UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2022
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission file number 0-20402

WILSON BANK HOLDING COMPANY

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
(615) 444-2265
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $2.00 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $701,124,242.10. For purposes of this calculation, "affiliates" are considered to be the directors and executive officers of the registrant. The market value calculation was determined using $65.55 per share.

Shares of common stock, $2.00 par value per share, outstanding on March 6, 2023 were 11,571,627.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K	Documents from which portions are incorporated by reference
Part II	Portions of the Registrant’s Annual Report to Shareholders for the fiscal year ended December 31, 2022 are incorporated by reference into Items 1, 5, 7, 7A and 8.
Part III	Portions of the Registrant’s Proxy Statement to be filed relating to the Registrant’s Annual Meeting of Shareholders to be held on April 25, 2023 are incorporated by reference into Items 10, 11, 12, 13 and 14.

PART I

Item 1. Business.

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned “Forward-Looking Statements” appearing elsewhere in this Form 10-K and other cautionary statements set forth elsewhere in this report.

General

Wilson Bank Holding Company (the “Company”) was incorporated on March 17, 1992 under the laws of the State of Tennessee. The purpose of the Company was to acquire all of the issued and outstanding capital stock of Wilson Bank and Trust (the “Bank”) and act as a one-bank holding company. On November 17, 1992, the Company acquired 100% of the capital stock of the Bank pursuant to the terms of an agreement and plan of share exchange. The Bank also holds an ownership interest in Encompass Home Loan Lending, LLC ("Encompass"), a company offering mortgage banking services that is 51% owned by Wilson Bank and 49% owned by two home builders operating in Wilson Bank's market areas.

All of the Company’s banking business is conducted through the Bank, a state chartered bank organized under the laws of the State of Tennessee. The Bank, on February 28, 2023, had the following full service banking offices located in the following counties:

Tennessee County	Number of Full Service Banking Offices
Davidson	3
DeKalb	2
Putnam	1
Rutherford	5
Smith	2
Sumner	3
Trousdale	1
Williamson	1
Wilson	11
Total	**29**

Management believes that Wilson County, Trousdale County, Davidson County, Rutherford County, DeKalb County, Smith County, Sumner County, Putnam County and Williamson County offer an environment for continued banking growth in the Company’s target market, which consists of local consumers, professionals and small businesses. The Bank offers a wide range of banking services, including checking, savings, and money market deposit accounts, certificates of deposit and loans for consumer, commercial and real estate purposes. The Bank also offers custodial, trust and through a relationship with a third-party investment advisory form, discount brokerage services to its customers. The Bank does not have a concentration of deposits obtained from a single person or entity or a small group of persons or entities, the loss of which would have a material adverse effect on the business of the Bank.

The Bank was organized in 1987 to provide Wilson County with a locally-owned, locally-managed commercial bank. Since its opening, the Bank has experienced a steady growth in deposits and loans, while expanding into other counties in and around middle Tennessee as a result of providing personal, service-oriented banking services to its targeted market. For the year ended December 31, 2022, the Company reported net earnings of approximately $53.042 million and at December 31, 2022 it had total assets of approximately $4.286 billion.

Financial and Statistical Information

The Company’s audited consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the 2022 Annual Report, are incorporated herein by reference.

Regulation and Supervision

The banking industry is generally subject to extensive regulatory oversight. Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose restrictions on and provide for general regulatory oversight of the Company's and the Bank's operations. These laws and regulations are generally intended to protect depositors and borrowers, and may not necessarily protect shareholders. Many of these laws and regulations have undergone significant change in recent years.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act and the regulations promulgated thereunder implemented far-reaching reforms of major elements of the financial landscape, particularly for larger financial institutions. Many of its most far-reaching provisions do not directly apply to community-based institutions like the Company or the Bank. For instance, provisions that regulate derivative transactions and limit derivatives trading activity of federally-insured institutions, enhance supervision of "systemically significant" institutions, impose new regulatory authority over hedge funds, limit proprietary trading by banks, and phase-out the eligibility of trust preferred securities for Tier 1 capital for institutions with greater than $15.0 billion in total assets are among the provisions that do not directly impact the Company or the Bank either because of exemptions for institutions below a certain asset size or because of the nature their operations.

Failure by the Company or the Bank to comply with the requirements of applicable state and federal banking regulations would negatively impact the Company's results of operations and financial condition and could limit its growth or expansion activities. While the Company cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on it or the Bank, such changes could be materially adverse to the Company's investors.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the "BHC Act") and is registered with the Board of Governors of the Federal Reserve System (the "FRB"). The Company is required to file annual reports and other information regarding its business operations and those of its bank subsidiary with, and is subject to examination by, the FRB. The Bank is chartered under the laws of the State of Tennessee and is subject to the supervision of, and is regularly examined by, the Tennessee Department of Financial Institutions (the "TDFI"). The Bank is also regularly examined by the Federal Deposit Insurance Corporation ("FDIC"), the government entity that insures the Bank's deposits subject to applicable limitations.

Under the BHC Act, a bank holding company may not directly or indirectly acquire ownership or control of more than five percent of the voting shares or substantially all of the assets of any company, including a bank, without the prior approval of the FRB unless the bank holding company already owns a majority of such company. In addition, bank holding companies are generally prohibited under the BHC Act from engaging directly or indirectly in activities other than those of banking or managing or controlling banks, or furnishing services to their subsidiaries, subject to certain exceptions and the modernization of the financial services industry in connection with the passing of the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"). The GLB Act amended the BHC Act and expanded the activities in which bank holding companies and affiliates of banks are permitted to engage. Under the BHC Act, as amended by the GLB Act, the FRB is authorized to approve the ownership by a bank holding company of shares of any company whose activities have been determined by the FRB to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

Subject to various exceptions, the Federal Change in Bank Control Act, together with related regulations, require FRB approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- The bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or
- No other person owns a greater percentage of that class of voting securities immediately after the transaction.

The Company's common stock is registered under Section 12 of the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Under the GLB Act, a "financial holding company" may engage in activities the FRB determines to be financial in nature or incidental to such financial activity or complementary to a financial activity and not a substantial risk to the safety and soundness of such depository institutions or the financial system generally. Generally, such companies may engage in a wide range of securities activities and insurance underwriting and agency activities. The Company has not made application to the FRB to become a "financial holding company."

Under the BHC Act, a bank holding company, which has not qualified or elected to become a financial holding company, is generally prohibited from engaging in or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in nonbanking activities unless, prior to the enactment of the GLB Act, the FRB found those activities to be so closely related to banking as to be a proper incident to the business of banking. Activities that the FRB has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;
- Acquiring or servicing loans;
- Leasing personal property;
- Conducting discount securities brokerage activities;
- Performing selected data processing services;
- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- Underwriting certain insurance risks of the holding company and its subsidiaries.

Despite prior approval, the FRB may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of any of its bank subsidiaries.

Under the Tennessee Bank Structure Act, a bank holding company which controls 30% or more of the total deposits (excluding certain deposits) in all federally insured financial institutions in Tennessee is prohibited from acquiring any bank in Tennessee. With prior regulatory approval, Tennessee law permits banks based in the state to either establish new or acquire existing branch offices throughout Tennessee. As a result of the Dodd-Frank Act, the Bank and other state-chartered or national banks generally may establish new branches in another state to the same extent as banks chartered in the other state may establish new branches in that state.

The Company and the Bank are subject to certain restrictions imposed by the Federal Reserve Act and the Federal Deposit Insurance Act, respectively, on any extensions of credit to the bank holding company or its subsidiary bank, on investments in the stock or other securities of the bank holding company or its subsidiary bank, and on taking such stock or other securities as collateral for loans of any borrower. The Bank takes Company common stock as collateral for borrowings subject to the aforementioned restrictions.

Both the Company and the Bank are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- A bank's loans or extensions of credit, including purchases of assets subject to an agreement to repurchase, to or for the benefit of affiliates;
- A bank's investment in affiliates;
- Assets a bank may purchase from affiliates, except for real and personal property exempted by the FRB;
- The amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates;
- Transactions involving the borrowing or lending of securities and any derivative transaction that results in credit exposure to an affiliate; and
- A bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions that is a credit transaction must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

The Company and the Bank are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

The FRB has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The FRB has issued a policy statement expressing its view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover the cash dividends and only if the rate of earnings retention appears consistent with the company's current and expected future capital needs, asset quality, and overall financial condition. As noted below, FRB regulations limit dividends, stock repurchases and discretionary bonuses to executive officers if a bank holding company's capital is below the level of regulatory minimums plus the applicable capital conservation buffer. FRB policy also provides that a bank holding company should inform the FRB reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in a material adverse change to the bank holding company's capital structure.

The Company is a legal entity separate and distinct from the Bank. Over time, the principal source of the Company's cash flow, including cash flow to pay dividends to the Company's common stock shareholders, will be dividends that the Bank pays to the Company as its sole shareholder. Under Tennessee law, the Company is not permitted to pay dividends if, after giving effect to such payment, the Company would not be able to pay its debts as they become due in the normal course of business or the Company's total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if the Company were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, the Company's board of directors must consider the Company's current and prospective capital, liquidity, and other needs.

Statutory and regulatory limitations also apply to the Bank's payment of dividends to the Company. Under Tennessee law, the Bank in any one calendar year can only pay dividends to the Company in an amount equal to or less than the total amount of its net income for that calendar year combined with retained net income for the preceding two years. Payment of dividends in excess of this amount requires the consent of the Commissioner of the TDFI.

The payment of dividends by the Bank and the Company may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized.

Under the Dodd-Frank Act, and previously under FRB policy, the Company is required to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support can be required at times when it would not be in the best interest of the Company's shareholders or creditors to provide it. Further, if the Bank's capital levels were to fall below certain minimum regulatory guidelines, the Bank would need to develop a capital plan to increase its capital levels and the Company would be required to guarantee the Bank's compliance with the capital plan in order for such plan to be accepted by the federal regulatory agency. In the event of bankruptcy, any commitment by the Company to a federal regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Both the Company and the Bank are required to comply with the capital adequacy standards established by the FRB, in the Company's case, and the FDIC, in the case of the Bank. The FRB has established a risk-based and a leverage measure of capital adequacy for bank holding companies, like the Company. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the FRB for bank holding companies. In addition, the FDIC and TDFI may require state banks that are not members of the FRB, like the Bank, to maintain capital at levels higher than those required by general regulatory requirements. Tennessee state banks are required to have the capital structure that the TDFI deems adequate, and the Commissioner of the TDFI as well as federal regulators may require a state bank (or its holding company in the case of federal regulators) to increase its capital levels to the point deemed adequate by the Commissioner or such other federal regulator before granting approval of a branch application, merger application or charter amendment.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

In July 2013, the FRB and the FDIC approved final rules that substantially amended the regulatory capital rules applicable to the Bank and the Company, effective January 1, 2015. The final rules implemented the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final capital rules implementing Basel III, among other things, included new minimum risk-based capital and leverage ratios for banks and their holding companies. Moreover, these rules refined the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010 no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets as of December 31, 2009, trust preferred securities issued prior to that date, continue to count as Tier 1 capital subject to certain limitations. Tier 2 capital generally consists of perpetual preferred stock and related surplus not meeting the Tier 1 capital definition, qualifying subordinated debt, qualifying mandatorily convertible debt securities, and a limited amount of the allowance for credit losses.

The minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a Tier 1 common equity ("CET1") capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also established a "capital conservation buffer" of 2.5% (consisting of CET1 capital) above the regulatory minimum capital ratios, and have resulted in the following minimum ratios: (i) a CET1 capital ratio of 7%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under the Basel III capital rules, CET1 capital consists of common stock and paid in capital and retained earnings. CET1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items specified in the Basel III capital rules. The Basel III capital rules also provide for a number of deductions from and adjustments to CET1 capital. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and investments in non-consolidated financial institutions be deducted from CET1 capital to the extent that any one such category exceeds 25% of CET1 capital.

The final rules implementing Basel III allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company and the Bank each opted out of this requirement.

Additionally, the FDICIA establishes a system of prompt corrective action ("PCA") to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into one of which all institutions are categorized. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category (excluding the Basel III capital conservation buffer amounts), as set forth in the following table:

	CET1 capital ratio	Total risk-based capital ratio	Tier 1 risk-based capital ratio	Tier 1 leverage ratio
Well capitalized	6.5%	10%	8%	5%
Adequately capitalized	4.5%	8%	6%	4%
Undercapitalized	< 4.5%	< 8%	< 6%	< 4%
Significantly undercapitalized	< 3%	< 6%	< 4%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a depository institution or its holding company by its regulators could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits, limitations on the ability to hire senior executive officers or add directors without prior approval and other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

A state regulated bank which is not a member of the Federal Reserve, like the Bank, is required to be "well-capitalized" under PCA in order to take advantage of expedited procedures on certain applications, such as branches and mergers, and to accept and renew brokered deposits without further regulatory approval.

The Basel III capital rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to the rules impacting the Company's and the Bank's determination of risk-weighted assets include, among other things:

- applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans;
- assigning a 150% risk weight to the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status;
- applying a 250% risk weight to any non-deducted mortgage servicing rights;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (previously set at 0%);
- providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction; and
- eliminating the 50% cap on the risk weight for OTC derivatives.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets ("RWA"), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Under the Basel framework, these standards are expected to generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company or the Bank. The impact of Basel IV on the Company and the Bank will depend on the manner in which it is implemented by the federal bank regulators to institutions of the size and risk profile of the Company and the Bank.

In 2018, the U.S. Congress passed, and the President signed into law, the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "Growth Act"). The Growth Act, among other things, required the federal banking agencies to issue regulations allowing community bank organizations with total assets of less than \$10.0 billion and limited amounts of certain assets and off-balance sheet exposures to access a simpler capital regime focused on a bank's Tier 1 leverage capital levels rather than risk-based capital levels that are the focus of the capital rules issued under the Dodd-Frank Act implementing Basel III.

