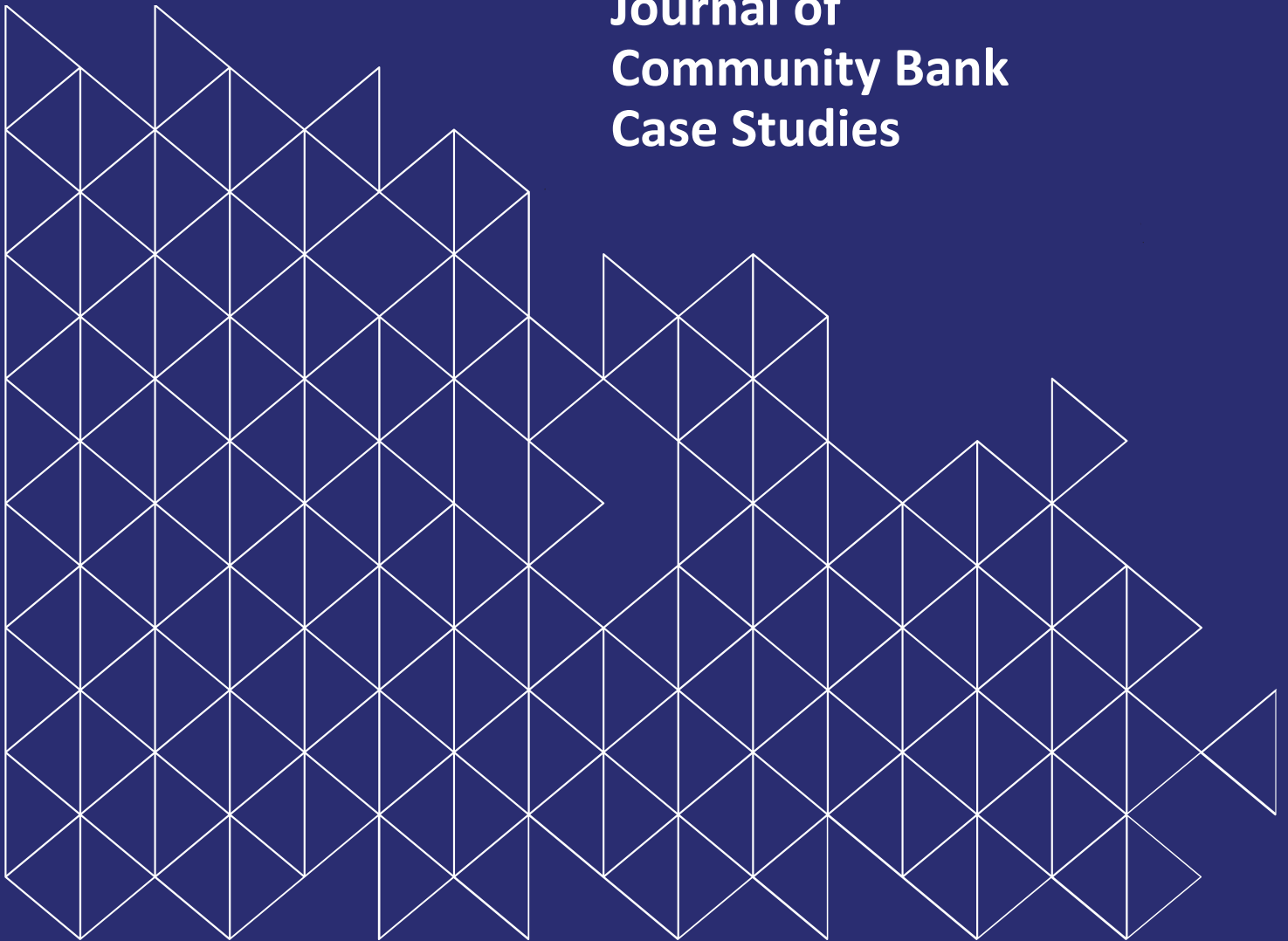


CONFERENCE OF STATE
BANK SUPERVISORS

2026

Journal of
Community Bank
Case Studies



Journal of Community Bank Case Studies

Volume 11

The Journal of Community Bank Case Studies is an independent, adjudicated journal of case studies authored by undergraduate college students. The goal of this journal is to showcase the work of the top undergraduate student teams that participate in the annual Community Bank Case Study Competition, a national competition facilitated by the Conference of State Bank Supervisors. The competition partners undergraduate student teams with community banks to conduct original case studies focused on various topics. For this year's competition, students were asked to examine the bank's approach to interest rate risk, lending decisions, and response to inflation since 2020. Teams also were asked to analyze how banks manage and maintain adequate capital through various strategies. This eleventh volume of the Journal of Community Bank Case Studies includes the top three written submissions from the 2026 Community Bank Case Study Competition. The authors of the papers represent student teams from Tennessee Technological University, Illinois State University, and Iowa State University.

Conference of State Bank Supervisors

The Conference of State Bank Supervisors (CSBS) is the nationwide professional organization of financial regulators from all 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands. CSBS advocates for the dual banking system and provides states with critical infrastructure for fostering innovative, responsive supervision. This infrastructure includes:

- A governance structure and forum for addressing shared challenges and enhancing regulatory coordination;
- Technology tools and platforms that help states coordinate and streamline licensing and supervision; and,
- Professional development and training to strengthen the state system workforce.

Established in 1902 as the National Association of Supervisors of State Banks, CSBS is uniquely positioned as the only national organization dedicated to protecting and advancing the nation's dual banking system.

For more than a century, CSBS has given state supervisors a national forum to coordinate supervision and develop policy related to their regulated entities. CSBS also provides training to state financial regulators.



Letter from the President & CEO



How can we expect young adults to pursue careers in community banking or as a state bank examiner when many of them have only conducted financial transactions on their phone?

We bring the bank to them.

The Conference of State Bank Supervisors began the Community Bank Case Study Competition 12 years ago to introduce students to a career in banking, and its impact has been impressive.

It has opened the eyes of students in colleges across the nation to a new career option, with many participants entering banking or becoming bank supervisors. Others have built an awareness of a community bank's importance to local consumers, businesses, and farmers that will inform their decisions as they enter other professions. And an unexpected finding, it has helped connect community banks with local universities, while gaining insights through the perspective of the next generation of customers.

This year, 35 student teams — representing 28 colleges and universities — partnered with local community banks to examine the institution's approach to interest rate risk, lending decisions, and response to inflation since 2020. Teams also analyzed how banks manage and maintain adequate capital across various strategies. Their research focused on strategic planning for the future through branching, technology, and compliance, including management of regulatory costs.

A student team from the Tennessee Technological University earned first place and will present its work at the Community Banking Research Conference (www.communitybanking.org). Each team member will receive a \$1,000 scholarship.

A student team from the Illinois State University earned second place, and team members will receive a \$750 scholarship.

The third-place team members come from Iowa State University and will receive a \$500 scholarship.

The quality of the teams' research and insights are impressive, and we thank them for their hard work. I would like to commend the academic advisors and community bank partners for their commitment to this program, as well as to the state commissioners who promote it each year.

On behalf of CSBS, I invite you to read their work in the 2026 Journal of Community Bank Case Studies.

Sincerely,

A handwritten signature in blue ink, appearing to read 'B. Milhorn'.

Brandon Milhorn
President and CEO
Conference of State Bank Supervisors

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Executive Summaries



Tennessee
TECH

Tennessee Technological University

Wilson Bank & Trust (WBT) is a community bank founded in Lebanon, Tennessee, on May 5, 1987. WBT's values of customer focus, teamwork, integrity, faith, success, and community have been reflected in the bank's financial performance and long-term stability. Wilson Bank & Trust is "here to get you there", which reflects the core of how management operates across the communities it serves.

This report will evaluate the following based on discussions with WBT's management, the Uniform Bank Performance Report (UBPR), and analysis of other relevant outside sources: (1) WBT's financial performance and balance sheet trends, (2) the impact of the interest rate environment and inflation on the bank, (3) the bank's credit strategy, and (4) its capital position.

Wilson Bank & Trust demonstrated steady growth, with total assets rising from \$3.98 billion in 2021 to \$5.87 billion in 2025, driven largely by expansion in residential and commercial real estate lending. Despite a volatile interest rate environment, the bank maintained strong net interest income, improved operational

efficiency, and consistently outperformed peers in return on assets. WBT's liquidity management, supported by stress testing and buffers, allowed the bank to handle market fluctuations. Finally, Wilson Bank and Trust relied primarily on retained earnings to raise the capital necessary for continued growth and to satisfy regulatory requirements.

Overall, Wilson Bank & Trust's focus on people and community has led to strong financial performance. Its asset growth, earnings, liquidity, and capital reflect management's disciplined risk management and conservative growth strategy.



*Wilson Bank
& Trust
demonstrated
steady growth,
with total assets rising from
\$3.98 billion in 2021 to \$5.87
billion in 2025.*



ILLINOIS STATE UNIVERSITY

Illinois State University

Heartland Bank and Trust Company (HBT) is a \$5 billion community bank headquartered in Central Illinois, built on a hard-to-replicate deposit franchise and conservative lending strategy. It went public in 2019 to facilitate an acquisition-driven growth strategy. HBT entered 2026 as one of the most consistently profitable community banks of its size, and this report examines the institutional decisions that explain why.

Financial Performance: From 2021 through 2025, HBT maintained a return on assets above the peer average in every year, expanding from 1.55% to 1.67% while peers declined from 1.47% to 1.30%. Its efficiency ratio improved from 53.15% to 50.13% over the same period. This performance was rooted in a structural funding advantage built on sticky, low-cost core deposits and disciplined expense management, not fee income or aggressive loan growth. Total assets grew from \$4.3 billion to \$5.1 billion, driven primarily by the 2023 acquisition of Town and Country Financial. The 2026 acquisition of CNB Bank will push assets toward \$6.9 billion.

Interest Rate Environment: HBT's asset-sensitive balance sheet was well positioned for the rate cycle that began in 2022. A cumulative deposit beta of just 23.6% allowed asset yields to outpace funding costs, widening net interest margins while peers struggled with repricing pressure. Net interest margin reached 4.17% on a tax-equivalent basis in 2025, roughly 50 basis points above the peer average. The clearest cost of this rate environment appears in the securities portfolio, where COVID-era purchases of low-coupon bonds produced an AOCI balance of negative \$23M at year-end 2025, down from negative \$71.8M in 2022.



Net interest margin reached 4.17% on a tax-equivalent basis in 2025, roughly 50 basis points above the peer average.

EXECUTIVE SUMMARY

Loan Strategy and Decisioning: HBT's loan portfolio reflects concentration in commercial real estate, multifamily, and agricultural lending; categories where the bank holds genuine competitive advantages through relationship depth and local knowledge. Credit quality has been exceptional: net charge-offs averaged in the 28th percentile among peers from 2021 through 2025, touching as low as the 2nd percentile in 2022. Loan authority is deliberately decentralized, delegated to lenders closest to the borrower, with escalation thresholds that reflect increasing exposure. The CNB acquisition will increase agricultural concentration from approximately 8% to 13% of the loan portfolio.

Bank Capital: HBT's capital position is both strong and strategically purposeful. CET1 reached 15.42% in 2025, roughly double the well-capitalized minimum and 150 basis points above the peer average. The bank targets capital above regulatory floors to maintain a buffer against stress, while remaining acquisition ready. Tangible book value per share surpassed the pre-Town and Country baseline by year-end 2024 and the CNB acquisition was priced at 120% of tangible book value with an anticipated crossover earn-back period of under one year. HBT's 70% retail deposit base and low uninsured deposit exposure of approximately 14% after collateralization provide structural resilience that distinguishes the bank from institutions that failed under rate pressure in 2023.



Low-cost deposits fuel above-peer margins, which build capital

that finances acquisitions, further expanding the deposit franchise. The Drake family began executing that strategy in Cornland in 1920. More than a century later, it still works.

Taken together, HBT's performance across this period reflects a compounding institutional logic: low-cost deposits fuel above-peer margins, which build capital that finances acquisitions, further expanding the deposit franchise. The Drake family began executing that strategy in Cornland in 1920. More than a century later, it still works.



VisionBank®
See what we can do for you.™

IOWA STATE UNIVERSITY

Ivy College of Business

Iowa State University

VisionBank is a locally owned community bank based in central Iowa. The bank has grown significantly over the past five years, with average assets nearly doubling over that period. The diverse economy of the four-county area in which the bank operates has provided a landscape with abundant opportunity for organic growth during and immediately following the COVID-19 pandemic. Additionally, the family-owned structure of VisionBank enabled the bank to move quickly to secure a nearby acquisition after the economy emerged from the pandemic shutdown. The acquired bank, Legacy Bank, was also family-owned. The complementary nature of the ownership structure, balance sheet, geographic location, and customer base helped fuel VisionBank's growth.

Located in the growing Ames and Des Moines markets, VisionBank is focusing its efforts almost entirely in this central Iowa region to gather deposits and generate loans. The bank specializes in making real estate loans, specifically commercial real estate loans, which are generally large. Management understands

that local and reliable core deposits are the most obvious source of funding necessary to support sustained growth. They also recognize that acquiring and retaining this critical source of funding takes effort in a competitive market. The bank has added a deposit-growth mindset to its traditional loan-growth focus. This combined focus is expected to strengthen profitability, thereby fueling further growth.

Data for this report was gathered from VisionBank's Market President Tim Tryon and other staff members, Iowa State professors, and online banking reports.



The bank has grown significantly over the past five years, with average assets nearly doubling over that period.



Tennessee Tech University

1ST PLACE

Analysis of Wilson Bank & Trust

Students:

Bo Briggs

Kaden Fray

Aaron Hughes

Michael Morrow

Madelyn Ray

Faculty Advisor:

Dr. Alma D. Núñez

Wilson Bank & Trust Overview

Wilson Bank & Trust (WBT) was founded in 1987 as a community bank based in Lebanon, Tennessee. Since then, the bank has expanded to 32 locations in Middle Tennessee and the Upper Cumberland area. WBT operates on a relationship-based model that centers on serving the communities in which it operates. WBT President John Foster, articulated the organization's philosophy as, "If our bank is in a market, that community should be better because we're there." WBT's commitment to local communities is evidenced by long-standing efforts like a school-based banking program that has been in operation for over 25 years. WBT bankers come into elementary schools, set up bank accounts for the children, and accept deposits. This program aims to provide young children with early-stage financial literacy. These strong community ties have helped Wilson Bank & Trust build lasting customer relationships, which has supported the bank's steady financial performance and continued growth. By the end of 2025, WBT had approximately \$5.9 billion in total assets.

Part 1: Financial Analysis

Asset Growth

Wilson Bank and Trust has sustained disciplined asset growth over the past five years. Total assets increased from \$3.98 billion at the end of 2021 to \$5.87 billion by year end of 2025. This represents nearly \$1.9 billion in balance sheet expansion. Year-over-year increases have averaged 12% from 2021 to 2025, showing that the bank is expanding alongside its markets rather than through rapid acquisitions or outsized one-year spikes. The primary cause of this growth was loan expansion. Net loans and leases increased from \$2.46 billion in 2021 to \$4.32 billion in 2025, which accounts for most of the total asset growth during this time. Loans have become a larger share of total assets, demonstrating WBT's stronger focus on core lending activities rather than lower yielding assets like investment securities.

Real estate lending remains the dominant driver of portfolio growth, increasing from \$2.31 billion in 2021 to \$4.08 billion in 2025. The largest segments are 1–4 family residential and non-farm non-residential loans, each totaling roughly \$1.5 billion (35% of total loans) in 2025. Growth in residential lending reflects sustained housing demand in the bank's footprint, while expansion in non-farm, non-residential loans highlights continued commercial development across Middle Tennessee. Outside of real estate, other loan categories such as commercial loans, individual loans, and other loans and leases represent a very small portion of the overall portfolio and have experienced moderate

growth. The only notable decline has been in farmland lending, which decreased from \$1.4 million in 2021 to under \$1 million in 2025.

