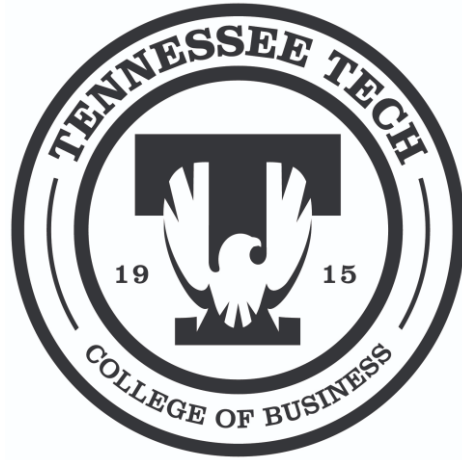


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Analysis of Wilson Bank & Trust

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Table of Contents

Executive Summary 1

I. Wilson Bank & Trust Overview 2

II. Financial Analysis 2

 Asset Growth..... 2

 Loan Composition..... 4

 Earnings 5

 Liquidity..... 8

 Capital 10

III. Interest Rate Environment and Inflation..... 11

IV. Loan Strategy and Decisioning 14

V. Bank Capital Analysis 17

VI. Conclusion 23

VII. Works Cited 24

Executive Summary

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 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.

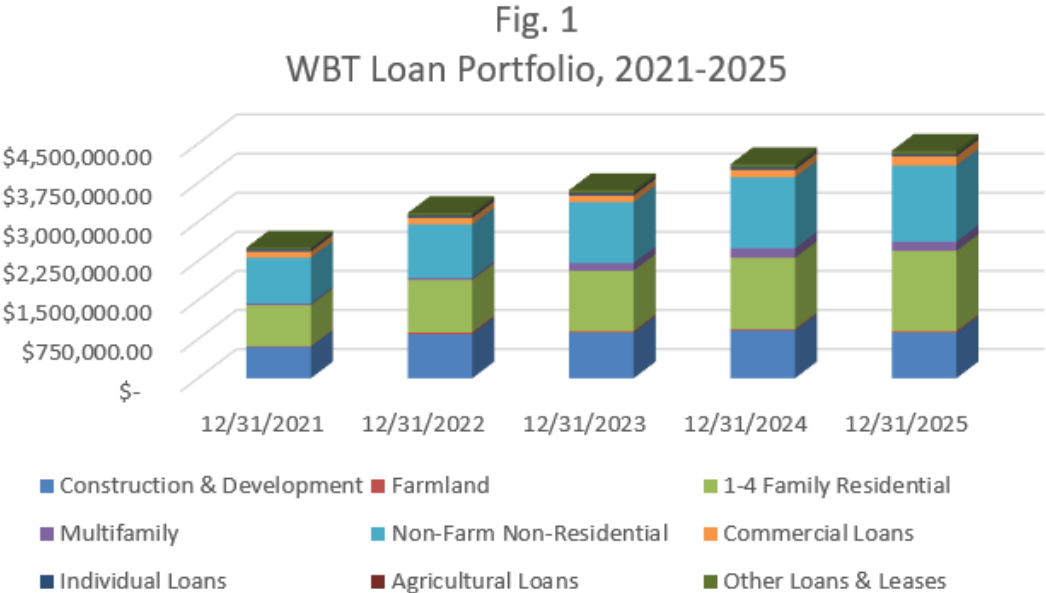
Interest-bearing bank balances increased to \$326 million in 2025 after dipping in 2022, showing the bank is holding more funds in short-term, highly liquid accounts rather than

extending further into longer term securities. 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. 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



Source: Uniform Bank Performance Report, 2021-2025

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 cyclicalities. 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 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 & 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.

| 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.

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. 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 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. 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

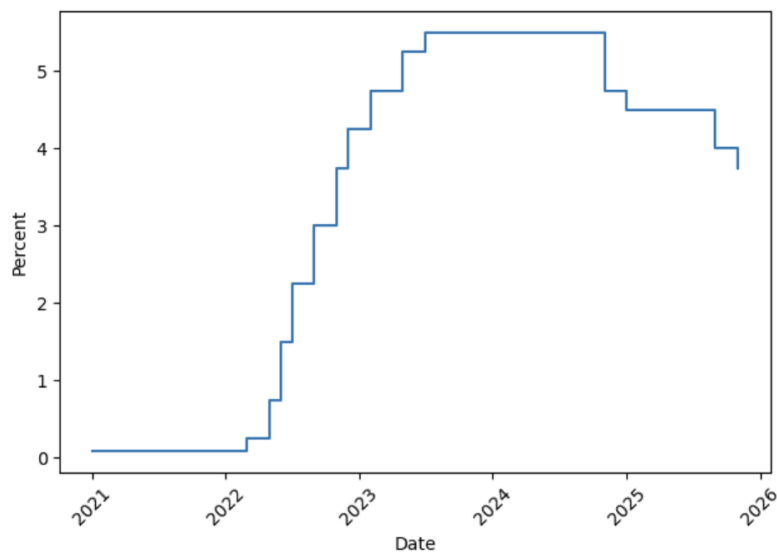
The Federal Reserve (Fed) is the central bank of the United States. An important responsibility of the Fed is conducting the nation's monetary policy according to its dual mandate. Their two goals are promoting maximum employment and maintaining price stability. The Fed can cut its target rate and increase 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 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. 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 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. 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 \$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%.

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.

| 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.

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.

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 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.

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.

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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