In October 2019, the federal banking agencies approved final rules that, under the Growth Act, exempt from the risk-based and leverage capital requirements of the capital rules issued under the Dodd-Frank Act any qualifying community bank and its holding company that have leverage ratios, calculated as Tier 1 capital over average total consolidated assets (the "Community Bank Leverage Ratio"), of greater than 9 percent and hold 25% or less of total assets in off-balance sheet exposures and 5% or less of total assets in trading assets and liabilities. Tier 1 capital for purposes of calculating the Community Bank Leverage Ratio is defined as total equity less accumulated other comprehensive income, less goodwill, less all other intangible assets, less deferred tax assets that arise from net operating loss and tax carryforwards, net of any related valuation allowances. Off-balance sheet exposures include, among other items, unused portions of commitments, securities lent or borrowed, credit enhancement and financial standby letters of credit. A qualifying community banking organization and its holding company that have chosen the proposed framework are no longer required to calculate the generally applicable risk-based and leverage capital requirements. Such a bank is also considered to have met the capital ratio requirements to be well capitalized for the agencies' PCA rules provided it has a Community Bank Leverage Ratio greater than 9 percent. The final rules also established a grace period of two fiscal quarters during which a qualifying financial institution that temporarily failed to meet any of the qualifying criteria for use of the Community Bank Leverage Ratio would nonetheless be considered well capitalized so long as the institution maintained a Community Bank Leverage Ratio of greater than 7%.

Pursuant to the CARES Act, the required Community Bank Leverage Ratio was lowered to 8% until the earlier of December 31, 2020 and 60 days following the end of the national emergency declared with respect to COVID-19. The federal regulators when establishing the Community Bank Leverage Ratio, also established a grace period of two fiscal quarters during which a qualifying financial institution that temporarily failed to meet any of the qualifying criteria for use of the Community Bank Leverage Ratio would nontheless be considered well capitalized so long as the institution maintained a Community Bank Leverage Ratio of greater than 7.0%. Effective November 9, 2020, the federal banking regulatory agencies approved rules raising the Community Bank Leverage Ratio to 8.5% for 2021 and 9% thereafter. The regulatory agencies also modified the two-quarter grace period to require a Community Bank Leverage Ratio of 7.5% or greater in 2021 and 8% thereafter.

The Company and the Bank each opted to take advantage of this rule effective January 1, 2020. During the year ended December 31, 2021, the Company determined its total off balance sheet exposures, calculated in accordance with applicable regulations, exceeded 25% of its total consolidated assets during the period of time it had opted to utilize the Community Bank Leverage Ratio, and as a result, neither the Company nor the Bank was able to take advantage of the Community Bank Leverage Ratio rules, including as of December 31, 2021, in each case, applying the Basel III capital guidelines that were applicable to it as a result of its not qualifying for the Community Bank Leverage Ratio.

Pursuant to the CARES Act, lenders, like the Bank, were given the option to defer the implementation of ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("CECL") until 60 days after the declaration of the end of the public health emergency related to the COVID19 pandemic or December 31, 2020, whichever came first. The Coronavirus Relief Act subsequently gave lenders the option to further defer the implementation of CECL until January 1, 2022. In addition, the Securities and Exchange Commission ("SEC") staff has stated that opting to delay the implementation of CECL shall be considered to be in accordance with generally accepted accounting principles. As a result, the Bank elected to delay implementation of CECL until January 1, 2022.

In February 2019, the federal bank regulatory agencies issued a final rule (the "2019 CECL Rule") that revised certain capital regulations to account for changes to credit loss accounting under U.S. generally accepted accounting principles ("GAAP"). The 2019 CECL Rule included a transition option that allows banking organizations to phase in, over a three-year period, the day-one adverse effects of adopting a new accounting standard related to the measurement of CECL on their regulatory capital ratios (three-year transition option). In March 2020, the federal bank regulatory agencies issued an interim final rule that maintains the three-year transition option of the 2019 CECL Rule following the adoption of CECL. If adopted, the cumulative amount of transition adjustments will become fixed at the start of the three-year period, and will be phased out of the regulatory capital calculations evenly over such period, with 75% recognized in year one, 50% recognized in year two, and 25% recognized in year three. The Company did not take advantage of this option.

Banking organizations must have appropriate capital planning processes, with proper oversight from the board of directors. Accordingly, pursuant to a separate, general supervisory letter from the FRB, bank holding companies are expected to conduct and document comprehensive capital adequacy analyses prior to the declaration of any dividends (on common stock, preferred stock, trust preferred securities or other Tier 1 capital instruments), capital redemptions or capital repurchases. Moreover, the federal banking agencies have adopted a joint agency policy statement, noting that the adequacy and effectiveness of a bank’s interest rate risk management process and the level of its interest rate exposures are critical factors in the evaluation of the bank’s capital adequacy. A bank with material weaknesses in its interest rate risk management process or high levels of interest rate exposure relative to its capital will be directed by the relevant federal banking agencies to take corrective actions.

The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. Under the Dodd-Frank Act, the FDIC adopted regulations that base deposit insurance assessments on total assets less capital rather than deposit liabilities and include off-balance sheet liabilities of institutions and their affiliates in risk-based assessments.

The Dodd-Frank Act increased the basic limit on federal deposit insurance coverage to $250,000 per depositor at each insured depository institution. The Dodd-Frank Act also repealed the prohibition on paying interest on demand transaction accounts, but did not extend unlimited insurance protection for these accounts.

The FDIC may terminate its insurance of deposits if it finds that a depository institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The Financial Reform, Recovery and Enforcement Act of 1989 provides that a holding company's controlled insured depository institutions are liable for any loss incurred by the FDIC in connection with the default of, or any FDIC-assisted transaction involving, an affiliated insured bank or savings association.

The maximum permissible rates of interest on most commercial and consumer loans made by the Bank are governed by Tennessee's general usury law and the Tennessee Industrial Loan and Thrift Companies Act ("Industrial Loan Act"). Certain other usury laws affect limited classes of loans, but the Company believes that the laws referenced above are the most significant. Tennessee's general usury law authorizes a floating rate of 4% per annum over the average prime or base commercial loan rate, as published by the FRB from time to time, subject to an absolute 24% per annum limit. The Industrial Loan Act, which is generally applicable to most of the loans made by the Bank in Tennessee, authorizes an interest rate of up to 24% per annum and also allows certain loan charges, generally on a more liberal basis than does the general usury law.

The Bank's loan operations are also subject to federal laws, rules and regulations applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms and costs to consumer borrowers giving consumers the right to cancel certain credit transactions, and defining requirements for servicing consumer loans secured by a dwelling;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies;
- Service Members' Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in active military service;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws;
- Electronic Funds Transfer Act, which regulates fees and other terms of electronic funds transactions;
- Fair and Accurate Credit Transactions Act of 2003, which permanently extended the national credit reporting standards of the Fair Credit Reporting Act, and permits consumers, including the Bank's customers, to opt out of information sharing among affiliated companies for marketing purposes and requires financial institutions, including banks, to notify a customer if the institution provides negative information about the customer to a national credit reporting agency or if the credit that is granted to the customer is on less favorable terms than those generally available; and
- the Real Estate Settlement and Procedures Act of 1974, which affords consumers greater protection pertaining to federally related mortgage loans by requiring, among other things, improved and streamlined good faith estimate forms including clear summary information and improved disclosure of yield spread premiums.

The Bank's deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities (including with respect to the permissibility of overdraft charges) arising from the use of automated teller machines and other electronic banking services;
- the Truth in Savings Act, which requires depository institutions to disclose the terms of deposit accounts to consumers;
- the Expedited Funds Availability Act, which requires financial institutions to make deposited funds available according to specified time schedules and to disclose funds availability policies to consumers; and
- the Check Clearing for the 21st Century Act ("Check 21"), which is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. Check 21 created a new negotiable instrument called a substitute check and permits, but does not require, banks to truncate original checks, process check information electronically, and deliver substitute checks to banks that wish to continue receiving paper checks.

The Office of Foreign Assets Control ("OFAC"), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts; owned or controlled by, or acting on behalf of target countries, and narcotics traffickers. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transactions on the account. The Bank has appointed a compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons. Failure to comply with these sanctions could have serious financial, legal and reputational consequences. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Pursuant to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot

Act"), as amended, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act (the "BSA") and its implementing regulations and parallel requirements of the federal banking regulators require the Bank to maintain a risk-based anti-money laundering ("AML") program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activity. The Patriot Act substantially broadened the scope of AML laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions, including banks, are required under final rules implementing Section 326 of the Patriot Act to establish procedures for collecting standard information from customers opening new accounts and verifying the identity of these new account holders within a reasonable period of time. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must take certain steps to assist government agencies in detecting and preventing money laundering and to report certain types of suspicious transactions. In May 2016, Treasury's Financial Crimes Enforcement Network issued rules under the BSA requiring financial institutions to identify the beneficial owners who own or control certain legal entity customers at the time an account is opened and to update their AML compliance programs to include risk-based procedures for conducting ongoing customer due diligence. In January 2021, the Anti-Money Laundering Act of 2020 ("AMLA"), which amends the BSA, was enacted as part of the National Defense Authorization Act for Fiscal Year 2021. Among other things, the AMLA codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; and expands enforcement and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections. The Bank currently has policies and procedures in place designed to comply with the Patriot Act, the BSA and the other regulations targeting terrorism and money laundering, and it will modify these policies and procedures as necessary to comply with the changes reflected in the AMLA and its future implementing regulations.

The Community Reinvestment Act of 1977 (the "CRA") requires that, in connection with examinations of financial institutions within their respective jurisdictions, the FRB and the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods consistent with safe and sound operations of the institutions. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. Additionally, banks are required to publicly disclose the terms of various CRA-related agreements. The Bank received a "satisfactory" CRA rating from its primary federal regulator on its most recent regulatory examination.

In December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") jointly proposed rules that would have significantly changed existing CRA regulations. In May 2020, the OCC issued its final CRA rule, effective October 1, 2020, however in December 2021, the OCC revoked the newly issued rule and largely reverted to its prior CRA rule. In May 2022, the FDIC and the Office of the Comptroller of the Currency ("OCC") issued a joint proposal that seeks to, among other things, (i) expand access to credit, investment and basic banking services in low- and moderate-income communities, (ii) adapt to changes in the banking industry, including internet and mobile banking by modernizing assessment areas while maintaining a focus on branch-based areas, (iii) provide greater clarity, consistency and transparency in the application of the regulations, and (iv) tailor performance standards to account for differences in bank size, business model, and local conditions. The Company will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to its financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

The Bank is also subject to fair lending requirements and reporting obligations involving its home mortgage lending operations. Fair lending laws prohibit discrimination in the provision of banking services, and bank regulators have increasingly focused on the enforcement of these laws. Fair lending laws include the Equal Credit Opportunity Act of 1974 and the Fair Housing Act of 1968, which prohibit discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender and religion. The Bank may be liable, either through administrative enforcement or private civil actions, for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice ("DOJ") for investigation. Pursuant to a Memorandum of Understanding, the DOJ and (" the CFPB") have agreed to share information, coordinate investigations and generally commit to strengthen their coordination efforts. The Bank is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

State and federal banking regulators have issued various policy statements and, in some cases, regulations, emphasizing the importance of technology risk management and supervision. In March 2022, the SEC proposed rules that would require disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance. On November 18, 2021, the federal banking agencies issued a joint final rule that requires a banking organization to notify their primary federal regulator within 36 hours of becoming aware that a significant "computer-security incident" has occurred. In general, a banking organization must notify its primarily federal regulator for incidents that have materially disrupted, degraded or impaired – or are reasonably likely to materially disrupt, degrade or impair – (i) the ability of such banking organization to carry out banking operations and activities or deliver banking products and services, (ii) such banking organization's results of operations, or (iii) the financial stability of the financial sector. The final rule also requires a bank service provider to notify each of its affected customers as soon as possible when it determines that it has experienced a computer-security incident that has caused, or is reasonably likely to cause, a material service disruption for four or more hours. Compliance with the final rule was required by May 1, 2022. This new rule and the earlier such policy statements and regulations indicate that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. A financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack.

Federal statutes and regulations, including the GLB Act and the Right to Financial Privacy Act of 1978, limit the Company's and the Bank's ability to disclose non-public information about consumers, customers and employees to nonaffiliated third parties. Specifically, the GLB Act requires disclosure of the Company's privacy policies and practices relating to sharing non-public information and enables retail customers to opt out of the institution's ability to share information with unaffiliated third parties under certain circumstances. The GLB Act also requires the Company and the Bank to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information and, if applicable state law is more protective of customer privacy than the GLB Act, financial institutions, including the Bank, will be required to comply with such state law. An increasing number of state laws and regulations have been enacted in recent years to implement privacy and cybersecurity standards and regulations, including data breach notification and data privacy requirements. This trend of state-level activity is expected to continue to expand, requiring continual monitoring of developments in the states in which the Company's customers are located and ongoing investments in the Company's information systems and compliance capabilities.

Other laws and regulations impact the Company’s and the Bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In connection with the regulations governing the privacy of consumer financial information, the federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and programs to protect such information. In addition, the Bank has established a privacy policy that it believes promotes compliance with the federal requirements.

Examination and enforcement by the state and federal banking agencies, including the CFPB, and other such enforcement authorities, for non-compliance with consumer protection laws and their implementing regulations have increased and become more intense. Due to these heightened regulatory concerns, including increased enforcement of the CRA by the federal banking agencies, and the powers and authority of the CFPB, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community. Federal banking regulators have significantly increased their focus on compliance by banks with existing regulations, including those that seek to prevent unfair and deceptive trade practices, under the Biden administration, including a focus on deposit and other service charges and fees banks charge customers who overdraw their accounts or have checks or other items presented when a customer’s account does not have sufficient funds to cover those checks or other items.