Securities have remained relatively stable over the five-year period, increasing from \$897 million in 2021 to \$966 million in 2025. Compared to loan growth, the securities portfolio remained stable, averaging slightly over 2% growth during this period. Wilson Bank & Trust maintains a slow and steady growth strategy to protect the bank during changing interest rate environments. WBT's Controller, Jennifer Smith, noted that approximately \$7–\$8 million in securities regularly rolls off the balance sheet, providing flexibility to either reinvest or hold cash, depending on market conditions. When excess liquidity cannot be deployed into loans quickly, securities act as a temporary and lower-risk use of funds.



Interest-bearing bank balances increased to \$326 million in 2025 after dipping in 2022, showing the bank is holding more funds in short-term, highly liquid accounts rather than extending further into longer term securities.

Interest-bearing bank balances increased to \$326 million in 2025 after dipping in 2022, showing the bank is holding more funds in short-term, highly liquid accounts rather than extending

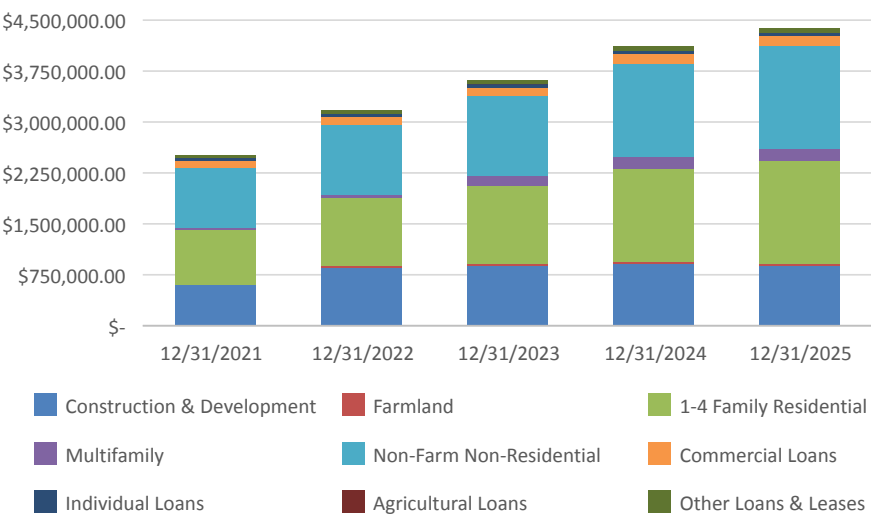
further into longer term securities. This aligns with management’s emphasis on maintaining flexibility in a changing rate environment while still supporting loan growth.

Overall, asset growth has been driven primarily by expansion in the loan portfolio, particularly real estate lending, while securities have remained relatively stable. The balance sheet reflects steady growth supported by a continued focus on core lending.

Loan Composition

Loans comprise the largest asset on WBT’s balance sheet at \$4.37 billion as of year-end 2025. Of these, 94% are allocated to real estate. WBT’s management highlights this as a strategic strength: “Real estate lending is the bank’s ‘bread and butter’ and the area where our underwriting expertise is strongest.” WBT maintains a balanced mix between consumer and commercial real estate lending, as shown in Figure 1, below.

Figure 1: WBT Loan Portfolio, 2021-2025



Source: Uniform Bank Performance Report, 2021-2025.

WBT’s 1-4 family residential loans comprise \$1.51 billion of WBT’s loans held for investment at year-end 2025. Non-farm, non-residential loans are similar in size. In 2025, construction and development loans comprise \$888 million, or 20% of WBT’s loan portfolio. WBT is one of the local leaders in construction lending and acknowledges the risks associated with market cyclicalit. To manage that risk, it uses disciplined underwriting practices, higher equity requirements, and capital buffers above required thresholds.

Loan growth has been supported by population growth, rising wages, and commercial development in Middle Tennessee. Over 2023-2024, the Nashville and Clarksville areas experienced gains of nearly 9,600 jobs, which helped increase demand for both housing and commercial real estate. According to Taylor Walker, Chief Credit Officer, WBT continues to be optimistic about industrial real estate and

multifamily, particularly with housing demand shifting toward rentals. The bank also continues to lend in segments that are considered riskier, such as raw land, but they report being more selective in those projects.

Credit quality supports management’s assessment of the strength in the loan portfolio. The allowance

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for credit losses is approximately \$55 million, or 1.26% of loans held for investment. Meanwhile, net charge-offs remain minimal. WBT describes their credit culture as “conservative and steady.” Their focus on disciplined lending versus a stop-and-go approach, which is often observed in the industry, has been an important driver of the bank’s financial performance.

Earnings

Table 1, below, shows Return on Assets (ROA) for Wilson Bank & Trust and its peer group, insured commercial banks with assets between \$3 billion and \$10 billion, (PG3). ROA, for both WBT and PG3, decreased during 2022 and 2023, but began increasing again in 2024.

Table 1: WBT Return on Assets (ROA) and Relevant Components

	2021	2022	2023	2024	2025
Interest Income	3.55	3.76	4.76	5.47	5.67
Interest Expense	0.31	0.38	1.79	2.45	2.27
Net Interest Income	3.24	3.38	2.97	3.02	3.39
Noninterest Income	1.05	0.83	0.76	0.75	0.72
Noninterest Expense	2.42	2.27	2.23	2.16	2.20
Realized Securities G/L	0	-0.04	-0.02	-0.05	-0.04
Provision Credit Losses	0.03	0.21	0.14	0.1	0.12
Net Income (ROA)	1.39	1.31	1.08	1.12	1.35
PG 3 (ROA)	1.32	1.24	1.06	1.09	1.25

Source: Uniform Bank Performance Report.

During this period, WBT’s ROA declined less than that of PG3 and recovered more quickly, reflecting stronger overall performance.

Table 1 also shows WBT’s interest income, interest expense, and net interest income, as a percentage of average assets.

WBT’s interest income increased consistently during 2021-2025. This rising interest income stems from rising interest rates and from

substantial loan growth. Loans and leases as a percentage of average assets grew 12.75% over the five-year period, and WBT consistently maintained a higher concentration of loans than its peer group.

Deposit costs, particularly time deposits, contribute most to the rising interest expense. Between 2021 and 2025, the cost of WBT’s time deposits jumped drastically from 1.25% to 4.17% and time deposits, as a percentage of average assets, also increased from 16.72% to 32.36%. According to WBT Controller Jennifer Smith, this strategy was implemented to maintain greater control over the pricing environment. While the cost of funds did increase, it rose less than

it would have if all deposits had been repriced. Although these deposits carry higher rates, they are typically larger in size and locked in for a set period, providing stable funding to support loan growth.

In addition, WBT’s time deposits over the \$250,000 insurance limit, as a percentage of average assets, also increased drastically

from 3.47% in 2021 to 12.55% in 2025. Ms. Smith explained that while WBT prefers to grow organically, these brokered deposits were needed given the speed of their loan growth. The bank was able to pay the brokered deposits off early after strengthening organic growth.

Also critical to the bank’s profitability was controlling non-interest expenses. In total, WBT’s non-interest expense grew to \$126.42 million

in 2025, which represents a 43.18% increase from 2021. The non-interest expense was driven by personnel costs. Table 2, below, shows that personnel expenses and employment have been increasing at WBT. The average expense per employee increased from \$97,190 in 2021 to \$113,540 in 2025. According to WBT’s President, this increase reflects higher wages and benefits for all employees, as well as the need to hire additional staff as the bank’s overall size nearly doubled.

Despite the increases in noninterest expenses, net interest income made significant improvements, leading to an overall lower efficiency ratio. WBT improved their efficiency ratio from 56.42% in 2021 to 53.50% in 2025.

Table 2: WBT Personnel Expenses, 2021-2025

Year	Personnel Expense	Change	Employment	Change
2025	73,459,000	9.08%	635	6.54%
2024	67,342,000	13.18%	596	2.05%
2023	59,501,000	4.27%	584	4.10%
2022	57,066,000	7.54%	561	3.51%
2021	53,067,000	N/A	542	N/A

Source: WBT Annual Reports, 2021-2025.

Even as personnel expenses increased, WBT continuously outperformed the peer group in operational efficiency across all five years examined. According to WBT’s Chief Financial Officer Kayla Hawkins, this efficiency ratio peak was due to streamlined processes, AI investments, and a focus on productivity.

Finally, WBT has seen an increase in their provision for credit losses since 2021. This provision sat at \$1.143 million in 2021, rose sharply in 2022 to \$8.656 million, and was \$7.145 million in 2025. While they negatively

impact profitability, these higher provisions were necessary to increase WBT’s allowance for credit losses due to the rapid growth in its loan portfolio.

Liquidity

WBT’s strong earnings are carefully managed against the need for liquidity. A bank’s liquidity refers to its ability to meet short-term obligations, like depositor withdrawals, without having to sell assets at a loss or heavily rely on external financing. Liquidity also helps fund growth, fund contingent claims like lines of credit, respond to unexpected cash outflows, and to absorb any shocks, like a sudden decrease in price of securities or deposit runs. Even banks that are profitable can fail if they have poor liquidity management.

According to CFO Hawkins, WBT maintains a moderately risk averse approach to liquidity risk management. The bank regularly holds a 10-day liquidity buffer because those 10 days give the CFO enough time to seek wholesale funding if necessary. The main risks to WBT’s liquidity include its public funds concentration and large depositors. The top 20 depositors make up about 12% of its total deposits. Every six months, the bank stress tests their liquidity position by modeling instantaneous deposit runoff. This allows them to plan in case one of these large depositors withdraws their money from the bank. WBT also strives to maintain good relationships and open lines of communication with these large depositors such that they will inform the bank if they plan to withdraw a large

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amount of funds. This 10-day buffer helps WBT maximize profitability while still giving them enough time to seek external funds to manage any risk of illiquidity.

In addition, banks can use multiple metrics for capturing liquidity risk. WBT's CFO closely tracks the bank's dependency ratio, its wholesale funding, and its pledged securities. For the dependency ratio, WBT continuously stays in the range of 5-10%, well below the traditional risk benchmark of 20%. The low values for the dependency ratio show that the bank prioritized liquidity and safety with core deposits rather than relying on brokered deposits and jumbo CDs to fund their loans.



In addition, Wilson Bank & Trust showed limited reliance on

wholesale funds; while it purchased federal funds and used brokered deposits, its wholesale funds, as a percentage of total assets, ranged from 0-1.47% over the last five years.

In addition, Wilson Bank & Trust showed limited reliance on wholesale funds; while it purchased federal funds and used brokered deposits, its wholesale funds, as a percentage of total assets,

ranged from 0-1.47% over the last five years. As mentioned beforehand, WBT is moderately risk averse for their liquidity appetite currently, but before 2022 they considered themselves to be extremely risk averse. The rapid rise of interest rates in 2022 led to intensifying liquidity and economic pressures that led to certain bank failures like Silicon Valley Bank in 2023. As a result of this liquidity crunch, WBT figured out how to use other sources of funding. Now, they use wholesale funding if needed, or they take advantage of opportunities on the asset side, like selling securities, if they are at risk of being illiquid.

Over the past five years, WBT has maintained a relatively high level of pledged securities, ranging from 40.65% to 60.34%, as a percentage of total securities, and above 50% in recent years. A key driver of this elevated level is WBT's need to secure public fund deposits. Public deposits are typically uninsured and must be collateralized with securities, making pledged securities a necessary component of the bank's funding structure. While this helps explain the high proportion of securities pledged, it also shows an important tradeoff. Securities that are pledged become encumbered, meaning they cannot be readily sold or used to meet liquidity needs. So, while WBT may appear to hold a substantial securities portfolio, a significant portion of those assets is not readily available to absorb liquidity shocks. WBT's position reflects a balance between two competing priorities. On one hand, pledging securities allows the bank to attract and maintain stable public deposits, which are an important funding source. On the other hand, the more securities that are pledged,

the less flexibility the bank has when responding to unexpected cash outflows. This is consistent with a moderately risk-averse liquidity strategy, where WBT accepts some constraints on asset liquidity in exchange for the stability provided by public funding.

Capital

Capital is a bank's financial cushion against losses and an important indicator of a bank's financial strength. Wilson Bank & Trust maintained capital ratios well above regulatory requirements for well-capitalized banks across all five years. As of 2025, WBT's Common Equity Tier 1 ratio is 14.31%, Total Capital ratio reached 15.56%, and the Tier 1 Leverage Capital Ratio is 10.67%. The bank builds its capital primarily through retained earnings, which grew from \$394 million to \$611 million between 2021 and 2025. According to CFO Hawkins, the bank maintains capital buffers above required regulatory levels to support its commercial real estate lending strategy and expand its operations throughout Middle Tennessee. Additional details on WBT's capital are addressed in Part IV.

Part II: The Interest Rate Environment and Inflation

The Federal Reserve (Fed) is the central bank of the United States. An important responsibility of the Fed is conducting the nation's monetary policy according to its dual mandate. Their two goals are promoting maximum employment and maintaining price stability. The Fed can cut its target rate and increase the money supply, which makes borrowing cheaper, and boosts spending and hiring. While this promotes

employment, it may accelerate inflation.

However, if the Fed engages in contractionary monetary policy, and raises its target rate, then borrowing becomes expensive, spending slows, and businesses reduce hiring, but inflation slows. Thus, the Fed faces a tradeoff with every monetary policy decision.

Open market operations are the primary monetary policy used by the Fed, and they are undertaken by the Federal Open Market Committee (FOMC). The FOMC meets about eight times a year to decide the target range for the federal funds rate, which is the rate banks charge each other for overnight lending. Changes in the federal funds rate influence other rates across the economy, including loan and deposit rates at banks. The FOMC does not directly set mortgage rates. Mortgage rates are more closely tied to longer-term Treasury yields but are still influenced by the overall rate environment and expectations around Fed policy.

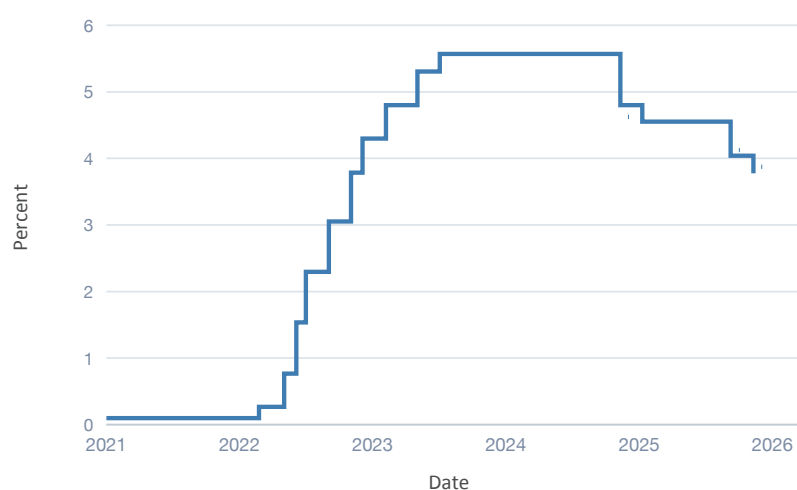
The last five years, shown in Figure 2, have been one of the most dramatic interest rate cycles in modern history.

From 2020 to 2021, during the COVID-19 pandemic, the Fed cut the target federal funds rate to 0–0.25% to prevent a recession and support employment. At the same time, fiscal policy, including Payment Protection Program (PPP) loans and stimulus checks, injected a large amount of money into the economy. This led to strong loan growth and a significant uptick of deposits across the banking system. By 2022 and 2023, inflation surged to a 40-year high, driven by supply chain disruptions, strong consumer

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demand, and external shocks such as the Russia-Ukraine war. In response, the Fed raised rates rapidly, increasing the target rate from 0.25% in early 2022 to 5.50% by July 2023. Starting in late 2024, as inflation began to ease, the Fed shifted toward rate cuts, with the target rate declining to around 3.75% by year-end 2025.

