WILSON BANK HOLDING CO
Form 10-Q
August 08, 2011

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

(Mark One)

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

**For the quarterly period ended June 30, 2011**

**or**

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

**For the transition period from __________ to __________**

**Commission File Number 0-20402**

**WILSON BANK HOLDING COMPANY**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Tennessee | 62-1497076 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 623 West Main Street, Lebanon, TN | 37087 |
| (Address of principal executive offices) | Zip Code |

(615) 444-2265

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |
| | | (Do not check if a 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 o NO þ

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: 7,306,324 shares at August 8, 2011

***Part I: FINANCIAL INFORMATION***



***Part II: OTHER INFORMATION***

EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT

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Part I. Financial Information
Item 1. Financial Statements

***WILSON BANK HOLDING COMPANY***
***Consolidated Balance Sheets***
***June 30, 2011 and December 31, 2010***
***(Unaudited)***

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| | (Dollars in Thousands Except Per Share Amounts) | |
| Assets | | |
| Loans | $ 1,121,067 | $ 1,095,268 |
| Less: Allowance for loan losses | (23,429) | (22,177) |
| Net loans | 1,097,638 | 1,073,091 |
| Securities: | | |
| Held to maturity, at cost (market value $15,227 and $13,690, respectively) | 14,738 | 13,396 |
| Available-for-sale, at market (amortized cost $245,350 and $282,453, respectively) | 244,804 | 277,032 |
| Total securities | 259,542 | 290,428 |
| Loans held for sale | 6,407 | 7,845 |
| Restricted equity securities | 3,012 | 3,012 |
| Federal funds sold | 26,730 | 3,225 |
| Total earning assets | 1,393,329 | 1,377,601 |
| Cash and due from banks | 37,536 | 35,057 |
| Bank premises and equipment, net | 32,918 | 31,941 |
| Accrued interest receivable | 6,007 | 6,252 |
| Deferred income tax asset | 7,811 | 9,629 |
| Other real estate | 14,175 | 13,741 |
| Other assets | 8,082 | 8,572 |
| Goodwill | 4,805 | 4,805 |
| Other intangible assets, net | 310 | 508 |
| Total assets | $ 1,504,973 | $ 1,488,106 |
| Liabilities and Shareholders Equity | | |
| Deposits | $ 1,339,267 | $ 1,331,282 |
| Securities sold under repurchase agreements | 6,302 | 6,536 |
| Accrued interest and other liabilities | 7,524 | 5,955 |

| | | |
|---|---|---|
| Total liabilities | 1,353,093 | 1,343,773 |
| | | |
| Shareholders equity: | | |
| Common stock, $2.00 par value; authorized 15,000,000 shares, issued 7,267,067 and 7,225,088 shares, respectively | 14,534 | 14,450 |
| Additional paid-in capital | 45,321 | 43,790 |
| Retained earnings | 92,362 | 89,439 |
| Net unrealized losses on available-for-sale securities, net of income taxes of $209 and $2,075, respectively | (337) | (3,346) |
| Total shareholders equity | 151,880 | 144,333 |
| Total liabilities and shareholders equity | $ 1,504,973 | $ 1,488,106 |

See accompanying notes to consolidated financial statements (unaudited).

