 10,445    |
| Earnings before income taxes                      | 4,631     | 4,030     |
| Income taxes                                      | 1,806     | 1,554     |
| Net earnings                                      | \$ 2,825  | \$ 2,476  |
| Weighted avg number of shares outstanding-basic   | 7,331,514 | 7,258,143 |
| Weighted avg number of shares outstanding-diluted | 7,337,322 | 7,265,259 |
| Basic earnings per common share                   | \$ 0.39   | \$ 0.34   |
| Diluted earnings per common share                 | \$ 0.39   | \$ 0.34   |
| Dividends per share                               | \$ 0.30   | \$ 0.30   |

See accompanying notes to consolidated financial statements (unaudited).

**WILSON BANK HOLDING COMPANY**

*Consolidated Statements of Comprehensive Earnings*

*Three Months Ended March 31, 2012 and 2011*

*(Unaudited)*

|   | 2012           | 2011     |
|---|----------------|----------|
|   | (In Thousands) |          |
| Net earnings  | \$ 2,825       | \$ 2,476 |
| Other comprehensive earnings (losses), net of tax:  |                |          |
| Unrealized gains (losses) on available-for-sale securities arising during period, net of taxes of \$126 and \$876, respectively | (201)          | 1,413    |
| Reclassification adjustment for net gains included in net earnings, net of taxes of \$9 and \$0, respectively                   | (14)           |          |
| Other comprehensive earnings (losses)   | (215)          | 1,413    |
| Comprehensive earnings  | \$ 2,610       | \$ 3,889 |

See accompanying notes to consolidated financial statements (unaudited).



**WILSON BANK HOLDING COMPANY****Consolidated Statements of Cash Flows****Three Months Ended March 31, 2012 and 2011****Increase in Cash and Cash Equivalents****(Unaudited)**

|   | 2012             | 2011             |
|---|------------------|------------------|
|   | (In Thousands)   |                  |
| <b>Cash flows from operating activities:</b>  |                  |                  |
| Interest received   | \$ 18,811        | \$ 18,328        |
| Fees and commissions received   | 3,043            | 2,928            |
| Proceeds from sale of loans held for sale   | 27,747           | 19,760           |
| Origination of loans held for sale  | (25,041)         | (15,630)         |
| Interest paid   | (4,750)          | (5,777)          |
| Cash paid to suppliers and employees  | (7,949)          | (7,386)          |
| Income taxes paid   | (266)            | (403)            |
| <b>Net cash provided by operating activities</b>  | <b>11,595</b>    | <b>11,820</b>    |
| <b>Cash flows from investing activities:</b>  |                  |                  |
| Purchase of held-to-maturity securities   | (1,386)          | (2,025)          |
| Purchase of available-for-sale securities   | (68,490)         | (4,970)          |
| Proceeds from maturities, calls and principal payments of available for sale securities | 53,278           | 32,542           |
| Proceeds from sale of other real estate   | 1,290            | 1,424            |
| Proceeds from maturities, calls and principal payments of held-to-maturity securities   | 475              | 126              |
| Increase in loans made to customers   | (19,271)         | (8,097)          |
| Purchase of premises and equipment  | (476)            | (598)            |
| Proceeds from sale of other assets  | 12               | 41               |
| <b>Net cash provided by (used in) investing activities</b>                              | <b>(34,568)</b>  | <b>18,443</b>    |
| <b>Cash flows from financing activities:</b>  |                  |                  |
| Net increase in non-interest bearing, savings and NOW deposit accounts                  | 71,637           | 24,503           |
| Net increase (decrease) in time deposits  | (24,982)         | (17,306)         |
| Decrease in securities sold under repurchase agreements                                 | 578              | (384)            |
| Dividends paid  | (2,191)          | (2,168)          |
| Proceeds from sale of common stock pursuant to dividend reinvestment plan               | 1,599            | 1,626            |
| Proceeds from sale of common stock pursuant to exercise of stock options                | 75               | 46               |
| <b>Net cash provided by financing activities</b>  | <b>46,716</b>    | <b>6,317</b>     |
| <b>Net increase in cash and cash equivalents</b>  | <b>23,743</b>    | <b>36,580</b>    |
| <b>Cash and cash equivalents at beginning of period</b>                                 | <b>54,174</b>    | <b>38,282</b>    |
| <b>Cash and cash equivalents at end of period</b>                                       | <b>\$ 77,917</b> | <b>\$ 74,862</b> |

See accompanying notes to consolidated financial statements (unaudited).

**WILSON BANK HOLDING COMPANY****Consolidated Statements of Cash Flows, Continued****Three Months Ended March 31, 2012 and 2011****Increase in Cash and Cash Equivalents****(Unaudited)**

|  | 2012             | 2011             |
|--|------------------|------------------|
|  | (In Thousands)   |                  |
| Reconciliation of net earnings to net cash provided by operating activities:   |                  |                  |
| Net earnings   | \$ 2,825         | \$ 2,476         |
| Adjustments to reconcile net earnings to net cash provided by operating activities:  |                  |                  |
| Depreciation and amortization  | 1,263            | 936              |
| Stock option compensation  | 6                | 6                |
| Provision for loan losses  | 2,256            | 1,969            |
| Loss on sale of other real estate  | 782              | 551              |
| Loss (gain) on sale of other assets  | (3)              | 5                |
| Gain on sale of securities   | (23)             |                  |
| Decrease in loans held for sale  | 2,085            | 3,830            |
| Decrease in deferred tax assets, net   | (193)            | (24)             |
| Increase in taxes payable  | 1,733            | 1,175            |
| Decrease in other assets, net  | 190              | 584              |
| Increase in other liabilities  | 1,366            | 1,490            |
| Decrease (increase) in interest receivable   | 110              | (100)            |
| Decrease in interest payable   | (802)            | (1,078)          |
| <b>Total adjustments</b>   | <b>\$ 8,770</b>  | <b>\$ 9,344</b>  |
| <b>Net cash provided by operating activities</b>   | <b>\$ 11,595</b> | <b>\$ 11,820</b> |
| Supplemental schedule of non-cash activities:  |                  |                  |
| Unrealized gain (loss) in value of securities available-for-sale, net of income taxes of \$402 and \$2,685 for the quarters ended March 31, 2012 and 2011, respectively. | \$ (215)         | \$ 1,413         |
| Non cash transfers from loans to other real estate   | \$ 3,199         | \$ 7,485         |
| Non cash transfers from other real estate to loans   | \$ 86            | \$ 3,972         |
| Non-cash transfers from loans to other assets  | \$ 9             | \$ 11            |

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, Sumner, 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 2011 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.

*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.

*Loans* Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.

Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, 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.

Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which often is determined when the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis. A nonaccrual loan is returned to accruing status once the loan has been brought current and collection is reasonably assured or the loan has been well-secured through other techniques. Past due status is determined based on the contractual due date per the underlying loan agreement.

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**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2011 and at March 31, 2012, there were no loans classified as nonaccrual that were not also deemed to be impaired. 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. This determination is made using a variety of techniques, which include a review of the borrower's financial condition, debt-service coverage ratios, global cash flow analysis, guarantor support, other loan file information, meetings with borrowers, inspection or reappraisal of collateral and/or consultation with legal counsel as well as results of reviews of other similar industry credits (e.g. builder loans, development loans, church loans, etc). Generally, loans with an identified weakness and principal balance of \$100,000 or more are subject to individual identification for impairment. Individually identified 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 specific valuation allowance is established as a component of the allowance for loan losses or, in the case of collateral dependent loans, the excess is charged off. Changes to the valuation allowance are recorded as a component of the provision for loan losses. Any subsequent adjustments to present value calculations for impaired loan valuations as a result of the passage of time, such as changes in the anticipated payback period for repayment, are recorded as a component of the provision for loan losses. For loans less than \$100,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for loans of a similar type greater than \$100,000.

