WILSON BANK HOLDING CO
Form 10-Q
November 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 September 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 (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No 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: 7,302,646 shares at November 8, 2011

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Part I. Financial Information

Item 1. Financial Statements

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

	September 30, 2011	December 31, 2010
	(Dollars in Thousands Except Per Share Amounts)	
Assets		
Loans	$ 1,116,951	$ 1,095,268
Less: Allowance for loan losses	(24,876)	(22,177)
Net loans	1,092,075	1,073,091
Securities:		
Held to maturity, at cost (market value $15,435 and $13,690, respectively)	14,605	13,396
Available-for-sale, at market (amortized cost $277,738 and $282,453, respectively)	279,362	277,032
Total securities	293,967	290,428
Loans held for sale	10,900	7,845
Restricted equity securities	3,012	3,012
Federal funds sold	25,462	3,225
Total earning assets	1,425,416	1,377,601
Cash and due from banks	50,088	35,057
Bank premises and equipment, net	33,226	31,941
Accrued interest receivable	5,909	6,252
Deferred income taxes	7,004	9,629
Other real estate	19,551	13,741
Other assets	9,544	8,572
Goodwill	4,805	4,805
Other intangible assets, net	211	508
Total assets	$ 1,555,754	$ 1,488,106
Liabilities and Stockholders Equity		
Deposits	$ 1,385,054	$ 1,331,282
Securities sold under repurchase agreements	6,872	6,536
Accrued interest and other liabilities	8,677	5,955

Total liabilities	1,400,603	1,343,773
Stockholders equity:		
Common stock, $2.00 par value; authorized 15,000,000 shares, 7,302,512 and 7,225,088 shares issued at September 30, 2011 and December 31, 2010, respectively	14,605	14,450
Additional paid-in capital	46,699	43,790
Retained earnings	92,845	89,439
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $622 and $2,075, respectively	1,002	(3,346)
Total stockholders equity	155,151	144,333
Total liabilities and stockholders equity	$ 1,555,754	$ 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 Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars In Thousands Except Per Share Amounts)			
Interest income:				
Interest and fees on loans	$ 16,701	$ 16,871	$ 49,525	$ 50,762
Interest and dividends on securities:				
Taxable securities	1,372	1,801	4,218	6,378
Exempt from Federal income taxes	104	111	318	345
Interest on loans held for sale	58	73	163	153
Interest on Federal funds sold	27	23	69	64
Interest and dividends on restricted securities	33	40	98	102
Total interest income	18,295	18,919	54,391	57,804
Interest expense:				
Interest on negotiable order of withdrawal accounts	545	659	1,652	1,986
Interest on money market and savings accounts	768	836	2,194	2,511
Interest on certificates of deposit	3,090	4,331	9,683	14,300
Interest on securities sold under repurchase agreements	12	16	39	56
Interest on Federal Home Loan Bank advances				1
Interest on Federal funds purchased			2	
Total interest expense	4,415	5,842	13,570	18,854
Net interest income before provision for loan losses	13,880	13,077	40,821	38,950
Provision for loan losses	2,462	1,989	7,049	10,168
Net interest income after provision for loan losses	11,418	11,088	33,772	28,782
Non-interest income:				
Service charges on deposit accounts	1,402	1,386	4,020	4,052
Other fees and commissions	1,755	1,614	5,206	4,549
Gain on sale of loans	555	780	1,273	1,501
Gain on sale of securities	192		192	261
Total non-interest income	3,904	3,780	10,691	10,363

Non-interest expense:				
Salaries and employee benefits	5,617	5,159	16,598	14,024
Occupancy expenses, net	668	608	1,859	1,788
Furniture and equipment expense	292	309	820	1,034
Data processing expense	370	327	1,053	930
Directors fees	173	168	546	549
Advertising	239	172	713	580
FDIC insurance expense	328	577	1,424	1,663
Other operating expenses	2,117	2,076	6,613	5,929
Loss on sale of other real estate	1,141	339	2,141	601
Loss on sale of other assets	12	11	18	19
Total non-interest expense	10,957	9,746	31,785	27,117
Earnings before income taxes	4,365	5,122	12,678	12,028
Income taxes	1,702	2,022	4,924	4,688
Net earnings	$ 2,663	$ 3,100	$ 7,754	$ 7,340
Weighted average number of shares outstanding-basic	7,293,292	7,212,205	7,273,447	7,189,827
Weighted average number of shares outstanding-diluted	7,301,591	7,220,713	7,280,876	7,197,416
Basic earnings per common share	$ .37	$ .43	$ 1.07	$ 1.02
Diluted earnings per common share	$ .36	$ .43	$ 1.06	$ 1.02
Dividends per share	$ .30	$ .30	$ .60	$ .60

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Net earnings	$ 2,663	$ 3,100	$ 7,754	$ 7,340
Other comprehensive earnings, net of tax:				
Unrealized gains on available-for-sale securities arising during period, net of income taxes of $905, $419, $2,771, and $759, respectively	1,457	677	4,466	1,223
Reclassification adjustment for net gains included in net earnings, net of taxes of $74, $0, $74, and $100, Respectively	(118)		(118)	(161)
Other comprehensive earnings	1,339	677	4,348	1,062
Comprehensive earnings	$ 4,002	$ 3,777	$ 12,102	$ 8,402