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***WILSON BANK HOLDING COMPANY***
***Consolidated Statements of Earnings***
***Three Months and Six Months Ended June 30, 2011 and 2010***
***(Unaudited)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands Except per Share Amounts) | | | |
| Interest income: | | | | |
| Interest and fees on loans | $ 16,585 | $ 17,056 | $ 32,824 | $ 33,891 |
| Interest and dividends on securities: | | | | |
| Taxable securities | 1,385 | 2,385 | 2,846 | 4,577 |
| Exempt from Federal income taxes | 104 | 115 | 214 | 234 |
| Interest on loans held for sale | 51 | 50 | 105 | 80 |
| Interest on Federal funds sold | 27 | 23 | 42 | 41 |
| Interest and dividends on restricted securities | 29 | 40 | 65 | 62 |
| Total interest income | 18,181 | 19,669 | 36,096 | 38,885 |
| Interest expense: | | | | |
| Interest on negotiable order of withdrawal accounts | 556 | 697 | 1,107 | 1,327 |
| Interest on money market and savings accounts | 736 | 834 | 1,426 | 1,675 |
| Interest on certificates of deposit | 3,151 | 4,739 | 6,593 | 9,969 |
| Interest on securities sold under repurchase agreements | 13 | 17 | 27 | 40 |
| Interest on Federal Home Loan Bank advances | | 1 | | 1 |
| Interest on Federal funds purchased | | | 2 | |
| Total interest expense | 4,456 | 6,288 | 9,155 | 13,012 |
| Net interest income before provision for loan losses | 13,725 | 13,381 | 26,941 | 25,873 |
| Provision for loan losses | 2,618 | 6,073 | 4,587 | 8,179 |
| Net interest income after provision for loan losses | 11,107 | 7,308 | 22,354 | 17,694 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 1,330 | 1,374 | 2,618 | 2,666 |
| Other fees and commissions | 1,811 | 1,562 | 3,451 | 2,935 |
| Gain on sale of loans | 418 | 402 | 718 | 721 |
| Gain on sale of securities | | 211 | | 261 |
| Total non-interest income | 3,559 | 3,549 | 6,787 | 6,583 |

| | | | | |
|---|---|---|---|---|
| Non-interest expense: | | | | |
| Salaries and employee benefits | 5,649 | 3,814 | 10,981 | 8,865 |
| Occupancy expenses, net | 619 | 608 | 1,191 | 1,180 |
| Furniture and equipment expense | 281 | 359 | 528 | 725 |
| Data processing expense | 369 | 286 | 683 | 603 |
| Directors fees | 173 | 171 | 373 | 381 |
| Other operating expenses | 2,842 | 2,779 | 6,066 | 5,347 |
| Loss on sale of other real estate | 449 | 158 | 1,000 | 262 |
| (Gain) loss on sale of other assets | 1 | (1) | 6 | 8 |
| Total non-interest expense | 10,383 | 8,174 | 20,828 | 17,371 |
| Earnings before income taxes | 4,283 | 2,683 | 8,313 | 6,906 |
| Income taxes | 1,668 | 1,028 | 3,222 | 2,666 |
| Net earnings | 2,615 | 1,655 | 5,091 | 4,240 |
| Weighted average number of shares outstanding-basic | 7,268,537 | 7,185,208 | 7,263,342 | 7,178,453 |
| Weighted average number of shares outstanding-diluted | 7,276,085 | 7,193,199 | 7,270,286 | 7,185,482 |
| Basic earnings per common share | $ .36 | $ .23 | $ .70 | $ .59 |
| Diluted earnings per common share | $ .36 | $ .23 | $ .70 | $ .59 |
| Dividends per share | $ | $ | $ .30 | $ .30 |

See accompanying notes to consolidated financial statements (unaudited).

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***WILSON BANK HOLDING COMPANY***
***Consolidated Statements of Comprehensive Earnings***
***Three Months and Six Months Ended June 30, 2011 and 2010***
***(Unaudited)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In Thousands) | | | |
| Net earnings | $ 2,615 | $ 1,655 | $ 5,091 | $ 4,240 |
| Other comprehensive earnings, net of tax: | | | | |
| Unrealized gains on available-for-sale securities arising during period, net of taxes of $990, $149, $1,866 and $340, respectively | 1,596 | 240 | 3,009 | 546 |
| Reclassification adjustment for net gains included in net earnings, net of taxes of $0, $81, $0, and $100, respectively | | (130) | | (161) |
| Other comprehensive earnings | 1,596 | 110 | 3,009 | 385 |
| Comprehensive earnings | $ 4,211 | $ 1,765 | $ 8,100 | $ 4,625 |

See accompanying notes to consolidated financial statements (unaudited).