*Allowance for Loan Losses* The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, loss experience of various loan segments, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent 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, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses, and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

#### **Recently Adopted Accounting Pronouncements**

In April 2011, FASB issued Accounting Standards Update (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 were effective for the quarter ended September 30, 2011 and have been applied retrospectively to the beginning of 2011. As a result of applying these amendments, the Company reviewed all substandard loans that were renewed since January 1, 2011 and identified two new loan modifications that qualified as a troubled debt restructuring. Pursuant to the guidance set forth in the standard, an impairment amount was calculated on each identified transaction consistent with the methodology followed for other impaired loans, described above.

*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

In September 2011, the FASB issued ASU No. 2011-8, Intangibles-Goodwill and Other, regarding testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). Based on the qualitative assessment, if an entity determines that the fair value of a reporting unit is more than its carrying amount, the two-step goodwill impairment test is not required. The new guidance was effective for the Company beginning January 1, 2012. This adoption did not have an impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income, new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and requires presentation of reclassification adjustments on the face of the income statement. This adoption did not have any impact on our financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)-Fair Value Measurement (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 is effective for the Company in its first quarter of fiscal 2012 and will be applied prospectively. This adoption did not have an impact on the Company's financial position or results of operations.

Other than those pronouncements discussed above, there were no other recently issued accounting pronouncements that are expected to impact the Company.

**Note 2. Loans and Allowance for Loan Losses**

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed with the Federal Deposit Insurance Corporation ( FDIC ).

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

The following schedule details the loans of the Company at March 31, 2012 and December 31, 2011:

|  | (In Thousands)      |                         |
|--|---------------------|-------------------------|
|  | March 31,<br>2012   | December<br>31,<br>2011 |
| Mortgage Loans on real estate              |                     |                         |
| Residential 1-4 family                     | \$ 339,104          | \$ 344,029              |
| Multifamily                                | 10,439              | 9,791                   |
| Commercial real estate                     | 444,120             | 410,837                 |
| Construction and land development          | 175,977             | 166,460                 |
| Farmland                                   | 28,538              | 35,691                  |
| Second mortgage                            | 13,670              | 14,711                  |
| Equity lines of credit                     | 37,871              | 39,307                  |
| <b>Total mortgage loans on real estate</b> | <b>1,049,719</b>    | <b>1,020,826</b>        |
| Commercial loans                           | 38,908              | 50,430                  |
| Agriculture loans                          | 2,389               | 2,556                   |
| Consumer installment loans                 |                     |                         |
| Personal                                   | 39,281              | 41,521                  |
| Credit Cards                               | 3,043               | 3,168                   |
| <b>Total consumer installment loans</b>    | <b>42,324</b>       | <b>44,689</b>           |
| Other loans                                | 7,243               | 6,788                   |
|  | <b>1,140,583</b>    | <b>1,125,289</b>        |
| Net deferred loan fees                     | (2,156)             | (2,031)                 |
| <b>Total loans</b>                         | <b>1,138,427</b>    | <b>1,123,258</b>        |
| Less: Allowance for loan losses            | (25,801)            | (24,525)                |
| <b>Net loans</b>                           | <b>\$ 1,112,626</b> | <b>\$ 1,098,733</b>     |

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon 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 borrowers' ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

Transactions in the allowance for loan losses for the quarter ending March 31, 2012 and 2011 are summarized as follows:

|  | <i>In Thousands</i>          |             |                              |              |          |                     |                           |            |              |                             |           |
|--|------------------------------|-------------|------------------------------|--------------|----------|---------------------|---------------------------|------------|--------------|-----------------------------|-----------|
|  | Residential<br>1-4<br>Family | Multifamily | Commercial<br>Real<br>Estate | Construction | Farmland | Second<br>Mortgages | Equity Lines<br>of Credit | Commercial | Agricultural | Installment<br>and<br>Other | Total     |
| <b>March 31, 2012</b>  |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| <b>Allowance for loan losses:</b>                              |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| Beginning balance  | \$ 5,414                     | \$ 54       | \$ 8,242                     | \$ 6,223     | \$ 1,829 | \$ 326              | \$ 653                    | \$ 1,309   | \$ 19        | \$ 456                      | \$ 24,525 |
| Provision  | 452                          | 3           | 1,057                        | 717          | 419      |                     | (255)                     | (81)       | (1)          | (55)                        | 2,256     |
| Charge-offs  | (246)                        |             | (515)                        | (77)         | (34)     | (47)                | (41)                      | (203)      |              | (71)                        | (1,234)   |
| Recoveries   | 26                           |             | 5                            | 160          |          |                     |                           | 13         |              | 50                          | 254       |
| Ending balance   | \$ 5,646                     | 57          | 8,789                        | 7,023        | 2,214    | 279                 | 357                       | 1,038      | 18           | 380                         | 25,801    |
| Ending balance individually evaluated for impairment           | \$ 1,200                     |             | 3,775                        | 2,713        | 1,688    | 48                  | 14                        | 535        |              |                             | 9,973     |
| Ending balance collectively evaluated for impairment           | \$ 4,446                     | 57          | 5,014                        | 4,310        | 526      | 231                 | 343                       | 503        | 18           | 380                         | 15,828    |
| Ending balance loans acquired with deteriorated credit quality | \$                           |             |                              |              |          |                     |                           |            |              |                             |           |
| <b>Loans:</b>  |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| Ending balance   | \$ 339,104                   | 10,439      | 444,120                      | 175,977      | 28,538   | 13,670              | 37,871                    | 38,908     | 2,389        | 49,567                      | 1,140,583 |
| Ending balance individually evaluated for impairment           | \$ 5,454                     |             | 16,306                       | 8,448        | 4,106    | 156                 | 171                       | 620        |              |                             | 35,261    |
| Ending balance collectively evaluated for impairment           | \$ 333,650                   | 10,439      | 427,814                      | 167,529      | 24,432   | 13,514              | 37,700                    | 38,288     | 2,389        | 49,567                      | 1,105,322 |
| Ending balance loans acquired with deteriorated credit quality | \$                           |             |                              |              |          |                     |                           |            |              |                             |           |

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

In Thousands

|  | Residential<br>1-4<br>Family | Multifamily | Commercial<br>Real<br>Estate | Construction | Farmland | Second<br>Mortgages | Equity Lines<br>of Credit | Commercial | Agricultural | Installment<br>and<br>Other | Total     |
|--|------------------------------|-------------|------------------------------|--------------|----------|---------------------|---------------------------|------------|--------------|-----------------------------|-----------|
| <b>December 31, 2011</b>                                       |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| <b>Allowance for loan losses:</b>                              |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| Beginning balance  | \$ 5,140                     | 46          | 7,285                        | 5,558        | 988      | 276                 | 767                       | 1,163      | 67           | 887                         | 22,177    |
| Provision  | 2,311                        | 8           | 2,228                        | 2,279        | 1,137    | 311                 | 18                        | 640        | (47)         | (207)                       | 8,678     |
| Charge-offs  | (2,108)                      |             | (1,283)                      | (1,681)      | (296)    | (268)               | (148)                     | (516)      | (1)          | (461)                       | (6,762)   |
| Recoveries   | 71                           |             | 12                           | 67           |          | 7                   | 16                        | 22         |              | 237                         | 432       |
| Ending balance   | \$ 5,414                     | 54          | 8,242                        | 6,223        | 1,829    | 326                 | 653                       | 1,309      | 19           | 456                         | 24,525    |
| Ending balance individually evaluated for impairment           | \$ 1,053                     |             | 3,744                        | 2,228        | 1,193    | 41                  | 15                        | 754        |              |                             | 9,028     |
| Ending balance collectively evaluated for impairment           | \$ 4,361                     | 54          | 4,498                        | 3,995        | 636      | 285                 | 638                       | 555        | 19           | 456                         | 15,497    |
| Ending balance loans acquired with deteriorated credit quality | \$                           |             |                              |              |          |                     |                           |            |              |                             |           |
| <b>Loans:</b>  |                              |             |                              |              |          |                     |                           |            |              |                             |           |
| Ending balance   | \$ 344,029                   | 9,791       | 410,837                      | 166,460      | 35,691   | 14,711              | 39,307                    | 50,430     | 2,556        | 51,477                      | 1,125,289 |
| Ending balance individually evaluated for impairment           | \$ 11,573                    | 412         | 23,682                       | 16,633       | 4,261    | 922                 | 170                       | 849        |              |                             | 58,502    |
| Ending balance collectively evaluated for impairment           | \$ 332,456                   | 9,379       | 387,155                      | 149,827      | 31,430   | 13,789              | 39,137                    | 49,581     | 2,556        | 51,477                      | 1,066,787 |
| Ending balance loans acquired with deteriorated credit quality | \$                           |             |                              |              |          |                     |                           |            |              |                             |           |



## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

At March 31, 2012, the Company had certain impaired loans of \$25,437,000 which were on non-accruing interest status. At December 31, 2011, the Company had certain impaired loans of \$24,965,000 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, 2012 and December 31, 2011, respectively:

|                                     | <i>(In thousands)</i>  |                                |                      |                                   |                                  |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>March 31, 2012</b>               |                        |                                |                      |                                   |                                  |
| With no related allowance recorded: |                        |                                |                      |                                   |                                  |
| Residential 1-4 family              | \$ 5,227               | 5,227                          |                      | 5,802                             | 71                               |
| Multifamily                         | 410                    | 410                            |                      | 411                               | 6                                |
| Commercial real estate              | 5,505                  | 5,505                          |                      | 6,107                             | 35                               |
| Construction                        | 9,182                  | 9,682                          |                      | 8,821                             | 37                               |
| Farmland                            | 147                    | 147                            |                      | 74                                | 2                                |
| Second Mortgages                    | 729                    | 729                            |                      | 668                               | 1                                |
| Equity Lines of Credit              |                        |                                |                      |                                   |                                  |
| Commercial                          |                        |                                |                      |                                   |                                  |
| Agricultural                        |                        |                                |                      |                                   |                                  |
|                                     | \$ 21,200              | 21,700                         |                      | 21,883                            | 152                              |
| With allowance recorded:            |                        |                                |                      |                                   |                                  |
| Residential 1-4 family              | \$ 5,454               | 5,630                          | 1,200                | 5,380                             | 58                               |
| Multifamily                         |                        |                                |                      |                                   |                                  |
| Commercial real estate              | 16,306                 | 16,510                         | 3,775                | 16,524                            | 219                              |
| Construction                        | 8,448                  | 8,448                          | 2,713                | 8,332                             | 19                               |
| Farmland                            | 4,107                  | 4,327                          | 1,688                | 4,104                             | 24                               |
| Second Mortgages                    | 156                    | 156                            | 48                   | 236                               | 2                                |
| Equity Lines of Credit              | 171                    | 171                            | 14                   | 171                               | 3                                |
| Commercial                          | 620                    | 620                            | 535                  | 735                               | 6                                |
| Agricultural                        |                        |                                |                      |                                   |                                  |
| <b>Total</b>                        | <b>\$ 35,262.00</b>    | <b>35,862</b>                  | <b>9,973</b>         | <b>35,482</b>                     | <b>331</b>                       |
| Residential 1-4 family              | 10,681                 | 10,857                         | 1,200                | 11,182                            | 129                              |
| Multifamily                         | 410                    | 410                            |                      | 411                               | 6                                |
| Commercial real estate              | 21,811                 | 22,015                         | 3,775                | 22,631                            | 254                              |
| Construction                        | 17,630                 | 18,130                         | 2,713                | 17,153                            | 56                               |
| Farmland                            | 4,254                  | 4,474                          | 1,688                | 4,178                             | 26                               |
| Second Mortgages                    | 885                    | 885                            | 48                   | 904                               | 3                                |
| Equity Lines of Credit              | 171                    | 171                            | 14                   | 171                               | 3                                |
| Commercial                          | 620                    | 620                            | 535                  | 735                               | 6                                |
| Agricultural                        |                        |                                |                      |                                   |                                  |
|                                     | \$ 56,462              | 57,562                         | 9,973                | 57,365                            | 483                              |



## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|                                     |                        |                                | (In thousands)       |                                   |                                  |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>December 31, 2011</b>            |                        |                                |                      |                                   |                                  |
| With no related allowance recorded: |                        |                                |                      |                                   |                                  |
| Residential 1-4 family              | \$ 6,263               | 6,439                          |                      | 4,670                             | 271                              |
| Multifamily                         | 412                    | 412                            |                      | 414                               | 23                               |
| Commercial real estate              | 6,711                  | 6,711                          |                      | 4,461                             | 268                              |
| Construction                        | 8,418                  | 8,918                          |                      | 7,327                             | 186                              |
| Farmland                            |                        |                                |                      | 1,366                             |                                  |
| Second Mortgages                    | 606                    | 606                            |                      | 606                               |                                  |
| Equity Lines of Credit              |                        |                                |                      | 93                                |                                  |
| Commercial                          |                        | 176                            |                      | 51                                |                                  |
| Agricultural                        |                        |                                |                      |                                   |                                  |
|                                     | \$ 22,410              | 23,262                         |                      | 18,988                            | 748                              |
| With allowance recorded:            |                        |                                |                      |                                   |                                  |
| Residential 1-4 family              | \$ 5,310               | 5,310                          | 1,053                | 7,361                             | 262                              |
| Multifamily                         |                        |                                |                      |                                   |                                  |
| Commercial real estate              | 16,971                 | 16,971                         | 3,744                | 15,826                            | 673                              |
| Construction                        | 8,215                  | 8,215                          | 2,228                | 12,250                            | 137                              |
| Farmland                            | 4,261                  | 4,261                          | 1,193                | 3,181                             | 129                              |
| Second Mortgages                    | 316                    | 316                            | 41                   | 199                               | 10                               |
| Equity Lines of Credit              | 170                    | 170                            | 15                   | 43                                | 8                                |
| Commercial                          | 849                    | 849                            | 754                  | 928                               | 32                               |
| Agricultural                        |                        |                                |                      |                                   |                                  |
| Total                               | \$ 36,092              | 36,092                         | 9,028                | 39,788                            | 1,251                            |
| Residential 1-4 family              | 11,573                 | 11,749                         | 1,053                | 12,031                            | 533                              |
| Multifamily                         | 412                    | 412                            |                      | 414                               | 23                               |
| Commercial real estate              | 23,682                 | 23,682                         | 3,744                | 20,287                            | 941                              |
| Construction                        | 16,633                 | 17,133                         | 2,228                | 19,577                            | 323                              |
| Farmland                            | 4,261                  | 4,261                          | 1,193                | 4,547                             | 129                              |
| Second Mortgages                    | 922                    | 922                            | 41                   | 805                               | 10                               |
| Equity Lines of Credit              | 170                    | 170                            | 15                   | 136                               | 8                                |
| Commercial                          | 849                    | 1,025                          | 754                  | 979                               | 32                               |
| Agricultural                        |                        |                                |                      |                                   |                                  |
|                                     | \$ 58,502              | 59,354                         | 9,028                | 58,776                            | 1,999                            |

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, 2012, there were \$4.1 million of accruing restructured loans that remain in a performing status. At December 31, 2011, there were \$4.2 million of accruing restructured loans.



*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

Potential problem loans, which include nonperforming loans, amounted to approximately \$66.2 million at March 31, 2012 compared to \$67.3 million at December 31, 2011. 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 federal regulator, for loans classified as special mention, substandard, or doubtful, excluding the impact of nonperforming loans.

The following table presents our loan balances by primary loan classification and the amount classified within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard and doubtful which are defined as follows:

Special Mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

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

Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Company considers all doubtful loans to be impaired and places the loan on nonaccrual status.