See accompanying notes to consolidated financial statements (unaudited)

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

	2011	2010
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$ 55,062	$ 59,069
Fees and commissions received	9,226	8,601
Proceeds from sale of loans	67,974	86,718
Origination of loans held for sale	(69,756)	(93,773)
Interest paid	(14,554)	(19,939)
Cash paid to suppliers and employees	(24,207)	(21,416)
Income taxes paid	(5,211)	(7,970)
Net cash provided by operating activities	18,534	11,290
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity Securities	2,082	1,762
Proceeds from maturities, calls, and principal payments of available-for-sale Securities	184,585	367,352
Purchase of held-to-maturity securities	(3,348)	(2,595)
Purchase of available-for-sale securities	(181,043)	(390,683)
Loans made to customers, net of repayments	(41,831)	(2,768)
Purchase of premises and equipment	(2,358)	(2,225)
Proceeds from sale of other real estate	7,776	3,193
Proceeds from sale of other assets	65	114
Net cash used in investing activities	(34,072)	(25,850)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	70,130	83,375
Net decrease in time deposits	(16,358)	(49,601)
Net increase (decrease) in securities sold under repurchase agreements	336	(271)
Repayment of advances from Federal Home Loan Bank		(13)
Dividends paid	(4,348)	(4,300)
Proceeds from sale of common stock	3,218	3,052
Proceeds from exercise of stock options	77	76
Repurchase of common stock	(249)	(225)
Net cash provided by financing activities	52,806	32,093
Net increase in cash and cash equivalents	37,268	17,533

Cash and cash equivalents at beginning of period		38,282		31,512
Cash and cash equivalents at end of period	$	75,550	$	49,045

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Nine Months Ended September 30, 2011 and 2010
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	2011	2010
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	$ 7,754	$ 7,340
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,793	1,909
Provision for loan losses	7,049	10,168
Loss on sale of other real estate	2,141	601
Loss on sale of other assets	18	19
Security gains	(192)	(261)
Stock based compensation	18	15
Decrease in taxes payable	(1,309)	(2,978)
Increase in loans held for sale	(3,055)	(8,556)
Decrease (increase) in deferred tax assets	1,022	(304)
Increase in other assets, net	(1,148)	(1,043)
Decrease (increase) in interest receivable	(752)	907
Increase in other liabilities	5,179	4,558
Decrease in interest payable	(984)	(1,085)
Total adjustments	$ 10,780	$ 3,950
Net cash provided by operating activities	$ 18,534	$ 11,290
Supplemental schedule of non-cash activities:		
Unrealized gain in values of securities available-for-sale, net of taxes of $2,698,000 and $659,000 for the nine months ended September 30, 2011 and 2010, respectively	$ 4,348	$ 1,062
Non-cash transfers from loans to other real estate	$ 15,727	$ 11,940
Non-cash transfers from other real estate to loans	$ 7,946	$ 404
Non-cash transfers from loans to other assets	$ 71	$ 119

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 September 30, 2011, there were no loans classified as nonaccrual that were not also deemed to be impaired except for those loans not individually evaluated for impairment as described below. 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 were effective for the quarter ended September 30, 2011 and have been applied retrospectively to the beginning of the current year.

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As a result of applying these amendments, the Company identified no additional loans that were considered to be restructured.

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 September 30, 2011 and December 31, 2010:

	(In Thousands)	
	September 30, 2011	December 31, 2010
Mortgage Loans on real estate		
Residential 1-4 family	$ 348,287	$ 351,237
Multifamily	7,314	8,711
Commercial	410,230	347,381
Construction and land developement	166,485	176,842
Farmland	35,053	38,369
Second mortgages	14,836	15,373
Equity lines of credit	37,424	36,861
Total mortgage loans on real estate	1,019,629	974,774
Commercial loans	45,080	57,249
Agricultural loans	2,925	3,017
Consumer installment loans		
Personal	41,798	52,574
Credit cards	3,024	3,160
Total consumer installment loans	44,822	55,734
Other loans	6,487	5,841
	1,118,943	1,096,615
Net deferred loan fees	(1,992)	(1,347)
Total loans	1,116,951	1,095,268

Less: Allowance for loan losses	(24,876)	(22,177)
Net Loans	$ 1,092,075	$ 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.