Figure 2: Federal Funds Target Rate (2021-2025)



Changes in interest rates directly affect bank profitability and risk. Banks balance earnings with risk level using Asset and Liability Management. WBT President, John Foster, says, “Banking is all about managing the balance sheet.” The Asset-Liability Committee (ALCO) is responsible for monitoring the balance sheet and making decisions related to interest rate exposure. At a minimum, monthly ALCO meetings include the Chief Executive Officer, President, Chief Financial Officer, Chief Credit Officer, and Deposit Strategist. However, the Financial Reporting Manager, Controller, Chief Risk Officer, Marketing Director, and a representative from the bank’s third-party financial advisory team with Raymond James

also attend each meeting. Each ALCO meeting consists of carefully examining projections on both sides of the balance sheet, which allows WBT management to be proactive instead of reacting to changes in interest rates. The committee evaluates upcoming maturities and cash flows to determine how to best align

funding sources with loan demand. For instance, if deposits are higher, the ALCO meeting may discuss how to handle too much interest expense. Or if they need to make more loans, they will decide to lower rates on the lending side.

Interest rate risk, in the short-term, is the risk that changes in interest rates will affect the bank’s earnings.

This risk arises primarily when

the bank’s assets and liabilities do not reprice simultaneously. This risk is measured through gap analysis, which compares the rate sensitivity of assets and liabilities at a fixed point in time. WBT is slightly asset sensitive. Their earnings are exposed when interest rates go down, since they have a lot of variable rate loans. To monitor interest rate risk exposure, WBT completes a quarterly full interest rate shock analysis, 400 basis points up and down. From here, management can make changes to the balance sheet as needed to protect their margin and retain customers.

While WBT tracks the FOMC’s minutes and votes, they do not make decisions based on what

the FOMC might do. CFO Hawkins stated that they have “stopped trying to guess rates and instead manage the balance sheet so the bank survives and thrives in any environment.” She states that WBT’s goal is to be “as flat and level as possible.” They adjust and respond to deposit pricing and move within the needs of their own budget, not with the Fed.



However, the sharp increase in interest rates during 2022 created balance sheet and liquidity pressures for most banks, including WBT.

However, the sharp increase in interest rates during 2022 created balance sheet and liquidity pressures for most banks, including WBT. The rising rate environment created pressure within the WBT securities portfolio as fair market values declined. Management responded by selling some securities at a loss and reinvesting at better rates or with call protection. WBT President, John Foster, noted that while many banks were harmed by the rise in rates, WBT’s liquidity position allowed them to ride out this pressure. WBT’s goal for their securities portfolio is slow and steady growth, which strategically protects them from interest rate risk.

WBT has also faced some inflation pressure. Inflation has contributed to increasing non-interest expenses mainly through personnel and technology-related expenses. While inflation has also put pressure on borrowers, Chief

Credit Officer Walker believes credit quality has remained relatively stable with no major deterioration. The bank’s market continues to thrive due to population growth and families relocating to Middle Tennessee.

Part III Loan Strategy/ Decisioning

Wilson Bank & Trust follows a relationship-oriented loan strategy with a focus on real estate loans. Management emphasized that the core of their business and profitability comes from their lending activities. The bank’s focus is on construction loans, home loans, and commercial loans in the Middle Tennessee and Upper Cumberland areas. This strategy matches not only population and economic growth within the regions but also the bank’s expertise. According to the Chief Credit Officer, Wilson Bank & Trust prides itself on being a “construction and dirt lender.” Though the concentration of the bank’s loans in the real estate sector is higher relative to its peer group, WBT believes it is an advantage because of the meticulous underwriting of the loans and the fact that the loans have substantial equity from the borrowers.

The bank keeps a tight and structured watch on loans through its loan committee. This committee is the gatekeeper for large and/or risky loans, for example, if the total debt of the borrower exceeds \$4 million. Committee meetings are held regularly, and each loan is evaluated against the bank’s standard underwriting criteria, the borrower’s financial condition, the quality of the collateral provided, and the loan’s risk profile. The goal of the loan

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committee is to offer an extra layer of scrutiny on big loans and to keep the bank's lending decisions consistent with the institution's risk tolerance.

Loan pricing at Wilson Bank & Trust is determined through a combination of market benchmarks, borrower characteristics, and competitive conditions. Loan officers typically begin with widely recognized reference rates, such as Treasury yields, when establishing a base for pricing. For instance, many five-year fixed commercial real estate loans are commonly priced between 250 and 300 basis points above the five-year Treasury yield. From there, the final rate is adjusted based on several factors, including the borrower's financial strength, the type and quality of collateral, and the overall risk profile of the loan. Competitive pressures within the market can also influence pricing decisions, as lenders may lower rates to secure strong lending opportunities or choose to pass on deals that do not meet the bank's risk and return standards.

Wilson Bank & Trust monitors loan performance using various metrics and through direct borrower oversight. One significant indicator is the past due ratio, with a focus on loans past due for over 30 days. WBT also conducts annual loan reviews, which entail obtaining updated financial information, personal financial statements, and credit reports for borrowers. To predict future loan performance, the bank uses an internal risk rating system that assigns loans a score from one to ten; a score of one represents the best credits and a score of ten indicates expected loss. Most of the bank's performing loans are scored in

the middle of the risk scale, and changes in a borrower's financial condition or market area may result in a rating upgrade/downgrade. Wilson Bank & Trust also has a loan watch list. A loan is added to the watch list if the financial condition of the borrower weakens, the quality of the collateral provided declines, or market conditions increase the risk of the borrower. Once the loan is on the watch list, it will be more closely monitored by the credit administration. Additional reporting requirements might be requested of the borrower. If the situation of the borrower continues to deteriorate, the loan will be classified as substandard or non-performing. Once the loan is classified as non-performing, no interest income is recognized on the loan. The focus of the bank will be on resolving the credit. To ensure the objectivity of its internal risk assessments, Wilson Bank & Trust periodically engages outside firms to conduct independent reviews of the loan portfolio.



The bank also closely watches the overall economy and the factors that may affect its lending practices.

The bank also closely watches the overall economy and the factors that may affect its lending practices. This includes the economy's activity levels, interest rates, and growth of the region. This is particularly crucial for the bank since certain sections of its portfolio, such as raw land and construction loans, are riskier. This is

because raw land and construction loans do not generate income right away and the projects need to be finished on time. In this regard, the bank makes sure to require a lot of equity from the borrowers so that their interest is tied to the success of the projects. This way, the bank can be more aware of the potential risks involved in the loans it offers and can adapt accordingly.

Furthermore, Wilson Bank & Trust conducts stress tests on its entire loan portfolio to assess how economic changes may impact credit quality. As interest rates increased, borrowers with commercial real estate loans faced the risk of significantly higher refinancing costs once their fixed-rate periods expired. However, the bank's underwriting approach, which required strong cash flow cushions from the outset, positioned borrowers to better absorb these increases, helping prevent any meaningful deterioration in credit quality.

For Wilson Bank & Trust, a mix of technology and trusted partners helps maintain a strong loan record and a solid credit monitoring position. The bank relies on core banking providers and specialized software to help manage the servicing of loans and maintain a clear view of the growing loan portfolio. For the future, WBT believes that technology, particularly artificial intelligence, holds a lot of promise in terms of increasing the efficiency of the lending process. However, Controller Smith emphasizes that they are utilizing AI "in very small increments with lots of structure and management around it" because they want to protect customers and their information. For WBT, market knowledge and personal interactions with customers are

crucial to their lending model. They prioritize a steady, conservative approach to banking, even during periods of rapid market growth.

Part IV: Bank Capital

Capital serves several key functions as outlined by the Federal Deposit Insurance Corporation's (FDIC) Risk Management Manual of Examination Policies. First, capital absorbs losses during periods of financial stress. By allowing a bank to continue operations even in the face of losses, capital also helps maintain public confidence in the financial system. In addition, capital requirements constrain excessive asset growth and protect depositors from significant losses.

Capital strengthens a bank's ability to withstand financial stress that results from operational risk. Operational risk can be caused by human error, insufficient internal processes, and external events such as natural disasters or cybersecurity risks. As a community bank with growing operations, WBT navigates its operational risks through system stress testing and mitigation practices including enhanced employee training, and educational materials for customers.

Banks can increase their capital in two ways: issuing new common stock and/or retaining earnings. Issuing new common stock dilutes existing shareholders and can be cost prohibitive for community banks. Wilson Bank and Trust relies on retained earnings to build capital. Between 2021 and 2025, WBT maintained a retained-earnings-to-equity ratio of over 10%, nearly double that of its Peer Group 3 counterparts. This aggressive strategy enabled it to grow retained earnings from \$394 million to

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\$611 million over the five years, making that the primary driver of WBT's capital position. During the same period, total equity capital grew 41% from \$410 million to \$578 million, while assets grew 28% from \$4.6 billion to \$5.9 billion.

Regulatory capital rules are issued by regulators such as the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve. These institutions establish minimum capital ratios that align with the Basel Committee on Banking Supervision (BCBS), which sets international standards for bank supervision. In 2013, US regulators established rules to strengthen the quality of banks' capital in response to the 2008 global financial crisis. These rules stipulated that banks should prioritize capital instruments with no maturity and no regular, obligatory payments. The rules also strengthened regulatory capital ratios, revised risk-weighted asset classifications, established capital conservation buffers, and increased thresholds for Prompt Corrective Action.

Regulatory capital includes multiple measures. Common Equity Tier 1 (CET1) consists primarily of common stock and retained earnings with no maturity date or contractual repayment obligations, making CET1 Capital the highest-quality form of capital. In the event of a bank failure, depositors have priority for payment, while stockholders will suffer losses. Tier 1 Capital comprises CET1 and Additional Tier 1 Capital, which includes preferred stock and certain qualifying minority interests. Tier 2 capital includes items such as subordinated debt and Adjusted Allowances for Credit Losses

(AACL), up to 1.25% of risk-weighted assets.

While capital measures define how a bank classifies its capital components, regulators use capital ratios to gauge a bank's capital relative to its assets. These ratios fall into two categories: leverage ratios and risk-based ratios. The Tier 1 Leverage Ratio divides Tier 1 Capital by total assets. CET1, Tier 1 Capital, and the Total Capital ratios, in contrast, are risk-based ratios, calculated by dividing each respective capital measure by Risk-Weighted Assets (RWAs). To calculate a bank's RWAs, each asset is assigned a risk weight based on its potential for loss. Cash and US Treasuries have a 0% risk weight, while commercial loans and corporate bonds carry a 100% risk weight. Other assets carry even higher risk weights, such as HVCRE construction loans and loans past 90 days, which are assigned risk weights of 150%.



While capital measures define how a bank classifies its capital components, regulators use capital ratios to gauge a bank's capital relative to its assets.

Wilson Bank & Trust saw a large increase in total RWAs from 2021 to 2025, rising from \$3.2 billion to \$4.4 billion, with the largest holdings and highest growth in the 100% risk category. This category consists primarily of commercial loans,

which grew from \$1.7 billion to \$2.9 billion. Another notable aspect is WBT’s 57% decrease in off-balance-sheet RWAs from 2021 to 2025, from \$600 to \$300 million. Off-balance-sheet items represent obligations, such as letters of credit and unfunded loan commitments, that can be called at any time and thus require regulatory capital. Risk weights for these assets are calculated using credit conversion factors of 0%, 20%, 50%, or 100%, depending on the commitment’s characteristics.

When making capital decisions, banks must adhere to the Prompt Corrective Action (PCA) capital requirements to help ensure that depositors are protected in the event of a bank failure. Should a bank not satisfy these requirements, regulators can impose mandatory supervisory measures. Table 3 shows the PCA categories and the trend for WBT’s capital ratios over the last five years. Wilson Bank & Trust satisfies regulatory requirements, notably above its peers, and significantly above the PCA threshold for well-capitalized institutions. The strong capital ratios align with WBT’s strategic priorities, with high capital buffers to allow the bank to operate heavily in commercial real estate lending, according to CFO Hawkins.

In 2019, the Economic Growth, Regulatory Relief, and Consumer Protection Act was enacted to reduce regulatory burden on community banks. The legislation established the Community Bank Leverage Ratio (CBLR), setting the regulatory minimum at 9%. However, WBT does not meet the CBLR requirements due to its off-balance-sheet activities, instead it operates under the standard approach to capital requirements.



When making capital decisions, banks must adhere to the Prompt Corrective Action (PCA) capital requirements to help ensure that depositors are protected in the event of a bank failure.

A bank’s choice for the structure of its securities portfolio can directly affect its capital levels and regulatory ratios. When buying bonds, banks classify them into two categories: Available-for-Sale (AFS) or Held-to-Maturity (HTM). AFS

securities are marked to market each quarter, while HTM securities are carried at amortized cost on the balance sheet. Losses on HTM securities

Table 3: Wilson Bank & Trust Capital Ratios & PCA Thresholds

Ratios	PCA-Adequately Capitalized	PCA-Well Capitalized	Wilson Bank and Trust					PG3
			2021	2022	2023	2024	2025	2025
CET1	4.50%	6.50%	12.84%	12.22%	13.26%	13.16%	14.31%	13.50%
Tier 1 Capital	6%	8.00%	12.84%	12.22%	13.26%	13.17%	14.31%	13.51%
Total Capital	8.00%	10.00%	14.09%	13.43%	14.51%	14.39%	15.56%	14.59%
Leverage	4.00%	5.00%	10.67%	10.74%	10.57%	10.28%	10.57%	10.56%

Source: Uniform Bank Performance Report & FDIC Risk Management Manual.

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are not recognized so long as the bonds are held to maturity.

In 2023, rapidly rising interest rates created significant problems for banks with large HTM portfolios. When a bank sells a substantial amount of HTMs before maturity, the entire HTM portfolio may be considered “tainted,” requiring the HTMs to be converted to AFS securities. The reclassification results in immediate recognition of unrealized losses, thereby reducing equity. Wilson Bank and Trust avoided this problem by prioritizing liquidity and holding only AFS securities.

WBT did not own HTM securities between 2021 and 2025; instead, it held only AFS securities valued at \$966 million in 2025. While WBT avoided an HTM loss from this strategy, it faced a different problem: significant losses in Accumulated Other Comprehensive Income (AOCI). AOCI represents the unrealized gains or losses from AFS securities and is reflected in the equity section of the balance sheet. As interest rates rose sharply, WBT’s AOCI losses grew from approximately \$6 million in 2021 to over \$110 million by 2022. This sharp increase would normally pose significant capital concern. However, under Basel III, banks were given a one-time, permanent, and irrevocable election on their call report to exclude AOCI from regulatory capital calculations. WBT elected this opt-out, meaning its unrealized securities losses did not reduce CET1 capital. As of 2025, WBT’s AOCI has recovered, however remains negative at \$55.2 million. Although this is a considerable value, it only represents 8.8% of WBT’s Tier 1 Capital, allowing considerable room for selling

securities without significantly affecting its capital position.



AOCI reflects unrealized gains and losses on securities, tangible equity provides a clearer picture of the bank's true economic position, as it reflects what shareholders would receive in a liquidation.

Changes in AOCI have important implications for a bank’s tangible equity, which is different from regulatory capital. Tangible equity is total equity minus intangible assets but including AOCI. Because AOCI reflects unrealized gains and losses on securities, tangible equity provides a clearer picture of the bank’s true economic position, as it reflects what shareholders would receive in a liquidation. This distinction is important because a bank can report strong regulatory capital, while its tangible equity can be suffering. For this reason, analysts and regulators often look at tangible equity alongside regulatory capital to assess a bank’s underlying financial strength. The distinction between these two measures was evident for Wilson Bank & Trust in 2022, when the gap between tangible equity and CET1 capital widened to over \$100 million, as unrealized losses led to a significant decline in tangible equity while regulatory capital remained largely unaffected.

Because community banks rely heavily on net interest income, changes in interest rates can substantially affect their earnings and the value of their assets. Therefore, banks must find ways to mitigate this risk. One possible hedging tool is the use of derivative securities. For example, a bank can use interest rate swaps to exchange variable-rate cash flows for fixed-rate cash flows, thereby locking in a specific yield. Derivatives can act as a shield for a bank, but they can also introduce significant complexity. WBT maintained a minimal derivative position between 2021 and 2025. The bank held approximately \$30 million in notional interest rate swaps through 2022. As rates increased, WBT made a strategic decision to unwind the swap and lock in the gains, bringing the notional balance to zero by 2023. CFO Hawkins confirmed that the balance sheet is naturally hedged and aligned with WBT's operating strategy to maintain consistent performance regardless of economic downturn or upturn. Therefore, heavy investment in derivatives is not necessary. The \$10 million derivatives in 2025 are connected to WBT's mortgage business, and the increase from 2024 to 2025 reflects higher mortgage volume rather than a change in its hedging strategy.