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|   | <i>(In Thousands)</i>        |               |                              |                |                                     |               |                         |               |                                     |               | Total            |
|---|------------------------------|---------------|------------------------------|----------------|-------------------------------------|---------------|-------------------------|---------------|-------------------------------------|---------------|------------------|
|   | Residential<br>1-4<br>Family |               | Commercial<br>Real<br>Estate |                | Second<br>Equity Lines<br>Mortgages |               | of Credit<br>Commercial |               | Installment<br>Agricultural & Other |               |                  |
| <b>March 31, 2012</b>   |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| <b>Credit Risk<br/>Profile by<br/>Internally<br/>Assigned Grade</b> |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| Pass  | 321,522                      | 9,895         | 421,784                      | 157,973        | 24,022                              | 12,185        | 37,379                  | 38,171        | 2,363                               | 49,092        | 1,074,386        |
| Special Mention   | 10,364                       | 53            | 5,923                        | 459            | 309                                 | 643           | 342                     | 37            | 5                                   | 161           | 18,296           |
| Substandard   | 7,218                        | 491           | 16,413                       | 17,545         | 4,207                               | 842           | 150                     | 700           | 21                                  | 314           | 47,901           |
| Doubtful  |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| <b>Total</b>  | <b>339,104</b>               | <b>10,439</b> | <b>444,120</b>               | <b>175,977</b> | <b>28,538</b>                       | <b>13,670</b> | <b>37,871</b>           | <b>38,908</b> | <b>2,389</b>                        | <b>49,567</b> | <b>1,140,583</b> |
| <b>December 31,<br/>2011</b>  |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| <b>Credit Risk<br/>Profile by<br/>Internally<br/>Assigned Grade</b> |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| Pass  | 326,406                      | 9,245         | 386,765                      | 149,451        | 31,251                              | 13,158        | 38,803                  | 49,385        | 2,534                               | 51,010        | 1,058,008        |
| Special Mention   | 9,537                        | 53            | 7,963                        | 459            | 76                                  | 517           | 316                     | 37            |                                     | 157           | 19,115           |
| Substandard   | 8,086                        | 493           | 16,109                       | 16,550         | 4,364                               | 1,036         | 188                     | 1,008         | 22                                  | 310           | 48,166           |
| Doubtful  |                              |               |                              |                |                                     |               |                         |               |                                     |               |                  |
| <b>Total</b>  | <b>344,029</b>               | <b>9,791</b>  | <b>410,837</b>               | <b>166,460</b> | <b>35,691</b>                       | <b>14,711</b> | <b>39,307</b>           | <b>50,430</b> | <b>2,556</b>                        | <b>51,477</b> | <b>1,125,289</b> |

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

**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, 2012 and December 31, 2011 are summarized as follows:

|  | March 31, 2012<br>Securities Available-For-Sale<br><i>In Thousands</i> |                              |                             |                              |
|--|--|------------------------------|-----------------------------|------------------------------|
|  | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Loss | Estimated<br>Market<br>Value |
| Debt securities:                                 |  |                              |                             |                              |
| U.S. Government-sponsored enterprises (GSEs)*    | \$ 125,501   | \$ 126                       | \$ 643                      | \$ 124,984                   |
| Mortgage-backed:                                 |  |                              |                             |                              |
| GSE residential                                  | 196,764  | 1,672                        | 213                         | 198,223                      |
| Obligations of states and political Subdivisions | 1,521  | 110                          |                             | 1,631                        |
|  | \$ 323,786   | \$ 1,908                     | \$ 856                      | \$ 324,838                   |

|  | March 31, 2012<br>Securities Held-to-Maturity<br><i>In Thousands</i> |                              |                             |                              |
|--|--|------------------------------|-----------------------------|------------------------------|
|  | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Loss | Estimated<br>Market<br>Value |
| Debt securities:                                 |  |                              |                             |                              |
| U.S. Government-sponsored enterprises (GSEs)*    | \$   | \$                           | \$                          | \$                           |
| Mortgage-backed:                                 |  |                              |                             |                              |
| GSE residential                                  | 3,642  | 116                          | 27                          | 3,731                        |
| Obligations of states and political Subdivisions | 11,715   | 655                          |                             | 12,370                       |
|  | \$ 15,357  | \$ 771                       | \$ 27                       | \$ 16,101                    |

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|  | December 31, 2011<br>Securities Available-For-Sale<br><i>In Thousands</i> |                              |                             |                              |
|--|---|------------------------------|-----------------------------|------------------------------|
|  | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Loss | Estimated<br>Market<br>Value |
| Debt securities:                                 |   |                              |                             |                              |
| U.S. Government-sponsored enterprises (GSEs)*    | \$ 114,819  | \$ 268                       | \$ 161                      | 114,926                      |
| Mortgage-backed:                                 |   |                              |                             |                              |
| GSE residential                                  | 192,988   | 1,379                        | 201                         | 194,167                      |
| Obligations of states and political Subdivisions | 1,522   | 117                          |                             | 1,638                        |
|  | \$ 309,329  | \$ 1,764                     | \$ 362                      | \$ 310,731                   |

|  | December 31, 2011<br>Securities Held-to-Maturity<br><i>In Thousands</i> |                              |                             |                              |
|--|---|------------------------------|-----------------------------|------------------------------|
|  | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Loss | Estimated<br>Market<br>Value |
| Debt securities:                                 |   |                              |                             |                              |
| U.S. Government-sponsored enterprises (GSEs)*    | \$  | \$                           | \$                          | \$                           |
| Mortgage-backed:                                 |   |                              |                             |                              |
| GSE residential                                  | \$ 2,425  | \$ 103                       | \$                          | \$ 2,528                     |
| Obligations of states and political Subdivisions | 12,039  | 699                          |                             | 12,738                       |
|  | \$ 14,464   | \$ 802                       | \$                          | \$ 15,266                    |

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



## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

The amortized cost and estimated market value of debt securities at March 31, 2012, 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 |                        |
|--|------------------|------------------------|--------------------|------------------------|
|  | Amortized Cost   | Estimated Market Value | Amortized Cost     | Estimated Market Value |
| Due in one year or less                | \$ 1,027         | \$ 1,047               | \$                 | \$                     |
| Due after one year through five years  | 5,348            | 5,598                  | 76,515             | 76,350                 |
| Due after five years through ten years | 3,393            | 3,616                  | 171,144            | 171,592                |
| Due after ten years                    | 5,589            | 5,840                  | 76,127             | 76,896                 |
|  | \$ 15,357        | \$ 16,101              | \$ 323,786         | \$ 324,838             |

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, 2012 and December 31, 2011.

|  | Less than 12 Months |                   | <i>In Thousands, Except Number of Securities</i> |            |                   |                               | Total      |                   |
|--|---------------------|-------------------|--|------------|-------------------|-------------------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Number of Securities Included                    | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses |
| <b>March 31, 2012</b>                            |                     |                   |  |            |                   |                               |            |                   |
| <b><u>Held to Maturity Securities:</u></b>       |                     |                   |  |            |                   |                               |            |                   |
| <b>Debt securities:</b>                          |                     |                   |  |            |                   |                               |            |                   |
| U. S. Government-sponsored enterprises (GSEs)    | \$                  | \$                |  | \$         | \$                |                               | \$         | \$                |
| <b>Mortgage-backed:</b>                          |                     |                   |  |            |                   |                               |            |                   |
| GSE residential                                  | 1,362               | 27                | 2  |            |                   |                               | 1,362      | 27                |
| Obligations of states and political subdivisions | \$ 1,362            | \$ 27             | 2  | \$         |                   |                               | \$ 1,362   | \$ 27             |
| <b><u>Available-for-Sale Securities:</u></b>     |                     |                   |  |            |                   |                               |            |                   |
| <b>Debt securities:</b>                          |                     |                   |  |            |                   |                               |            |                   |
| U. S. Government-sponsored enterprises (GSEs)    | \$ 79,893           | \$ 643            | 21   | \$         | \$                |                               | \$ 79,893  | \$ 643            |
| <b>Mortgage-backed:</b>                          |                     |                   |  |            |                   |                               |            |                   |
| GSE residential                                  | 47,973              | 213               | 11   |            |                   |                               | 47,973     | 213               |
| Obligations of states and political subdivisions |                     |                   |  |            |                   |                               |            |                   |

|            |        |    |    |    |            |        |
|------------|--------|----|----|----|------------|--------|
| \$ 127,866 | \$ 856 | 32 | \$ | \$ | \$ 127,866 | \$ 856 |
|------------|--------|----|----|----|------------|--------|