Transactions in the allowance for loan losses for the quarter ended September 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
September 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	1,594	(6)	1,829	2,246	852	272	54	459	(30)	(221)	7,049
Charge-offs	(1,247)		(1,257)	(1,146)	(76)	(245)	(148)	(250)	(1)	(340)	(4,710)
Recoveries	62		12	60		7	16	16		187	360
Ending balance	$ 5,549	40	7,869	6,718	1,764	310	689	1,388	36	513	24,876
Ending balance individually evaluated for impairment	$ 1,057		3,403	2,421	1,184	9		994			9,068
Ending balance collectively evaluated for impairment	$ 4,492	40	4,466	4,297	580	301	689	394	36	513	15,808
Ending balance loans acquired with deteriorated credit quality	$										
Loans:											
	$ 348,287	7,314	410,230	166,485	35,053	14,836	37,424	45,080	2,925	51,309	1,118,943

Ending balance											
Ending balance individually evaluated for impairment	$ 13,345	413	21,608	17,826	4,448	765	170	1,089			59,664
Ending balance collectively evaluated for impairment	$ 334,942	$ 6,901	$ 388,622	$ 148,659	$ 30,605	$ 14,071	$ 37,254	$ 43,991	$ 2,925	$ 51,309	1,059,279
Ending balance loans acquired with deteriorated credit quality	$										

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
September 30, 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	2,500	442	2,354	2,324	1,847	159	629	(323)	(9)	245	10,168
Charge-offs	(1,400)		(10)	(2,242)	(700)	(179)	(663)	(202)		(605)	(6,001)
Recoveries	28					4		10	2	152	196
Ending balance	$ 5,396	467	6,843	3,494	1,298	505	754	1,110	31	1,112	21,010
Ending balance individually evaluated for impairment	$ 2,051		3,431	1,448	402	91	112	440			7,975

Ending balance collectively evaluated for impairment	$ 3,345	$ 467	$ 3,412	$ 2,046	$ 896	$ 414	$ 642	$ 670	$ 31	$ 1,112	13,035
Ending balance loans acquired with deteriorated credit quality	$										
Loans:											
Ending balance	$ 353,740	8,748	341,321	182,127	42,453	16,795	37,333	54,380	3,105	61,928	1,101,930
Ending balance individually evaluated for impairment	$ 16,231	484	20,996	20,669	4,663	1,355	944	1,171	155		66,668
Ending balance collectively evaluated for impairment	$ 337,509	8,264	320,325	161,458	37,790	15,440	36,389	53,209	2,950	61,928	1,035,262
Ending balance loans acquired with deteriorated credit quality	$										

At September 30, 2011, the Company had certain impaired loans of $16,584,000 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 September 30, 2011 and December 31, 2010.

			In Thousands			
		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011						
With no related allowance recorded:						
Residential 1-4 family	$	6,134	6,134		4,139	488
Multifamily		413	413		414	17
Commercial real estate		5,416	5,416		3,711	122
Construction		6,904	6,904		6,963	221
Farmland		1,245	1,245		1,821	78
Second mortgages		606	606		606	
Equity lines of credit		170	170		124	6
Commercial					67	
Agricultural						
	$	20,888	20,888		17,845	732
With allowance recorded:						
Residential 1-4 family	$	7,211	7,211	1,057	8,044	204
Multifamily						
Commercial real estate		16,192	16,192	3,403	15,444	526
Construction		10,922	10,922	2,421	13,595	299
Farmland		3,203	3,203	1,184	2,820	36
Second mortgages		159	159	9	160	
Equity lines of credit						
Commercial		1,089	1,089	994	954	26
Agricultural						
	$	38,776	38,776	9,068	41,017	1,091
Total						
Residential 1-4 family		13,345	13,345	1,057	12,183	492
Multifamily		413	413		414	17
Commercial real estate		21,608	21,608	3,403	19,155	648
Construction		17,826	17,826	2,421	20,558	520
Farmland		4,448	4,448	1,184	4,641	114
Second mortgages		765	765	9	766	

Equity lines of credit	170	170		124	6
Commercial	1,089	1,089	994	1,021	26
Agricultural					
	$ 59,664	59,664	9,068	58,862	1,823

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	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 September 30, 2011, there were $3.9 million of accruing restructured loans that remain in a performing status. At December 31, 2010, there were $8.8 million of accruing restructured loans.

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Potential problem loans, which include nonperforming assets, amounted to approximately $68.1 million at September 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.

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.

Credit Quality Indicators

In Thousands

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
Credit Risk Profile by Internally Assigned Grade											
September 30, 2011											
Pass	$ 329,211	$ 6,818	$ 388,199	$ 148,228	$ 30,424	$ 13,423	$ 36,986	$ 43,844	$ 2,901	$ 50,824	1,050,858
Special mention	9,409		6,847	652	77	370	316	40		185	17,896
Substandard	9,667	496	15,184	17,605	4,552	1,043	122	1,196	24	300	50,189
Doubtful											
Total	$ 348,287	7,314	410,230	166,485	35,053	14,836	37,424	45,080	2,925	51,309	1,118,943

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

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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 September 30, 2011 and December 31, 2010 are summarized as follows:

	September 30, 2011 Securities Available-For-Sale *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$ 101,922	$ 410	$ 102	$ 102,230
Mortgage-backed:				
GSE residential	174,295	1,385	208	175,472
Obligations of states and political subdivisions	1,521	139		$ 1,660
	$ 277,738	$ 1,934	$ 310	$ 279,362

	September 30, 2011 Securities Held-To-Maturity *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
GSE residential	$ 2,450	$ 114	$	$ 2,564
Obligations of states and political subdivisions	12,155	716		12,871
	$ 14,605	$ 830	$	$ 15,435

* 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 September 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	$ 635	$ 644	$ 92	$ 93
Due after one year through five years	5,913	6,247	65,341	65,464
Due after five years through ten years	3,663	3,899	126,850	127,358
Due after ten years	4,394	4,645	85,455	86,447
	$ 14,605	$ 15,435	$ 277,738	$ 279,362

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 September 30, 2011 and December 31, 2010.

