WILSON BANK HOLDING CO
Form 10-Q
November 07, 2012
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended September 30, 2012**

**or**

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

**For the transition period from to**

**Commission File Number 0-20402**

# WILSON BANK HOLDING COMPANY

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **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 x No ¨

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

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: 7,387,740 shares at November 7, 2012

**Table of Contents**

**Table of Contents**

**Part I. Financial Information**

**Item 1. Financial Statements**

***WILSON BANK HOLDING COMPANY***

***Consolidated Balance Sheets***

***September 30, 2012 and December 31, 2011***

***(Unaudited)***

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Dollars in Thousands Except Per Share Amounts) | |
| Assets | | |
| Loans | $ 1,160,908 | $ 1,123,258 |
| Less: Allowance for loan losses | (24,933) | (24,525) |
| Net loans | 1,135,975 | 1,098,733 |
| Securities: | | |
| Held to maturity, at cost (market value $16,079 and $15,266, respectively) | 15,261 | 14,464 |
| Available-for-sale, at market (amortized cost $340,872 and $309,329, respectively) | 344,857 | 310,731 |
| Total securities | 360,118 | 325,195 |
| Loans held for sale | 6,278 | 14,775 |
| Restricted equity securities | 3,012 | 3,012 |
| Federal funds sold | 19,105 | 13,215 |
| Total earning assets | 1,524,488 | 1,454,930 |
| Cash and due from banks | 52,553 | 40,959 |
| Bank premises and equipment, net | 35,403 | 35,437 |
| Accrued interest receivable | 5,812 | 5,930 |
| Deferred income tax asset | 7,578 | 8,488 |
| Other real estate | 18,755 | 19,117 |
| Other assets | 7,265 | 7,592 |
| Goodwill | 4,805 | 4,805 |
| Other intangible assets, net | | 112 |
| Total assets | $ 1,656,659 | $ 1,577,370 |
| Liabilities and Stockholders Equity | | |
| Deposits | $ 1,470,876 | $ 1,406,042 |
| Securities sold under repurchase agreements | 9,790 | 7,419 |
| Accrued interest and other liabilities | 8,634 | 6,561 |
| Total liabilities | 1,489,300 | 1,420,022 |
| Stockholders equity: | | |

| | | |
|---|---|---|
| Common stock, $2.00 par value; authorized 15,000,000 shares, issued 7,387,740 and 7,304,186 shares, respectively | 14,775 | 14,608 |
| Additional paid-in capital | 49,948 | 46,734 |
| Retained earnings | 100,177 | 95,141 |
| Net unrealized gains on available-for-sale securities, net of income taxes of $1,526 and $537, respectively | 2,459 | 865 |
| Total stockholders equity | 167,359 | 157,348 |
| Total liabilities and stockholders equity | $ 1,656,659 | $ 1,577,370 |

See accompanying notes to consolidated financial statements (unaudited)

**Table of Contents**

***WILSON BANK HOLDING COMPANY***

***Consolidated Statements of Earnings***

***Three Months and Nine Months Ended September 30, 2012 and 2011***

***(Unaudited)***

| | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|---|---|---|---|---|
| | (Dollars In Thousands Except Per Share Amounts) | | | |
| Interest income: | | | | |
| Interest and fees on loans | $ 16,490 | $ 16,701 | $ 49,242 | $ 49,525 |
| Interest and dividends on securities: | | | | |
| Taxable securities | 1,303 | 1,372 | 4,089 | 4,218 |
| Exempt from Federal income taxes | 127 | 104 | 329 | 318 |
| Interest on loans held for sale | 51 | 58 | 242 | 163 |
| Interest on Federal funds sold | 37 | 27 | 100 | 69 |
| Interest and dividends on restricted securities | 19 | 33 | 96 | 98 |
| Total interest income | 18,027 | 18,295 | 54,098 | 54,391 |
| Interest expense: | | | | |
| Interest on negotiable order of withdrawal accounts | 470 | 545 | 1,484 | 1,652 |
| Interest on money market and savings accounts | 662 | 768 | 2,118 | 2,194 |
| Interest on certificates of deposit | 2,254 | 3,090 | 7,278 | 9,683 |
| Interest on securities sold under repurchase agreements | 14 | 12 | 42 | 39 |
| Interest on Federal funds purchased | (1) | | 1 | 2 |
| Total interest expense | 3,399 | 4,415 | 10,923 | 13,570 |
| Net interest income before provision for loan losses | 14,628 | 13,880 | 43,175 | 40,821 |
| Provision for loan losses | 2,407 | 2,462 | 6,873 | 7,049 |
| Net interest income after provision for loan losses | 12,221 | 11,418 | 36,302 | 33,772 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 1,121 | 1,402 | 3,487 | 4,020 |
| Other fees and commissions | 1,806 | 1,755 | 5,609 | 5,206 |
| Gain on sale of loans | 924 | 555 | 2,358 | 1,273 |
| Gain on sale of other assets | | | 6 | |
| Gain on sale of securities | | 192 | 259 | 192 |
| Other income | | | 3 | |
| Total non-interest income | 3,851 | 3,904 | 11,722 | 10,691 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 5,958 | 5,617 | 17,802 | 16,598 |
| Occupancy expenses, net | 700 | 668 | 1,969 | 1,859 |
| Furniture and equipment expense | 296 | 292 | 827 | 820 |
| Data processing expense | 349 | 370 | 1,063 | 1,053 |
| Directors fees | 173 | 173 | 546 | 546 |
| Advertising | 230 | 239 | 702 | 713 |