The Company’s securities are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As such, the Company is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. As a public company, the Company is also subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, increased requirements for board audit committees and their members, and enhanced requirements relating to disclosure controls and procedures and internal control over financial reporting.

New regulations and statutes are regularly proposed that contain wide-ranging provisions for altering the structures, regulations and competitive relationships of the nation’s financial institutions. The Company cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which the Company’s business may be affected by any new regulation or statute or change in applicable rules or regulations. Even if modifications are enacted to existing or proposed regulations, including raising certain assets thresholds above those currently in place, the Company may continue to face enhanced scrutiny from its regulators who may expect it to continue to comply with the current, more stringent requirements as part of their safety and soundness and compliance examinations and general oversight of the Company’s operations.

Competition

The banking business is highly competitive. The Company’s primary market areas consist of Wilson, Trousdale, Davidson, Rutherford, DeKalb, Smith, Sumner, Putnam and Williamson Counties in Tennessee. The Company competes with numerous commercial banks and savings institutions with offices in these market areas. In addition to these competitors, the Company competes for loans with insurance companies, regulated small loan companies, credit unions, and certain government agencies. The Company also competes with numerous companies and financial institutions engaged in similar lines of business, such as mortgage banking companies, brokerage companies and non-bank lending companies. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's non-bank competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Bank can. Continued consolidation in the financial services industry, due in part to the regulatory changes made under the Growth Act, including the increased asset threshold for required stress testing, has contributed to increases in the number of large competitors the Company faces in its markets. Some of the Company’s competitors have significantly greater financial resources and offer a greater number of branch locations. To offset this advantage of its larger competitors, the Company believes it can attract customers by providing loan and management decisions at the local level and by being more responsive to customers than some of its larger competitors. The Company does not experience significant seasonal trends in its operations.

Monetary Policies

The results of operations of the Bank and the Company are affected by the policies of the regulatory authorities, particularly the FRB. An important function of the FRB is to regulate the national supply of bank credit in order to combat recession and curb inflation. Among the instruments used to attain these objectives are open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements relating to member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates charged on loans and paid for deposits. Policies of the regulatory agencies have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. The effect of such policies upon the future business and results of operations of the Company and the Bank cannot be predicted with accuracy.

Human Capital

As of February 28, 2023, the Company and the Bank collectively employed 561 full-time equivalent employees. As an independent, community-based bank, the Bank strives to provide friendly, professional, personal service from a caring staff, while offering an extensive assortment of financial services to its customers. As such, the Bank’s employees are central to the successful execution of its business strategy.

The Bank strives to recruit, attract and retain employees and future leaders whose skills and experience advance the mission of the Bank. The Bank's Human Resources Department works closely with its Training Department, managers and mentors to ensure a positive start for new employees. With regard to talent development, the Bank works to identify future leaders within the Bank to develop the skills necessary for career growth. The Bank is committed to professional development for all of its employees through internal and external training programs, mentorships and dedicated leadership workshops. In 2022, an employee engagement survey was conducted with a response rate of 91%. The survey resulted in an employee engagement score of 83% and an employee satisfaction rate of 87%. Although these are considered strong scores by industry observers, the Bank continually works to improve its relations with its employee and those employees’ experiences. In 2022, the Bank's retention rate was 84%.

The Bank strives to hire, train and develop a diverse workforce because it believes doing so allows it to better meet the financial needs of the diverse members of the communities the Bank serves. The Bank believes that all employees should feel a sense of belonging where they work and that collaboration among employees of diverse backgrounds improves the day-to-day experience of all of its employees.

The health and safety of the Bank’s employees has been and continues to be a top priority.

In addition to the substantial investments in employee professional development and safety, the Bank's benefits and compensation programs are designed to ensure it recruits and retains top talent. The Bank offers employees a comprehensive health benefits package, provides a 401(k) match of $0.50 on the dollar up to 8% of an employee's contributions to encourage retirement savings, and structures its bonus program for officers to create meaningful performance-based incentives. The Bank believes that these programs, combined with an intentional focus to create a positive, values-based culture will help to ensure that the Bank retains its status as a leading community bank in the markets that it serves.

Serving the needs of all of the members of the Company's communities also remains a vital part of the Bank's and the Company's mission. Besides continuing its annual donations, fundraising and sponsorships in 2022, the Bank's departments and employees were able to support local nonprofit organizations of their choosing through the We Believe Together giving program – including hundreds of hands-on volunteer hours with the recipient organizations that could permit them. The Bank created the We Believe Together Program in 2017 as a way for employees to contribute work hours and earn matching contribution funds from the Bank for local charities. The Bank also actively participates in the School Bank Program which allows elementary students to become familiar with banking at a young age. The Company also sponsors popular community events in its market areas, including the annual Southern Home & Garden Expo and the Wilson County Fair.

Environmental Matters

There is an increasing concern among individuals and governments over the risks of climate change and related environmental sustainability and the Company's management and board is continuing to monitor developments in this area and evaluate those things that the Company can do to aid in addressing these concerns. To date, the Company has taken steps to reduce the amount of paper it uses by encouraging clients to receive digital statements. The use of e-signatures by clients has also increased in recent years, further reducing the amount of paper that the Company utilizes in its operations. Expansion of online and digital banking tools in recent years has allowed the Bank to further reduce the number of trips that customers have to make in person to branch locations. These digital and online offerings include remote deposit and mobile banking applications that allow customers to deposit checks without the need for physical delivery to the Bank's branches.

Information about our Executive Officers

The following information regarding the Company's executive officers is included in Part I of this report in lieu of being included in the Company's definitive proxy materials to be filed in connection with the Company's 2023 Annual Meeting of Shareholders (the "2023 Annual Meeting of Shareholders").

John McDearman (53) – Mr. McDearman is President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank. Mr. McDearman joined the Bank in November of 1998. He has held positions in branch administration and commercial lending. From November 2002 to January 2009, he held the position of Senior Vice President-Central Division of the Bank. From January 2009 to January 2018, he served as Executive Vice President of the Bank and from January 2018 to January 1, 2020, he served as President of the Bank. Prior to joining the Bank in 1998, he was Assistant Vice President, Banking Center Manager for NationsBank, Chattanooga, Tennessee, a position he held from 1994 to 1998. Mr. McDearman also serves on the Boards of Directors of the Company and the Bank, including as the Chairman of the Bank's Board of Directors.

John Foster (50) – Mr. Foster joined the Bank in January 1998. He has held positions in branch administration and consumer lending. From August 2017 to July 2018, Mr. Foster served as Senior Vice President/Head of Consumer Lending for the Bank, after having served as a Senior Vice President of the Bank from January 2013 to August 2017. From July 2018 to April 2019, he served as Executive Vice President/Small Business & Consumer Lending for the Bank. From April 2019 to January 1, 2020, he served as the Bank's Executive Vice President/Chief Consumer/Commercial Banking Officer. Currently, he serves as President of the Bank, a position he has held since January 1, 2020.

Lisa Pominski (58) – Ms. Pominski is Executive Vice President and the Chief Financial Officer of the Bank and the Company, positions she has held since January 2017 and September 1997, respectively, and is the Company's principal financial and accounting officer. Ms. Pominski has held several positions with the Bank including Asst. Cashier, Asst. Vice President and Senior Vice President since the Bank's formation in May of 1987. Prior to 1987 Ms. Pominski was employed by People's Bank, Lebanon, Tennessee.

Clark Oakley (53) – Mr. Oakley joined the Bank in October of 1995. He has held positions in mortgage origination and branch administration. From 2008 to 2016 he held the position of Senior Vice President- Eastern Division of the Bank, and from January 1, 2017 until December 31, 2017, he served as Executive Vice President and Chief Operating Officer of the Bank. Currently he serves as Executive Vice President and Chief Operating Officer of the Bank. Prior to joining the Bank, Mr. Oakley was most recently employed at Union Planters Bank in Alexandria, Tennessee. His primary duties include overseeing the operations of the Company and the Bank, including information technology and electronic banking.

Taylor Walker (38) – Mr. Walker has served as the Bank's Chief Credit Officer since January 1, 2023. Prior to this he was employed by the Bank as Executive Vice President – Head of Commercial Lending since April 2022. Prior to that he served as Senior Vice President – Head of Commercial Lending from January 2021 through March 2022. From January 2017 through December 2022, Mr. Walker served as the Bank's Senior Vice President and North Region President. Before that he was a Vice President and Business Development Manager from January 2016 through December 2016 and a Vice President and Office Manager from August 2012 through December 2015.

Available Information

The Company's headquarters is located at 623 West Main Street, Lebanon, Tennessee where its phone number is (615) 444-2265. Its Internet website is http://www.wilsonbank.com. Please note that the Company's website address is provided as an inactive textual reference only. The Company makes available free of charge on its website the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after it files or furnishes such materials to the SEC. The information provided on the Company's website is not part of this report, and is therefore not incorporated by reference herein unless such information is otherwise specifically referenced elsewhere in this report.

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Item 1A. Risk Factors.

Investing in the Company's common stock involves various risks which are particular to the Company, its industry and its market areas. Several risk factors regarding investing in the Company's common stock are discussed below. If any of the following risks were to occur, the Company may not be able to conduct its business as currently planned and its financial condition or operating results could be materially and negatively impacted. These matters could cause the value of the Company's common stock to decline in future periods.

Summary Risk Factors

The Company's business is subject to a number of risks, including risks that may prevent the Company from achieving its business objectives or may adversely affect its business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to:

Interest Rate Risks

- The Company's net interest margin, and consequently its net earnings, are significantly affected by interest rate levels and movements in short-term rates as well as competitive pressures the Company faces.
- The Company's hedging strategy may not be effective, including in the event that interest rates move in unanticipated manners.
- The performance of the Company's investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

Credit and Lending Risks

- The Company's loan portfolio includes a significant amount of real estate loans, including construction and development loans, which loans have a greater credit risk than residential mortgage loans.
- The Company has significant credit exposure to borrowers that are homebuilders and land developers and the Company also targets small businesses.
- Changes in financial accounting and reporting standards, or the interpretation of those standards, like the new CECL standard effective for the Company on January 1, 2022, could affect the way the Company accounts for its operations and these changes could have a material adverse effect on the Company's financial condition and results of operations.
- An inadequate allowance for credit losses would negatively impact the Company's results of operations and financial condition.
- The Company's accounting estimates and risk management processes rely on analytical and forecasting models and tools.
- The Company could sustain losses if its asset quality declines.
- Environmental liability associated with commercial lending could result in losses.
- The Company depends on the accuracy and completeness of information about customers.
- The Company may be subject to claims and litigation asserting lender liability.

Liquidity and Capital Risks

- Liquidity risk could impair the Company's ability to fund its operations and jeopardize its financial condition.
- Excess levels of liquidity could negatively impact the Company's earnings.
- The ability to maintain required capital levels and adequate sources of funding and liquidity could be impacted by changes in the capital markets and deteriorating economic and market conditions.

Operational and Market Risks

- Negative developments in the U.S. and local economies in the Company's market areas may adversely impact the Company's results in the future.
- The Company is geographically concentrated in Wilson County, Tennessee and its surrounding counties and changes in local economic conditions could impact its profitability.
- The Company's business may suffer if there are significant declines in the value of real estate.
- The Company has sought to expand its franchise by developing new markets or expanding its operations in existing markets and may continue to do so in future years.
- The Company is dependent on its information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on its financial condition.
- Competition from financial institutions and other financial service providers may adversely affect the Company's profitability.
- The Company's key management personnel may leave at any time.
- An ineffective risk management framework could have a material adverse effect on the Company's strategic planning and its ability to mitigate risks and/or losses and could have adverse regulatory consequences.
- The Company's selection of accounting policies and methods may affect its reported financial results.
- The Company currently invests in bank owned life insurance and may continue to do so in the future.
- The Company's business reputation and relationships are important and any damage to them could have a material adverse effect on its business.
- The Company's business is dependent on technology, and an inability to invest in technological improvements may adversely affect the Company's results of operations and financial condition.
- The Company is subject to regulatory oversight and certain litigation, and its expenses related to this regulatory oversight and litigation may adversely affect its results.
- The soundness of other financial institutions, including those with whom the Company has engaged in transactions, could adversely affect the Company.

- Natural disasters and the effects of a changing climate may adversely affect the Company and its customers.
- The Company's asset valuations may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to asset valuations that may materially and adversely affect its results of operations or financial condition.
- If the Company fails to maintain an effective system of internal control over financial reporting, it may not be able to accurately report its financial results.

Regulatory and Compliance Risks

- Federal or state legislation or regulation may increase the Company's expenses and reduce earnings.
- The Company, as well as the Bank, operates in an increasingly highly regulated environment and each is supervised and examined by various federal and state regulatory agencies who may adversely affect their ability to conduct business.
- The Company and the Bank must maintain adequate regulatory capital to support their business objectives.
- The Company is required to act as a source of financial and managerial strength for the Bank in times of stress.
- Non-compliance with the USA Patriot Act, the Bank Secrecy Act or other laws and regulations could result in fines or sanctions against the Company or the Bank.

Risks Relating to the Company's Securities

- The Company's common stock is thinly traded, and recent prices may not reflect the prices at which the stock would trade in an active trading market.
- The Company's ability to declare and pay dividends is limited.
- An investment in the Company's common stock is not an insured deposit.

Interest Rate Risks

The Company's net interest margin, and consequently its net earnings, are significantly affected by interest rate levels and movements in short-term rates as well as competitive pressures the Company faces.