Derivatives can act as a shield for a bank, but they can also introduce significant complexity. WBT maintained a minimal derivative position between 2021 and 2025.

Conclusion

Wilson Bank & Trust's growth strategy is highly disciplined and focused. Between 2021-2025, WBT successfully navigated a period of historically low interest rates, a surge in inflation, and one of the fastest rate-hiking periods in recent history. During this period, the bank's growth was primarily driven by relationship-based banking and real estate lending in a strong local economy. Through careful underwriting standards, asset-liability management, and a focus on operational efficiency, Wilson Bank & Trust has positioned itself to perform well across varying economic environments.

WBT's careful management of liquidity, capital, and relationships with the community supports the overall stability and resiliency of the organization. By prioritizing steady growth and maintaining flexibility in changing interest rate environments, Wilson Bank & Trust is well-equipped to sustain its financial performance and continue serving Middle Tennessee communities.



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Illinois State University

2ND PLACE

2026 Community Bank Case Study Competition Report

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Introduction

More than 170 years after the Drake family arrived in Central Illinois, their impact is felt in every branch of Heartland Bank and Trust Company. In 1920, M.B. Drake founded a small community bank in Cornland, Illinois. He and his descendants carried that institution through the Great Depression, multiple agricultural cycles, and consolidation pressures that have claimed so many community banks since. One constant has been the philosophy Fred Drake, the current Executive Chairman, recognizes as the same one his grandfather practiced: banking is a relationship before it is a transaction.

At the end of 2025, Heartland Bank and Trust Company (HBT) was a \$5 billion institution with 66 full-service branches spanning central Illinois, the Chicagoland area, and eastern Iowa. In the first quarter of 2026, HBT finalized an acquisition of a \$1.9 billion CNB Bank Shares (CNB). We use pre-acquisition figures for our analyses covering years 2021–2025. The bank is the primary subsidiary of HBT Financial, Inc., a holding company publicly traded since 2019. By the numbers, HBT operates at a scale most

community banks never reach. By disposition, however, it remains something closer to what the industry used to call a neighborhood bank. It is the kind of place where the loan officer knows which fields you farm and which ball team your kid plays on. The institution’s motto captures the balance well, “Small enough to know you, big enough to serve you.”

That balance between scale and intimacy, sophistication and community is what makes HBT worth studying. The bank does not grow by chasing loan volume or competing on rates. It grows by acquiring smaller community banks whose customers they will take care of. It deploys low-cost deposits into markets where lending opportunities exceed funding capacity. The result is a bank that is approaching regional bank status on the balance sheet but feels like a neighborhood institution at the branch level.

This report examines HBT across four dimensions: financial performance; the interest rate environment and inflation and their effects on the bank; loan strategy and credit decisioning; and bank capital structure. Public data are drawn from the FDIC Uniform Bank Performance Reports (UBPR) for HBT and a static peer group of 306 banks nationwide with assets between \$2.5 and \$10 billion as of the end of 2025—between one-half and twice Heartland’s size. We also draw from HBT annual reports (10-Ks). While UBPR provides mean values for peer groups, the team downloaded annual income statements and statements of condition for all 306 peer banks from

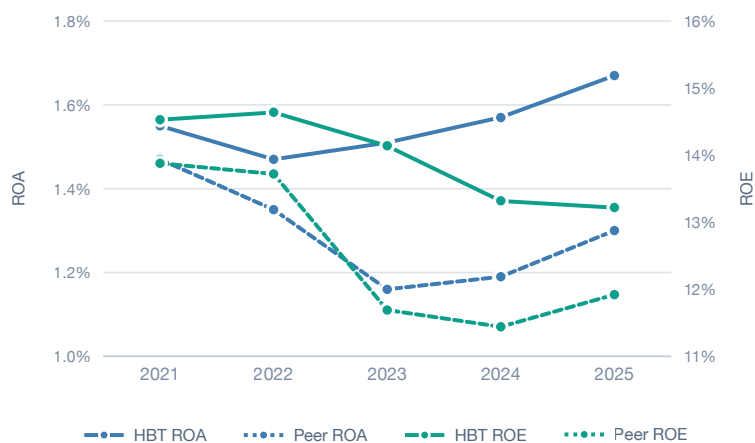
2021 through 2025 to compute medians and percentile ranks for some of the analyses. Unless otherwise noted, figures are in percent of total assets. The most valuable part of our experience and a key source of information for much of the report are personal interviews conducted with HBT’s Chief Financial Officer Peter Chapman, Chief Credit Officer Mark Scheirer, and Director of Corporate Treasury Paul Berley.

1. Financial Analysis

1.1 Earnings Performance

Heartland exhibited superior profitability over the past five years. As Figure 1 shows, HBT maintained ROA above the peer average in every year, improving from 1.55% to 1.67% between 2021 and 2025, while the peer average ROA declined from 1.47% to 1.30%. HBT’s ROA rankings improved from the 66th to 85th percentile over this period. ROE declined from 14.53% to 13.22%, reflecting equity growing faster than net income; it remained well above average.

Figure 1: ROA and ROE, 2021-2025



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Heartland's interest expense rose from only 0.06% to 1.03%, while peers recorded a much greater increase—from 0.25% to 1.98%.

The primary source of earnings growth over the period was spread income expansion. Total interest income increased from 3.25% in 2021 to 5.06% in 2025 compared to peers 3.47% to 5.66%, showing the repricing of earning assets and new loan origination at higher market rates. HBT is an asset-sensitive institution benefiting from rising yields. Despite competitive deposit pricing and industry-wide funding pressure, Heartland's interest expense rose from only 0.06% to 1.03%, while peers recorded a much greater increase—from 0.25% to 1.98%. Management repeatedly emphasized strong core deposit relationships and a disciplined pricing strategy, which lowers the impact of rising deposit costs.

Another defining component to HBT's earnings advantage is its embedded structural cost discipline. The efficiency ratio improved from 53.2% in 2021 to 50.1% in 2025, while peers remained in the mid-to-high 50s. One prominent factor is HBT's ability to control noninterest expenses, with the 2025 total of 2.46%, compared to the peer average of 2.78%. This is achieved

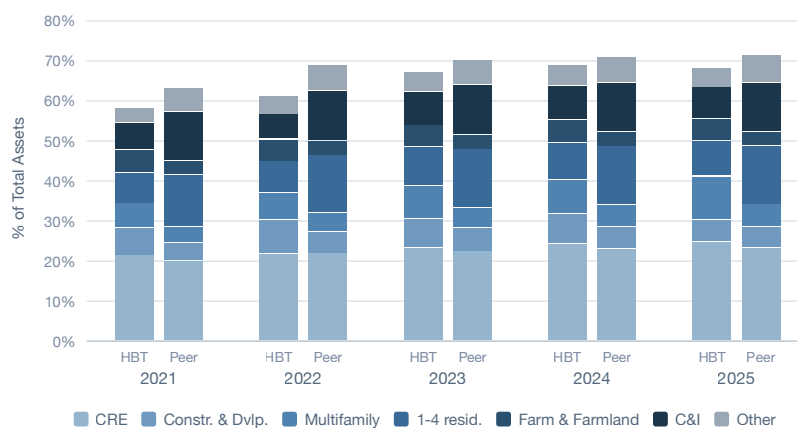
despite much lower assets per employee (\$6.14 vs. \$9.46 million), emphasizing a sustainable operating advantage HBT has over its peers.

Noninterest income declined from 0.94% to 0.76% from 2021 to 2025, showing variability in fee-based revenue as refinancing demand dropped. One cause of this decline was net mortgage servicing fees falling from 0.11% to 0.04% as rising rates reduced refinancing activity. Although peers earned a somewhat higher noninterest income on average (1.10% to 1.23%), HBT fell between the 58th and 67th percentile across the study period. Heartland's model for earnings is driven by spread and focuses on efficiency rather than fees, as margin expansion and cost control more than cover the difference in fee revenue streams.

1.2 Loan Portfolio Composition

Heartland Bank and Trust Co. does not attempt to grow by lending aggressively, reflected in its below-average loans-to-assets ratio. Figure 2 presents the loan portfolio composition for the bank and its peers.

Figure 2: Loan Portfolio Composition



HBT puts relative emphasis on real estate loans outside of 1–4 family residential—commercial real estate (CRE), multifamily, construction and development—as well as agricultural lending. Despite emphasis on riskier categories such as CRE, HBT has below-average delinquent loans due to its conservative lending culture. The bank holds less C&I loans and residential mortgages, emphasizing the originate-to-sell approach. This strategy benefits from collateral backing and potentially higher yields, but it also exposes the bank to risks that come with commercial property and agricultural conditions in the region. Many CRE, agricultural, and construction loans carry floating rates tied to benchmarks such as Prime or SOFR, which protected the bank’s net interest margin as rates rose, while the bank’s limited residential mortgage holdings reduce exposure to prepayment and extension risk.

1.3 Asset Growth

HBT’s asset growth is acquisition-driven rather than organic. Total assets grew from \$4.3 to \$5.1 billion over the study period, with the 2023 Town and Country acquisition accounting for the majority of that increase; assets were essentially flat from 2023 to 2025 as the banks integrated. As Figure 3 projects, the CNB acquisition will push assets to approximately \$6.9 billion.

1.4 Capital levels

HBT maintains strong capital levels relative to its peers, as shown in both its CET1 ratio and Tier 1 leverage ratio. Figure 4 shows that CET1 ranged from 15.09% in 2021 to a low of 14.01% in 2023 before rebounding to 15.42% in 2025, consistently above the peer range of 13.22% to 13.92%. Tier 1 leverage ratio rose from 10.13% to 12.02% over the same period, above the peer range of 9.96–10.94%.

Figure 3: HBT Assets and Deposits, 2021-2025, with a 2026 Projection

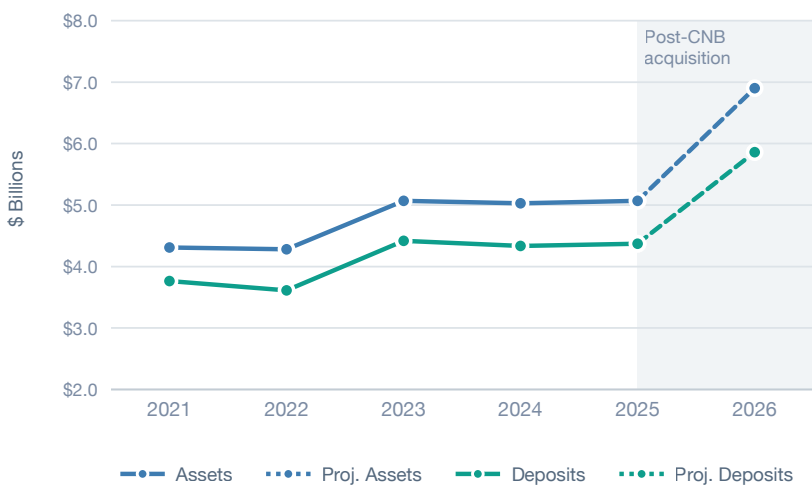
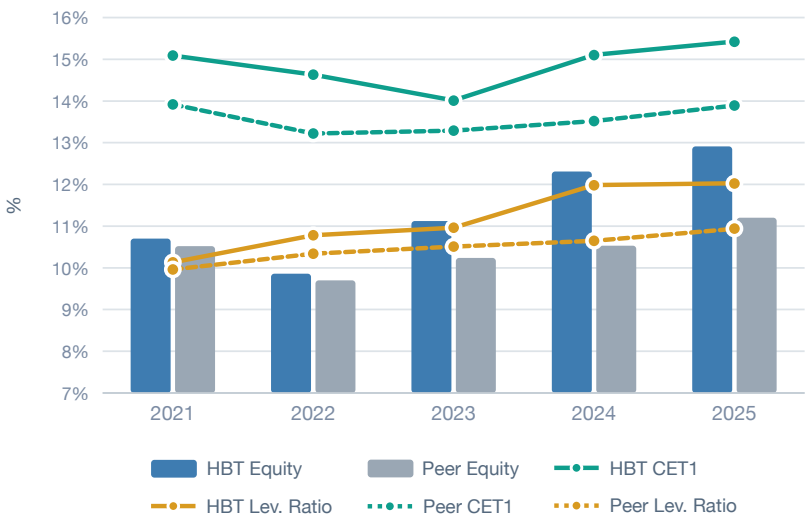


Figure 4: HBT and Peer Capital Ratios, 2021-2025



The regulatory framework behind these ratios, including Basel III minimums, risk-weighted asset calculations, and HBT's Board-approved internal targets, is examined in detail in Section IV, Bank Capital. In brief, HBT holds capital well above regulatory floors, partly to support its growth strategy, targeting one acquisition every two to three years.

1.5 Liquidity

HBT maintains a strong liquidity position supported by its cash, securities, stable deposit funding, and access to nondeposit borrowing. Between 2021 and 2025, cash and securities declined from 9.49% to 2.41% and from 29.72% to 25.15% of assets, respectively, reflecting a post-COVID recovery in lending activity. HBT's loans-to-deposits ratio increased from 65.9% in 2021 to 78.1% in 2025, showing that a greater portion of deposits fund lending. However, it remains below the peer average of roughly 84%, suggesting HBT has more liquidity and greater flexibility to meet deposit withdrawals or support additional lending opportunities. Core deposits accounted for over 95% of total deposits in 2024 and 2025, reducing dependence on more volatile wholesale funding.

In addition to on-balance sheet liquidity, HBT maintains excess borrowing capacity. Its unused loan commitments sat near 17% across the study period, while the peer average fluctuated in the low 20s. If borrowers draw on their commitments or depositors pull cash out, it drains liquidity. HBT can draw on its lines of credit with the Federal Home Loan Bank (FHLB) and other sources to supplement liquidity. At the end of 2025, HBT had \$1.25 billion available

borrowing capacity through the FHLB, Federal Reserve Discount Window, and federal funds lines of credit (HBT, 2026). In sum, HBT has diverse sources of liquidity and manages liquidity risk conservatively. The funding stability that underpins HBT's liquidity position proved central to its performance through one of the most volatile interest rate environments in recent history.

2. Interest Rate Environment and Inflation

2.1 Asset-Liability Management and Interest Rate Risk

From 2021 through 2025, HBT navigated one of the most volatile interest rate environments in recent history. Asset-liability management (ALM) helps a bank manage the balance sheet in a way that protects earnings, liquidity, and capital as interest rates and funding conditions change. Executives emphasized net interest income's importance, saying, "We look at net interest income every day" (Berley, 2026). In 2025, HBT reported \$201.1M of tax-equivalent net interest income, a 4.17% tax-equivalent net interest margin, and a 1.19% cost of total deposits in 2025.

HBT measures interest rate risk by simulating changes to net interest income (NII) and economic value of equity (EVE) under different interest rate shock scenarios. The analysis assumes a static balance sheet, reinvestment at current market rates, and assumptions for deposit beta and asset prepayments (HBT, 2026). The standard parallel shock is a starting point rather than a precise forecast, so the bank uses

the model as a directional guide and then layers in balance-sheet changes, loan growth, and forward-rate expectations.

HBT’s asset-sensitive nature means its earnings profile is generally more favorable in a higher-rate environment. Figure 5 visualizes the rate shock analyses for the bank as of December 31, 2025. An instantaneous 100-basis-point increase in rates would increase EVE by 8.0% and first-year net interest income by 2.2%, while a

400-basis-point increase would show increases of 25.3% and 4.9%, respectively. In the opposite direction, a 100-basis-point decline would reduce EVE by 9.1% and first-year net interest income by 4.0%, while a 400-basis-point decline would reduce NII by 5.5% in the first year and 18% in the second year.