| | | | | |
|---|---|---|---|---|
| FDIC insurance expense | 430 | 328 | 1,359 | 1,424 |
| Other operating expenses | 2,123 | 2,117 | 6,606 | 6,613 |
| Loss on sale of other real estate | 170 | 1,141 | 1,754 | 2,141 |
| Loss on sale of other assets | | 12 | | 18 |
| Total non-interest expense | 10,429 | 10,957 | 32,628 | 31,785 |
| Earnings before income taxes | 5,643 | 4,365 | 15,396 | 12,678 |
| Income taxes | 2,184 | 1,702 | 5,963 | 4,924 |
| Net earnings | $ 3,459 | $ 2,663 | $ 9,433 | $ 7,754 |
| Weighted average number of shares outstanding-basic | 7,374,268 | 7,293,292 | 7,351,127 | 7,273,447 |
| Weighted average number of shares outstanding-diluted | 7,379,587 | 7,301,591 | 7,356,773 | 7,280,876 |
| Basic earnings per common share | $ .47 | $ .37 | $ 1.28 | $ 1.07 |
| Diluted earnings per common share | $ .47 | $ .36 | $ 1.28 | $ 1.06 |
| Dividends per share | $ .30 | $ .30 | $ .60 | $ .60 |

See accompanying notes to consolidated financial statements (unaudited)

**Table of Contents**

***WILSON BANK HOLDING COMPANY***

***Consolidated Statements of Comprehensive Earnings***

***Three Months and Nine Months Ended September 30, 2012 and 2011***

***(Unaudited)***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In Thousands) | | | |
| Net earnings | $ 3,459 | $ 2,663 | $ 9,433 | $ 7,754 |
| Other comprehensive earnings, net of tax: | | | | |
| Unrealized gains on available-for-sale securities arising during period, net of income taxes of $656, $905, $1,088, and $2,771, respectively | 1,058 | 1,457 | 1,754 | 4,466 |
| Reclassification adjustment for net gains included in net earnings, net of taxes of $0, $74, $99, and $74, respectively | | (118) | (160) | (118) |
| Other comprehensive earnings | 1,058 | 1,339 | 1,594 | 4,348 |
| Comprehensive earnings | $ 4,517 | $ 4,002 | $ 11,027 | $ 12,102 |