The Company's profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans and investment securities and other interest-earning assets and interest expense paid on deposits and other borrowings. The absolute level of interest rates as well as changes in interest rates or that affect the yield curve may affect the Company's level of interest income, the primary component of its gross revenue, as well as the level of its interest expense. Interest rate fluctuations are caused by many factors which, for the most part, are not under the Company's direct control. For example, national monetary policy plays a significant role in the determination of interest rates, as is currently the case. Additionally, competition, including competitor pricing, and the resulting negotiations that occur with the Company's customers also impact the rates the Company collects on loans and the rates it pays on deposits as does its liquidity position and then-current loan demand and its orientation toward loan growth. In addition, changes in the method of determining or the elimination of the London Interbank Offered Rate (LIBOR) or other reference rates, or uncertainty related to such potential changes, may adversely affect the value of reference rate-linked debt securities that the Company holds or issues or its variable pricing loans, which could further impact the Company's interest rate spread.

Changes in the level of interest rates also may negatively affect the Company's ability to originate real estate loans, the value of its assets (as is currently the case with the Company's investment securities portfolio) and its ability to realize gains from the sale of its assets, all of which could ultimately affect the Company's results of operations and financial condition. A decline in the market value of the Company's assets may limit the Company's ability to borrow funds or otherwise create issues for the Company should its liquidity levels decline. As a result, the Company could be required to sell some of its loans and investments under adverse market conditions, upon terms that are not favorable to the Company, in order to maintain its liquidity. If those sales are made at prices lower than the amortized costs of the investments, which is the case with a portion of the Company's investment securities portfolio at this time, the Company will incur losses. Following changes in the general level of interest rates, the Company's ability to maintain a positive net interest spread and to increase its net interest margin is dependent on its ability to increase (in a rising rate environment) or maintain or minimize the decline in (in a falling rate environment) its loan offering rates, minimize increases on its deposit rates in a rising rate environment or promptly reduce the rates it pays on deposits in a falling rate environment, and maintain an acceptable level and mix of funding. Although at times the Company has implemented strategies it believes will reduce the potential effects of changes in interest rates on its net interest income, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect the Company's net income, net interest income and net interest margin, asset quality, loan origination volume, liquidity, and overall profitability. The Company cannot assure you that it can minimize its interest rate risk.

As interest rates change, the Company expects that it will periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities, meaning that either its interest-bearing liabilities (usually deposits and borrowings) will be more sensitive to changes in market interest rates than its interest-earning assets (usually loans and investment securities), or vice versa. In either event, if market interest rates should move contrary to the Company's position, this "gap" may work against the Company, and its results of operations and financial condition may be negatively affected. The Company attempts to manage its risk from changes in market interest rates by adjusting the rates, maturity, repricing characteristics, and balances of the different types of interest-earning assets and interest-bearing liabilities. Interest rate risk management techniques are not exact. The Company employs the use of models and modeling techniques to quantify the levels of risk to net interest income, which inherently involve the use of assumptions, judgments, and estimates. While the Company strives to ensure the accuracy of its modeled interest rate risk profile, there are inherent limitations and imprecisions in this determination and actual results may differ.

Short-term interest rates rose significantly in 2022 and are expected to continue to rise during at least the first half of 2023. In a rising rate environment the Bank's ability to increase the rates it charges on loans faster than the rates it pays on deposits will be critical to maintaining or expanding the Company's net interest margin. During the rising rate environment in 2022 (most notably in the fourth quarter of 2022), the rates the Bank paid on its deposits increased began to increase, which had an increasingly negative impact on the Company's net interest margin over the year. The Company expects deposit costs to continue to increase during the first half of 2023. In addition, many of the Bank's variable rate loans have loan floors that limit its ability to capture the full benefit of initial increases in short-term rates, though a significant portion of these floors have been exceeded at this point.

There exists at this time much uncertainty in the interest rate futures markets due to the currently high level of inflation present in the economy, the pace of the rate tightening cycle being led by the Federal Reserve Open Market Committee and what risks these present for a recession to occur in the near-term. While short-term interest rates are expected to continue to rise at least through the first half of 2023, the Company believes that these rates may begin to fall during the second half of 2023. Were that to happen, the Company's ability to lower the rates it pays on deposits will be critical to the Company's ability to maintain or slow any potential decline in its net interest margin, as the Company anticipates that loan pricing in a falling rate environment would be competitive and existing loans that the Company has made may be refinanced at lower interest rates, particularly in the case of fixed rate loans with no prepayment penalties.

The Company attempts to manage its risk from changes in market interest rates by adjusting the rates, maturity, repricing characteristics, and balances of the different types of its interest-earning assets and interest-bearing liabilities and by utilizing hedging strategies to reduce the impact of changes in rates. Interest rate risk management techniques are not exact. From time to time the Company has repositioned a portion of its investment securities portfolio in an effort to better position its balance sheet for potential changes in short-term rates. The Company employs the use of models and modeling techniques to quantify the levels of risks to net interest income, which inherently involve the use of assumptions, judgments, and estimates. While the Company strives to ensure the accuracy of its modeled interest rate risk profile, there are inherent limitations and imprecisions in this determination and actual results may differ.

The Company's hedging strategy may not be effective, including in the event that interest rates move in unanticipated manners.

At times, the Company has entered into certain hedging transactions including interest rate swaps, which are designed to lessen elements of its interest rate exposure. This hedging strategy converts the fixed interest rates on certain of the Bank's outstanding loans to LIBOR-based variable interest rates (though in 2023, such LIBOR-based variable interest rates will transition to SOFR-based variable rates). In the event that short-term interest rates do not change in the manner that the Company anticipates at the times it institutes its hedging strategies or at the pace that the Company anticipated, such transactions may materially and adversely affect its results of operations.

Hedging creates certain risks for the Company, including the risk that the other party to the hedge transaction will fail to perform (counterparty risk, which is a type of credit risk), and the risk that the hedge will not fully protect the Company from loss as intended (hedge failure risk). Unexpected counterparty failure or hedge failure could have a significant adverse effect on the Company's liquidity and earnings.

The performance of the Company's investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

Changes in interest rates can negatively affect the performance of most of the Company's investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in the Company's portfolio, as was the case in 2022 with the rising rate environment. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic, social and political conditions and issues, including trade disputes and global health pandemics, and other factors beyond the Company's control. Fluctuations in interest rates can materially affect both the returns on and market value of the Company's investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

The Company's investment securities portfolio consists of several securities whose trading markets are "not active." As a result, the Company utilizes alternative methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that the Company can sell these investment securities at the price derived by these methodologies, or that it can sell these investment securities at all, which could have an adverse effect on the Company's financial condition, results of operations and liquidity.

The Company monitors the financial position of the various issuers of investment securities in its portfolio, including each of the state and local governments and other political subdivisions where it has exposure. To the extent the Company has securities in its portfolio from issuers who have experienced a deterioration of financial condition, or who may experience future deterioration of financial condition, the value of such securities may decline and could result in an other-than-temporary impairment charge, which could have an adverse effect on the Company's financial condition, results of operations and liquidity.

In addition, from time to time the Company may restructure portions of its investment securities portfolio as part of its asset liability management strategies or in response to liquidity needs, and it may incur losses, which may be material, in connection with any such restructuring. The Company currently has a significant amount of unrealized losses in its securities portfolio. These losses are largely the result of the rising interest rate environment the Company experienced in 2022 and are continuing to experience in 2023. If the Company were to sell any of these securities before their value recovers, including as a result of asset liability management strategies or in response to liquidity needs, the Company would be required to recognize these losses and the recognition of those losses could materially and adversely affect the Company's results of operations, capital and financial condition.

Credit and Lending Risks

The Company's loan portfolio includes a significant amount of real estate loans, including construction and development loans, which loans have a greater credit risk than residential mortgage loans.

As of December 31, 2022, approximately 93% of the Company's loans held for investment were secured by real estate. Of this amount, approximately 36% were commercial and multi-family real estate loans, 34% were residential 1-4 family real estate loans and 1-4 family equity lines of credit, and 30% were construction, land development and farmland loans. In total these loans made up approximately 95% of the Company's non-performing loans at December 31, 2022. Construction and development lending is generally considered to have relatively high credit risks because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and operation of the related real estate project. Real estate industry pricing dynamics in the geographical markets in which the Company operates can vary from year to year, and with respect to construction, can vary between project funding and project completion. Asset values to which the Company underwrites loans can fluctuate from year to year and impact collateral values and the ability of its borrowers to repay their loans.

Weakness in residential real estate market prices as well as demand could result in price reductions in home and land values adversely affecting the value of collateral securing some of the construction and development loans that the Company holds. Reduced demand for new residential mortgage loans, whether the result of higher mortgage interest rates, inflationary pressures on building costs or other factors, could also cause reduced demand for mortgage loans, which would reduce the Company's net interest income and noninterest income levels. If economic and real estate market conditions deteriorate in the Company’s markets, the Company may experience increases in non-performing loans and other real estate owned, increased losses and expenses from the management and disposition of non-performing assets, increased charge-offs from the disposition of non-performing assets, increases in provision for credit losses, and increases in operating expenses as a result of the allocation of management time and resources to the collection and work out of these loans, all of which would negatively impact the Company’s financial condition and results of operations.

The Company has significant credit exposure to borrowers that are homebuilders and land developers and the Company also targets small businesses.

At December 31, 2022, the Company had significant credit exposures to borrowers in certain businesses, including new home builders and land subdividers. If the challenging economic conditions currently being experienced as a result of inflation and supply-chain disruption extends deep into 2023 or beyond and negatively impact real estate conditions in the Company's markets more than has been the case thus far, these industry or other concentrations could result in higher than normal deterioration in credit quality, past dues, loan charge-offs and collateral value declines, all of which would negatively impact the Company's financial condition and results of operations. Furthermore, any of the Company's large credit exposures that deteriorate unexpectedly could cause the Company to have to make significant additional loan loss provisions, negatively impacting the Company's financial condition and results of operations.

A substantial focus of the Company's marketing and business strategy is to serve small businesses in its market areas. As a result, a relatively high percentage of the Company's loan portfolio consists of commercial loans primarily to small businesses. Small businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, or other operational challenges like those resulting from supply chain disruption, labor shortages or inflationary pressures on their costs, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have an adverse impact on the business and its ability to repay its obligation to the Company. If general economic conditions negatively impact the markets in which the Company operates and small businesses are adversely affected or the Company's borrowers are otherwise harmed by adverse business developments, the ability of such businesses to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact the Company's results of operations and financial condition.

Changes in financial accounting and reporting standards, or the interpretation of those standards could affect the way the Company accounts for its operations and these changes could have a material adverse effect on the Company's financial condition and results of operations.

The Financial Accounting Standards Board and the SEC may change the financial accounting and reporting standards, or the interpretation of those standards, that govern the preparation of the Company's external financial statements from time to time. The impact of these changes or the application thereof on the Company's financial condition and operations can be difficult to predict. For example, the Financial Accounting Standards Board adopted a new accounting standard that became effective for the Company on January 1, 2022. This standard, referred to as current expected credit loss, or CECL, requires financial institutions to determine periodic estimates of lifetime expected credit losses on financial assets, including loans, and recognize the expected credit losses through provision for credit losses. CECL replaced the previous method of provisioning for credit losses that are probable, and although the Company decreased its allowance for credit losses in the first quarter of 2022 upon its full adoption of CECL, the adoption of CECL may result in more volatility in the level of the Company's allowance for credit losses. In addition, the adoption of CECL has increased the types of data the Company needs to collect and review to determine the appropriate level of its allowance for credit losses. An increase, to the extent material, in the Company's allowance for credit losses or expenses incurred to determine the appropriate level of the allowance for credit losses could have a material adverse effect on the Company's capital levels, financial condition and results of operations. A reduction in the Company's or the Bank's capital levels could subject it to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact the Company's ability to pursue expansion opportunities if it is unable to satisfactorily raise additional capital.

An inadequate allowance for credit losses would negatively impact the Company's results of operations and financial condition.

The Company maintains an allowance for credit losses on loans, securities and off-balance sheet exposures. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. The Company's management makes various assumptions and judgments about the expected losses in the Company's loan portfolio, including the credit worthiness of the Company's borrowers and the collateral securing the loans. Utilizing objective and subjective factors, the Company maintains an allowance for credit losses, established through a provision for credit losses charged to expense, to cover its estimate of the current expected credit losses in its loan and securities portfolios. In determining the size of this allowance, the Company utilizes estimates based on analyses of volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge-offs, loss experience of various loan categories, national and local economic conditions, including unemployment statistics, industry and peer bank loan quality indications, and other pertinent factors and information. Actual losses are difficult to forecast, especially if those losses stem from factors beyond the Company's historical experience or are otherwise inconsistent with its credit quality assessments. If the Company's assumptions are inaccurate, its current allowance may not be sufficient to cover potential credit losses, and additional provisions may be necessary which would negatively impact its results of operations and financial condition.

In addition, federal and state regulators periodically review the Company's loan portfolio and may require it to increase its allowance for credit losses or recognize loan charge-offs. Their conclusions about the quality of the Company's loan portfolio may be different than the Company's. Any increase in the Company's allowance for credit losses or loan charge-offs as required by these regulatory agencies could have a negative effect on the Company's results of operations or financial condition. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions and forecasted conditions, new information regarding existing loans or borrowers, identification of additional problem loans and other factors, both within and outside of the Company's management's control. These additions may require increased provision expense which would negatively impact the Company's results of operations.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models and tools.

The processes the Company uses to estimate expected credit losses, calculate its allowance for credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other measures of the Company's financial condition and results of operations, depend upon the use of analytical and forecasting models and tools. These models and tools reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models and tools may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in the Company's analytical or forecasting models and tools could have a material adverse effect on its business, financial condition and results of operations.

The Company could sustain losses if its asset quality declines.