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
September 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								
	$	$		$			$	$
Available-for-Sale Securities:								
Debt securities:								
GSEs	$ 28,386	$ 102	9	$	$		$ 28,386	$ 102

Mortgage-backed: GSE residential	55,267		208	10			55,267		208
Obligations of states and political subdivisions									
	$ 83,653	$	310	19	$	$	$ 83,653	$	310

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

Because the Company does not intend to sell these securities and it is not more likely than not that the Company will 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 September 30, 2011.
The carrying values of the Company s investment securities could decline in the future if the financial condition of issuers deteriorate and management determines it is probable that the Company will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future given the current economic environment.

Note 4. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share for the Company begins with the basic earnings per

share plus the effect of common shares contingently issuable from stock options.

The following is a summary of components comprising basic and diluted earnings per share (EPS) for the three months and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
Basic EPS Computation:				
Numerator Earnings available to common Stockholders	$ 2,663	$ 3,100	$ 7,754	$ 7,340
Denominator Weighted average number of common shares outstanding	7,293,292	7,212,205	7,273,447	7,189,827
Basic earnings per common share	$ .37	$ .43	$ 1.07	$ 1.02
Diluted EPS Computation:				
Numerator Earnings available to common Stockholders	$ 2,663	$ 3,100	$ 7,754	$ 7,340
Denominator Weighted average number of common shares outstanding	7,293,292	7,212,205	7,273,447	7,189,827
Dilutive effect of stock options	8,299	8,508	7,429	7,589
	7,301,591	7,220,713	7,280,876	7,197,416
Diluted earnings per common share	$ .36	$ .43	$ 1.06	$ 1.02

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 September 30, 2011, 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 September 30, 2011.

As of September 30, 2011, 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 IRS and the state of Tennessee for the years ended December 31, 2007 through 2010.

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 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.

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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 September 30, 2011 is as follows:

Commitments to extend credit	$ 158,616,000
Standby letters of credit	16,736,000

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.

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 September 30, 2011 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.

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.

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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 September 30, 2011 and December 31, 2010, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (dollars in thousands)

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

Fair Value Measurements at September 30, 2011

(in Thousands)	Carrying Value at September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$ 279,362	$	$ 279,362	$
Cash surrender value of life insurance	1,600			1,600

Fair Value Measurements at December 31, 2010

(in Thousands)	Carrying Value at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$ 277,032	$ 2,012	$ 275,020	$
Cash surrender value of life insurance	1,554			1,554

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

Fair Value Measurements at September 30, 2011

(in Thousands)	Carrying Value at September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 50,596	$	$	$ 50,596
Other real estate	19,551			19,551
Repossesed assets	31			31

Fair Value Measurements at December 31, 2010

(in Thousands)	Carrying Value at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 50,450	$	$	$ 50,450
Other real estate	13,741			13,741
Repossesed assets	41			41

Changes in Level 3 fair value measurements

The table below includes a roll forward of the balance sheet amounts for the nine months ended September 30, 2011 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurements. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Nine months ended, September 30, 2011 *(in thousands)*

		Assets		Liabilities
Fair Value, January 1, 2011	$	1,554	$	
Total realized gains included in income		46		
Purchases, issuances and settlements, net				
Transfers in and/or (out) of Level 3				
Fair Value, September 30, 2011	$	1,600	$	
Total realized gains (losses) included in income related to financial assets and liabilities still on the consolidated balance sheet at September 30, 2011	$		$	

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2011 and December 31, 2010. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

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

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

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

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The carrying value and estimated fair values of the Company s financial instruments at September 30, 2011 and December 31, 2010 are as follows:

	In Thousands			
	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term Investments	$ 75,550	75,550	$ 38,282	38,282
Securities available-for-sale	279,362	279,362	277,032	277,032
Securities, held to maturity	14,605	15,435	13,396	13,690
Loans, net of unearned Interest	1,116,951		1,095,268	
Less: allowance for loan Losses	24,876		22,177	
Loans, net of allowance	1,092,075	1,090,427	1,073,091	1,075,663
Loans held for sale	10,900	10,900	7,845	7,845
Restricted equity securities	3,012	3,012	3,012	3,012
Cash surrender value of life insurance	1,600	1,600	1,554	1,554
Other real estate	19,551	19,551	13,741	13,741
Financial liabilities:				
Deposits	1,385,054	1,390,343	1,331,282	1,339,747
Securities sold under repurchase agreements	6,872	6,872	6,536	6,536
Unrecognized financial instruments:				
Commitments to extend credit				
Standby letters of credit				