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***WILSON BANK HOLDING COMPANY***
***Consolidated Statements of Cash Flows***
***Six Months Ended June 30, 2011 and 2010***
***Increase (Decrease) in Cash and Cash Equivalents***
***(Unaudited)***

| | 2011 | 2010 |
|---|---|---|
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Interest received | $ 37,228 | $ 40,779 |
| Fees and commissions received | 6,069 | 5,601 |
| Proceeds from sale of loans held for sale | 40,071 | 42,540 |
| Origination of loans held for sale | (37,915) | (45,864) |
| Interest paid | (10,285) | (13,751) |
| Cash paid to suppliers and employees | (15,672) | (13,962) |
| Income taxes paid | (3,348) | (5,271) |
| Net cash provided by operating activities | 16,148 | 10,072 |
| Cash flows from investing activities: | | |
| Proceeds from maturities, calls, and principal payments of held-to- maturity securities | 1,515 | 1,112 |
| Proceeds from maturities, calls, and principal payments of available-for-sale securities | 74,866 | 228,157 |
| Purchase of held-to-maturity securities | (2,891) | (2,595) |
| Purchase of available-for-sale securities | (38,616) | (281,778) |
| Loans made to customers, net of repayments | (33,400) | 4,061 |
| Purchase of premises and equipment | (1,661) | (967) |
| Proceeds from sale of other real estate | 2,785 | 1,540 |
| Proceeds from sale of other assets | 52 | 83 |
| Net cash provided by (used in) investing activities | 2,650 | (50,387) |
| Cash flows from financing activities: | | |
| Net increase in non-interest bearing, savings and NOW deposit accounts | 1,186 | 59,669 |
| Net increase (decrease) in time deposits | 6,799 | (1,604) |
| Decrease in securities sold under repurchase agreements | (234) | (870) |
| Net decrease in advances from Federal Home Loan Bank | | (11) |
| Dividends paid | (2,168) | (2,144) |
| Proceeds from sale of common stock | 1,626 | 1,529 |
| Proceeds from exercise of stock options | 71 | 67 |
| Repurchase of common stock | (94) | (225) |
| Net cash provided by financing activities | 7,186 | 56,411 |

| | | | | |
|---|---|---|---|---|
| Net increase in cash and cash equivalents | | 25,984 | | 16,096 |
| Cash and cash equivalents at beginning of period | | 38,282 | | 31,512 |
| Cash and cash equivalents at end of period | $ | 64,266 | $ | 47,608 |

See accompanying notes to consolidated financial statements (unaudited).

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***WILSON BANK HOLDING COMPANY***
***Consolidated Statements of Cash Flows, Continued***
***Six Months Ended June 30, 2011 and 2010***
***Increase in Cash and Cash Equivalents***
***(Unaudited)***

| | 2011 | 2010 |
|---|---|---|
| | (In Thousands) | |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Net earnings | $ 5,091 | $ 4,240 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion | 1,769 | 1,891 |
| Provision for loan losses | 4,587 | 8,179 |
| Stock option compensation | 12 | 10 |
| Loss on sale of other real estate | 1,000 | 262 |
| Loss on sale of other assets | 6 | 8 |
| Security gains | | (261) |
| Decrease (increase) in loans held for sale | 1,438 | (4,045) |
| Decrease in interest receivable | 245 | 1,074 |
| Increase in deferred tax assets | (48) | (278) |
| Decrease (increase) in other assets, net | 315 | (888) |
| Decrease in taxes payable | (78) | (2,327) |
| Increase in other liabilities | 2,941 | 2,946 |
| Decrease in interest payable | (1,130) | (739) |
| Total adjustments | 11,057 | 5,832 |
| Net cash provided by operating activities | $ 16,148 | $ 10,072 |
| Supplemental schedule of non-cash activities: | | |
| Unrealized gain in values of securities available-for-sale, net of taxes of $990 and $240, for the six months ended June 30, 2011 and 2010, respectively | $ 3,009 | $ 385 |
| Non-cash transfers from loans to other real estate | $ 8,191 | $ 9,572 |
| Non-cash transfers from other real estate to loans | $ 3,972 | $ 404 |
| Non-cash transfers from loans to other assets | $ 47 | $ 94 |

See accompanying notes to consolidated financial statements (unaudited).

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***WILSON BANK HOLDING COMPANY***
***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 2010 Annual Report previously filed on Form 10-K.