The Company's earnings are significantly affected by its ability to properly originate, underwrite and service loans. The Company could sustain losses if it incorrectly assesses the creditworthiness of its borrowers or fails to detect or respond to deterioration in asset quality in a timely manner. Problems with asset quality, particularly within the commercial real estate segment of the Company's loan portfolio, could cause the Company's interest income and net interest margin to decrease and its provisions for credit losses and non-interest expenses to increase, which could adversely affect its results of operations and financial condition.

Environmental liability associated with commercial lending could result in losses.

In the course of business, the Bank may acquire, through foreclosure, properties securing loans it has originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, the Company, or the Bank, might be required to remove these substances from the affected properties at the Company's sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. The Company and the Bank may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has acquired a number of retail banking facilities and other real properties, any of which may contain hazardous or toxic substances. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability.

The Company depends on the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into certain transactions, the Company relies on information furnished by or on behalf of customers and other counterparties, including financial statements, credit reports, tax returns and other financial information. The Company may also rely on representations of those customers or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading personal information, financial statements, credit reports, tax returns or other financial information, including information falsely provided as a result of identity theft, could have an adverse effect on the Company's business, financial condition and results of operations.

The Company may be subject to claims and litigation asserting lender liability.

From time to time, and particularly during periods of economic stress, customers, including real estate developers and consumer borrowers, may make claims or otherwise take legal action pertaining to performance of the Company's responsibilities. These claims are often referred to as "lender liability" claims and are sometimes brought in an effort to produce or increase leverage against the Company in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of the Company's responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect the Company's market reputation, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition, results of operations and liquidity.

Liquidity and Capital Risks

Liquidity risk could impair the Company's ability to fund its operations and jeopardize its financial condition.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that the Company may be unable to satisfy current or future funding requirements and needs.

The objective of managing liquidity risk is to ensure that the Company's cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as the Company's operating cash needs, and that the Company's cost of funding such requirements and needs is reasonable. The Company maintains an asset/liability and interest rate risk policy and a liquidity and funds management policy, including a contingency funding plan that, among other things, include procedures for managing and monitoring liquidity risk. Generally the Company relies on deposits, repayments of loans and cash flows from its investment securities as its primary sources of funds. The Company's principal deposit sources include consumer, commercial and public funds customers in the Company's markets. The Company has used these funds, together with wholesale deposit sources such as federal funds purchased and other sources of short-term and long-term borrowings, including advances from the Federal Home Loan Bank of Cincinnati ("FHLB Cincinnati"), to make loans, acquire investment securities and other assets and to fund continuing operations.

An inability to maintain or raise funds in amounts necessary to meet the Company's liquidity needs could have a substantial negative effect, individually or collectively, on the Company's and the Bank's liquidity. The Company's access to funding sources in amounts adequate to finance its activities, including its loan growth, or on terms attractive to it, could be impaired by factors that affect the Company specifically or the financial services industry in general. For example, factors that could detrimentally impact the Company's access to liquidity sources include a decrease in the level of its business activity due to a market downturn or adverse regulatory action against it or the Bank, a reduction in any then-published credit rating, any damage to its reputation or any other decrease in depositor or investor confidence in the Company's creditworthiness and business. The Company's access to liquidity could also be impaired by factors that are not specific to it, such as a decrease in the money supply as a result of actions by the Federal Reserve, severe volatility or disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Any such event or failure to manage the Company's liquidity effectively could affect its competitive position, increase its borrowing costs and the interest rates it pays on deposits, limit its access to the capital markets, require it to sell investment securities when they are in a loss position, cause its regulators to criticize its operations and have a material adverse effect on its financial condition or results of operations.

The Company's ability to grow its loan portfolio is dependent on our ability to fund loan grow, which the Company primarily seeks to do through growth in deposits. Deposit levels may be affected by a number of factors, including demands by customers, rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are a relatively stable source of funds but are subject to the borrowers' ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters, prolonged government shutdowns and other factors. Furthermore, loans generally are not readily convertible to cash. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet growth in loans, deposit withdrawal demands or otherwise fund operations. Such secondary sources include advances from the FHLB Cincinnati, brokered deposits, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowings and/or accessing the equity or debt capital markets. The competition for deposits the Company is currently experiencing may limit its ability to grow deposits, which may result in the Company seeking alternative sources of funding that are more expensive or limiting its loan growth, either of which could have a material adverse effect on its financial condition or results of operations.

The Company anticipates it will continue to rely primarily on deposits, loan repayments, interest-bearing deposits in other banks and cash flows from its investment securities to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above, like advances from the FHLB Cincinnati, which the Bank has accessed from time to time, will be used to augment the Company's primary funding sources. If the Company is unable to access any of these secondary funding sources when needed, it might be unable to meet its customers' or creditors' needs, which would adversely affect its financial condition, results of operations, and liquidity.

The Company's and the Bank's ability to maintain required capital levels and adequate sources of funding and liquidity could be impacted by changes in the capital markets and deteriorating economic and market conditions.

Federal and state bank regulators require the Company and the Bank to maintain adequate levels of capital to support operations. At December 31, 2022, the Company's and the Bank's regulatory capital ratios were at "well-capitalized" levels under regulatory guidelines. Growth in assets (either organically (as the Company has experienced since the onset of the COVID-19 pandemic) or as a result of acquisitions) at rates in excess of the rate at which the Bank's capital is increased through retained earnings, or significant losses, including as a result of selling investment securities that are in a loss position at the time of sale, will reduce its capital ratios unless it continues to increase capital. Failure by the Bank to meet applicable capital guidelines or to satisfy certain other regulatory requirements could subject the Bank and the Company to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact the Company's ability to pursue expansion opportunities.

The Company may need to raise additional capital (including through the issuance of common stock or additional Tier 2 capital instruments) in the future to provide the Company and the Bank with sufficient capital resources and liquidity to meet their commitments and business needs or in connection with growth or as a result of deterioration in asset quality. The Company's and the Bank's ability to maintain capital levels, sources of funding and liquidity could be impacted by negative perceptions of their businesses or prospects, changes in the capital markets and deteriorating economic and market conditions. The Bank is required to obtain regulatory approval in order to pay dividends to the Company unless the amount of such dividends does not exceed its net income for that calendar year plus retained net income for the preceding two years. Any restriction on the ability of the Bank to pay dividends to the Company could impact the Company's ability to continue to pay dividends on its common stock or its ability to pay interest on its indebtedness.

In addition, the Company receives additional capital from the issuance of common stock under its dividend reinvestment plan. Any unexpected termination or suspension of the Company's dividend reinvestment plan, or the related payment of its historical biannual cash dividend, could materially and adversely affect the Company's capital levels.

<u>Operational and Market Risks</u>

Negative developments in the U.S. and local economies in the Company's markets may adversely impact the Company's results in the future.

The Company's financial performance is highly dependent on the business environment in the markets where it operates and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, investor or business confidence, consumer sentiment, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters, international trade disputes and retaliatory tariffs, supply-chain disruptions, labor shortages, terrorist attacks, global pandemics, acts of war, or a combination of these or other factors. Economic conditions in certain industries in the markets in which the Company operates deteriorated rapidly in 2020 as a result of the COVID-19 pandemic. These challenges manifested themselves primarily within the restaurant, retail, commercial real estate, travel and entertainment industries and contributed to increased levels of provisions for loan losses. In addition, inflation rose sharply at the end of 2021 and continued at heightened levels throughout 2022, and is currently expected to remain elevated in 2023. A worsening of business and economic conditions, or persistent inflationary pressures, and actions taken by the Federal Reserve in response thereto, or supply chain disruptions or labor shortages, generally or specifically in the principal markets in which the Company conducts business could have adverse effects, including the following:

- a decrease in deposit balances or the demand for loans and other products and services the Company offers;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could lead to higher levels of nonperforming assets, net charge-offs and provisions for credit losses;
- a decrease in the value of loans and other assets secured by real estate;
- a decrease in net interest income from the Company's lending and deposit gathering activities; and
- an increase in competition resulting from financial services companies.

Although economic conditions have improved in most of the Company's markets when compared to the first and second quarters of 2020, the Company and its customers began to experience an uncertain and volatile economic environment during 2022, and believes that it is possible the Company and its customers will continue to experience it in 2023, including as a result of issues of national security, health crises around the world, inflation, labor shortages and supply-chain disruptions. There can be no assurance that these conditions will improve in the near term or that conditions will not worsen. Such conditions could adversely affect the Company's business, financial condition, and results of operations.

In addition, over the last several years, the federal government has shut down several times, in some cases for prolonged periods. It is possible that the federal government may shut down again in the future, particularly in light of the evenly divided United States Congress. If a prolonged government shutdown occurs, it could significantly impact business and economic conditions generally or specifically in the Company's markets, which could have a material adverse effect on the Company's results of operations and financial condition.

The Company is geographically concentrated in Wilson County, Tennessee and its surrounding counties and changes in local economic conditions could impact its profitability.

The Company operates primarily in Wilson, DeKalb, Trousdale, Smith, Rutherford, Putnam, Davidson, Williamson and Sumner counties in Tennessee and certain of the surrounding counties and substantially all of its loan customers and most of its deposit and other customers live or have operations in this same geographic area. Accordingly, the Company's success significantly depends upon the growth in population, income levels, and deposits in these areas, along with the continued attraction of business ventures to the area and the area's economic stability and strength of the housing market, and its profitability is impacted by the changes in general economic conditions in these markets. The Company cannot assure investors that economic conditions in its markets will not remain challenged during 2023 or thereafter, and continued volatile economic conditions in the Company's markets could cause the Company to constrict its growth rate, affect the ability of its customers to repay their loans and negatively impact the Company's financial condition and results of operations.

The Company is less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, the Company cannot give any assurance that it will benefit from any market growth or return of more favorable economic conditions in its primary market areas if they do occur.

The Company's business may suffer if there are significant declines in the value of real estate.

The market value of real estate can fluctuate significantly in a short period of time, including as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for the Company's loan portfolio were to decline materially, a significant part of the Company's loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, the Company may not be able to realize the value of the security anticipated when it originated the loan, which in turn could have an adverse effect on the Company's allowance and provision for credit losses and its financial condition, results of operations and liquidity.

Most of the Company's foreclosed assets have historically been comprised of real estate properties. The Company carries these properties, if any, at their estimated fair values less estimated selling costs. While the Company believes the carrying values for such assets are reasonable and appropriately reflect current market conditions, there can be no assurance that the values of such assets will not further decline prior to sale or that the amount of proceeds realized upon disposition of foreclosed assets will approximate the carrying value of such assets. If the proceeds from any such dispositions are less than the carrying value of foreclosed assets, the Company will record a loss on the disposition of such assets, which in turn could have an adverse effect on the Company's results of operations.

The Company has sought to expand its franchise by developing new markets or expanding its operations in existing markets and may continue to do so in future years.

Since 2014, the Company has opened branch locations in Putnam County, Rutherford County, Sumner County, Davidson County and Williamson County as it sought to expand its footprint beyond its historical markets. Expansion, whether by opening new branches or acquiring existing branches or whole banks, involves various risks, including:

Management of Growth. The Company may be unable to successfully:

- maintain loan quality in the context of significant loan growth;
- identify and expand into suitable markets;
- obtain regulatory and other approvals;
- identify and acquire suitable sites for new banking offices;
- attract sufficient deposits and capital to fund anticipated loan growth;
- avoid diversion or disruption of its existing operations or management as well as those of an acquired institution;
- maintain adequate management personnel and systems to oversee and support such growth;
- maintain adequate internal audit, loan review and compliance functions; and
- implement additional policies, procedures and operating systems required to support such growth.

Results of Operations. There is no assurance that existing branches or future branches will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. If the Company is unable to grow its revenues in amounts necessary to support this higher expense base, its results of operations will be negatively impacted. Execution on a growth strategy could lead to increases in overhead expenses if the Company were to add new offices and staff. The Company's historical results may not be indicative of future results or results that may be achieved if it were to increase the number and concentration of its branch offices in its existing or new markets.

Development of Offices. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, any new branches the Company establishes can be expected to negatively impact the Company's earnings for some period of time until they reach certain economies of scale. The same is true for the Company's efforts to expand in these markets with the hiring of additional seasoned professionals with significant experience in that market. The Company's expenses could be further increased if it encounters delays in opening any of its new branches, including as a result of supply-chain disruption and labor challenges currently affecting the construction industry. The Company may be unable to accomplish future branch expansion plans due to a lack of available satisfactory sites, difficulties in acquiring such sites, failure to receive any required regulatory approvals, on a timely basis or at all, increased expenses or loss of potential sites due to complexities associated with zoning and permitting processes, higher than anticipated construction costs or other factors. Finally, any branch may not meet the Company's long-term profitability expectations or otherwise be successful even after it has been established or acquired, as the case may be.

Regulatory and Economic Factors. Growth of banks like the Bank may be adversely affected by a number of regulatory and economic developments or other events. Failure to obtain required regulatory approvals, changes in laws and regulations or other regulatory developments and changes in prevailing economic conditions or other unanticipated events may prevent or adversely affect the Company's growth and expansion. Such factors may cause the Company to alter its growth and expansion plans or slow or halt the growth and expansion process, which may prevent the Company from entering into or expanding in its targeted markets or allow competitors to gain or retain market share in the Company's existing markets.

Failure to successfully address these and other issues related to the Company's expansion could have a material adverse effect on its financial condition and results of operations, and could adversely affect its ability to successfully implement its business strategy.

The Company is dependent on its information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on its financial condition and results of operations, as well as cause legal or reputational harm.