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

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

Forward-Looking Statements

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

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, coul believe, suspect, anticipate, seek, plan, estimate and similar expressions are intended to identify such forward 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, 2010, as updated in the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and also includes, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and

provisions for these losses, (ii) greater than anticipated deterioration in the real estate market conditions in the Company s market areas, (iii) increased competition with other financial institutions, (iv) the deterioration of the economy in the Company s market area, (v) continuation of the extremely low short-term interest rate environment or rapid fluctuations in short-term interest rates, (vi) significant downturns in the business of one or more large customers, (vii) changes in state or Federal regulations, policies, or legislation applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act, (vii) changes in capital levels and loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments, (ix) inadequate allowance for loan losses, (x) the effectiveness of the Company s activities in improving, resolving or liquidating lower quality assets, (xi) results of regulatory examinations, and (xii) loss of key personnel. These risks and uncertainties may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. The Company s future operating results depend on a number of factors which were derived utilizing numerous assumptions that could cause actual results to differ materially from those projected in forward-looking statements.

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

Net earnings increased 5.6% to $7,754,000 for the nine months ended September 30, 2011 from $7,340,000 in the first nine months of 2010. The increase in net earnings for the period ended September 30, 2011 compared to the same period in 2010 was related to a decrease in provision in loan losses, off-set in part by an increase in salaries and employee benefits. Net earnings were $2,663,000 for the quarter ended September 30, 2011, a decrease of $437,000, or 14.1%, from $3,100,000 for the three months ended September 30, 2010 and an increase of $48,000, or 1.8%, over the quarter ended June 30, 2011. The decrease in net earnings for the quarter ended September 30, 2011 compared to the quarter ended September 30, 2010 was primarily due to an increase in provision for loan losses and an increase in salaries and employee benefits. Net yield on earning assets was 3.8% for the nine months ended September 30, 2011 compared to 3.6%, for the nine months ended September 30, 2010, and the net interest spread was 3.6% for the nine months ended September 30, 2011 compared to 3.4% for the nine months ended September 30, 2010. The increase in net interest spread is contributed to the Bank s ability to lower the deposit yields.

The average balances, interest, and average rates for the nine-month periods ended September 30, 2011 and September 30, 2010 for the subsidiary are presented in the following table:

	September 30, 2011			**September 30, 2010**		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Loans, net of unearned interest	$ 1,103,555	5.98%	49,525	1,096,592	6.17%	50,762
Investment securities taxable	262,700	2.14	4,218	279,125	3.05	6,378
Investment securities tax exempt	12,951	3.27	318	12,844	3.58	345
Taxable equivalent adjustment		1.99	163		1.99	177
Total tax-exempt investment securities	12,951	4.96	481	12,844	5.43	522
Total investment securities	275,651	2.27	4,699	291,969	3.15	6,900
Loans held for sale	6,029	3.60	163	6,625	3.08	153
Federal funds sold	35,317	.26	69	33,370	.25	64

Restricted equity securities	3,012	4.34	98	3,012	4.52	102
Total earning assets	1,423,564	5.11%	54,554	1,431,948	5.40%	57,981
Cash and due from banks	24,286			23,272		
Allowance for loan losses	(23,352)			(19,269)		
Bank premises and equipment	32,541			30,818		
Other assets	44,209			36,890		
Total assets	$ 1,501,248			1,503,659		

	September 30, 2011			September 30, 2010		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Deposits:						
Negotiable order of withdrawal accounts	$ 238,125	0.93%	1,652	215,099	1.23%	1,986
Money market demand accounts	265,909	0.79	1,585	237,687	1.12	2,000
Individual retirement accounts	96,611	2.17	1,572	94,352	2.78	1,966
Other savings deposits	71,558	1.13	609	46,285	1.47	681
Certificates of deposit $100,000 and over	270,553	2.02	4,090	335,848	2.54	6,399
Certificates of deposit under $100,000	292,720	1.83	4,021	321,016	2.47	7,913
Total interest-bearing deposits	1,235,476	1.46	13,529	1,251,474	2.07	18,797
Securities sold under repurchase agreements	5,934	0.88	39	5,558	1.34	56
Federal funds purchased	280	0.97	2			
Advances from Federal Home Loan Bank				4		1
Total interest-bearing liabilities	1,241,690	1.48	13,570	1,255,972	2.00	18,854
Demand deposits	105,656			102,154		
Other liabilities	7,151			6,477		
Stockholders equity	146,751			139,056		
Total liabilities and stockholders equity	$ 1,501,248			$ 1,501,659		
Net interest income			$ 40,984			$ 39,127
Net yield on earning assets (1)		3.84%			3.64%	
Net interest spread (2)		3.63%			3.40%	

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

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

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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 total interest income, excluding tax equivalent adjustments relating to tax exempt securities, decreased $3,413,000, or 5.9%, during the nine months ended September 30, 2011 as compared to the same period in 2010. The decrease in the first nine months of 2011 was primarily attributable to the continuing impact of low interest rate environment and the negative impact of higher non-accrual loan balances, along with a growth in the lower yielding securities portfolio. Total interest income increased $624,000, or 3.3%, for the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010 and increased $114,000, or 0.6%, over the second quarter of 2011. The increase in the quarter ended September 30, 2011 when compared to the same period in 2010 and when compared to the second quarter of 2011 was primarily due to an increase in loan growth during the respective quarters. The ratio of average earnings assets to total average assets was 94.8% and 95.2% for the nine months ended September 30, 2011 and September 30, 2010, respectively.