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

*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.

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2010 and at June 30, 2011, 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 ASU No. 2011-02 *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered troubled debt restructurings. The Company is continuing to evaluate the impact of adoption of this ASU.

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**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 ).

The following schedule details the loans of the Company at June 30, 2011 and December 31, 2010:

| | (In Thousands) June 30, 2011 | December 31, 2010 |
|---|---|---|
| Mortgage Loans on real estate | | |
| Residential 1-4 family | $ 351,294 | 351,237 |
| Multifamily | 9,251 | 8,711 |
| Commercial | 392,483 | 347,381 |
| Construction and land developement | 178,643 | 176,842 |
| Farmland | 35,991 | 38,369 |
| Second mortgages | 14,467 | 15,373 |
| Equity lines of credit | 36,283 | 36,861 |
| Total mortgage loans on real estate | 1,018,412 | 974,774 |
| Commercial loans | 48,088 | 57,249 |
| Agricultural loans | 2,819 | 3,017 |
| Consumer installment loans | | |
| Personal | 44,527 | 52,574 |
| Credit cards | 3,060 | 3,160 |
| Total consumer installment loans | 47,587 | 55,734 |
| Other loans | 6,005 | 5,841 |
| | 1,122,911 | 1,096,615 |
| Net deferred loan fees | (1,844) | (1,347) |
| Total loans | 1,121,067 | 1,095,268 |
| Less: Allowance for loan losses | (23,429) | (22,177) |

| | | |
|---|---|---|
| Net Loans | $ 1,097,638 | $ 1,073,091 |

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.

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Transactions in the allowance for loan losses for the quarter ended June 30, 2011 and 2010 are summarized as follows:

*In Thousands*

| | | Residential 1-4 Family | Multifamily | Commercial Real Estate | Construction | Farmland | Second Mortgages | Equity Lines of Credit | Commercial | Agricultural | Installment and Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **June 30, 2011** | | | | | | | | | | | | |
| **Allowance for loan losses:** | | | | | | | | | | | | |
| Beginning balance | $ | 5,140 | 46 | 7,285 | 5,558 | 988 | 276 | 767 | 1,163 | 67 | 887 | 22,177 |
| Provision | | 1,063 | 5 | 1,076 | 1,787 | 450 | 44 | (54) | 443 | (23) | (203) | 4,588 |
| Charge-offs | | (810) | | (1,195) | (961) | | (75) | (87) | (250) | (1) | (241) | (3,620) |
| Recoveries | | 52 | | 8 | 41 | | 7 | 16 | 11 | | 149 | 284 |
| Ending balance | $ | 5,445 | 51 | 7,174 | 6,425 | 1,438 | 252 | 642 | 1,367 | 43 | 592 | 23,429 |
| Ending balance individually evaluated for impairment | $ | 1,131 | | 2,778 | 2,512 | 850 | 9 | | 864 | | | 8,144 |
| Ending balance collectively evaluated for impairment | $ | 4,314 | 51 | 4,396 | 3,913 | 588 | 243 | 642 | 503 | 43 | 592 | 15,285 |
| Ending balance loans acquired with deteriorated credit | $ | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| quality | | | | | | | | | | | |
| **Loans:** | | | | | | | | | | | |
| Ending balance | $ 351,294 | 9,251 | 392,483 | 178,643 | 35,991 | 14,467 | 36,283 | 48,088 | 2,819 | 53,592 | 1,122,911 |
| Ending balance individually evaluated for impairment | $ 11,204 | 414 | 19,759 | 20,193 | 4,782 | 766 | | 864 | | | 57,982 |
| Ending balance collectively evaluated for impairment | $ 340,090 | 8,837 | 372,724 | 158,450 | 31,209 | 13,701 | 36,283 | 47,224 | 2,819 | 53,592 | 1,064,929 |
| Ending balance loans acquired with deteriorated credit quality | $ | | | | | | | | | | |
| **June 2010** | | | | | | | | | | | |
| **Allowance for loan losses:** | | | | | | | | | | | |
| Beginning balance | $ 4,268 | 25 | 4,499 | 3,412 | 151 | 521 | 788 | 1,625 | 38 | 1,320 | 16,647 |
| Provision | 2,224 | 20 | 1,407 | 1,780 | 2,072 | 115 | 599 | (305) | (6) | 273 | 8,179 |
| Charge-offs | (585) | | (10) | (763) | (700) | (164) | (621) | (177) | | (443) | (3,463) |
| Recoveries | 18 | | | | | 2 | | 5 | 2 | 97 | 124 |
| Ending balance | $ 5,925 | 45 | 5,896 | 4,429 | 1,523 | 474 | 766 | 1,148 | 34 | 1,247 | 21,487 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Ending balance individually evaluated for impairment | $ 2,922 | | 2,179 | 2,928 | 402 | 91 | 157 | 440 | | | 9,119 |
| Ending balance collectively evaluated for impairment | $ 3,003 | $ 45 | $ 3,717 | $ 1,501 | $ 1,121 | $ 383 | $ 609 | $ 708 | $ 34 | $ 1,247 | 12,368 |
| Ending balance loans acquired with deteriorated credit quality | $ | | | | | | | | | | |
| **Loans:** | | | | | | | | | | | |
| Ending balance | $ 359,997 | 8,734 | 325,262 | 182,874 | 43,024 | 16,386 | 37,045 | 58,397 | 3,241 | 65,041 | 1,100,001 |
| Ending balance individually evaluated for impairment | $ 11,032 | | 20,344 | 12,382 | 3,092 | 192 | 302 | 475 | | | 47,819 |
| Ending balance collectively evaluated for impairment | $ 348,965 | 8,734 | 304,918 | 170,492 | 39,932 | 16,194 | 36,743 | 57,922 | 3,241 | 65,041 | 1,052,182 |
| Ending balance loans | $ | | | | | | | | | | |