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|  | <i>In Thousands, Except Number of Securities</i> |            |  |                      |    |  | Total      |                      |
|--|--|------------|--|----------------------|----|--|------------|----------------------|
|  | Less than 12 Months                              |            | Number<br>of<br>Securities<br>Included | 12 Months or More    |    | Number<br>of<br>Securities<br>Included | Fair Value | Unrealized<br>Losses |
| Fair Value                                       | Unrealized<br>Losses                             | Fair Value |  | Unrealized<br>Losses |    |  |            |                      |
| <b>December 31, 2011</b>                         |  |            |  |                      |    |  |            |                      |
| <b>Held to Maturity Securities:</b>              |  |            |  |                      |    |  |            |                      |
| <b>Debt securities:</b>                          |  |            |  |                      |    |  |            |                      |
| <b>Mortgage-backed:</b>                          |  |            |  |                      |    |  |            |                      |
| GSE residential                                  | \$   | \$         |  | \$                   | \$ |  | \$         | \$                   |
| Obligations of states and political subdivisions |  |            |  |                      |    |  |            |                      |
|  | \$   | \$         |  | \$                   | \$ |  | \$         | \$                   |
| <b>Available-for-Sale Securities:</b>            |  |            |  |                      |    |  |            |                      |
| <b>Debt securities:</b>                          |  |            |  |                      |    |  |            |                      |
| U.S. Government and Federal agencies             | \$   | \$         |  | \$                   | \$ |  | \$         | \$                   |
| GSEs   | 48,810   | 161        | 14                                     |                      |    |  | 48,810     | 161                  |
| Mortgage-backed:                                 |  |            |  |                      |    |  |            |                      |
| GSE residential                                  | 58,130   | 201        | 12                                     |                      |    |  | 58,130     | 201                  |
| Obligations of states and political subdivisions |  |            |  |                      |    |  |            |                      |
|  | \$ 106,940                                       | \$ 362     | 26                                     | \$                   | \$ |  | \$ 106,940 | \$ 362               |

Because the Company does not intend to sell these securities and it is not more likely than not that the Company will 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, 2012.

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.

**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.

**WILSON BANK HOLDING COMPANY****FORM 10-Q, CONTINUED**

The following is a summary of components comprising basic and diluted earnings per share ( EPS ) for the three months ended March 31, 2012 and 2011:

|                                   |  | Three Months Ended<br>March 31,                    |           |
|-----------------------------------|--|--|-----------|
|                                   |  | 2012   | 2011      |
|                                   |  | (Dollars in Thousands<br>Except Per Share Amounts) |           |
| <b>Basic EPS Computation:</b>     |  |  |           |
| Numerator                         | Earnings available to common Stockholders            | \$ 2,825   | \$ 2,476  |
| Denominator                       | Weighted average number of common shares outstanding | 7,331,514  | 7,258,143 |
| Basic earnings per common share   |  | \$ .39   | \$ .34    |
| <b>Diluted EPS Computation:</b>   |  |  |           |
| Numerator                         | Earnings available to common Stockholders            | \$ 2,825   | \$ 2,476  |
| Denominator                       | Weighted average number of common shares outstanding | 7,331,514  | 7,258,143 |
|                                   | Dilutive effect of stock options                     | 5,808  | 7,116     |
|                                   |  | 7,337,322  | 7,265,259 |
| Diluted earnings per common share |  | \$ .39   | \$ .34    |

**Note 5. Income Taxes**

Accounting Standards Codification ( ASC ) 740, *Income Taxes*, defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. This section also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. As of March 31, 2012, the Company had no unrecognized tax benefits related to Federal or State income tax matters and does not anticipate any material increase or decrease in unrecognized tax benefits relative to any tax positions taken prior to March 31, 2012.

As of March 31, 2012, the Company has accrued no interest and no penalties related to uncertain tax positions. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file consolidated U.S. Federal and state of Tennessee income tax returns. The Company is currently open to audit under the statute of limitations by the state of Tennessee for the years ended December 31, 2008 through 2011.

**Note 6. Commitments and Contingent Liabilities**

In the normal course of business, the Company has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their

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cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

Standby letters of credit are generally issued on behalf of an applicant (our customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from the Company under certain prescribed circumstances. Subsequently, the Company would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

The Company follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer's creditworthiness is evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and would only be reflected if drawn upon. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, the Company's maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

A summary of the Company's total contractual amount for all off-balance sheet commitments at March 31, 2012 is as follows:

|                              |                |
|------------------------------|----------------|
| Commitments to extend credit | \$ 184,023,000 |
| Standby letters of credit    | 19,265,000     |

The Company originates residential mortgage loans, sells them to third-party purchasers, and does not retain the servicing rights. These loans are originated internally and are primarily to borrowers in the Company's geographic market footprint. These sales are typically on a best efforts basis to investors that follow conventional government sponsored entities (GSE) and the Department of Housing and Urban Development/U.S. Department of Veterans Affairs (HUD/VA) guidelines. Generally, loans sold to the HUD/VA are underwritten by the Company while the majority of the loans sold to other investors are underwritten by the purchaser of the loans.

Each purchaser has specific guidelines and criteria for sellers of loans, and the risk of credit loss with regard to the principal amount of the loans sold is generally transferred to the purchasers upon sale. While the loans are sold without recourse, the purchase agreements require the Company to make certain representations and warranties regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. If it is determined that the loans sold were in breach of these representations or warranties, the Company has obligations to either repurchase the loan for the unpaid principal balance and related investor fees or make the purchaser whole for the economic benefits of the loan.

To date, repurchase activity pursuant to the terms of these representations and warranties has been insignificant and has resulted in insignificant losses to the Company.

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**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

Based on information currently available, management believes that it does not have significant exposure to contingent losses that may arise relating to the representations and warranties that it has made in connection with its mortgage loan sales.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at March 31, 2012 will not have a material impact on the Company's financial statements.

**Note 7. 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 U.S. generally accepted accounting principles 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.

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.

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*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.

The following tables present the financial instruments carried at fair value as of March 31, 2012, 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, 2012

| <i>(in Thousands)</i>         | Carrying<br>Value at<br>March 31,<br>2012 | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs (Level<br>2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|-------------------------------|---|---|--|---|
| <b>Assets:</b>                |   |   |  |   |
| Available-for-sale securities | \$ 324,838                                | \$  | \$ 324,838   | \$  |
| Cash surrender value          | 2,278                                     |   |  | 2,278   |



## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

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

Fair Value Measurements at March 31, 2012

| <i>(in Thousands)</i> | Carrying<br>Value at<br>March 31,<br>2012 | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|-----------------------|---|---|--|---|
| <b>Assets:</b>        |   |   |  |   |
| Impaired loans        | \$ 46,489                                 | \$  | \$   | \$ 46,489                                       |
| Other real estate     | 20,158                                    |   |  | 20,158  |
| Reposessed assets     | 9   |   |  | 9   |

**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, 2012 (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.

Three months ended March 31, 2012 *(in thousands)*

|  | Assets          | Liabilities |
|--|-----------------|-------------|
| Fair Value, January 1, 2012  | \$ 2,001        | \$          |
| Total realized gains included in income  | 14              |             |
| Purchases, issuances and settlements, net  | 263             |             |
| Transfers in and/or (out) of Level 3   |                 |             |
| <b>Fair Value, March 31, 2012</b>  | <b>\$ 2,278</b> | <b>\$</b>   |
| Total realized gains (losses) included in income related to financial assets and liabilities still on the consolidated balance sheet at March 31, 2012 | \$              | \$          |

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, 2012 and December 31, 2011. 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.