Interest expense decreased $5,284,000, or 28.0%, for the nine months ended September 30, 2011 as compared to the same period in 2010. Interest expense decreased $1,427,000, or 24.4%, for the three months ended September 30, 2011 as compared to the same period in 2010. Interest expense decreased $41,000, or 0.9%, for the quarter ended September 30, 2011 over the quarter ended June 30, 2011. The decrease for the quarter ended September 30, 2011 and for the nine months ended September 30, 2011 as compared to the prior year s comparable periods was primarily 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.

The foregoing resulted in an increase in net interest income, before the provision for loan losses, of $1,871,000, or 4.8%, for the first nine months of 2011 as compared to the same period in 2010 and an increase of $803,000, or 6.1%, for the quarter ended September 30, 2011 when compared to the quarter ended September 30, 2010 and an increase of $155,000, or 1.1%, when compared to the second quarter of 2011.

Provision for Loan Losses

The provision for loan losses was $7,049,000 and $10,168,000 for the first nine months of 2011 and 2010, respectively. The provision for loan losses during the quarters ended September 30, 2011 and 2010 was $2,462,000 and $1,989,000, respectively. The decrease in the provision in the first nine months of 2011 was primarily related to management s quarterly assessment of the adequacy of the allowance for loan losses. During the second quarter of 2010, the Bank identified several large commercial real estate loans that were impaired. As a result, the Bank performed an impairment analysis which identified the need for additional impairment reserves. 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. The provision for loan losses raised the allowance for loan losses (net of charge-offs and recoveries) to $24,876,000, an increase of 12.2% from $22,177,000 at December 31, 2010 and an increase of $1,447,000, or 6.2%, from June 30, 2011. The allowance for loan losses was 2.23%, 2.09%, and 2.01% of total loans at September 30, 2011, June 30, 2011, and March 31, 2011, respectively.

Management believes the allowance for loan losses at September 30, 2011 to be adequate, but if economic conditions 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.

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Non-Interest Income

The components of the Company s non-interest income include service charges on deposit accounts, other fees and commissions and gain on sale of loans. Total non-interest income for the nine months ended September 30, 2011 increased 3.2% to $10,691,000 from $10,363,000 for the same period in 2010 and increased $124,000, or 3.3%, during the quarter ended September 30, 2011 when compared to the third quarter of 2010. Non-interest income increased $345,000, or 9.7%, during the quarter ended September 30, 2011 when compared to the second quarter of 2011. The increase for the nine months ended September 30, 2011 as compared to the comparable period in 2010 related primarily to an increase in other fees and commissions. Other fees and commissions increased $657,000, or 14.4%, to $5,206,000 during the nine months ended September 30, 2011 compared to the same period in 2010. The increase was $141,000, or 8.7%, during the quarter ended September 30, 2011 compared to the third quarter of 2010 and there was a decrease of $56,000, or 3.1%, over the second quarter of 2011.Other fees and commissions include income on brokerage accounts, insurance policies sold and various other fees. Service charges on deposit accounts decreased $32,000, or 0.8%, to $4,020,000 during the nine months ended September 30, 2011 compared to the same period in 2010 and increased $16,000, or 1.2%, during the quarter ended September 30, 2011 compared to the third quarter of 2010 as a result of consumers slowing their spending due to the current economic environment. Gain on sale of loans decreased $228,000, or 15.2%, to $1,273,000 during the nine months ended September 30, 2011 compared to the same period in 2010 and decreased $225,000, or 28.8%, during the quarter ended September 30, 2011 compared to the third quarter of 2010.

Non-Interest Expenses

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, advertising and marketing expenses, data processing expenses, director s fees, loss on sale of other real estate, and other operating expenses. Total non-interest expenses increased $4,668,000, or 17.2%, to $31,785,000 during the first nine months of 2011 compared to the same period in 2010. The increase for the quarter ended September 30, 2011 was $1,211,000, or 12.4%, as compared to the comparable quarter in 2010 and this was an increase of $574,000, or 5.5%, as compared to the second quarter of 2011. The increases in non-interest expenses when compared to the comparable periods in 2010 is primarily attributable to an increase in employee salaries and benefits as the Company has expanded with the opening of two new offices during the first six months of 2011 and an increase in profit sharing and bonus accrual when compared to the same period in 2010. Other operating expenses for the nine months ended September 30, 2011 increased to $6,613,000 from 5,929,000 for the comparable period in 2010. Other operating expenses increased $41,000, or 2.0%, during the quarter ended September 30, 2011 as compared to the same period in 2010. The increase in other operating expenses for the nine months ended September 30, 2011 is primarily attributable to an increase in other real estate owned caused by an increase in costs associated with the disposal and maintenance of other real estate. In accordance with Bank policy, the Bank reappraises all other real estate properties held on an annual basis. As a result of certain appraisals, the Bank wrote down $1,010,000 on properties currently in other real estate during the nine months ended September 30, 2011.