Deposit behavior is a major reason asset sensitivity has worked in HBT’s favor. The 2025 10-K reports a cumulative deposit beta of 23.6%

through the last rising-rate cycle, meaning deposit costs rose by only 24 basis points for each 100-basis-point rate increase. The bank did not resort to brokered deposits, and 24.1% of total deposits were noninterest-bearing in 2025.

Figure 5: Effect of Interest Rate Shocks on HBT’s NII and EVE

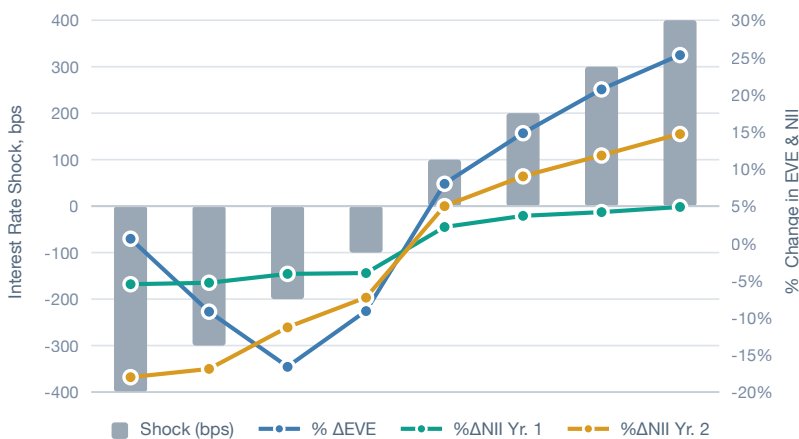
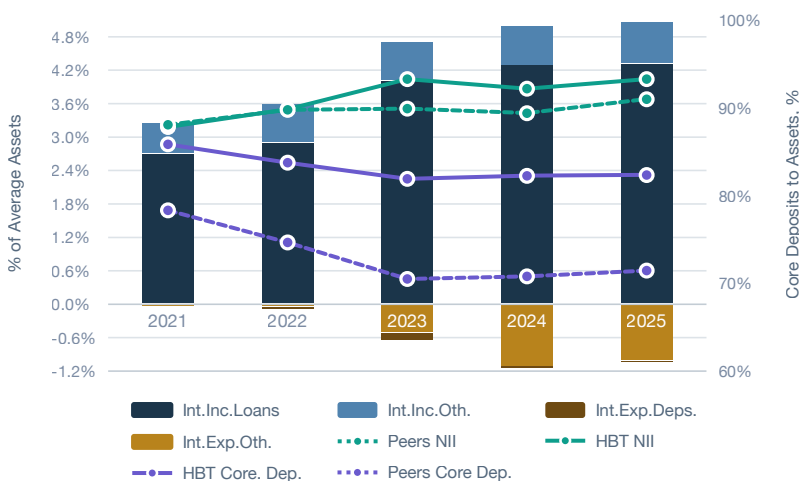


Figure 6: HBT’s NIM and Core Deposits



2.2 The Rate Cycle: Impact on Earnings and the Securities Portfolio

The recent rate environment supported HBT’s earnings, but through several offsetting channels rather than a single tailwind. In 2025, net interest income increased to \$198.9M from \$188.9M in 2024, and net interest margin rose to 4.13% from 3.96%, as shown in Figure 6. That improvement was driven primarily by lower funding costs, higher yields on debt securities, and higher average loan balances relative

to 2024 (HBT, 2026). More specifically, 2025 rate cuts lowered deposit costs, while maturing fixed-rate securities with low coupons were replaced with new, higher-coupon securities. At the same time, falling short-term rates reduced yields on variable-rate loans. Lower funding costs and reinvestment in higher-coupons assets more than offset the pressure from lower variable-rate loan rates.

The clearest negative effect of the rate cycle shows up in the securities portfolio. At year-end 2025, HBT held \$813.1 million in AFS securities and \$458.7 million in HTM securities, with AOCI of -\$23.2 million, recovering from a 2022 trough of -\$71.8 million. COVID-era deposit surges pushed excess liquidity into low-coupon bonds, which lost value as interest rates rose sharply in 2022. HBT was not immune to that dynamic. The details behind AOCI are examined in full in Section IV, Bank Capital. The key takeaway is that the unrealized losses did not impair HBT's earnings or liquidity capacity, and AOCI has mostly recovered since 2022.



The key takeaway is that the unrealized losses did not impair HBT's earnings or liquidity capacity, and AOCI has mostly recovered since 2022.

HBT's securities portfolio is concentrated in high-quality instruments, including Treasuries, agency RMBS and CMBS, municipals, and a smaller amount of corporate debt. At year-end

2025, the largest AFS category was agency RMBS at \$360.8 million fair value, and the largest HTM category was agency CMBS at \$241.6 million. Management's emphasis, however, is structure over headline yield. HBT avoids plain pass-through MBS because falling rates can accelerate prepayments and shorten cash flows at the wrong time for an asset-sensitive bank, preferring instead seasoned pools and agency CMBS structures with more stable cash-flow behavior and less reinvestment risk in a rates-down scenario.

2.3 Inflation: Operating Costs and Credit Quality

Inflation affected HBT's operating costs, but the broader expense base remained relatively controlled compared with peers. HBT's noninterest expense equaled 2.22% in 2021 and 2.46% in 2025, compared with peer levels of 2.58% and 2.78%, respectively. In 2025, HBT employee benefits rose from \$11.3 million to \$13.5 million, driven primarily by an increase in the medical benefits expense from \$7.8 to \$9.4 million (Year 2025 10-K). This is consistent with management's comment that salaries and the cost of medical insurance have become harder to control. Taken together, the pattern suggests that HBT managed its overall noninterest expense base well, while employee benefits remained the clearest area of inflation-related pressure.

Inflation also affected HBT through borrower repayment capacity, although credit quality remained solid at year-end 2025. Nonperforming assets were 0.17% of total assets, the allowance for loan losses was 1.21% of loans, and net

charge-offs were 0.07% of average loans. At the same time, loans rated pass-watch or worse increased by \$12.5 million, or 0.25% of assets, driven primarily by downgrades in multifamily and non-owner occupied CRE loans (Scheirer, 2026). That combination suggests inflation and higher rates have not yet produced broad credit deterioration, but pressure is becoming more visible in specific segments.

3. Loan Strategy and Decisioning

HBT's loan portfolio reflects deliberate strategic positioning built on three features: a conservative credit culture that prioritizes relationship depth over volume, a concentrated exposure to real estate, excluding 1–4 family, and agricultural lending where HBT holds genuine competitive advantages, and a decisioning structure that delegates authority to the lenders closest to the borrower. Each feature reinforces the others, and together they produce a portfolio that looks different from most institutions in HBT's peer group by design.

3.1 Portfolio Composition

HBT's portfolio emphasizes agricultural and real estate lending outside of 1–4 family residential mortgages, such as CRE, multifamily, and construction and development. Figure 2 shows that HBT held 24.8% of assets in CRE and 10.8% in multifamily property loans, compared to peer averages of 23.3% and 5.7%, respectively, at the end of 2025. The multifamily gap is particularly striking and has widened consistently since 2021. Agricultural exposure tells the same story in sharper terms. HBT held 3.4% of assets in

farmland loans and approximately 2.0% in farm loans against the peer median near zero. More than 23% of peers carry no farmland loans whatsoever, and more than 35% carry no farm loans. HBT's position between the 83rd to 92nd percentile in this sector is a story of operating in a lending category that many comparable institutions have not entered.



HBT originates a large number of residential mortgages, mostly for sale into the secondary market, servicing the resulting Fannie Mae and Freddie Mac loans for fee income without carrying duration risk on its balance sheet.

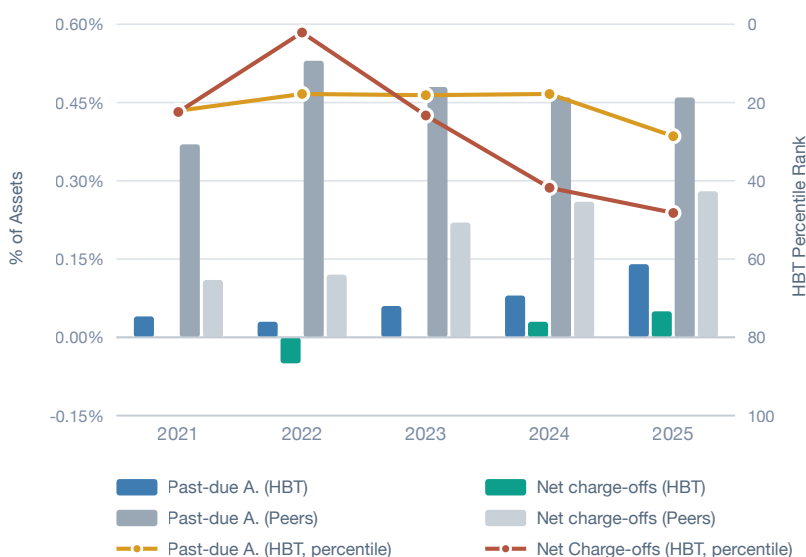
HBT originates a large number of residential mortgages, mostly for sale into the secondary market, servicing the resulting Fannie Mae and Freddie Mac loans for fee income without carrying duration risk on its balance sheet. The bank also makes loans to municipalities. While they represent only 2% of total loans, these relationships connect HBT with the communities they serve and contribute to its low-cost deposits base—the bank often requires borrowers to maintain a deposit account. Heartland chooses not to chase consumer lending, due to stiff competition from credit unions in auto and personal loans, as well as large banks in credit card lending.

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3.2 Credit Quality

A concentrated portfolio is only sound if the institution knows how to underwrite the exposures it carries. HBT's credit quality record over the study period suggests it does. Figure 7 plots past-due assets and net charge-offs for HBT (the first two columns for each year) and its peer group (the last two columns).

Figure 7: Past-due Assets and Net Charge-offs



In addition, it reports HBT percentile rankings among its peers for these two metrics (line plots, right scale). Net charge-offs have tracked well below the peer average from 2021 through 2025, with 2022 representing the strongest year. Post-COVID recoveries resulted in negative net charge-offs, placing HBT in the 2nd percentile among the 306 peer institutions, meaning 98% of peers charged off more. Despite high loan quality, Heartland keeps ample allowance for loan losses, with an NPL coverage ratio between 5.5 and 11 over the study period; in comparison, the peer average ranged between 1.5 and 2.4.

This proven credit quality, in tandem with low-cost deposits, drove an impressive net interest income, ranking in the top quartile in most years and reaching the 88th percentile in 2025, 90 basis points above the peer median.

Combined past due and nonaccrual assets tell an encouraging trend story. HBT carries fewer

nonaccrual assets than the majority of its peers across most of the study period, and the trajectory has been improving. The agricultural book, which warrants specific attention given its size, reflects the depth of lending relationships. Seventy percent of agricultural borrowers have maintained relationships with HBT for more than ten years, and fifty percent for more than twenty (Scheirer, 2026). That tenure provides underwriting information no credit model replicates:

lenders know their borrowers' operations, management, and conduct under stress from direct experience.

3.3 Decisioning Structure

HBT's credit quality is produced by a decisioning structure that places authority close to the borrower while maintaining meaningful oversight. HBT operated across 66 locations spanning a radius of more than 100 miles, and loan authority is delegated at the community level, meaning individual lenders within each market carry approval authority up to

defined dollar thresholds rather than routing decisions through a central committee. Escalation thresholds vary by market and relationship complexity. HBT's structure is more decentralized than peer institutions, a deliberate choice premised on the belief that experienced lenders with direct borrower relationships make better credit decisions than centralized committees reviewing files at a distance (Scheirer, 2026).



The geographic differentiation within that structure reflects the nature of each

market. Chicago-based lenders focus on CRE and a growing C&I book, with some specialized expertise in each. Competition in the Chicago C&I market is particularly steep, with Wintrust, Old National, and Wells Fargo competing at tight margins.

The geographic differentiation within that structure reflects the nature of each market. Chicago-based lenders focus on CRE and a growing C&I book, with some specialized expertise in each. Competition in the Chicago C&I market is particularly steep, with Wintrust, Old National, and Wells Fargo competing at tight margins. Central and southern Illinois lenders manage a broader mix that includes the bulk of HBT's agricultural exposure, where formal specialization is less common, but relationship

tenure runs deepest. HBT encourages deposit relationships alongside commercial lending across all markets.

The institution invests in developing lenders who understand both the borrower relationship and the underwriting discipline. Parallel career tracks move credit analysts toward either portfolio management or credit approval, with the explicit goal of keeping lenders and credit approvers aligned rather than adversarial. Loan pricing in the commercial arena follows a risk-reward framework, with higher risk commanding higher rates, and spreads determined loan by loan. Variable-rate commercial lines are typically tied to SOFR or Prime, while credits with three, five, or seven-year terms are generally priced against Treasury yields.

When a borrower shows signs of stress, HBT's preference is early intervention. Available tools range from rate increases and covenant implementation to declared default, in order from least to most adversarial, and the bank's posture is oriented toward helping a borrower correct course before formal remediation becomes necessary (Scheirer, 2026). A borrower's unwillingness to invest further in their own business at the first sign of trouble is treated as a meaningful signal about the credit. Foreclosure is the last resort. The bank often requires personal guarantees at origination, to ensure the borrower has a vested interest in loan repayment.

The mechanisms behind HBT's credit quality record are visible in its day-to-day portfolio management. The bank actively manages loan

commitments, reviewing 58% within a 24-month period to mitigate risks. Loans above \$750,000 in exposure receive annual reviews, and any agricultural credit above \$500,000 requires a site visit, with many relationships visited monthly. An external loan review firm examines the portfolio annually, which is viewed favorably by regulators (Scheirer, 2026). Risk ratings follow a nine-point scale running from grade one, reserved for near-riskless exposures such as loans secured by certificates of deposit, through grade nine, which represents charge-off. Seventy-five percent of the portfolio clusters at grades three and four, reflecting a deliberate avoidance of marginal credits. HBT also stress tests some individual loans, modeling against hypothetical rate changes.



Risk ratings follow a nine-point scale running from grade one, reserved for near-riskless exposures such as loans secured by certificates of deposit, through grade nine, which represents charge-off. Seventy-five percent of the portfolio clusters at grades three and four, reflecting a deliberate avoidance of marginal credits.

HBT's loan records are maintained through Jack Henry & Associates, its core service provider (CSP). The relationship with Jack Henry extends beyond day-to-day processing: acquisition

timing is a function of core system coordination. When HBT acquires an institution, as it has ten times since 2007, the two banks' core systems must be integrated, a process that depends on CSP scheduling capacity as much as HBT's own readiness. The pace of integration can be constrained by CSP availability rather than the bank's internal timeline (Scheirer, 2026).

3.4 Forward Look

HBT looks to apply its conservative credit culture to the opportunities and challenges of the future. Between the closing of the CNB acquisition, the increasing prominence of artificial intelligence, and trade policy uncertainties, HBT's position stands firm.

The CNB acquisition carries integration risk that warrants monitoring even as management has taken steps to bound it. HBT conducted due diligence on 71% of CNB's loan portfolio by balance, cited cultural alignment and shared credit standards as a basis for confidence in portfolio quality, and priced the transaction at 120% of tangible book value with an anticipated earnback period of less than one year using the crossover method. CNB's most recently reported NPA ratio of 0.31% and net interest margin of 3.49% are consistent with a well-managed institution. The combined entity carries approximately \$6.9 billion in assets, and a deepened agricultural concentration from 8% to 13% of the loan portfolio is the clearest statement of strategic intent in the transaction. HBT is using the CNB acquisition to do more of what it already does well.

Heartland approaches new opportunities with

healthy caution. Management is skeptical that artificial intelligence will meaningfully transform community bank lending in the near term but sees potential upside in back-office operations. Scheirer (2026) noted that when he entered the industry thirty years ago, the prevailing fear was that technology would displace credit professionals and automated analysis tools would make underwriters obsolete. In his view, that displacement never materialized because the tools that existed then, and the AI tools that exist now, can replicate some analytical tasks, but not relationship judgment. Relationship banking requires soft skills that AI cannot replicate (Scheirer, 2026). For an institution where seventy percent of agricultural borrowers have banked with HBT for more than a decade, that assessment reflects the source of HBT's credit quality advantage.