acquired
with
deteriorated
credit
quality

At June 30, 2011, the Company had certain impaired loans of $18,904,000 which were on non accruing interest status. At December 31, 2010, the Company had certain impaired loans of $22,161,000 which were on non accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company s impaired loans at June 30, 2011 and December 31, 2010.

| | | | *In Thousands* | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| **June 30, 2011** | | | | | |
| With no related allowance recorded: | | | | | |
| Residential 1-4 family | $ 3,360 | 3,360 | | 3,141 | 79 |
| Multifamily | 414 | 414 | | 414 | 11 |
| Commercial real estate | 4,069 | 4,069 | | 2,858 | 68 |
| Construction | 5,450 | 5,450 | | 6,992 | 106 |
| Farmland | 1,571 | 1,571 | | 2,109 | 14 |
| Second mortgages | 606 | 606 | | 606 | |
| Equity lines of credit | | | | 101 | |
| Commercial | | | | 101 | |
| Agricultural | | | | | |
| | $ 15,470 | 15,470 | | 16,322 | 278 |
| With allowance recorded: | | | | | |
| Residential 1-4 family | $ 7,844 | 7,844 | 1,131 | 8,461 | 154 |
| Multifamily | | | | | |
| Commercial real estate | 15,690 | 15,690 | 2,778 | 15,070 | 324 |
| Construction | 14,743 | 14,743 | 2,512 | 14,932 | 162 |
| Farmland | 3,211 | 3,211 | 850 | 2,629 | 37 |
| Second mortgages | 160 | 160 | 9 | 161 | |
| Equity lines of credit | | | | 435 | |
| Commercial | 864 | 864 | 864 | 887 | 18 |
| Agricultural | | | | 78 | |
| | $ 42,512 | 42,512 | 8,144 | 42,653 | 695 |
| Total | | | | | |
| Residential 1-4 family | 11,204 | 11,204 | 1,131 | 11,602 | 233 |
| Multifamily | 414 | 414 | | 414 | 11 |
| Commercial real estate | 19,759 | 19,759 | 2,778 | 17,928 | 392 |
| Construction | 20,193 | 20,193 | 2,512 | 21,924 | 268 |
| Farmland | 4,782 | 4,782 | 850 | 4,738 | 51 |
| Second mortgages | 766 | 766 | 9 | 767 | |