Income Taxes

The Company s income tax expense was $4,924,000 for the nine months ended September 30, 2011, an increase of $236,000 over the comparable period in 2010. Income tax expense was $1,702,000 for the quarter ended September 30, 2011, a decrease of $320,000 over the same period in 2010. The percentage of income tax expense to net income before taxes was 38.8% and 39.0% for the nine months ended September 30, 2011 and September 30, 2010 and 39.0% and 39.4% for the quarters ended September 30, 2011 and 2010, respectively. The percentage of income tax expense to net income before taxes was 38.9% for the second quarter of 2011.

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Financial Condition

Balance Sheet Summary

The Company s total assets increased 4.6% to $1,555,754,000 during the nine months ended September 30, 2011 from $1,488,106,000 at December 31, 2010. Total assets increased $50,781,000 during the three-month period ended September 30, 2011 and increased $5,232,000 during the three-month period ended June 30, 2011 after increasing $11,635,000 during the three-month period ended March 31, 2011. Loans, net of allowance for loan losses, totaled $1,092,075,000 at September 30, 2011, a 1.8% increase compared to $1,073,091,000 at December 31, 2010. Net loans decreased $5,563,000, or 0.5% during the three-month period ended September 30, 2011 and increased $11,943,000, or 5.0%, for the three-month period ended June 30, 2011. Securities increased $3,539,000, or 1.2%, to $293,967,000 at September 30, 2011 from $290,428,000 at December 31, 2010. Securities increased $34,425,000, or 13.3%, during the three months ended September 30, 2011. Federal funds sold increased to $25,462,000 at September 30, 2011 from $3,225,000 at December 31, 2010, reflecting a growth in deposits that exceeded loan growth.

Total liabilities increased by 4.2% to $1,400,603,000 at September 30, 2011 compared to $1,343,773,000 at December 31, 2010. During the third quarter of 2011, total liabilities increased $47,510,000 or 3.5%. The increase in total liabilities since December 31, 2010 was composed primarily of a $53,772,000, or 4.0%, increase in total deposits and a $336,000, or 5.1%, increase in securities sold under repurchase agreements.

Non Performing Assets

The following tables present the Company s non-accrual loans and past due loans as of September 30, 2011 and December 31, 2010.

Loans on Nonaccrual Status

	In Thousands	
	2011	2010
Residential 1-4 family	$ 2,778	3,611
Multifamily		
Commercial real estate	4,752	7,465
Construction	5,290	7,850
Farmland	2,883	1,308
Second mortgages	606	770
Equity lines of credit		667
Commercial	275	490
Installment and other		
Total	$ 16,584	$ 22,161

Age Analysis of Past Due Loans

	In Thousands						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment Greater Than 90 Days and Accruing
September 30, 2011							

Residential 1-4 family	$ 2,825	780	5,490	9,095	339,192	348,287	2,712
Multifamily					7,314	7,314	
Commercial real estate	667	429	6,115	7,211	403,019	410,230	1,363
Construction	950	57	11,390	12,397	154,088	166,485	6,100
Farmland	118	131	2,883	3,132	31,921	35,053	
Second mortgages	230		662	892	13,944	14,836	56
Equity lines of credit	71	61		132	37,292	37,424	
Commercial	2,150	25	300	2,475	42,605	45,080	25
Agricultural, installment and other	472	265	274	1,011	55,744	54,234	274
Total	$ 7,483	1,748	27,114	36,345	1,085,119	1,118,943	10,530
December 31, 2010							
Residential 1-4 family	$ 5,714	1,080	5,141	11,935	339,302	351,237	1,530
Multifamily	53		79	132	8,579	8,711	79
Commercial real estate	558	200	7,673	8,431	338,950	347,381	208
Construction	1,830	160	8,028	10,018	166,824	176,842	178
Farmland	1,572	188	1,651	3,411	34,958	38,369	343
Second mortgages	215	48	890	1,153	14,220	15,373	120
Equity lines of credit	73		667	740	36,121	36,861	
Commercial	330	2	492	824	56,425	57,249	2
Agricultural, installment and other	872	159	108	1,139	63,453	64,592	108
Total	$ 11,217	1,837	24,729	37,783	1,058,832	1,096,615	2,568

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

Non-performing loans, which included non-accrual loans and loans 90 days past due, at September 30, 2011 totaled $27,114,000, an increase from $24,729,000 at December 31, 2010. The increase in non-performing loans during the nine months ended September 30, 2011 of $2,385,000 is due primarily to an increase in non-performing construction real estate mortgage loans of $3,362,000, and an increase in non-performing farm land loans of $1,232,000, off-set in part by a decrease in non-performing residential real estate, installment, and other loans of $459,000, and a decrease in non-performing commercial real estate loans of $1,750,000. The increase in non-performing loans relates primarily to an increase in residential real estate loans and construction loans that are 90 days past due and still accruing. 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.