The Company is dependent upon information technologies, computer systems and networks, including those the Company maintains and those maintained and provided to the Company by third parties, to conduct operations and is reliant on technology to help increase efficiency in its business. These systems could become unavailable or impaired due to a variety of causes, including storms and other natural disasters, terrorist attacks, fires, utility outages, internal or external theft or fraud, design defects, human error, misconduct or complications or failures encountered as existing systems are maintained, replaced or upgraded. For example, the Company's financial, accounting, data processing, or other operating or security systems or infrastructure or those of third parties upon which it relies may fail to operate properly or become compromised, disabled or damaged, which could adversely affect the Company's ability to process transactions or provide services. In the event that backup systems are utilized, they may not process data as quickly as the Company's primary systems and the Company may experience data losses in the course of such recovery. The Company continuously updates the systems on which it relies to support its operations and growth and to remain compliant with all applicable laws, rules and regulations globally. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones, including business interruptions that may occur in the course of such implementation challenges. The Company maintains a system of internal controls and security to mitigate the risks of many of these occurrences and maintains insurance coverage for certain risks; however, should an event, including a cyberattack (including a ransomware attack), occur that is not prevented or detected by the Company's internal controls, causes an interruption, degradation or outage in service, or is uninsured against or in excess of applicable insurance limits, such occurrence could have an adverse effect on the Company's business and its reputation, which, in turn, could have a material adverse effect on its financial condition, results of operations and liquidity.

The Company's operations rely on the secure processing, storage and transmission of confidential, proprietary, personal and other information in its computer systems and networks. Although the Company takes protective measures and endeavors to modify these systems as circumstances warrant, the security of its computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. The Company provides its customers the ability to bank remotely, including over the Internet or through their mobile device. The secure transmission of confidential information is a critical element of remote and mobile banking. The Company's network, and the systems of parties with whom it contracts or on which it relies, as well as those of its customers and regulators, could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, ransomware attacks, human error, natural disasters, power loss and other security breaches. Sources of attacks vary and may include hackers, disgruntled employees or vendors, organized crime, terrorists, foreign governments, corporate espionage and activists. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts or seeking to infiltrate legitimate transactions.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the Internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as the Company continues to increase its mobile-payment and other Internet-based product offerings and expand its internal use of web-based products and applications. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks are becoming more prevalent and sophisticated, and are extremely difficult to prevent. The techniques used by bad actors change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. Additionally, the existence of cyber-attacks or security breaches at third parties with access to the Company's data, such as vendors, may not be disclosed to the Company in a timely manner. Consistent with industry trends, the Company remains at risk for attempted electronic fraudulent activity, as well as attempts at security breaches and cybersecurity-related incidents. The Company spends significant capital and other resources to protect against the threat of security breaches and computer viruses, and may be required to spend significant capital and other resources to alleviate problems caused by security breaches or viruses. To the extent that the Company's activities or the activities of its vendors, regulators or customers involve the storage and transmission of confidential information, security breaches (including breaches of security of customer, vendor or regulatory systems and networks) and viruses could expose the Company to claims, litigation and other possible liabilities. Any inability to prevent or promptly detect security breaches or computer viruses could also cause existing customers to lose confidence in the Company's systems and could adversely affect its reputation, results of operations and ability to attract and retain customers and businesses. In addition, a security breach could also subject the Company to additional regulatory scrutiny, expose it to civil litigation and possible financial liability and cause reputational damage.

The Company contracts with third-party vendors to provide software or services for many of its major systems, such as data processing, loan servicing and deposit processing system. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt the Company's operations. Because the Company's information technology and telecommunications systems interface with and depend on third-party systems, the Company could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions, including as a result of viruses or other attacks. If sustained or repeated, a system failure or service denial could result in a deterioration of the Company's ability to process new and renewal loans, gather deposits and provide customer service, compromise its ability to operate effectively, damage its reputation, result in a loss of customer business and/or subject it to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

The Company also faces the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate its business activities, including vendors, exchanges, and other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, the Company's operational systems, data or infrastructure, and could disclose such attack or breach to the Company in a delayed manner or not at all. In addition, the Company may be at risk of an operational failure with respect to its customers' systems. The Company's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the continued uncertain global economic environment.

As cyber threats continue to evolve, the Company will likely expend significant additional resources to continue to modify or enhance its protective measures, investigate and remediate any information security vulnerabilities, or respond to any changes to state or federal regulations, policy statements or laws concerning information systems or security. Any failure to maintain adequate security over its information systems, its technology-driven products and services or its customers' personal and transactional information could negatively affect its business and its reputation and result in fines, penalties, or other costs, including litigation expense and/or additional compliance costs, all of which could have a material adverse effect on its financial condition, results of operations and liquidity. Furthermore, the public perception that a cyber-attack on the Company's systems has been successful, whether or not this perception is correct, may damage the Company's reputation with customers and third parties with whom it does business. A successful penetration or circumvention of system security could cause the Company negative consequences, including loss of customers and business opportunities, disruption to the Company's operations and business, misappropriation or destruction of the Company's confidential information and/or that of its customers, or damage to its customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in the Company's security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact the Company's financial condition, results of operations and liquidity.

Competition from financial institutions and other financial service providers may adversely affect the Company's profitability.

The banking business is highly competitive and the Company experiences competition in each of its markets from many other financial and non-financial institutions. The Company competes with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, mobile payment platforms, as well as other community banks and super-regional and national financial institutions that operate offices in the Company's primary market areas and elsewhere. Many of the Company's competitors are well-established, larger financial institutions that have greater resources and lending limits and a lower cost of funds than the Company has.

Additionally, the Company faces competition from similarly sized and smaller community banks and credit unions, including those with senior management who were previously affiliated with other local or regional banks or credit unions or those controlled by investor groups with strong local business and community ties. These community banks may offer higher deposit rates or lower cost loans in an effort to attract the Company's customers, and may attempt to hire the Company's management and employees.

Some of the Company's competitors, including credit unions, are not subject to certain regulatory constraints, such as the CRA, which requires the Company to, among other things, implement procedures to make and monitor loans throughout the communities it serves. Credit unions also have federal tax exemptions that may allow them to offer lower rates on loans and higher rates on deposits than taxpaying financial institutions such as commercial banks. In addition, non-depository institution competitors are generally not subject to the extensive regulation applicable to institutions, like the Bank, that offer federally insured deposits, which affords them the advantage of operating with greater flexibility and lower cost structures. Other institutions may have other competitive advantages in particular markets or may be willing to accept lower profit margins on certain products.

The Company competes with these other financial and non-financial institutions both in attracting deposits and in making loans. In addition, the Company has to attract its customer base from other existing financial institutions and from new residents. This competition at times has made it more difficult for the Company to make new loans and at times has forced the Company to offer higher deposit rates or utilize secondary sources of liquidity. Price competition for loans and deposits might result in the Company earning less interest on its loans and paying more interest on its deposits, which reduces the Company's net interest income. The Company's profitability depends upon its continued ability to successfully compete with an array of financial and non-financial institutions in its market areas.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as mobile payment and other automatic transfer and payment systems, and for banks that do not have a physical presence in the Company's markets to compete for deposits. The absence of regulatory requirements may give non-bank financial companies a competitive advantage over the Company.

The Company's key management personnel may leave at any time.

The Company's future success depends to a significant extent on the continued service of its key management personnel, especially John McDearman, III, its president and chief executive officer, and John Foster, the president of the Bank. While the Company does not have employment agreements with any of its personnel and can provide no assurance that it will be able to retain any of its key officers and employees, particularly in times of intense competition for talent, as the Bank is currently experiencing, or attract and retain qualified personnel in the future, it has entered into non-competition agreements with such persons which would prevent them, in most circumstances, from competing with the Bank for one year following their termination. In addition, these persons are parties to certain deferred compensation, supplemental retirement and equity incentive plans, the benefits of which would cease to accrue upon the termination of the person's employment with the Company or the Bank or the person competing with the Bank after the termination of their employment.

An ineffective risk management framework could have a material adverse effect on the Company's strategic planning and its ability to mitigate risks and/or losses and could have adverse regulatory consequences.

The Company has implemented a risk management framework to identify and manage its risk exposure. This framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which it is subject, including, among others, credit, market, liquidity, fraud, operational, capital, cybersecurity, compliance, strategic and reputational risks. The Company's framework also includes financial, analytical, forecasting, or other modeling methodologies, which involves management assumptions and judgment. However, there is no assurance that the Company's risk management framework will be effective under all circumstances or that it will adequately identify, manage or mitigate any risk or loss to it. If the Company's risk management framework is not effective, it could suffer unexpected losses and become subject to regulatory consequences, as a result of which its business, financial condition, results of operations or prospects could be materially adversely affected.

The Company's selection of accounting policies and methods may affect its reported financial results.

The Company's accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company's management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report its financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, which may result in the Company reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting the Company's financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the allowance for credit losses or sustain loan losses that are significantly higher than the reserve provided; reduce the carrying value of an asset measured at fair value; recognize an other-than-temporary impairment of securities; or significantly increase the Company's accrued tax liability. Any of these could have a material adverse effect on the Company's business, financial condition or results of operations. For a discussion of the Company's critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" contained in the 2022 Annual Report.

The Company currently invests in bank owned life insurance ("BOLI") and may continue to do so in the future.

The Company had approximately $58.0 million in general, hybrid and separate account BOLI contracts at December 31, 2022. BOLI is an illiquid long-term asset that provides tax savings because cash value growth and life insurance proceeds are not taxable, subject to certain exceptions. However, if the Company needed additional liquidity and converted the BOLI to cash, such transaction would be subject to ordinary income tax and applicable penalties. The Company is also exposed to the credit risk of the underlying securities in the investment portfolio and to the insurance carrier's credit risk (in a general account contract). If BOLI was exchanged to another carrier, additional fees would be incurred and a tax-free exchange could only be done for insureds that were still actively employed by the Company at that time. There is interest rate risk relating to the market value of the underlying investment securities associated with the BOLI in that there is no assurance that the market value of these securities will not decline. Investing in BOLI exposes the Company to liquidity, credit and interest rate risk, which could adversely affect the Company's results of operations, financial condition and liquidity.

The Company's business reputation and relationships are important and any damage to them could have a material adverse effect on its business.

The Company's reputation is very important in sustaining its business and it relies on its relationships with its current, former and potential clients and shareholders and other actors in the industries that it serves. Any damage to the Company's reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting the Company's financial reporting or compliance with SEC requirements, negative publicity, the way in which the Company conducts its business or otherwise could strain its existing relationships and make it difficult for the Company to develop new relationships. Any such damage to the Company's reputation and relationships could in turn lead to a material adverse effect on its business.

The Company's business is dependent on technology, and an inability to invest in technological improvements may adversely affect the Company's results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company has made significant investments in data processing, management information systems and internet banking accessibility, but additional investments may be required or necessary. The Company's future success will depend in part upon its ability to create additional efficiencies in its operations through the use of technology. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company cannot make assurances that its technological improvements will increase its operational efficiency or that it will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers.

The Company is subject to regulatory oversight and certain litigation, and its expenses related to this regulatory oversight and litigation may adversely affect its results.

The Company is from time to time subject to certain litigation in the ordinary course of its business. The Company may also be subject to claims related to its loan servicing programs, particularly those involving servicing of commercial real estate loans. These and other claims and legal actions, as well as supervisory and enforcement actions by the Company's regulators, including those with oversight of its loan servicing programs, could involve large monetary claims, capital directives, agreements with federal regulators, cease and desist penalties and orders and significant defense costs. The outcome of any such cases or actions is uncertain. Substantial legal liability or significant regulatory action against the Company could have material adverse financial effects or cause significant reputational harm to the Company, which in turn could seriously harm its business prospects.

In accordance with GAAP, for matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, the Company's insurance may not cover all litigation, other proceedings or claims, or the costs of defense. Future developments could result in an unfavorable outcome for any existing or new lawsuits or investigations in which the Company is, or may become, involved, which may have a material adverse effect on its business and its results of operations.

The soundness of other financial institutions, including those with whom the Company has engaged in transactions, could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose the Company to credit risk in the event of default of one or more counterparties and could have a material adverse effect on the Company's financial position, results of operations and liquidity.

Natural disasters and the effects of a changing climate may adversely affect the Company and its customers.

The Company's operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires and floods often occur. Such natural disasters, like the tornado that struck the Company's markets in March 2020, could significantly impact the local population and economies and the Company's business, and could pose physical risks to its properties. Although the Company maintains insurance coverages for such events, a significant natural disaster in or near one or more of the Company's markets could have a material adverse effect on its financial condition, results of operations or liquidity.

In addition to natural disasters, the impact of climate change, such as rising average global temperatures and rising sea levels, and the increasing frequency and severity of extreme weather events and natural disasters such as droughts, floods, wildfires and hurricanes could negatively impact the Company's operations including its ability to provide financial products and services to its customers. Climate change also has the potential to negatively affect the collateral the Company takes to secure loans that it makes, the valuations of home prices or commercial real estate or the Company's customers' (particularly those that are engaged in industries that could be negatively affected by a shift to a low-carbon economy) ability and/or willingness to pay fees, repay outstanding loans or afford new products. Climate change could also cause insurability risk and/or increased insurance costs for the Company or its customers.

The Company's asset valuation may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect its results of operations or financial condition.

The Company uses estimates, assumptions, and judgments when financial assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party sources, when available. When such third-party information is not available, fair value is estimated primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact the Company's future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within the Company's consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on results of operations or financial condition.

Valuation methodologies which are particularly susceptible to the conditions mentioned above include those used to value certain securities in the Company's available for sale investment portfolio such as non-agency mortgage and asset-backed securities, in addition to loans held for sale and intangible assets.

If the Company fails to maintain an effective system of internal control over financial reporting, it may not be able to accurately report its financial results. As a result, current and potential holders of the Company's common stock could lose confidence in the Company's financial reporting, which would harm the Company's business and the trading price of its securities.