HBT's care and caution apply to broader economic factors, too. Trade policy uncertainty has created anxiety among some of HBT's borrowers, Scheirer acknowledged, but as of the interview date, no borrowers had reported material impacts on their operations, and HBT had not observed any increase in delinquencies attributable to tariff exposure. Given HBT's concentration in Central Illinois corn and soybean production, crops with export dependence, this is a situation worth monitoring as policies change.

The bank enters this period of uncertainty from a position of credit quality strength. Heartland's credit quality stems from proven relationships and a conservative culture. It serves a prominent role in the bank's operations and helps HBT carry

capital ratios well above regulatory minimums, as discussed in the following section.



Heartland's credit quality stems from proven relationships and a conservative culture.

4. Bank Capital

Bank capital is the equity cushion separating a bank's assets from its liabilities and the first to absorb losses before any other claim is impaired. For HBT Financial, capital serves a dual strategic role: satisfying regulatory requirements and financing acquisition-driven growth. Having gone public in 2019, HBT uses stock as acquisition currency, allowing target shareholders to defer capital gains taxes under Section 368 of the Internal Revenue Code. Total equity has grown from \$461.3M in 2021 to \$654.3M in 2025, representing 12.91% of assets against a peer average of 11.20%. The analyses below draw on the FDIC Uniform Bank Performance Report (FDIC, 2025), HBT annual reports, and an interview with the CFO Peter Chapman.

4.1 Regulatory Capital Framework

Basel III requires the Common Equity Tier 1 ratio (CET1) of at least 4.5% of risk-weighted assets, Tier 1 capital of 6%, total risk-based capital of 8% of risk-weighted assets, and a conservation buffer 2.5% on each, plus a Tier 1 Leverage Ratio of 4% (5% to be well-capitalized). These are floors, not targets. HBT maintains a Board-approved internal policy set well above these

minimums, and management acts proactively before ratios approach regulatory limits. The primary rationale is acquisition readiness: HBT targets one acquisition every two to three years and holds surplus capital to execute acquisitions (Chapman, 2026). HBT had CET1 of 15.42% and total Risk-Based Capital of 16.52% in 2025, roughly double the well-capitalized minimums and 150–160 basis points above the peer averages throughout the period. Tier 1 is the strong, permanent form of capital: common equity, retained earnings, and paid-in capital net of goodwill and intangibles. Tier 2 is supplementary and includes items such as subordinated debt and loan loss reserves. HBT's Tier 2 consisted solely of loan loss reserves with no subordinated debt; it stood at 1.10% of RWA at year-end 2025. Retained earnings alone have been sufficient to build capital without issuing sub-debt (Chapman, 2026).

HBT qualifies for the Community Bank Leverage Ratio framework, introduced in 2020, which allows banks under \$10B in assets with Tier 1 leverage above 9% to bypass the full RWA calculation entirely. Of 306 peer banks, 29 to 38 have elected it annually; HBT has not done so. Heartland already calculates risk-weighted assets internally, and a public company reporting a strong CET1 ratio (which is based on risk-weighted assets) is a more informative signal to investors.

4.2 Risk-Weighted Assets and Credit Quality

Capital adequacy ratios are calculated against risk-weighted assets (RWA) rather than gross assets. The framework assigns weights by type:

0% for cash and government securities, 20% for GSE-backed assets, as well as interbank and municipal loans, 50% for 1–4 family residential mortgages, and 100% for commercial loans. HBT's loan portfolio is concentrated in categories with the 100% weight, while peers hold more residential mortgages at the lower 50% rate. This produces a higher RWA-to-assets ratio for HBT despite a lower loans-to-assets ratio. It does not reflect higher actual credit risk. Basel weights are assigned mechanically by category, not by underwriting quality. HBT requires personal guarantees from CRE borrowers, concentrates agricultural lending in Central Illinois corn and soybean markets where management has decades of local knowledge, and enforces strict loan-to-value standards throughout the portfolio. The high loan quality is reflected in net charge-off and noncurrent loan ratios to assets several times below the peer averages over 2021–2025. The elevated RWA is a loan mix artifact, not an indicator of elevated credit



HBT requires personal guarantees from CRE borrowers, concentrates agricultural lending in Central Illinois corn and soybean markets where management has decades of local knowledge, and enforces strict loan-to-value standards throughout the portfolio.

risk, a distinction HBT's loss history makes clear. Conservative lending strategy allows HBT to carry capital ratios well above regulatory minimums while enjoying low loan losses.

4.3 AOCI, Securities Classification, and the 2022 Rate Shock

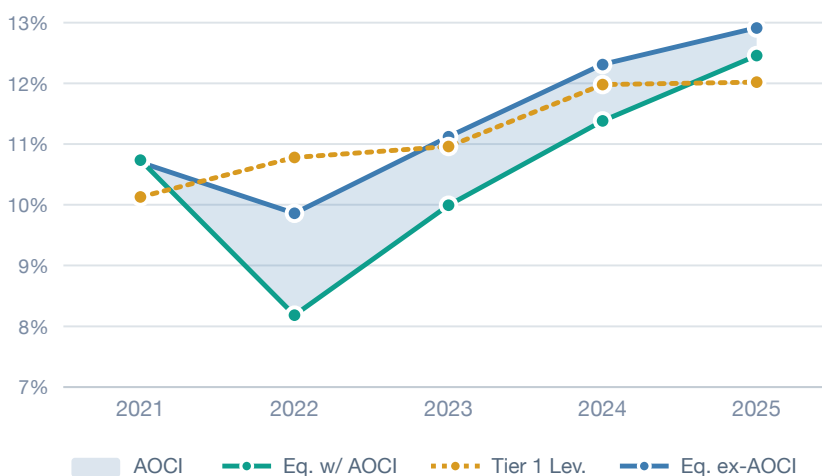
Accumulated Other Comprehensive Income (AOCI) captures unrealized gains and losses on available-for-sale securities along with certain hedge adjustments. It appears in the equity section of the balance sheet as a separate line after retained earnings and before total stockholders' equity. When AFS prices fall, AOCI turns negative and reduces equity; when they recover, equity grows back. Most community banks, including HBT, elect to exclude AOCI from regulatory capital under the Basel III opt-out, so unrealized losses affect tangible book value but not CET1 or Tier 1 ratios.

This distinction proved critical in 2022. The Federal Reserve raised rates 425 basis points, collapsing HBT's AOCI from \$1.5 million to $-\$71.8$ million. Because HBT had elected the regulatory opt-out, reported CET1 fell only modestly from 15.09% to 14.63%. On a hypothetical AOCI-included basis, adjusted CET1 would have been approximately 12.35%, a 228-basis-point gap invisible in the headline ratios. HBT remained well above all well-capitalized thresholds even on this adjusted basis, in contrast to Silicon Valley Bank, where the scale of realized and unrealized losses relative to

its capital base proved fatal given the dominance of uninsured deposits in SVB's funding structure.

To limit further damage, HBT shifted securities toward held-to-maturity classification in 2022, with HTM rising from 7.80% to 12.65% of assets. Since then, the bank has reversed course: HTM declined to 9.05% of assets by the end of 2025, running off naturally with no new HTM additions, while AFS increased to 16.04%. AFS is the current preference for liquidity flexibility, reinforced by the SVB lesson that HTM classification masks losses without eliminating them (Chapman, 2026). From 2023 onward, annual OCI turned positive: \$14.7, \$10.6 and \$23.3 million in 2023, 2024, and 2025, respectively. The accumulated OCI balance has recovered to $-\$23.2$ million by year-end 2025. Figure 8 illustrates the divergence: the Tier 1 leverage ratio (dotted line) remains stable throughout, unaffected by the AOCI opt-out, while the gap between equity ex-AOCI and equity including AOCI widens sharply in 2022 before narrowing steadily as securities values recover.

Figure 8: HBT Equity / Assets and Tier 1 Leverage Ratio



4.4 Capital Movements: 2021 to 2025

Equity grew from \$422.1M in 2022 to \$563.7M in 2023, driven by both stock issuance in the Town and Country acquisition and organic earnings. The acquisition-related stock issuance caused surplus to rise by \$124M in a single year while goodwill increased from \$29.3M to approximately \$59.8M. From 2023 through 2025, assets were essentially flat, while ROA was in the 1.5%–1.7 range, 35–37 basis points above the peer average. Recovering OCI contributed further. Together these factors drove the equity-to-assets ratio up from 11.12% in 2023 to 12.91% in 2025, widening HBT's lead over peers from near parity to 171 basis points.

4.5 Tangible Equity, Earn-Back, and the CNB Acquisition

Book value per share measures total book value of equity divided by shares outstanding. Tangible book value per share (TBVPS) excludes goodwill and core deposit intangibles, representing economic equity without any franchise premium. The gap between the two widens after each acquisition as purchase premiums create goodwill. HBT targets a TBVPS recovery to its pre-acquisition level within three years through earnings accumulation. The 10-K confirms BVPS of \$14.21 and TBVPS of \$13.13 at year-end 2021, both declining in 2022 due to the AOCI collapse rather than operational deterioration. The Town and Country deal in 2023 widened the BVPS-to-TBVPS gap through additional goodwill, but also added \$923M in earning assets and a low-cost deposit franchise. On an estimated basis TBVPS recovers to \$12.73 in 2023, \$14.97 in 2024, and \$17.07 in 2025, surpassing the pre-deal

2021 baseline of \$13.13 within two years and achieving the target of \$17 to \$18 ahead of the three-year benchmark.



HBT's acquisition strategy targets precisely this profile: deploying its low-cost central Illinois deposit base, capital surplus, and conservative credit culture to absorb an institution whose growth was capital-constrained.

The CNB Bank Shares acquisition, closing in early 2026, restarts the earn-back clock. CNB had been constrained by a large negative AOCI from its bond portfolio and a high loans-to-deposits ratio that limited balance sheet capacity and organic growth. HBT's acquisition strategy targets precisely this profile: deploying its low-cost central Illinois deposit base, capital surplus, and conservative credit culture to absorb an institution whose growth was capital-constrained. The same earnings engine that drove TBVPS recovery after the Town & Country acquisition positions HBT to repeat the cycle with CNB.

4.6 Capital Deployment, Loss Absorption, and Hedging

HBT builds capital primarily through retained earnings, compounding book value at above-peer ROA. For acquisitions, the preferred method is issuing HBT shares directly to target

shareholders as deal consideration, rather than conducting a public equity raise to fund cash acquisitions. HBT used stock as the primary consideration in both the Town & Country and CNB deals, allowing target shareholders to defer capital gains taxes while expanding HBT's franchise.

When banks fail, losses are absorbed from the bottom of the capital stack: common equity shareholders take losses first and in full before any other claim is impaired, followed by Additional Tier 1 holders, subordinated debt holders, and finally uninsured depositors. The FDIC insures deposits up to \$250,000. HBT's deposit base is structurally resistant to runs: approximately 70% of deposits are retail, only 20 to 24% are uninsured, and a substantial portion of those uninsured balances are municipal deposits required under Illinois law to be collateralized with pledged securities, bringing effective uncollateralized uninsured exposure to approximately 14%. This contrasts sharply with Silicon Valley Bank, where over 90% of deposits were uninsured and concentrated in an interconnected industry with real-time communication channels.

Beyond interest rate risk management, HBT actively manages operational risk despite it carrying no formal Basel capital charge for community banks. Operational risk covers losses from fraud, system failures, and process errors. For community banks like HBT it carries no formal Basel capital charge but is actively managed. Check and wire fraud are top loss categories; the bank covers more losses than legally required to protect customer

relationships (Chapman, 2026). As to balance sheet hedging, HBT has historically used interest rate swaps as cash flow hedges on its variable-rate junior subordinated debentures, converting floating-rate interest expense on those liabilities into fixed payments and therefore stabilizing a portion of its funding costs. The latest designated hedge matured in April 2025, leaving HBT with no formal balance sheet hedges at year-end 2025. Interest rate risk on the asset and liability sides is managed primarily through balance sheet structure, specifically the sticky, low-beta retail deposit base on the liability side and the mix of fixed and floating rate loans on the asset side, rather than through derivatives

Conclusion

Heartland Bank and Trust Company entered 2026 as an institution whose competitive advantages compound rather than erode. The record examined in this report is the product of structural decisions made long before 2021. A low deposit beta reflects decades of investments in relationships. Superior credit quality reflects a conservative culture built on direct borrower knowledge. Strong capital ratios reflect a strategy designed to give shareholders peace of mind, make regulators happy, and keep HBT at the table when acquisition targets become available. Each element reinforces the others. More than a century after M.B. Drake opened a community bank in Cornland, Illinois, the strategy still wins.



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Introduction

VisionBank's story dates back over 140 years to the small community of Ogden, Iowa. Until the 1990s, ownership operated just one bank office in that rural town. An ensuing combination of new offices and charters over the next 20 years resulted in both geographic and balance-sheet growth in nine communities across a four-county area. The 2022 purchase of Legacy Bank in Bondurant was a good fit that further contributed to growth. Legacy Bank, like VisionBank, was also a family-owned bank that added four locations in nearby communities. VisionBank was pursuing growth through lending, while Legacy Bank was more a deposit-gathering bank seeking investment opportunities.

Although the bank originated in a small town, it currently operates 13 branches, reflecting its longstanding commitment to growth. Lending staff is now housed at all 13 combined bank locations. VisionBank provides services to, and utilizes the deposits of, thousands of central Iowa households and businesses to make loans, specializing in those secured by real estate. Using these local resources, the bank has continued its growth trajectory. Ownership has also established that it

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has the capital necessary to support the risks associated with its lending activities and to move quickly should expansion opportunities present themselves.

Five years ago, VisionBank had the target of growing to a \$1 billion institution in its sights. While the bank was prioritizing growth, it was cautious due to the regulatory requirements the \$1 billion threshold would necessitate. This pause allowed the bank to get comfortable with its new structure and plan for mindful growth. In 2025, regulators expanded the \$1 billion threshold to \$5 billion. Rather than pursuing growth solely to achieve returns to scale, the bank continues to demonstrate a focus on sustainable, intentional growth. This approach positions it to remain competitive while maintaining its community-centered values.

Section I: Financial Analysis

Earnings Performance

VisionBank's loan-to-deposit ratio has averaged 98% over the past five years, placing it in the 90th percentile of its FDIC-assigned peer group.

This metric clearly reflects the bank's strong lending focus. Loans are generally the highest-yielding asset on a bank's balance sheet due to the elevated risk of default and relative lack of liquidity (Mishkin & Eakins). Given this strategic asset mix at VisionBank, we were surprised to see the bank's net interest margin, while improving, has lagged compared to its peer group, as illustrated in Table 1.

Regional President Tim Tryon attributes this lackluster margin to operating in a competitive market and to booking mostly low-risk (lower-yielding) loans. He notes, "We are heavily concentrated in commercial real estate lending, which traditionally doesn't yield as much as higher-risk loan types." The high loan-to-deposit ratio requires the bank to utilize a degree of expensive non-deposit funding, which also puts pressure on margins. Less emphasis was placed on margins and returns when the bank was more focused on growth; it is now placing a higher priority on profitability to build capital that can support continued growth.

VisionBank continues to work to grow deposits, particularly the less expensive and more reliable core deposits. One of the strategies being deployed is a greater focus on requiring deposit accounts for all borrowers, something that hadn't been a high priority in the past. Core deposits are typically locally gathered, relationship-based deposits that are less sensitive to interest rates than are larger deposit balances and wholesale funding. Tryon

Table 1: Earnings

	2021	2022	2023	2024	2025
Loan-to-deposits	97.3%	95.0%	98.4%	100.8%	100.5%
Loan-to-deposit to peer (percentile)	94.0%	85.0%	87.0%	91.0%	92.0%
Net interest margin	2.8%	2.5%	3.3%	3.1%	3.4%
Net interest margin to peer (percentile)	21.0%	5.0%	48.0%	42.0%	36.0%
Servicing & interchange/non-margin income	86.9%	64.7%	62.2%	68.4%	72.1%
Return on equity	9.4%	7.4%	10.7%	11.0%	13.4%

Source: Compilation from Uniform Bank Performance Report.

observes that growing core deposits is “harder than it sounds” because all banks are working to grow this source, and there is significant competition between banks and non-banks.