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 nine months ended September 30, 2011 was primarily due to foreclosure and subsequent sale of one large commercial real estate loan. The Company s market areas continue to experience a weakened residential and commercial real estate market. Home builders and developers continue to experience stress during the current 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 nine months ended September, 2011 were $4,350,000 as compared to $5,805,000 for the nine months ended September 30, 2010.

The collateral values securing potential problem loans, including impaired loans, based on estimates received by management, total approximately $112,975,000 ($112,935,000 related to real property and $40,000 related to various other types of loans). The internally classified loans have increased $4,919,000, or 7.8%, from $63,166,000 at December 31, 2010. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

The largest category of internally graded loans at September 30, 2011 was real estate mortgage loans. Included within this category are residential real estate construction and development loans, including loans to home builders and developers of land, as well as one to four family mortgage loans, and commercial real estate loans. Residential real estate loans, including construction and land development loans that are internally classified totaled $39,680,000 and $36,698,000 at September 30, 2011 and December 31, 2010, respectively. These loans have been graded accordingly due to bankruptcies, inadequate cash flows and delinquencies. Borrowers within this segment have continued to experience stress during the current recession due to a combination of declining demand for residential real estate and the resulting price and collateral declines. In addition, housing starts in the Company s market areas 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 operations. 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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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 in extending liability maturities.

Liquid assets include cash and cash equivalents and securities and money market instruments that will mature within one year. At September 30, 2011, the Company s liquid assets totaled $181,319,000. 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 to loan payments, investment security maturities and short-term borrowings provide a secondary source of liquidity.

Interest rate risk (sensitivity) focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Company s rate sensitivity position has an important impact on earnings. Senior management of the Company meets monthly to analyze the rate sensitivity position of the Company s bank subsidiary. 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 $751,000 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 September 30, 2011, loans totaling approximately $330.3 million either will become due or will be subject to rate adjustments within twelve months from the respective date. Continued emphasis will be placed on structuring adjustable rate loans.

As for liabilities, certificates of deposit of $100,000 or greater totaling approximately $211.0 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.

Capital Position and Dividends

At September 30, 2011, total stockholders equity was $155,151,000, or 10.0% of total assets, which compares with $144,333,000, or 9.7% of total assets, at December 31, 2010. The dollar increase in stockholders equity during the nine months ended September 30, 2011 results from the Company s net income of $7,754,000, proceeds from the issuance of common stock related to exercise of stock options of $77,000, the net effect of a $7,046,000 unrealized gain on investment securities net of applicable income taxes of $2,698,000, cash dividends declared of $4,348,000 of which $3,218,000 was reinvested under the Company s dividend reinvestment plan, $249,000 relating to the repurchase of 6,148 shares of common stock by the Company, and $18,000 related to stock option compensation.

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

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

As of September 30, 2011 and December 31, 2010, the Company and the Bank are considered to be well capitalized under regulatory definitions. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables.

The Company s and the Bank s actual capital amounts and ratios as of September 30, 2011 and December 31, 2010, are also presented in the tables:

	Actual		*Minimum Capital Requirement*		*Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(dollars in thousands)			
September 30, 2011:						
Total capital to risk weighted assets:						
Consolidated	$ 163,979	13.9%	$ 94,376	8.0%	N/A	N/A
Wilson Bank	162,223	13.8	94,042	8.0	$ 117,553	10.0%
Tier 1 capital to risk weighted assets:						
Consolidated	149,132	12.7	46,971	4.0	N/A	N/A
Wilson Bank	147,376	12.5	47,160	4.0	70,740	6.0
Tier 1 capital to average assets:						

Consolidated	149,132	9.9	60,255	4.0	N/A	N/A
Wilson Bank	147,376	9.7	60,773	4.0	75,967	5.0

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

Impact of Inflation

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Company s rate sensitivity position has an important impact on earnings. Senior management of the Company meets monthly to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments. There have been no material changes in reported market risks during the nine months ended September 30, 2011.

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 designed 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 September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 1A. RISK FACTORS

There were no material changes to the Company s risk factors as previously disclosed in Part I, Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 other than as set forth in the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

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

(a) None

(b) Not applicable.

(c) The table below sets forth the number of shares repurchased by the registrant during the third quarter of 2011 and the average prices at which these shares were repurchased.

	Total Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
July 1 July 31, 2011				
August 1 August 31, 2011	3,812	$ 40.75		
September 1 September 30, 201				

Item 3. DEFAULTS UPON SENIOR SECURITIES

(a) None

(b) Not applicable

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None

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Item 6. 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.
101	Interactive Data File

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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: November 8, 2011	/s/ Randall Clemons
	Randall Clemons President and Chief Executive Officer
DATE: November 8, 2011	/s/ Lisa Pominski
	Lisa Pominski Senior Vice President & Chief Financial Officer