Maintaining and adapting the Company's internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, is expensive and requires significant management attention. Moreover, as the Company continues to grow, its internal controls may become more complex and require additional resources to ensure they remain effective amid dynamic regulatory and other guidance. Failure to maintain effective controls or implement required new or improved controls or difficulties encountered in the process may harm the Company's results of operations and financial condition or cause it to fail to meet its reporting obligations. If the Company or its independent registered public accounting firm identify material weaknesses in the Company's internal control over financial reporting or the Company is required to restate the its financial statements, the Company could be required to implement expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of its financial reports. The Company may also face regulatory enforcement or other actions. This could have an adverse effect on the Company's business, financial condition or results of operations, as well as the trading price of the Company's securities, and could potentially subject the Company to litigation.

Regulatory and Compliance Risks

Federal or state legislation or regulation may increase the Company's expenses and reduce earnings.

Federal bank regulators continue to closely scrutinize financial institutions, and additional restrictions have been proposed or adopted by regulators and by Congress. Changes in tax law, federal legislation, regulation or policies, such as bankruptcy laws, deposit insurance, consumer protection laws, and capital requirements, among others, can result in significant increases in the Company's expenses and/or charge-offs, which may adversely affect its results of operations and financial condition. Changes in state or federal tax laws or regulations can have a similar impact. State and municipal governments, including the State of Tennessee, could seek to increase their tax revenues through increased tax levies which could have a meaningful impact on the Company's results of operations. Furthermore, financial institution regulatory agencies may continue to be aggressive in responding to concerns and trends identified in examinations, including in the case of service charges banks impose on customers related to overdrafts and instances in which customers' accounts do not have sufficient funds to cover items that are presented. These actions could include the issuance of additional formal or informal enforcement or supervisory actions and the imposition of monetary penalties, and whether formal or informal, could result in the Company's or the Bank's agreeing to limitations or monetary penalties or to take actions that limit its operational flexibility, restrict its growth, increase its operating expenses, lower the Company's non-interest income or increase its capital or liquidity levels, any of which could materially and adversely affect the Company's results of operations and financial condition. Failure to comply with any formal or informal regulatory actions or restrictions, including informal supervisory actions, could lead to further regulatory enforcement actions. Negative developments in the financial services industry and the impact of recently enacted or new legislation (or interpretation of existing legislation) in response to those developments could negatively impact the Company's operations by restricting its business operations, including its ability to originate or sell loans, and adversely impact its financial performance. In addition, industry, legislative or regulatory developments may cause the Company to materially change its existing strategic direction, business policies, capital strategies, compensation or operating plans.

Additionally, the Company is subject to laws regarding its handling, disclosure and processing of personal and confidential information of certain parties, such as its employees, customers, suppliers, counterparties and other third parties. The GLB Act requires the Company to periodically disclose its privacy policies and practices relating to sharing such information and enables retail customers to opt out of the Company's ability to share information with unaffiliated third parties, under certain circumstances. Other laws and regulations impact the Company's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The Company is subject to laws that require it to implement a comprehensive information security program that includes administrative, technical and physical safeguards to protect the security and confidentiality of customer records and information. Additionally, other legislative and regulatory activity continue to lend uncertainty to privacy compliance requirements that impact the Company's business. The Company also expects that there will continue to be new laws, regulations and industry standards concerning privacy, data protection and information security proposed and enacted in various jurisdictions. The potential effects of pending legislation are far-reaching and may require the Company to modify its data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

The Company, as well as the Bank, operate in an increasingly highly regulated environment and are supervised and examined by various federal and state regulatory agencies who may adversely affect the Company's ability to conduct business.

The TDFI and the FRB supervise and examine the Bank and the Company, respectively. Because the Bank's deposits are federally insured, the FDIC also regulates its activities. These and other regulatory agencies impose certain regulations and restrictions on the Bank, including:

- explicit standards as to capital and financial condition;
- limitations on the permissible types, amounts and extensions of credit and investments;
- restrictions on permissible non-banking activities; and
- restrictions on dividend payments.

Federal and state regulatory agencies have extensive discretion and power to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. As a result, the Company must expend significant time and expense to assure that it is in compliance with regulatory requirements and agency practices.

The Company, as well as the Bank, also undergoes periodic examinations by one or more regulatory agencies. Following such examinations, the Company or the Bank may be required, among other things, to make additional provisions to its allowance for credit loss, to restrict its operations or to increase its capital levels. These actions would result from the regulators' judgments based on information available to them at the time of their examination. The Bank's operations are also governed by a wide variety of state and federal consumer protection laws and regulations. These federal and state regulatory restrictions limit the manner in which the Company and the Bank may conduct business and obtain financing. These laws and regulations can and do change significantly from time to time, and any such changes could adversely affect the Company's results of operations.

The Company expects that the current Presidential administration will continue to implement a regulatory reform agenda that is significantly different than that of the prior administration. This reform agenda could include an increased level of attention and focus on consumer protection, fair lending, the regulation of loan portfolios and credit concentrations to borrowers impacted by climate change or that operate in industries that would not be favored in a low-carbon economy and heightened scrutiny of BSA and AML requirements among other areas. The Company cannot predict the effects of these changes on its business and profitability. Because government regulation greatly affects the business and financial results of commercial banks and bank holding companies, the Company's cost of compliance could adversely affect its ability to operate profitably.

The Company and the Bank must maintain adequate regulatory capital to support the Company's business objectives.

Under regulatory capital adequacy guidelines and other regulatory requirements, the Company and the Bank must satisfy capital requirements based upon quantitative measures of assets, liabilities and certain off-balance sheet items. The satisfaction of these requirements by the Company and the Bank is subject to qualitative judgments by regulators that may differ materially from management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if the Bank's reported capital exceeds the "well-capitalized" requirements.

Failure to meet regulatory capital standards could have a material adverse effect on the Company's business, including damaging the confidence of customers in the Company, and adversely impacting its reputation and competitive position and retention of key personnel. Any of these developments could limit the Company's access to:

- brokered deposits;
- the FRB discount window;
- advances from the FHLB Cincinnati;
- capital markets transactions; and
- development of new financial services

Failure to meet regulatory capital standards may also result in higher FDIC assessments. If the Bank falls below guidelines for being deemed "adequately capitalized" the FDIC or FRB could impose restrictions on the Company's activities and a broad range of regulatory requirements in order to effect "prompt corrective action." The capital requirements applicable to the Company and the Bank are in a process of continuous evaluation and revision in connection with actions of the Basel Committee and the Company's and the Bank's regulators. In September 2022, the Federal bank regulatory agencies publicly confirmed their joint commitment to implementing Basel IV in the United States, but did not provide any details or expected timing of such rules. The Company cannot predict the final form, timing or the effects of these regulations on its business, but among the possible effects are requirements that the Company slow its rate of growth or obtain additional capital which could reduce the Company's earnings or dilute its existing shareholders.

The Company is required to act as a source of financial and managerial strength for the Bank in times of stress.

Under federal law, the Company is required to act as a source of financial and managerial strength to the Bank, and to commit resources to support the Bank if necessary. The Company may be required to commit additional resources to the Bank, or guarantee the Bank's compliance with a capital plan developed by the Bank to raise capital, at times when the Company may not be in a financial position to provide such resources or guarantee or when it may not be in the Company's, or its shareholders' or its creditors' best interests to do so. Providing such support is more likely during times of financial stress for the Company and the Bank, which may make any capital the Company is required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans the Company makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of the Company's bankruptcy, any commitment by it to a federal banking regulator to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Non-compliance with the Patriot Act, the BSA or other laws and regulations could result in fines or sanctions against the Company.

The BSA, as amended by the Patriot Act, requires financial institutions to design and implement programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the Treasury's Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures and maintain staffing levels that are sufficient for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches, as well as additional operating expenses to add staff and/or technological enhancements to the Company's systems to better comply.

Risks Relating to the Company's Securities

The Company's common stock is thinly traded, and recent prices may not reflect the prices at which the stock would trade in an active trading market.

The Company's common stock is not traded through an organized exchange, but rather is traded in individually-arranged transactions between buyers and sellers. Therefore, recent prices at which the stock has traded may not necessarily reflect the actual value of the Company's common stock. A shareholder's ability to sell the shares of Company common stock in a timely manner may be substantially limited by the lack of a trading market for the common stock.

The Company's ability to declare and pay dividends is limited.

While the Company has historically paid a biannual cash dividend on its common stock, there can be no assurance of whether or when it may pay dividends on its common stock in the future. Future dividends, if any, will be declared and paid at the discretion of the Company's board of directors and will depend on a number of factors, including the Company's and the Bank's capital levels. The Company's principal source of funds used to pay cash dividends on its common stock will be dividends that it receives from the Bank. Although the Bank's asset quality, earnings performance, liquidity and capital requirements will be taken into account before the Company declares or pays any future dividends on its common stock, the Company's board of directors will also consider its liquidity and capital requirements and its board of directors could determine to declare and pay dividends without relying on dividend payments from the Bank.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends the Company may declare and pay and that the Bank may declare and pay to the Company. For example, FRB regulations implementing the capital rules required under Basel III do not permit dividends unless capital levels exceed those minimum levels required to be adequately capitalized plus those amounts required by the capital conservation buffers. In addition, the FRB has issued supervisory guidance advising bank holding companies to eliminate, defer or reduce dividends paid on common stock and other forms of Tier 1 capital where the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, the company's prospective rate of earnings retention is not consistent with the company's capital needs and overall current and prospective financial condition or the company will not meet, or is in danger of not meeting, minimum regulatory capital adequacy ratios. Supplements to this guidance reiterate the need for bank holding companies to inform their applicable reserve bank sufficiently in advance of the proposed payment of a dividend in certain circumstances.

An investment in the Company's common stock is not an insured deposit.

The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the equity market forces like other common stock. As a result, if you acquire the Company's stock, you could lose some or all of your investment.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

The Company's main office is owned by the Company and consists of approximately four acres at 623 West Main Street, Lebanon, Tennessee. The building is a two story, brick building, with approximately 35,000 square feet. The lot has approximately 350 feet of road frontage on West Main Street. The Bank's 67,000 square foot operations center is located at 105 North Castle Heights Avenue, Lebanon, Tennessee, which is adjacent to the 623 West Main Street office. In addition thereto, the Bank has twenty-nine branch locations located at the following locations: 1436 West Main Street, Lebanon, Tennessee; 1444 Baddour Parkway, Lebanon, Tennessee; 200 Tennessee Boulevard, Lebanon, Tennessee; 8875 Stewart's Ferry Pike, Gladeville, Tennessee; 402 Public Square, Watertown, Tennessee; 1476 North Mt. Juliet Road, Mt. Juliet, Tennessee; 11835 Highway 70, Mount Juliet, Tennessee; 1130 Castle Heights Avenue North, Lebanon, Tennessee; 127 McMurry Blvd., Hartsville, Tennessee; the Wal-Mart Supercenter, Lebanon, Tennessee; 440 Highway 109 North, Lebanon, Tennessee; 4736 Andrew Jackson Parkway in Hermitage, Tennessee; 3110 Memorial Blvd in Murfreesboro, Tennessee; 210 Commerce Drive in Smyrna, Tennessee; 2640 South Church Street, Murfreesboro, Tennessee; 217 Donelson Pike, Nashville, Tennessee; 2930 West End Avenue, Nashville, Tennessee; 710 NW Broad in Murfreesboro, Tennessee; 4195 Franklin Road, Murfreesboro, Tennessee; 576 West Broad Street in Smithville, Tennessee; 306 Brush Creek Road in Alexandria, Tennessee; 1300 Main Street North in Carthage, Tennessee; 7 New Middleton Highway in Gordonsville, Tennessee; 709 South Mt. Juliet Road, Mt. Juliet, Tennessee; 455 West Main Street, Gallatin, Tennessee; 175 East Main Street, Hendersonville, Tennessee; 1630 Nashville Pike, Suite 100, Gallatin, Tennessee; 320 South Jefferson Avenue, Cookeville, Tennessee; and 9200 Carothers Parkway, Suite 108, Franklin, Tennessee.

The Mt. Juliet office contains approximately 16,000 square feet of space; the Castle Heights Office contains 2,400 square feet of space; the Hartsville Office contains 8,000 square feet of space; the Leeville-109 branch contains approximately 4,000 square feet. The Hermitage branch opened in the fall of 1999 and contains 8,000 square feet of space. The Gladeville branch contains approximately 3,400 square feet of space. The Lebanon facility at Tennessee Boulevard was expanded in 1997 to 2,200 square feet of space. The Mt. Juliet facility on Highway 70 was completed in July 2004 and contains approximately 3,450 square feet of space and the Providence facility which was opened in 2011 contains approximately 4,450 square feet of space. The NorthWest Broad Street facility was relocated from a leased office to an office owned by the Bank in 2011 and contains approximately 6,300 square feet of space. The Smyrna office opened in September of 2006 and contains approximately 3,600 square feet of space. The Memorial Blvd office in Murfreesboro opened in October of 2006 and contains approximately 7,800 square feet of space. The Highway 96 office in Murfreesboro opened in January 2017 and contains approximately 4,700 square feet of space. The South Church Street office in Murfreesboro opened in January 2008 and contains approximately 7,800 square feet of space. The West End office in Nashville opened in August 2017 and contains approximately 7,062 square feet of space. The Cool Springs office in Franklin opened in December 2018 and contains approximately 5,940 square feet of space. The Greenlea office in Gallatin opened in January 2022 and contains approximately 3,200 square feet of space. Each of the branch facilities of the Bank not otherwise described above contains approximately 1,000 square feet of space.