| | | | | | |
|---|---|---|---|---|---|
| Equity lines of credit | | | | 536 | |
| Commercial | 864 | 864 | 864 | 988 | 18 |
| Agricultural | | | | 78 | |
| | $ 57,982 | 57,982 | 8,144 | 58,975 | 973 |

| | | | *In Thousands* | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| **December 31, 2010** | | | | | |
| With no related allowance recorded: | | | | | |
| Residential 1-4 family | $ 3,811 | 3,811 | | 5,876 | 472 |
| Multifamily | 406 | 406 | | 464 | 26 |
| Commercial real estate | 3,760 | 4,260 | | 4,780 | 136 |
| Construction | 10,522 | 10,844 | | 6,950 | 256 |
| Farmland | | | | 1,790 | |
| Second mortgages | 706 | 706 | | 644 | 1 |
| Equity lines of credit | | | | 601 | |
| Commercial | 204 | 204 | | 689 | 11 |
| Agricultural | | | | 39 | |
| | $ 19,409 | 20,231 | | 21,833 | 902 |
| With allowance recorded: | | | | | |
| Residential 1-4 family | $ 7,818 | 7,890 | 1,275 | 9,890 | 351 |
| Multifamily | | | | | |
| Commercial real estate | 18,686 | 18,686 | 3,816 | 15,027 | 347 |
| Construction | 8,546 | 8,914 | 1,782 | 8,426 | 392 |
| Farmland | 1,866 | 1,866 | 231 | 3,848 | 68 |
| Second mortgages | 164 | 164 | 15 | 337 | |
| Equity lines of credit | 869 | 869 | 159 | 418 | 32 |
| Commercial | 910 | 910 | 670 | 569 | 25 |
| Agricultural | 155 | 155 | 25 | 39 | 10 |
| | $ 39,014 | 39,454 | 7,973 | 38,554 | 1,225 |
| Total | | | | | |
| Residential 1-4 family | 11,629 | 11,701 | 1,275 | 15,766 | 823 |
| Multifamily | 406 | 406 | | 464 | 26 |
| Commercial real estate | 22,446 | 22,946 | 3,816 | 19,807 | 483 |
| Construction | 19,068 | 19,758 | 1,782 | 15,376 | 648 |
| Farmland | 1,866 | 1,866 | 231 | 5,638 | 68 |
| Second mortgages | 870 | 870 | 15 | 981 | 1 |
| Equity lines of credit | 869 | 869 | 159 | 1,019 | 32 |
| Commercial | 1,114 | 1,114 | 670 | 1,258 | 36 |
| Agricultural | 155 | 155 | 25 | 78 | 10 |

| | | | | | |
|---|---|---|---|---|---|
| $ | 58,423 | 59,685 | 7,973 | 60,387 | 2,127 |

Impaired loans also include loans that the Company may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Company may have to otherwise incur. These loans are classified as impaired loans and, if on non accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date. At June 30, 2011, there were $7.2 million of accruing restructured loans that remain in a performing status. At December 31, 2010, there were $8.8 million of accruing restructured loans.

Potential problem loans, which include nonperforming assets, amounted to approximately $66.1 million at June 30, 2011 compared to $63.2 million at December 31, 2010. Potential problem loans represent those loans with a well defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Company s primary regulator, for loans classified as special mention, substandard, or doubtful, excluding the impact of nonperforming loans.

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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.