*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

**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.

**WILSON BANK HOLDING COMPANY****FORM 10-Q, CONTINUED**

The carrying value and estimated fair values of the Company's financial instruments at March 31, 2012 and December 31, 2011 are as follows:

|   | <i>In Thousands</i> |                  |                    |                  |
|---|---------------------|------------------|--------------------|------------------|
|   | March 31, 2012      |                  | December 31, 2011  |                  |
|   | Carrying<br>Amount  | Fair Value       | Carrying<br>Amount | Fair Value       |
| <b>Financial assets:</b>                    |                     |                  |                    |                  |
| Cash and short-term Investments             | \$ 77,917           | 77,917           | \$ 54,174          | 54,174           |
| Securities available-for-sale               | 324,838             | 324,838          | 310,731            | 310,731          |
| Securities, held to maturity                | 15,357              | 16,101           | 14,464             | 15,266           |
| Loans, net of unearned Interest             | 1,138,427           |                  | 1,123,258          |                  |
| Less: allowance for loan Losses             | 25,801              |                  | 24,525             |                  |
| <b>Loans, net of allowance</b>              | <b>1,112,626</b>    | <b>1,115,662</b> | <b>1,098,733</b>   | <b>1,107,440</b> |
| Loans held for sale                         | 12,690              | 12,690           | 14,775             | 14,775           |
| Restricted equity securities                | 3,012               | 3,012            | 3,012              | 3,012            |
| Accrued interest receivable                 | 5,820               | 5,820            | 5,930              | 5,930            |
| Cash surrender value of life insurance      | 2,278               | 2,278            | 2,001              | 2,001            |
| Other real estate                           | 20,158              | 20,158           | 19,117             | 19,117           |
| <b>Financial liabilities:</b>               |                     |                  |                    |                  |
| Deposits                                    | 1,452,697           | 1,454,557        | 1,406,042          | 1,408,071        |
| Securities sold under repurchase agreements | 7,997               | 7,997            | 7,419              | 7,389            |
| Accrued interest payable                    | 2,196               | 2,196            | 2,998              | 2,998            |
| <b>Unrecognized financial instruments:</b>  |                     |                  |                    |                  |
| 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, 2011 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.

**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

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 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 Form 10-K for the year ended December 31, 2011, and also include, 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.

*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

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.

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 eleven 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 eleven 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.

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

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.

**Other-than-temporary Impairment.** A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether impairment is other-than-temporary, management considers whether the entity expects to recover the entire amortized cost basis of the security by reviewing the present value of the future cash flows associated with the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss and is deemed to be other-than-temporary impairment. If a credit loss is identified, the credit loss is recognized as a charge to earnings and a new cost basis for the security is established. If management concludes that no credit loss exists and it is not more-likely-than-not that it will be required to sell the security before maturity, then the security is not other-than-temporarily impaired and the shortfall is recorded as a component of equity.

**Results of Operations**

Net earnings increased 14.1% to \$2,825,000 for the three months ended March 31, 2012 from \$2,476,000 in the first quarter of 2011. The increase in net earnings was primarily due to a 14.3% increase in non-interest income and a 5.6% increase in net interest income, partially offset by a 3.0% increase in the non-interest expense. Net yield on earning assets for the quarter ended March 31, 2012 was 3.75% as compared to 3.80% for the first quarter of 2011, reflecting an increase in average earning assets exceeding the increase in net interest income.

The average balances, interest, and average rates for the three-month periods ended March 31, 2012 and March 31, 2011 are presented in the following table:

|  | March 31, 2012  |               |                | March 31, 2011  |               |                |
|--|-----------------|---------------|----------------|-----------------|---------------|----------------|
|  | Average Balance | Interest Rate | Income/Expense | Average Balance | Interest Rate | Income/Expense |
| Loans, net of unearned interest        | \$ 1,125,503    | 5.78%         | 16,273         | 1,093,610       | 5.94%         | 16,239         |
| Investment securities taxable          | 309,307         | 1.76          | 1,358          | 267,633         | 2.18          | 1,461          |
| Investment securities tax exempt       | 12,896          | 3.14          | 101            | 14,857          | 2.96          | 110            |
| Taxable equivalent adjustment          |                 | 1.62          | 52             |                 | 1.53          | 57             |
| Total tax-exempt investment securities | 12,896          | 4.76          | 153            | 14,857          | 4.49          | 167            |
| Total investment securities            | 322,203         | 1.88          | 1,511          | 282,490         | 2.30          | 1,628          |
| Loans held for sale                    | 12,068          | 3.24          | 98             | 5,148           | 4.20          | 54             |
| Federal funds sold                     | 30,215          | .43           | 33             | 12,989          | .46           | 15             |
| Restricted equity securities           | 3,012           | 5.63          | 42             | 3,012           | 4.78          | 36             |
| Total earning assets                   | 1,493,001       | 4.80%         | 17,957         | 1,397,249       | 5.14%         | 17,972         |
| Cash and due from banks                | 43,834          |               |                | 35,456          |               |                |
| Allowance for loan losses              | (25,754)        |               |                | (22,325)        |               |                |
| Bank premises and equipment            | 35,466          |               |                | 32,040          |               |                |

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|              |              |           |
|--------------|--------------|-----------|
| Other assets | 46,314       | 46,846    |
| Total assets | \$ 1,592,861 | 1,489,266 |



## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|  | March 31, 2012      |               |                | March 31, 2011      |               |                |
|--|---------------------|---------------|----------------|---------------------|---------------|----------------|
|  | Average Balance     | Interest Rate | Income/Expense | Average Balance     | Interest Rate | Income/Expense |
| <b>Deposits:</b>                                 |                     |               |                |                     |               |                |
| Negotiable order of withdrawal accounts          | \$ 262,521          | 0.77%         | 506            | 240,532             | .92%          | 551            |
| Money market demand accounts                     | 309,563             | 0.72          | 555            | 260,863             | .79           | 513            |
| Individual retirement accounts                   | 98,439              | 1.87          | 460            | 95,645              | 2.27          | 542            |
| Other savings deposits                           | 94,676              | .85           | 202            | 63,642              | 1.11          | 177            |
| Certificates of deposit \$100,000 and over       | 265,087             | 1.68          | 1,116          | 273,632             | 2.12          | 1,453          |
| Certificates of deposit under \$100,000          | 281,542             | 1.55          | 1,094          | 296,527             | 1.95          | 1,447          |
| <b>Total interest-bearing deposits</b>           | <b>1,311,828</b>    | <b>1.20</b>   | <b>3,933</b>   | <b>1,230,841</b>    | <b>1.52</b>   | <b>4,683</b>   |
| Securities sold under repurchase agreements      | 7,303               | 0.77          | 14             | 5,849               | .96           | 14             |
| Federal funds purchased                          | 384                 | 1.04          | 1              | 763                 | 1.05          | 2              |
| Advances from Federal Home Loan Bank             |                     |               |                |                     |               |                |
| <b>Total interest-bearing liabilities</b>        | <b>1,319,515</b>    | <b>1.20</b>   | <b>3,948</b>   | <b>1,237,453</b>    | <b>1.52</b>   | <b>4,699</b>   |
| Demand deposits                                  | 108,966             |               |                | 102,647             |               |                |
| Other liabilities                                | 7,275               |               |                | 6,506               |               |                |
| Stockholders equity                              | 157,105             |               |                | 142,660             |               |                |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 1,592,861</b> |               |                | <b>\$ 1,489,266</b> |               |                |
| Net interest income                              |                     |               | \$ 14,009      |                     |               | \$ 13,273      |
| Net yield on earning assets (1)                  |                     | 3.75%         |                |                     | 3.80%         |                |
| Net interest spread (2)                          |                     | 3.60%         |                |                     | 3.62%         |                |

(1) Net interest income divided by average earning assets.