To supplement margin income, the bank creates a healthy volume of secondary-market home mortgage loans and earns interchange fees on its debit cards. The interchange fees have nearly doubled over the last five years due to the addition of a new account that pays a premium interest rate for swiping the associated debit card at least 20 times per month. These two fee generators have accounted for over 70% of non-margin income and provide a healthy supplement to the bottom line. VisionBank’s return on equity (ROE) took a hit in 2022 when the bank completed the acquisition of Legacy Bank, but it has rebounded nicely since. Its ROE has been in the 56th, 66th, and 69th percentile of all Iowa banks over the past three years.

Loan Portfolio Composition

Real estate loans have comprised an average of 85% of VisionBank’s loan portfolio over the

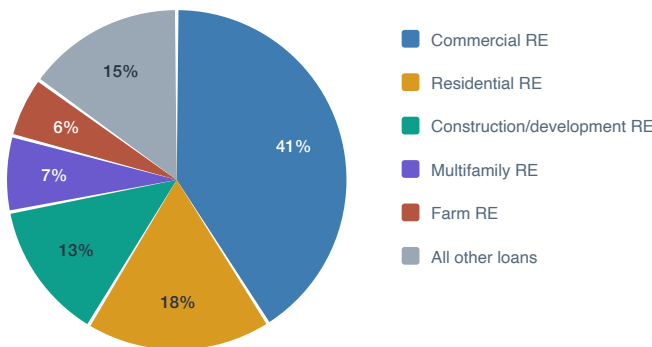
past five years, as illustrated in Figure 1. Most loans originate within the bank’s market area, which consists of four counties in central Iowa. The northern two counties are part of the Metropolitan Statistical Area (MSA) of Ames, and the southern two counties are part of the MSA of metro Des Moines.

While Iowa is recognized as rich in agriculture, less than 10% of VisionBank’s loans are related to agriculture. The vast majority of these loans originate in the bank’s northern region, where half of that region’s lenders specialize in such credits. Tryon puts this into perspective by saying that agricultural lending is very relationship-based and more labor-intensive than commercial real estate, so the amount of time dedicated to these credits isn’t directly correlated to the size of the balances represented in the portfolio (Tryon, interview).

Tryon estimates that the source of 20% of the bank’s loan balances comes from participations with Freedom Financial Bank in the Des Moines metro market. The ownership of these two banks overlaps. Freedom has a much smaller

legal lending limit per borrower. It can only keep a portion of the larger loans it extends on its balance sheet and is comfortable selling, or ‘participating’ the excess portion with VisionBank. This arrangement gives Freedom the opportunity to compete for larger loan customers, thanks to VisionBank’s higher legal lending limit. While VisionBank appreciates the loan growth opportunities this relationship affords, the partner bank is not expected to

Figure 1: Real Estate (RE) Loans (5 year average)



Source: Compilation from Uniform Bank Performance Report.

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part with its borrowers' associated deposits. VisionBank must find a source of funds on the other side of the balance sheet to finance these loans.

Outside of residential mortgage and Home Equity Lines of Credit (HELOCs), the bank makes very few consumer loans. Bank management acknowledges that consumer lending will never be a large focus but is currently developing a more streamlined consumer lending platform to better position itself to improve pricing and efficiency and grow its consumer base. "Because consumer deposits are very important to us, we need to have a more efficient process in consumer lending," says Tryon.

Asset Growth

VisionBank has grown its assets by 56% in the last five years as illustrated by the growth metrics in Table 2. Over half of that growth is attributed to the 2022 purchase of nearby family-owned Legacy Bank, which added \$176 million in assets. The securities that were purchased in the acquisition have largely been left to roll off the balance sheet at maturity. Loans have increased by 62% and core deposits by 70%. The bank experienced some deposit runoff after the acquisition, primarily due to challenges with merging core systems (Tryon, interview). However, because Legacy's loan-to-deposit ratio was only 59% at the time

of sale, there were surplus deposits to help fund VisionBank's loan growth (FFIEC, UBPR). The levels of brokered deposits and Federal Home



VisionBank's business development strategy continues

to evolve as management balances the competing objectives of growth and margin. The bank needs deposits to fuel its growth. Organic core deposit growth has been attributed to new products, cross-selling efforts, and a focus on a relationship mindset rather than transactional lending.

Loan Bank (FHLB) advances have declined over the last five years, leaving room to take up those positions as needed to fund additional loan growth.

VisionBank's business development strategy continues to evolve as management balances

the competing objectives of growth and margin. The bank needs deposits to fuel its growth. Organic core deposit growth has been

Table 2: Growth

	2020	2021	2022	2023	2024	2025	5-Year
Assets (in thousands)	\$574,837	\$600,366	\$755,877	\$811,807	\$901,638	\$898,513	56%
Assets (less Legacy)			\$579,877	\$635,807	\$725,638	\$722,513	26%
Loans	\$467,424	\$473,754	\$596,247	\$663,560	\$757,151	\$758,900	62%
Core deposits	\$417,545	\$457,735	\$582,076	\$623,231	\$672,047	\$711,163	70%
FHLB and brokered	\$91,557	\$74,744	\$81,263	\$90,870	\$101,430	\$74,446	-19%

Source: Compilation from Uniform Bank Performance Report.

attributed to new products, cross-selling efforts, and a focus on a relationship mindset rather than transactional lending (Tryon, interview). The bank launched its “Purpose Bank” division in 2021 to serve underserved populations, particularly women and minority-owned businesses and individuals. It has since evolved into more of a marketing concept rather than dedicated employees and office space. This initiative demonstrated efforts to expand deposit and loan opportunities with existing and new customers. Tryon reports that a supplementary bonus program rewarded commercial lenders for both loan and deposit growth, as well as for sound portfolio management and bank profitability.

Capital Levels

Tier 1 capital and total capital ratios are important indicators for the bank. On the surface, it appears that VisionBank is thinly capitalized relative to peers based on these metrics, as illustrated in Table 3. Offsetting low capital levels is the consistent profitability that supplements retained earnings. While preferring to use retained earnings built by profit, VisionBank management has stated that ownership has access to additional capital, if necessary, similar to the capital that supported the acquisition (Tryon, interview).

Table 3: Capital

	2021	2022	2023	2024	2025
Tier 1 capital ratio	11.6%	9.6%	9.3%	9.6%	10.2%
Tier 1 capital ratio (peer)	14.9%	14.4%	14.4%	14.6%	14.9%
Total capital ratio	12.7%	10.4%	10.3%	10.6%	11.3%
Total capital ratio (peer)	16.1%	15.5%	15.6%	15.7%	16.0%

Source: Compilation from Uniform Bank Performance Report.

Management reports that it monitors risk-weighted assets. As a heavily loan-oriented bank, the bank places a premium on robust underwriting and loan management systems. CRE lending tends to be straightforward in its analysis of cash flow required to service debt. Additionally, real estate has a stronger market for resale than many other forms of collateral.



The securities held by VisionBank are almost entirely U.S. Treasury and government agency bonds and therefore, very marketable.

Liquidity

The securities held by VisionBank are almost entirely U.S. Treasury and government agency bonds and therefore, very marketable. However, with a loan-to-deposit ratio presently exceeding 100%, this liquidity source would not go far. We observed that VisionBank relies predominantly on the FHLB for liquidity funding, as every loan booked is reviewed to determine whether it is eligible to be pledged to the FHLB as collateral against advances. The level of loans pledged to secure liquidity is illustrated in Table 4, and management reports that the present FHLB line available is \$110 million. In other words, the bank has mortgage loans pledged against future advances that would provide \$110 million of support should the bank experience a deposit runoff or other liquidity

squeeze. There appears to be ample loans to pledge if the current collateral position (34%) is insufficient.

Table 4: Liquidity

	2021	2022	2023	2024	2025
Pledged loans / Total loans	31%	32%	34%	32%	34%
Core Deposits / Deposits	76%	77%	77%	75%	79%
Percent of deposits uninsured*	46%	41%	38%	39%	36%

*2025 uninsured is from 6/30/25. Federal Reserve Board of Governors Supervision and Regulation Report
Source: Compilation from Uniform Bank Performance Report

While the bank has used brokered deposit funding, it prefers to build core deposits, as they are less expensive and offer opportunities to enhance profitable relationships. Building core deposits takes time and keeping them is a challenge in today’s competitive landscape of banks, near-banks, and non-banks. Table 4 illustrates that VisionBank has increased the level of this important funding source. Furthermore, the level of uninsured deposits has averaged 40% over the last five years and is trending down. A notable number of these deposits have been with the bank for many years, and some are shareholders (Tryon, interview).

Section II: Interest Rate Environment and Inflation

Asset Liability Committee (ALCO)

Asset and liability management is largely the alignment of bank assets and liabilities to manage interest rate risk, liquidity, and capital. The bank has a dedicated ALCO committee that meets regularly and is comprised of senior officers from various areas within the bank. The efforts of this group are critical for a nearly \$1 billion bank with a high loan-to-deposit ratio

because missteps in pricing and funding could quickly erode capital and impair liquidity options. The predominant strategy for the investment portfolio of VisionBank, largely comprised of U.S. Treasury and agency securities, is to provide a source of liquidity.

In recent years strategic decisions at VisionBank have been shaped by regulatory thresholds tied to asset size. The proximity of that \$1 billion asset threshold has influenced management’s recent strategy. Approaching \$1 billion triggers additional regulatory requirements (FDICIA). In 2024, ownership made a conscious decision to slow growth and shift its focus toward margins and yields, ensuring the processes and controls required of larger institutions would be fully in place before crossing that threshold. The result was a shift toward ‘smart growth’: continuing to book new business, but with profitability and margin improvement at the forefront rather than volume alone. In late 2025, the \$1 billion audit threshold was increased by the Federal Deposit Insurance Corporation (FDIC) to \$5 billion. The removal of expensive and burdensome requirements allowed the bank to return to placing a higher emphasis on growth.

Interest Rate Risk and the FOMC

The Federal Open Market Committee (FOMC) is the policy-making body of the Federal Reserve responsible for influencing short-term rates by establishing a target range for the federal funds rate. This target influences how much it costs banks to borrow from each other and, therefore, indirectly, the rates banks pay for deposit

funding. The ALCO group at VisionBank closely follows the FOMC decisions and comments. Tryon notes that the FOMC decisions directly affect the Prime Lending Rate, which impacts yields earned on the bank's variable rate lines of credit. Fixed-rate commercial loans invariably follow suit.



Interest rates are the largest factor in residential mortgage loan

demand (Federal Reserve Monetary Policy Report).

VisionBank originates a large number of these mortgage loans and is attuned to market reaction to FOMC decisions.

While the FOMC does not set longer-term 15-year and 30-year residential mortgage rates, its decisions impact the markets where these rates are determined. Interest rates are the largest factor in residential mortgage loan demand (Federal Reserve Monetary Policy Report). VisionBank originates a large number of these mortgage loans and is attuned to market reaction to FOMC decisions. An active secondary market sets the rates for these loans, which is important because most of these loans are sold in that market. Interest rate risk prevents VisionBank from keeping all but those that don't meet the underwriting standards of purchasers (such as Iowa Bankers' Mortgage Corporation and Freddie Mac). The bank does

make a significant number of commercial mortgages that are kept on the balance sheet. The rates for these loans are locked in for a shorter duration.

The rates and maturities of existing loans and deposits are monitored and then modelled regularly by ALCO for a change in market rates. Regulators expect such stress test modelling to be done regularly by ALCO. VisionBank's balance sheet is stressed by a 300 basis-point change in rates, as well as stressed to a breakeven point. The lack of material bond assets has helped shield the bank from a volatile interest environment. Management fights the temptation to lengthen asset duration in search of yield by holding most commercial maturities to five years or less. Competition for local time certificate deposits has generally been for shorter terms. "Our current Time CD special has a six-month maturity, and I don't recall offering one longer than 15-months in recent years," says Tryon.

Management and ALCO keep an eye on the deposit rates of area depository institutions as well as the general market. Tryon is aware that consumers have options other than banks to store funds. While money market mutual funds put pressure on insured depositories, he feels most customers will continue to keep traditional deposits. The goal for securing funding is to stay competitive for deposits, not simply matching outlier deposit pricing that often pops up. The ALCO committee gives more weight to its own balance sheet mix when setting deposit pricing, "We are in it for the long haul and work hard to provide fair and consistent pricing. This applies

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equally to the lending side” (Tryon, interview). The competitive environment and rate strategies result in the balance sheet of VisionBank being liability sensitive to a change in rates, as indicated in Table 5.

Table 5: Gap (RSA-RSL)

	2021	2022	2023	2024	2025	5-year
% Repricing Loans/Securities < 1 yr	28.6	27.7	31.8	41.2	45.0	34.9
% Repricing Liabilities < 1 yr	88.4	90.6	92.9	96.2	97.3	93.1
Short-Term GAP position	-59.8	-62.9	-61.1	-55.1	-52.2	-58.2

Source: Compilation from Uniform Bank Performance Report

A bank is liability sensitive when its interest rate-sensitive liabilities reprice or mature faster than its interest rate-sensitive assets within a given time period. The bank’s net margin income in a ‘negatively gapped’ position would be vulnerable to rising rates. The degree of the gap impacts the degree of vulnerability. The degree to which its liabilities and assets reprice also impact a bank’s capital if the fair market value of its assets decreases faster than its liabilities in a rates-up environment.



A bank is liability sensitive when its interest rate-sensitive liabilities reprice or mature faster than its interest rate-sensitive assets within a given time period.

Most community banks have been short-term liability sensitive since 2023 (OCC) and would fare well in interest-down environments. VisionBank however, benefited from rising

interest rates in recent years, even though deposits were forced to reprice more quickly than loans. In the early 2020’s, rates were compressed, making it difficult for banks to maintain spreads (FDIC). As rates increased,

VisionBank’s management made a conscious effort to re-price deposit rates as slowly as they could while still maintaining balances. The bank

continued making new loans as interest rates increased in order to gradually build a higher-yielding loan portfolio. They are now being assisted by the re-pricing of maturing loans at current rates (Tryon, interview).

The owner and CEO of VisionBank, Heather Miller was appointed to the board of directors of the Federal Reserve Bank of Chicago in late 2025, where she is expected to contribute insights on community banking and regional economic conditions in Chicago’s Seventh District (“VisionBank CEO Heather Miller Appointed”). It is anticipated that Miller will make key contacts and learn more about monetary policy and the flow of money. She will gain valuable perspective into the philosophies of other community banks and how they operate.

Inflation, Deposit Strategy, and Community Impact

Inflation, as measured by the Consumer Price Index, topped out at 9.1% in June 2022. In the decade prior to 2022, the rate averaged 1.89% (U.S. Inflation Calculator). In the post COVID-19 recovery period, Tryon described

how consumers, business owners, and investors saw expenses rise faster than income. For example, real estate investors experienced large increases in property taxes and insurance and were unable to increase rents at the same pace to offset them. Increased rates translated to higher interest-carrying costs for those with real estate in their portfolios as the associated mortgage loans repriced. The more leveraged a borrower is, the more susceptible they are to outside influences, such as inflation and higher rates, negatively affecting their cash flow, and ultimately their profitability and viability. Tryon suggests that leverage is the number one factor that contributes to adverse credit issues. He goes on to say the silver lining to a weak economy is that it will many times provide opportunities for the less leveraged borrowers (Tryon, interview).



The more leveraged a borrower is, the more susceptible they are to outside influences, such as inflation and higher rates, negatively affecting their cash flow, and ultimately their profitability and viability.

While non-performing loan levels have risen a bit, VisionBank delinquencies are minimal (Tryon, interview). Highly leveraged borrowers are hurt the most in a rates-up environment since they don't have the room to adjust. Tryon

has observed that industries such as agriculture and retail have slowed in recent years. He credits high credit standards for the bank's minimal credit issues and adds, "We haven't changed credit guidelines much in recent years, but standards are much more robust than 15-20 years ago. We require regular financials from borrowers, as well as supporting information such as rent rolls, to proactively identify issues as much as possible." Higher inflation in recent years has prompted VisionBank to look at ways to improve efficiencies in its internal processes. The bank continues to look for new ways to streamline processes, add technology where it can provide benefits, and look for economies of scale.