*In Thousands*

| | Residential 1-4 Family | Multifamily | Commercial Real Estate | Construction | Farmland | Second Mortgages | Equity Lines of Credit | Commercial | Agricultural | Installment and Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Credit Risk Profile by Internally Assigned Grade** | | | | | | | | | | | |
| **June 30, 2011** | | | | | | | | | | | |
| Pass | $ 334,361 | $ 8,755 | $ 372,484 | $ 158,187 | $ 31,027 | $ 13,001 | $ 35,978 | $ 47,131 | $ 2,795 | $ 53,064 | 1,056,783 |
| Special mention | 9,299 | | 9,091 | 3,612 | 1,638 | 423 | 126 | 42 | | 177 | 24,408 |
| Substandard | 7,634 | 496 | 10,908 | 16,844 | 3,326 | 1,043 | 179 | 915 | 24 | 351 | 41,720 |
| Doubtful | | | | | | | | | | | |
| Total | $ 351,294 | 9,251 | 392,483 | 178,643 | 35,991 | 14,467 | 36,283 | 48,088 | 2,819 | 53,592 | 1,122,911 |
| **December 31, 2010** | | | | | | | | | | | |
| Pass | $ 333,971 | 8,226 | 324,880 | 160,457 | 36,333 | 13,838 | 35,834 | 56,053 | 2,852 | 61,005 | 1,033,449 |
| Special mention | 9,567 | | 5,873 | 726 | 340 | 588 | 276 | 50 | 155 | 166 | 17,741 |
| Substandard | 7,699 | 485 | 16,628 | 15,659 | 1,696 | 947 | 751 | 1,146 | 10 | 404 | 45,425 |
| Doubtful | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | $ 351,237 | 8,711 | 347,381 | 176,842 | 38,369 | 15,373 | 36,861 | 57,249 | 3,017 | 61,575 | 1,096,615 |

**Note 3. Debt and Equity Securities**

Debt and equity securities have been classified in the consolidated balance sheet according to management s intent. Debt and equity securities at June 30, 2011 and December 31, 2010 are summarized as follows:

| | June 30, 2011 Securities Available-For-Sale *In Thousands* | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. Government and Federal agencies | $ 2,001 | $ 4 | $ | $ 2,005 |
| U.S. Government-sponsored enterprises (GSEs)* | 127,277 | 168 | 887 | 126,558 |
| Mortgage-backed: | | | | |
| GSE residential | 114,550 | 580 | 472 | 114,658 |
| Obligations of states and political Subdivisions | 1,522 | 61 | | $ 1,583 |
| | $ 245,350 | $ 813 | $ 1,359 | $ 244,804 |

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June 30, 2011
Securities Held-To-Maturity
*In Thousands*

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed: | | | | |
| GSE residential | $ 2,611 | $ 70 | $ | $ 2,681 |
| Obligations of states and political Subdivisions | 12,127 | 434 | 15 | 12,546 |
| | $ 14,738 | $ 504 | $ 15 | $ 15,227 |

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

December 31, 2010
Securities Available-For-Sale
*In Thousands*

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

December 31, 2010
Securities Held-To-Maturity
*In Thousands*

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| Mortgage-backed: | | | | |
| GSE residential | $ 1,637 | $ 19 | $ 6 | $ 1,650 |
| Obligations of states and political subdivisions | 11,759 | 369 | 88 | 12,040 |
| | $ 13,396 | $ 388 | $ 94 | $ 13,690 |

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

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The amortized cost and estimated market value of debt securities at June 30, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Held-to-Maturity | | Available-for-sale | |
|---|---|---|---|---|
| | *In Thousands* | | | |
| | Amortized Cost | Estimated Market Value | Amortized Cost | Estimated Market Value |
| Due in one year or less | $ 521 | $ 527 | $ 2,252 | $ 2,259 |
| Due after one year through five years | 6,451 | 6,730 | 73,051 | 72,919 |
| Due after five years through ten years | 3,211 | 3,333 | 85,808 | 85,209 |
| Due after ten years | 4,555 | 4,637 | 84,239 | 84,417 |
| | $ 14,738 | $ 15,227 | $ 245,350 | $ 244,804 |

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 June 30, 2011 and December 31, 2010.

| | *In Thousands, Except Number of Securities* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or More | | | Total | |
| June 30, 2011 | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses |
| Held to Maturity Securities: | | | | | | | | |
| Debt securities: | | | | | | | | |
| Mortgage-backed: | | | | | | | | |
| GSE residential | $ | $ | | $ | $ | | $ | $ |
| Obligations of states and political subdivisions | 2,099 | 15 | 9 | | | | 2,099 | 15 |
| | $ 2,099 | $ 15 | 9 | $ | | | $ 2,099 | $ 15 |