(2) Average interest rate on earning assets less average interest rate on interest-bearing liabilities.

**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 \$10,000, or 0.1%, to \$17,905,000 during the three months ended March 31, 2012, reflecting the continuing impact of low interest rate policies initiated by the Federal Reserve Board and a growth in the lower yielding securities portfolio. The ratio of average earning assets to total average assets was 93.7% and 93.8% for the quarters ended March 31, 2012 and March 31, 2011, respectively.

Interest expense decreased \$751,000, or 16.0%, to \$3,948,000 for the three months ended March 31, 2012 compared to the same period in 2011. The decrease for the quarter ended March 31, 2012 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 \$741,000, or 5.6%, for the first three months of 2012 as compared to the first quarter of 2011.



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**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

**Provision for Loan Losses**

The provision for loan losses was \$2,256,000 and \$1,969,000, respectively, for the first three months of 2012 and 2011, respectively. The increase in the provision was primarily related to management's quarterly assessment of the adequacy 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 \$980,000 was less than the provision by \$1,276,000 which increased the allowance for loan losses to \$25,801,000, an increase of 5.2% from \$24,525,000 at December 31, 2011. The allowance for loan losses was 2.27% and 2.18% of total loans outstanding at March 31, 2012 and December 31, 2011, respectively.

Management believes the allowance for loan losses at March 31, 2012 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, 2012 increased to \$3,690,000 from \$3,228,000, or 14.3%, for the same period in 2011. Gain on sale of loans increased \$321,000, or 106.9%, to \$621,000 relating primarily to the increase in mortgage originations and refinancings which occurred during the first quarter of 2012 as compared to the first quarter of 2011. Other fees and commissions increased \$193,000, or 11.8%, to \$1,833,000 in the first quarter of 2012 when compared to the first quarter of 2011 relating primarily to an increase in income on brokerage accounts. Other fees and commissions include income on brokerage accounts, insurance policies sold, and various other fees. Service charges on deposit accounts decreased \$78,000, or 6.0%, to \$1,210,000 for the three months ended March 31, 2012 when compared to the same period in 2011. The Company expects to see a continued slight decline in service charges on deposit accounts due to the FDIC Final Overdraft Payment Supervisory Guidance.

**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 \$315,000, or 3.0%, during the first three months of 2012 compared to the same period in 2011. The increase in non-interest expenses is primarily attributable to an increase in salaries and employee benefits associated with the number of employees necessary to support the Company's operations as well as an increase in the loss on the sale of other real estate. Other operating expenses for the three months ended March 31, 2012 decreased \$504,000 relating primarily to a decrease in costs associated with the disposal and maintenance of other real estate.

**WILSON BANK HOLDING COMPANY****FORM 10-Q, CONTINUED****Income Taxes**

The Company's income tax expense was \$1,806,000 for the three months ended March 31, 2012, an increase of \$252,000 over the comparable period in 2011. The percentage of income tax expense to net income before taxes was 39.0% and 38.6% for the periods ended March 31, 2012 and 2011, respectively.

**Financial Condition****Balance Sheet Summary**

The Company's total assets increased 3.26% to \$1,628,829,000 during the three months ended March 31, 2012 from \$1,577,370,000 at December 31, 2011. Loans, net of allowance for loan losses, totaled \$1,112,626,000 at March 31, 2012, a 1.26% increase from \$1,098,733,000 at December 31, 2011. Securities increased \$15,000,000, or 4.6%, to \$340,195,000 at March 31, 2012 and Federal funds sold increased \$17,495,000 to \$30,710,000 at March 31, 2012 from \$13,215,000 at December 31, 2011, resulting from a growth in deposits that exceeded loan growth and a reduction in securities.

Total liabilities increased by 3.5% to \$1,469,382,000 during the three months ended March 31, 2012 compared to \$1,420,022,000 at December 31, 2011. This increase was composed primarily of a \$46,655,000 increase in total deposits from \$1,406,042,000 at December 31, 2011 to \$1,452,697,000 at March 31, 2012. The increase in deposits included an increase in demand deposits, NOW and savings accounts of \$71,637,000 offset by a decrease in time deposits of \$24,982,000. Securities sold under repurchase agreements increased \$578,000 during the quarter ended March 31, 2012.

**Non Performing Assets**

The following tables present the Company's non-accrual loans and past due loans as of March 31, 2012 and December 31, 2011.

**Loans on Nonaccrual Status**

|                        | <i>In Thousands</i> |           |
|------------------------|---------------------|-----------|
|                        | 2012                | 2011      |
| Residential 1-4 family | \$ 1,824            | 2,256     |
| Multifamily            |                     |           |
| Commercial real estate | 5,214               | 4,995     |
| Construction           | 15,231              | 14,378    |
| Farmland               | 2,527               | 2,695     |
| Second mortgages       | 606                 | 606       |
| Equity lines of credit |                     |           |
| Commercial             | 35                  | 35        |
| Installment and other  |                     |           |
| Total                  | \$ 25,437           | \$ 24,965 |

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

Past due loans:

(In thousands)

|                          | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>than<br>90 Days | Total<br>Past Due | Current   | Total<br>Loans | Recorded<br>Investment<br>Greater Than<br>90 Days<br>and<br>Accruing |
|--------------------------|---------------------------|---------------------------|----------------------------|-------------------|-----------|----------------|--|
| <b>March 31, 2012</b>    |                           |                           |                            |                   |           |                |  |
| Residential 1-4 family   | 4,287                     | 1,212                     | 2,773                      | 8,272             | 330,832   | 339,104        | 949  |
| Multifamily              |                           |                           |                            |                   | 10,439    | 10,439         |  |
| Commercial real estate   | 712                       |                           | 7,025                      | 7,737             | 436,383   | 444,120        | 1,811  |
| Construction             | 672                       | 32                        | 15,231                     | 15,935            | 160,042   | 175,977        |  |
| Farmland                 | 12                        | 214                       | 2,527                      | 2,753             | 25,785    | 28,538         |  |
| Second Mortgages         | 717                       |                           | 630                        | 1,347             | 12,323    | 13,670         | 24   |
| Equity Lines of Credit   | 219                       | 23                        |                            | 242               | 37,629    | 37,871         |  |
| Commercial               | 486                       | 35                        | 67                         | 588               | 38,320    | 38,908         | 32   |
| Agricultural             | 2                         | 42                        | 5                          | 49                | 2,340     | 2,389          | 5  |
| Installment & other      | 467                       | 136                       | 126                        | 729               | 48,838    | 49,567         | 126  |
| Total                    | 7,574                     | 1,694                     | 28,384                     | 37,652            | 1,102,931 | 1,140,583      | 2,947  |
| <b>December 31, 2011</b> |                           |                           |                            |                   |           |                |  |
| Residential 1-4 family   | 4,003                     | 1,029                     | 3,566                      | 8,598             | 335,431   | 344,029        | 1,310  |
| Multifamily              | 53                        |                           |                            | 53                | 9,738     | 9,791          |  |
| Commercial real estate   | 548                       | 1,803                     | 8,990                      | 11,341            | 399,496   | 410,837        | 3,995  |
| Construction             | 329                       |                           | 14,473                     | 14,802            | 151,658   | 166,460        | 95   |
| Farmland                 | 46                        |                           | 2,695                      | 2,741             | 32,950    | 35,691         |  |
| Second Mortgages         | 49                        | 50                        | 640                        | 739               | 13,972    | 14,711         | 34   |
| Equity Lines of Credit   | 36                        | 64                        |                            | 100               | 39,207    | 39,307         |  |
| Commercial               | 64                        | 44                        | 148                        | 256               | 50,174    | 50,430         | 113  |
| Agricultural             | 24                        |                           |                            | 24                | 2,532     | 2,556          |  |
| Installment & other      | 303                       | 172                       | 123                        | 598               | 50,879    | 451,479        | 123  |
| Total                    | 5,455                     | 3,162                     | 30,635                     | 39,252            | 1,086,037 | 1,525,291      | 5,670  |

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, 2012 totaled \$28,384,000, a decrease from \$30,635,000 at December 31, 2011. The decrease in non-performing loans during the three months ended March 31, 2012 of \$2,251,000 is due primarily to a decrease in non-performing real estate mortgage loans of \$803,000, a decrease in commercial real estate loans of \$1,965,000, a decrease in non-performing commercial, agricultural and consumer loans of \$73,000, and a decrease in non-performing farmland loans of \$168,000 off-set in part by an increase in non-performing construction real estate mortgage loans of \$758,000. 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.