It is apparent that the ALCO team views its role as a core strategic function rather than merely a narrow compliance exercise. This team constantly frames its decisions through the lens of earnings and capital generation. Tryon feels these two metrics are the best indicators of how ALCO strategies are working. That discipline - managing the balance sheet with both rigor and community purpose - is what defines VisionBank's approach to asset and liability management.

Section III: Loan Strategy and Decisioning

Introduction

VisionBank is focused on long-term relationships in the communities that it serves. Their primary focus is Commercial Real Estate (CRE) lending, which has accounted for 80-90% of the bank's portfolio over the past five years. While the

legal limit of the bank is \$12 million, most of their CRE loans are in the \$1-5 million range (Tryon, interview). Because the larger scale of CRE lending introduces concentration risk, the bank follows stricter underwriting standards, particularly in segments such as hospitality, where the local market is already saturated.



The bank's family ownership structure

provides flexibility in decision-making, continuity of leadership, and consistent underwriting. The recent acquisition of Legacy Bank introduced integration risk.

The bank's family ownership structure provides flexibility in decision-making, continuity of leadership, and consistent underwriting. The recent acquisition of Legacy Bank introduced integration risk. Possessing a complementary culture was the second leading attribute desired of acquiring banks in a recent survey of banks (Bank Director). Components of culture can include staff, technology, operational process, and lending philosophy. Successfully merging loan portfolios and aligning lending standards requires careful, disciplined management. VisionBank's continued growth suggests careful management of the acquisition.

Portfolio Management and Risk Monitoring

VisionBank reviews financials submitted by commercial borrowers at least annually, with more frequent reviews depending on collateral type and borrower strength. Lenders review the borrower's global financial position using tax returns and financial statements. The cash flows associated with the collateral pledged by the borrower are monitored, as is the value of the underlying asset. Tryon says each loan is risk-rated based on objective ratios and data using a 1-8 scale, with 1 being excellent and 8 being poor. Most loans originate with a 4 (satisfactory) rating. Loans rated 5-8 are added to a 'Watch List,' promoting closer monitoring and the allocation of loan loss reserves. Ratings of 1-3 are reserved for very strong borrowers or cash-secured loans. While these ratings are the standard, 2020 marked a temporary shift for loans in industries mandated to close due to COVID-19. These loans were temporarily rated a 5 to increase monitoring, regardless of performance.

Past-due or non-paying loans are downgraded to 6-8, depending on repayment history, cooperation, and collateral strength. For a lender, the work doesn't end after the loan is made. Regular site visits after loan origination help identify potential concerns before escalation. Tryon recalled one instance when a new home build was not progressing as quickly as expected based on the amount advanced against the collateral. In this instance, it was discovered early enough to be rectified and acted as a good reminder of what can happen if a bank cuts corners on monitoring activities.

Most of the loans originated in the bank's market area, making it easier to monitor borrowers and market conditions.

Credit Approval and Loan Committee Structure

VisionBank takes a conservative approach to lending. Individual lenders have lending limits based on experience, and as borrowing exposure increases, approval moves higher within the bank. While the bank encourages lenders to maintain close relationships with borrowers, this approval structure ensures consistency in underwriting standards. Loan exposure is based on the size and purpose of the loan request, as well as overall exposure to the borrower and related entities.

Recently, VisionBank tightened credit standards by reducing lending authorities by half for new or struggling (classified) credits across all approval levels, reflecting a proactive risk posture. Loan requests may be declined due to inadequate cash flow or insufficient equity, but the bank works with borrowers to outline steps to make borrowing relationships possible. In this manner, VisionBank acts as much as a partner as a gatekeeper. Supporting borrowers' long-term success strengthens future credit quality and contributes to overall portfolio stability. Denials are treated as opportunities for responsible growth rather than just transactional losses.

Pricing, Testing, and Analysis

Bank leadership monitors economic conditions and factors, including tariffs and their potential impact on borrowers. Tryon reports that the bank's commercial customer base, other than

agriculture, has largely been unaffected by tariffs. The federal government has historically assisted industries affected by factors beyond their control, such as the Paycheck Protection Program (PPP) loans that helped business owners stabilize operations during COVID-19. Farmers are expected to receive federal support in 2026 to offset lower income from tariffs (Cunningham and Rinaldi).

Loan pricing is largely based on deposit relationships, projected-cash flow, collateral, repayment history, and guarantor support. The bank places heavy emphasis on the borrower's ability to generate revenue to consistently support repayment. The assigned 1-8 risk rating strongly influences the rate proposed to the borrower. While risk-based pricing provides the starting point, negotiation still occurs based on the overall banking relationship and competitive market conditions (Tryon, interview).

Interestingly, Tryon noted that in recent years the bank has experienced more negotiation on the deposit side of the balance sheet, as competition for core deposits has increased across the industry. VisionBank prioritizes profitability over revenue growth, as revenue without profit can introduce long-term risk. They have recently placed greater emphasis on growing core deposits, both consumer and commercial, as a key component of its growth strategy (Tryon, interview). Strong deposit growth provides the funding needed to support future loan expansion.

Portfolio stress testing occurs at least quarterly, with frequency influenced by economic

conditions. Just as ALCO stress tests the balance sheet on a holistic level, VisionBank conducts testing at the individual loan, borrower, loan type, and industry levels. Tests focus on interest rates, occupancy, collateral values, and global support. Tryon gave an example of a fully occupied 16-plex financed for 5 years at 6%. The bank stress-tests the property by lowering occupancy to 95% or 90% and increasing rates to 8% or 10% to determine the debt-service coverage ratio break-even point if conditions worsen at loan maturity. In today's higher-interest-rate environment, stress testing is critical because many loans originated when rates were lower.

Technology, AI, and Recordkeeping

The deposit and loan balances and activity are maintained by Fiserv, one of the "big three" core providers of banks and credit unions (Alcazar and Terry). Over time, VisionBank has implemented technology to automate routine processes. Files are now digitized and accessible across locations, eliminating the need for manual calculations. Digital storage reduces the risk of lost or damaged files. The bank also uses a product from a different vendor (Precision Lender) to assess customer profitability to supplement risk-based pricing. Borrowers with significant deposit balances may receive more favorable rates (Tryon, interview).

VisionBank is exploring AI implementation to improve efficiency and reduce time-consuming administrative tasks. Several employees are using Microsoft's Co-Pilot to assist with tasks in Word and Excel. Employees are leading research into AI opportunities across departments, and

the bank is likely to rely on third-party vendors rather than developing internal systems.



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Concepts Learned

One of the most important concepts we learned from the VisionBank team is the importance of cash flow in today's lending decisions. While collateral still plays a role, the bank does not operate solely as an asset-based lender. Tryon proposes, "cash flow is king," meaning the borrower's ability to produce consistent revenue is the most important factor. This approach also requires lenders to consider backup plans if cash flows are compromised in the future. Stress testing, guarantor support, and additional collateral help provide protection if operating income declines. Insufficient or inconsistent cash flow is the most common reason loans are denied at VisionBank, highlighting this concept's centrality to the bank's lending strategy (Tryon, interview).

Another key concept our team learned is the importance of partner banks when managing lending limits. Due to the large size of the projects represented by CRE assets, community banks often combine forces with these partners to share in the exposure. This is needed due to smaller bank lending limits but also desired

to ensure diversity in both loan content and geography (The Whitlock Co.). VisionBank lenders maintain relationships not only with the bank they share ownership with but also a half-dozen other institutions. Most banks expect reciprocity in loan exchanges (Tryon, interview). We found it interesting that these relationships are often built by the lenders from the network of providers they are familiar with and comfortable.

Section IV: Bank Capital

Bank capital helps ensure financial stability and protects depositors, as it represents the difference between a bank's assets (primarily loans) and its liabilities (largely deposits). Its function is to act as a 'cushion' that can absorb unexpected losses. Capital is closely monitored by regulators as a barometer of a bank's safety and soundness. Regulators evaluate capital levels when banks seek to expand operations, open new branches, or pursue acquisitions. At VisionBank, decisions regarding capital levels are made primarily by the Board of Directors with input from ALCO. These decisions occur as part of the annual budgeting process and are reviewed throughout the year. In addition to internal analysis, VisionBank compares its capital position with peer institutions using industry benchmarks such as tier 1 leverage, risk-based capital, and the Texas ratio. While minimum capital requirements for the industry are set by regulators, individual institutions may choose to maintain higher levels depending on strategic objectives and risk tolerance (Tryon, interview).

Capital Management

Assets on a bank's balance sheet are not treated equally from a regulatory perspective, as assets are assigned different risk weighting depending on the perceived risk of loss. The weighted values are referred to as 'risk-weighted' assets, and regulators require banks to maintain capital relative to the risk indicated. By weighting assets based on risk, regulators ensure that banks holding riskier portfolios maintain higher capital buffers ("Risk-Weighted Assets").

One common method to supplement capital is to retain a larger portion of profits instead of distributing them as dividends to shareholders. Rather than relying on retained earnings, bank ownership could inject capital or issue shares. Ownership has demonstrated it is able to supply capital to VisionBank as needed to support organic or acquisition-related growth. While this injection is available for growth or as a buffer for risk, ownership would prefer capital be built through retention first, and capital injections be the secondary source (Tryon, interview).

Operational risk is another factor that influences capital planning. Operational risk refers to the possibility of losses from failures internally, such as employee misconduct, system breakdowns, or external disruptions, such as cyberattacks. Banks manage this risk through internal controls, oversight processes, and partnerships with external risk management providers. Because operational failures can produce significant losses, regulators expect banks to maintain sufficient capital buffers to withstand such events. The acquisition of a bank could elevate

operational risk exposure. Tryon reports that operational, compliance, and audit systems and processes have all been enhanced by the growth over the last five years, whether by organic means or by acquisition.



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Operational risk refers to the possibility of losses from failures internally, such as employee misconduct, system breakdowns, or external disruptions, such as cyberattacks.

Capital itself is divided into different tiers based on quality and reliability. Tier 1 Capital is considered the strongest form and consists primarily of common equity and retained earnings, as these sources represent permanent and highly reliable financial resources available to absorb losses. Tier 2 capital provides supplementary support and is comprised almost entirely of loan loss reserves. Although still important, tier 2 capital is viewed as less dependable than tier 1 capital during periods of financial stress. VisionBank's plan for possible bank failure is triage: shareholders absorb losses first, while depositors benefit from both the bank's capital cushion and deposit insurance provided by the FDIC, which covers deposits up to \$250,000 per account (Tryon, interview).

Security Classification and Capital Reporting

When a bank purchases a security, it makes the decision to classify it as either Held-To-Maturity (HTM) or Available-For-Sale (AFS). If classified as HTM, banks have the intent to hold the security in their portfolio until maturity. Banks with large HTM positions in their portfolio are likely in a strong liquidity position that would not require the proceeds from the sale of the security before it matures. Because of the large (illiquid) nature of the loans on VisionBank's books, management has classified virtually all of its securities (presently 6% of assets) as AFS. There are fewer negative consequences to the balance sheet of selling an AFS security should the need arise (Tryon, interview).

The market price of a bond, and the associated unrealized gain or loss, is almost entirely based on changes in the market rate of interest. If market rates move up, the value of the bond will decrease. For example, the unrealized loss position of many banks in the spring of 2023 was due to an upward movement in market rates. There were a couple of sizable specialty banks that experienced deposit outflows of nervous, uninsured depositors at that time. The unrealized losses in the portfolios of these banks became realized losses when they were forced to sell their positions to meet deposit withdrawals. The losses eroded the capital cushion of these banks to the extent they essentially became insolvent. While industry-wide panic was contained, it brought attention to market-driven, underwater positions of the banking industry as a whole (Tapia and Hamandi). VisionBank was minimally impacted by these events because of

the limited degree of bonds on its balance sheet. According to filings during this period, the \$3.4 million unrealized losses on the balance sheet were inconsequential against capital of \$75 million (Call Report).

Accumulated Other Comprehensive Income (AOCI) records unrealized gains or losses from certain investments and appears in the equity section of a bank's balance sheet. The minimal nature of the security portfolio of VisionBank results in an immaterial impact on its regulatory capital position.

VisionBank does not use the Community Bank Leverage Ratio, which is a simplified capital framework made available to some community banks by regulators. Our impression is that the bank does not use the Community Bank Leverage Ratio because they are not required to. We assume it provides no substantive value. Similarly, the bank does not engage in hedging at this time.

Tangible equity measures a bank's capital, excluding intangible assets such as goodwill, which does not add material value to the balance sheet. VisionBank booked around \$7 million of goodwill as a result of its acquisition of Legacy Bank (FFIEC, UBPR). Tangible equity, a metric that excludes this intangible item (goodwill), provides a better measure of the institution's ability to absorb losses during economic downturns.

Growth

Ownership plays a significant role in the growth of VisionBank. The bank is closely held, with the CEO serving as the primary owner. Because

ownership and executive leadership are closely aligned, the strategic direction is influenced by a single leadership vision. According to Tryon, the CEO maintains a competitive growth-oriented approach and emphasizes building a high-performing bank that remains a trusted community partner.



Ownership plays a significant role in the growth of VisionBank. The bank is closely held, with the CEO serving as the primary owner. Because ownership and executive leadership are closely aligned, the strategic direction is influenced by a single leadership vision.

VisionBank was able to strengthen its long-term growth strategy through its acquisition of Legacy Bank. Prior to the acquisition, VisionBank had locations in Boone, Story, Polk, and Dallas counties. Legacy Bank's footprint was stronger on the east side of the Des Moines metro. The combined geographic footprints complemented each other as the cohesive four-county area formed an attractive market in the middle of central Iowa.

Iowa is a largely rural state and most of the growth within its borders has been limited to metropolitan areas. The four-county contiguous

area that VisionBank operates is a mix of rural and metro and is comprised of diverse and growing communities. Central Iowa's economic base, comprised of both a white-collar and blue-collar workforce with various influences such as education and agriculture, has been an advantage to the bank as it helps mitigate economic highs and lows, supporting long term stability for the institution (Tryon, interview).

Story and Polk Counties, home to the Des Moines and Ames metros respectively, are two of the growing metropolitan areas in Iowa. The U.S. Census Bureau reports the Des Moines metro as the fastest-growing major metro in the Midwest. The Des Moines Register recently reported that "No place in Iowa is seeing a rate of growth similar to the Des Moines metro's in the last five years... in fact, 64 of Iowa's 99 counties have had declining growth rates." As a county immediately to the west of Des Moines' home Polk County, Dallas County's explosive growth supports the U.S. Census Bureau's report. Since 2020, Dallas County has been Iowa's fastest growing county and among the fastest growing in the U.S. The Ames metro (in Story County), which houses Iowa State University, came in as the third highest metro growth rate in Iowa (Morelli). These population increases are occurring in VisionBank's defined market, making this area ripe for growth.

Conclusion

VisionBank's strategy of disciplined, purposeful growth demonstrates that it possesses a capital source and can move quickly. The 2022 Legacy Bank acquisition not only complements the

organic growth already underway at VisionBank, it also pairs a bank with deposits in search of loans together with a bank with loans in search of deposits. The bank's evolution highlights a broader theme of growth that extends beyond physical expansion. VisionBank's development reflects growth in strategy, risk management, and its ability to navigate changing economic conditions.

Management leverages its capital and experience to make the most of the target-rich, but competitive, culture dish in which it operates. The bank's target market is located in a growing, diverse marketplace long on opportunity. VisionBank is poised to expand outside the borders of its current market area if opportunity again presents itself. In the meantime, it is working to cultivate an existing customer base rooted in relationships rather than transactions. These customer-based relationships fund the CRE lending that continues to drive growth.

Through research, learning, and communication with bank professionals, the case study concludes that VisionBank is a bank that knows what it is doing and does it well. It has proven it possesses a successful strategy for mindful growth.



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