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

***WILSON BANK HOLDING COMPANY***

***Consolidated Statements of Cash Flows***

***Nine Months Ended September 30, 2012 and 2011***

***Increase (Decrease) in Cash and Cash Equivalents***

***(Unaudited)***

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Interest received | $ 56,718 | $ 55,062 |
| Fees and commissions received | 9,096 | 9,226 |
| Proceeds from sale of loans held for sale | 96,341 | 67,974 |
| Origination of loans held for sale | (85,486) | (69,756) |
| Interest paid | (11,752) | (14,554) |
| Cash paid to suppliers and employees | (26,081) | (24,207) |
| Income taxes paid | (6,358) | (5,211) |
| Other income | 3 | |
| Net cash provided by operating activities | 32,481 | 18,534 |
| Cash flows from investing activities: | | |
| Proceeds from maturities, calls, and principal payments of held-to-maturity securities | 1,195 | 2,082 |
| Proceeds from maturities, calls, and principal payments of available-for-sale securities | 126,771 | 158,133 |
| Proceeds from sale of available-for-sale securities | 37,353 | 26,452 |
| Purchase of held-to-maturity securities | (2,073) | (3,348) |
| Purchase of available-for-sale securities | (197,829) | (181,043) |
| Loans made to customers, net of repayments | (51,557) | (41,831) |
| Purchase of premises and equipment | (1,060) | (2,358) |
| Proceeds from sale of other real estate | 5,993 | 7,776 |
| Proceeds from sale of other assets | 44 | 65 |
| Net cash used in investing activities | (81,163) | (34,072) |
| Cash flows from financing activities: | | |
| Net increase in non-interest bearing, savings and NOW deposit accounts | 85,763 | 70,130 |
| Net decrease in time deposits | (20,929) | (16,358) |
| Net increase in securities sold under repurchase agreements | 2,371 | 336 |
| Dividends paid | (4,396) | (4,348) |
| Proceeds from sale of common stock pursuant to dividend reinvestment | 3,200 | 3,218 |
| Proceeds from exercise of stock options | 157 | 77 |
| Repurchase of common stock | | (249) |
| Net cash provided by financing activities | 66,166 | 52,806 |
| Net increase in cash and cash equivalents | 17,484 | 37,268 |
| Cash and cash equivalents at beginning of period | 54,174 | 38,282 |
| Cash and cash equivalents at end of period | $ 71,658 | $ 75,550 |

See accompanying notes to consolidated financial statements (unaudited)

**Table of Contents**

***WILSON BANK HOLDING COMPANY***

***Consolidated Statements of Cash Flows, Continued***

***Nine Months Ended September 30, 2012 and 2011***

***Increase (Decrease) in Cash and Cash Equivalents***

***(Unaudited)***

| | 2012 | 2011 |
|---|---|---|
| | (In Thousands) | |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Net earnings | $ 9,433 | $ 7,754 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion | 3,708 | 2,793 |
| Provision for loan losses | 6,873 | 7,049 |
| Loss on sale of other real estate | 1,754 | 2,141 |
| Loss (gain) on sale of other assets | (6) | 18 |
| Gain on sale of securities | (259) | (192) |
| Stock option compensation | 23 | 18 |
| Decrease in taxes payable | (146) | (1,309) |
| Decrease (increase) in loans held for sale | 8,497 | (3,055) |
| Decrease (increase) in deferred tax assets | (249) | 1,022 |
| Decrease (increase) in other assets, net | 346 | (1,148) |
| Decrease (increase) in interest receivable | 118 | (752) |
| Increase in other liabilities | 3,218 | 5,179 |
| Decrease in interest payable | (829) | (984) |
| Total adjustments | $ 23,048 | $ 10,780 |
| Net cash provided by operating activities | $ 32,481 | $ 18,534 |
| Supplemental schedule of non-cash activities: | | |
| Unrealized gain in values of securities available-for-sale, net of taxes of $989 and $2,698 for the nine months ended September 30, 2012 and 2011, respectively | $ 1,594 | $ 4,348 |
| Non-cash transfers from loans to other real estate | $ 7,603 | $ 15,727 |
| Non-cash transfers from other real estate to loans | $ 218 | $ 7,946 |
| Non-cash transfers from loans to other assets | $ 57 | $ 71 |

See accompanying notes to consolidated financial statements (unaudited)

Table of Contents

***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 2011 Annual Report previously filed on Form 10-K.

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

*Use of Estimates* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments. These financial statements should be read in conjunction with Wilson Bank Holding Company s Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes to Wilson Bank Holding Company s significant accounting policies as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

*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, 2011 and at September 30, 2012, 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 May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* (Topic 820)-Fair Value Measurement (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value

Table of Contents

measurements. ASU 2011-04 was effective for the Company in the first quarter of fiscal 2012 and will be applied prospectively. This adoption did not have an impact on the Company s financial position or results of operations.

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

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

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

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

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

**Table of Contents**

The following schedule details the loans of the Company at September 30, 2012 and December 31, 2011:

| | (In Thousands) | |
|---|---|---|
| | September 30, 2012 | December 31, 2011 |
| Mortgage Loans on real estate | | |
| Residential 1-4 family | $ 335,075 | $ 344,029 |
| Multifamily | 13,003 | 9,791 |
| Commercial | 468,439 | 422,531 |
| Construction and land development | 189,274 | 166,460 |
| Farmland | 26,754 | 35,691 |
| Second mortgages | 12,905 | 14,711 |
| Equity lines of credit | 38,092 | 39,307 |
| Total mortgage loans on real estate | 1,083,542 | 1,032,520 |
| Commercial loans | 32,399 | 38,736 |
| Agricultural loans | 2,421 | 2,556 |
| Consumer installment loans | | |
| Personal | 39,170 | 41,521 |
| Credit cards | 2,923 | 3,168 |