*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

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, 2012 was primarily due to foreclosure of two large properties. 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 challenging economic environment 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, 2012 were \$980,000 as compared to \$2,098,000 for the three months ended March 31, 2011, a decrease of 53.3%.

The collateral values securing potential problem loans, including impaired loans, based on estimates received by management, total approximately \$110,370,000 (\$110,120,000 related to real property and \$250,000 related to various other types of loans). The internally classified loans have decreased \$1,084,000, or 1.6%, from \$67,281,000 at December 31, 2011. 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, 2012 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 \$37,563,000 and \$37,235,000 at March 31, 2012 and December 31, 2011, respectively, have been graded accordingly due to bankruptcies, inadequate cash flows and delinquencies. Borrowers within this segment have continued to experience stress during the current challenging economic environment 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 are at very low levels. 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.

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**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

**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.

Liquid assets include cash and cash equivalents and investment securities and money market instruments that will mature within one year. At March 31, 2012, the Company's liquid assets totaled \$283,940,000. 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 its rate sensitivity position. 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 \$4,039,000 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, 2012, loans totaling approximately \$265.3 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.



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**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

As for liabilities, certificates of deposit of \$100,000 or greater totaling approximately \$173.9 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.

**Off Balance Sheet Arrangements**

At March 31, 2012, we had unfunded loan commitments outstanding of \$184.0 million and outstanding standby letters of credit of \$19.3 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, 2012, total shareholders' equity was \$159,447,000, or 9.8% of total assets, which compares with \$157,348,000, or 10.0% of total assets at December 31, 2011. The dollar increase in shareholders' equity during the three months ended March 31, 2012 results from the Company's net income of \$2,825,000, proceeds from the issuance of common stock related to exercise of stock options of \$75,000, the net effect of a \$350,000 unrealized loss on investment securities less applicable income taxes of \$135,000, cash dividends declared of \$2,191,000, of which \$1,599,000 was reinvested under the Company's dividend reinvestment plan, and \$6,000 related to stock option compensation.

The Company's principal regulators have established minimum risk-based capital requirements and leverage capital requirements for the Company and its subsidiary bank. These guidelines classify capital into two categories of Tier I and Total risk-based capital. Total risk-based capital consists of Tier I (or core) capital (essentially common equity less intangible assets) and Tier II capital (essentially qualifying long-term debt, of which Wilson Bank has none, and a part of the allowance for possible loan losses). In determining risk-based capital requirements, assets are assigned risk-weights of 0% to 100%, depending on regulatory assigned levels of credit risk associated with such assets. Under the Federal Reserve's regulations, for a bank holding company, like the Company, to be considered "well capitalized" it must maintain a Total risk-based capital ratio of at least 10%, a Tier I risk-based capital ratio of at least 6% and not be subject to a written agreement, order or directive to maintain a specific capital level. In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide that a minimum ratio of Tier I capital to average assets, less goodwill and other specified intangible assets, of at least 4% should be maintained by most bank holding companies.

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

As of March 31, 2012 and December 31, 2011, 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 tables below.

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2012 and December 31, 2011, are also presented in the tables.

|  | Actual                        |       | Minimum Capital Requirements |       | Regulatory Provisions |       |
|--|-------------------------------|-------|------------------------------|-------|-----------------------|-------|
|  | Amount                        | Ratio | Amount                       | Ratio | Amount                | Ratio |
|  | <i>(dollars in thousands)</i> |       |                              |       |                       |       |
| <b>March 31, 2012:</b>                         |                               |       |                              |       |                       |       |
| <b>Total capital to risk weighted assets:</b>  |                               |       |                              |       |                       |       |
| <b>Consolidated</b>                            | \$ 169,171                    | 14.0% | \$ 96,669                    | 8.0%  | \$ 120,836            | 10.0% |
| <b>Wilson Bank</b>                             | 168,007                       | 14.0  | 96,004                       | 8.0   | 120,005               | 10.0  |
| <b>Tier 1 capital to risk weighted assets:</b> |                               |       |                              |       |                       |       |
| <b>Consolidated</b>                            | 153,979                       | 12.8  | 48,118                       | 4.0   | \$ 72,178             | 6.0   |
| <b>Wilson Bank</b>                             | 152,815                       | 12.7  | 48,131                       | 4.0   | 72,196                | 6.0   |
| <b>Tier 1 capital to average assets:</b>       |                               |       |                              |       |                       |       |
| <b>Consolidated</b>                            | 153,979                       | 9.7   | 63,496                       | 4.0   | N/A                   | N/A   |
| <b>Wilson Bank</b>                             | 152,815                       | 9.6   | 63,673                       | 4.0   | 79,591                | 5.0   |

## WILSON BANK HOLDING COMPANY

## FORM 10-Q, CONTINUED

|  | <i>Actual</i>                 |              | <i>Minimum Capital Requirements</i> |              | <i>Regulatory 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> |              |                                     |              |                              |              |
| <b>December 31, 2011:</b>                      |                               |              |                                     |              |                              |              |
| <i>Total capital to risk weighted assets:</i>  |                               |              |                                     |              |                              |              |
| <i>Consolidated</i>                            | \$ 166,534                    | 14.0%        | \$ 95,162                           | 8.0%         | \$ 118,953                   | 10.0%        |
| <i>Wilson Bank</i>                             | 164,775                       | 13.9         | 94,835                              | 8.0          | 118,543                      | 10.0         |
| <i>Tier 1 capital to risk weighted assets:</i> |                               |              |                                     |              |                              |              |
| <i>Consolidated</i>                            | 151,566                       | 12.8         | 47,364                              | 4.0          | 71,047                       | 6.0          |
| <i>Wilson Bank</i>                             | 149,817                       | 12.6         | 47,561                              | 4.0          | 71,341                       | 6.0          |
| <i>Tier 1 capital to average assets:</i>       |                               |              |                                     |              |                              |              |
| <i>Consolidated</i>                            | 151,566                       | 9.7          | 62,501                              | 4.0          | N/A                          | N/A          |
| <i>Wilson Bank</i>                             | 149,817                       | 9.6          | 62,424                              | 4.0          | 78,030                       | 5.0          |
| <b><u>Impact of Inflation</u></b>              |                               |              |                                     |              |                              |              |

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 short-term 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, 2012.

*WILSON BANK HOLDING COMPANY*

*FORM 10-Q, CONTINUED*

***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, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**WILSON BANK HOLDING COMPANY**

**FORM 10-Q, CONTINUED**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

None

**Item 1A. RISK FACTORS**

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, 2011.

**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. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None

**Item 6. EXHIBITS**

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 9, 2012

/s/ Randall Clemons  
Randall Clemons  
President and Chief Executive Officer

DATE: May 9, 2012

/s/ Lisa Pominski  
Lisa Pominski  
Senior Vice President & Chief Financial Officer