The Bank also has a facility at 576 West Broad Street in Smithville, Tennessee which was expanded in 2001 and now contains approximately 10,300 square feet of space and a facility at 306 Brush Creek Road in Alexandria, Tennessee which occupies approximately 2,400 square feet of space. The Bank owns both facilities. The Bank also owns a building at 1300 Main Street North, Carthage, Tennessee, which was expanded in 2005 and now contains approximately 11,000 square feet and a second facility in Gordonsville, Tennessee at 7 New Middleton Highway, Gordonsville, Tennessee. The Bank owns a building at 455 West Main Street in Gallatin, Tennessee which occupies approximately 4,800 square feet of space and a building at 175 East Main Street in Hendersonville, Tennessee which occupies approximately 6,300 square feet of space. The Bank owns a building at 217 Donelson Pike, Donelson, Tennessee which occupies approximately 8,000 square feet of space and a building at 320 South Jefferson Avenue, Cookeville, Tennessee, which occupies approximately 6,300 square feet of space. The Bank owns all of its branch facilities except for the Lebanon facility at Tennessee Boulevard, its space in the Wal-Mart Supercenter, its West End office in Nashville, its Cool Springs office in Franklin, its Greenlea office in Gallatin, and its loan production office in Chattanooga. The Bank also leases space at five locations within Wilson County, DeKalb County, Davidson County and Smith County where it maintains and operates automatic teller machines.

Item 3. Legal Proceedings

As of the date hereof, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of its properties are subject; nor are there material proceedings known to the Company or its subsidiaries to be contemplated by any governmental authority; nor are there material proceedings known to the Company or its subsidiaries, pending or contemplated, in which any director, officer or affiliate or any principal security holder of the Company or any of its subsidiaries or any associate of any of the foregoing, is a party or has an interest adverse to the Company or any of its subsidiaries.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchasers of Equity Securities

Information required by this item is contained under the heading "Holding Company & Stock Information" in the Company's 2022Annual Report and is incorporated herein by reference.

The Company did not repurchase any shares of its common stock during the quarter ended December 31, 2022.

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required by this item is contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the financial information included with the Company's 2022Annual Report and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk" in the financial information included with the Company's 2022Annual Report and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and the independent auditor's report of Maggart & Associates, P.C. required by this item are contained in the financial information included with the Company's 2022 Annual Report and are incorporated herein by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by it in the reports that if files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on that assessment, management concluded that, as of December 31, 2022, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting, which report is contained in the financial information included with the Company's 2022 Annual Report and is incorporated herein by reference.

Changes in Internal Controls

No changes were made to the Company's internal control over financial reporting during the quarter ended December 31, 2022 that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to directors is incorporated herein by reference to the sections entitled "Item-1 Election of Directors-Information Concerning Nominees" and "Item-1 Election of Directors-Director Qualifications" in the Company's definitive proxy materials filed in connection with the 2023 Annual Meeting of Shareholders. The information required by this item with respect to executive officers is set forth in Part I of this report under the caption "Information about our Executive Officers."

All officers serve at the pleasure of the Board of Directors. No officers are involved in any legal proceedings which are material to an evaluation of their ability and integrity.

The Company has adopted a code of conduct for its senior executive and financial officers (the "Code of Conduct"), a copy of which will be provided to any person, without charge, upon request to the Company at 623 West Main Street, Lebanon, Tennessee 37087, Attention: Corporate Secretary. The Company will make any legally required disclosures regarding amendments to, or waivers of, provisions of its Code of Conduct either in a Current Report on Form 8-K or on its website, in each case in accordance with the rules and regulations of the SEC.

The information required by this item with respect to the Company's audit committee and any "audit committee financial expert" is incorporated herein by reference to the section entitled "Item-1 Election of Directors - Description of the Board and Committees of the Board" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

The information required by this item with respect to Section 16(a) of the Exchange Act is incorporated herein by reference to the section entitled "Item-1 Election of Directors - Delinquent Section 16(a) Reports" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

Item 11. Executive Compensation

Information required by this item is incorporated herein by reference to the information under the principal heading entitled "Executive Compensation," including but not limited to the subheading entitled "Personnel Committee Report on Executive Compensation," and the principal heading entitled "Director Compensation," including but not limited to the subheading entitled "Personnel Committee Interlocks and Insider Participation," in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated herein by reference to the section entitled "Stock Ownership" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

The following table summarizes information concerning the Company's equity compensation plans at December 31, 2022:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by shareholders	243,838	55.74	245,731
Equity compensation plans not approved by shareholders	—	—	—
Total	243,838	55.74	245,731

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item with respect to certain relationships and related transactions is incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

Information required by this item with respect to director independence is incorporated herein by reference to the section entitled "Item 1 Election of Directors - Director Independence" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

Information required by this item is incorporated herein by reference to the section entitled "Item-2 Ratification of the Appointment of the Independent Registered Public Accounting Firm" in the Company's definitive proxy materials to be filed in connection with the 2023 Annual Meeting of Shareholders.

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements. See Item 8.

(a)(2) Financial Statement Schedules. Not Applicable.

(a)(3) Exhibits. See Index to Exhibits.

Item 16. Form 10-K Summary

None.

INDEX TO EXHIBITS

3.1	Charter of Wilson Bank Holding Company, as amended (restated for SEC electronic filling purposes only) (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 filed with the SEC on August 9, 2016).
3.2	Bylaws of Wilson Bank Holding Company, as amended (restated for SEC electronic filling purposes only) (incorporated herein by reference to Exhibit 3.2 of the Company's Quarterly Report on form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 10, 2016).
4.1	Specimen Common Stock Certificate. (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-121943)).
4.2	Description of the Company's securities (incorporated by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 12, 2021).
10.1	Wilson Bank Holding Company 2009 Stock Option Plan (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (Registration No. 333-158621)).*
10.2	Amendment, dated December 30, 2008, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.3	Amendment, dated December 30, 2008, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.4	Amendment, dated December 30, 2008, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.3 the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.5	Amendment, dated December 30, 2008, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.6	Amendment, dated December 30, 2008, to Executive Salary Continuation Agreement dated as of January 1, 2006, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.7	Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.8	Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.9	Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.10	Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.11	Executive Salary Continuation Agreement dated as of July 28, 2006, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K filed with the SEC on January 6, 2009 (File No. 000-20402)).*
10.12	Amendment, dated November 23, 2012, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.13	Amendment, dated November 23, 2012, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*

10.14	Amendment, dated November 23, 2012, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*

10.15	Amendment, dated November 23, 2012, to Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.16	Amendment, dated November 23, 2012, to Executive Salary Continuation Agreement dated as of January 1, 2006, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.17	Second Amendment, dated November 23, 2012 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002 by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.18	Second Amendment, dated November 23, 2012 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002 by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.19	Second Amendment, dated November 23, 2012 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002 by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.20	Second Amendment, dated November 23, 2012 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002 by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.21	Amendment, dated November 23, 2012 to Wilson Bank and Trust Life Insurance Endorsement Method Split Dollar Plan Agreement dated as of July 28, 2006 by and between Wilson Bank and John C. McDearman III (incorporated by reference to Exhibit 10.10 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.22	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.23	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.24	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.13 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.25	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.26	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.15 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.27	Amendment, dated August 21, 2003 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.16 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.28	Amendment, dated August 21, 2003 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.17 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.29	Amendment, dated August 21, 2003 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.18 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.30	Amendment, dated August 21, 2003 to Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated

by reference to Exhibit 10.19 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*

10.31	Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.20 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.32	Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.21 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*

10.33	Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.22 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.34	Wilson Bank and Trust Amended and Restated Life Insurance Endorsement Method Split Dollar Plan Agreement dated October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.23 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.35	Wilson Bank and Trust Life Insurance Endorsement Method Split Dollar Plan Agreement dated July 28, 2006, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.24 of the Company's Current Report on Form 8-K filed with the SEC on November 29, 2012).*
10.36	Executive Survivor Income Agreement, dated April 14, 2014, by and between the Bank and Lisa Pominski (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.37	Executive Survivor Income Agreement, dated April 14, 2014, by and between the Bank and Gary Whitaker (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.38	Executive Survivor Income Agreement, dated April 14, 2014, by and between the Bank and John C. McDearman, III (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.39	Director Survivor Income Agreement, dated April 14, 2014, by and between the Bank and J. Randall Clemons (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.40	Director Survivor Income Agreement, dated April 14, 2014, by and between the Bank and H. Elmer Richerson (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.41	Director Survivor Income Agreement, dated April 14, 2014, by and between the Bank and Jack Bell (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.42	Director Survivor Income Agreement, dated April 14, 2014, by and between the Bank and James Comer (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.43	Director Survivor Income Agreement, dated April 14, 2014, by and between the Bank and James Patton (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on April 18, 2014).
10.44	Director Survivor Income Agreement, dated April 6, 2015, by and between the Bank and William Jordan (incorporated by reference to Exhibit 10.46 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 14, 2016).
10.45	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on May 29, 2015).*
10.46	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on May 29, 2015).*
10.47	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on May 29, 2015).*
10.48	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on May 29, 2015).*
10.49	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on May 29, 2015).*
10.50	Second Amendment to the Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and J. Randall Clemons (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.51	Second Amendment to the Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Elmer Richerson (incorporated by reference to Exhibit 10.2 of the Company's Current

Report on Form 8-K filed with the SEC on September 30, 2016).*

10.52	Second Amendment to the Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Lisa T. Pominski (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.53	Second Amendment to the Amended and Restated Executive Salary Continuation Agreement dated as of October 7, 2002, by and between Wilson Bank and Trust and Gary Whitaker (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*

10.54	Second Amendment to the Executive Salary Continuation Agreement dated as of January 1, 2006, by and between Wilson Bank and Trust and John C. McDearman III (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.55	Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.56	Form of Stock Appreciation Rights Agreement for employees under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.57	Form of Non-qualified Stock Option Agreement for employees under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.58	Form of Stock Appreciation Rights Agreement for employee directors under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.59	Form of Non-qualified Stock Option Agreement for employee directors under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.60	Form of Stock Appreciation Rights Agreement for directors under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.61	Form of Non-qualified Stock Option Agreement for directors under the Wilson Bank Holding Company Amended and Restated 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K filed with the SEC on September 30, 2016).*
10.62	Wilson Bank and Trust Life Insurance Endorsement Method Split Dollar Plan Agreement dated November 23, 2012, by and between Wilson Bank and Trust and Clark Oakley (incorporated by reference to Exhibit 10.64 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 8, 2019).*
10.63	Supplemental Executive Retirement Plan Agreement, dated November 23, 2012, by and between Wilson Bank and Trust and Clark Oakley (incorporated by reference to Exhibit 10.65 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 8, 2019).*
10.64	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement as of September 26, 2016, by and between Wilson Bank and Trust and Clark Oakley (incorporated by reference to Exhibit 10.66 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 8, 2019).*
10.65	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and Clark Oakley (incorporated by reference to Exhibit 10.67 of the Company's Annual Report of Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 8, 2019).*
10.66	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement Implemented May 22, 2015 by and between Wilson Bank and Trust and Clark Oakley (incorporated by reference to Exhibit 10.68 of the Company's Annual Report of Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 8, 2019).*
10.67	Supplemental Executive Retirement Plan Agreement, dated May 22, 2015, by and between Wilson Bank and Trust and John Foster (incorporated by reference to Exhibit 10.68 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 12, 2020).*
10.68	Wilson Bank and Trust Life Insurance Endorsement Method Split Dollar Plan Agreement dated May 22, 2015, by and between Wilson Bank and Trust and John Foster (incorporated by reference to Exhibit 10.69 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 12, 2020).*
10.69	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and John McDearman (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.70	Second Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Clark Oakley (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9,

2020).*

10.71	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Lisa Pominski (incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.72	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Gary Whitaker (incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*

10.73	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and John Foster (incorporated herein by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.74	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and John McDearman (incorporated herein by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.75	Second Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Clark Oakley (incorporated herein by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.76	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Lisa Pominski (incorporated herein by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.77	First Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated October 26, 2020, by and between Wilson Bank and Trust and Gary Whitaker (incorporated herein by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 9, 2020).*
10.78	Second Amendment to the Wilson Bank & Trust Supplemental Executive Retirement Plan Agreement Implemented May 22, 2015, by and between Wilson Bank and Trust and John C. McDearman (incorporated herein by reference to Exhibit 10.79 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on March 12, 2021).*
10.79	Second Amendment to the Wilson Bank & Trust Supplemental Executive Retirement Plan Agreement Implemented May 22, 2015, by and between Wilson Bank and Trust and John Foster (incorporated herein by reference to Exhibit 10.80 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on March 12, 2021).*
10.80	Second Amendment to the Wilson Bank & Trust Supplemental Executive Retirement Plan Agreement Implemented May 22, 2015, by and between Wilson Bank and Trust and Lisa Pominski (incorporated herein by reference to Exhibit 10.81 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on March 12, 2021).*
10.81	Third Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated as of November 29, 2021 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on November 30, 2021).*
10.82	Second Amendment to the Wilson Bank and Trust Supplemental Executive Retirement Plan Agreement dated February 28, 2022, by and between Wilson Bank and Trust and Gary Whitaker.*
10.83	Independent Contractor Agreement by and between Wilson Bank & Trust and Gary Whitaker, dated as of November 21, 2022 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on November 23, 2022).*
13.1	Selected Portions of the Wilson Bank Holding Company Annual Report to Shareholders for the year ended December 31, 2022 incorporated by reference into items 1, 5, 7, 7A and 8.+
21.1	Subsidiaries of the Company.+
23.1	Consent of Independent Registered Public Accounting Firm.+
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document.

101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management compensatory plan or contract

+ Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	WILSON BANK HOLDING COMPANY
By:	/s/ John C. McDearman, III
	John C. McDearman, III
Title:	President and Chief Executive Officer
Date:	March 6, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. McDearman, III John C. McDearman, III	President, Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2023
/s/ Lisa Pominski Lisa Pominski	Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2023
/s/ Jack W. Bell Jack W. Bell	Director	March 6, 2023
/s/ James F. Comer James F. Comer	Director	March 6, 2023
/s/ William P. Jordan William P. Jordan	Director	March 6, 2023
/s/ James Anthony Patton James Anthony Patton	Director	March 6, 2023
/s/ J. Randall Clemons J Randall Clemons	Director	March 6, 2023
/s/ Michael G. Maynard Michael G. Maynard	Director	March 6, 2023
/s/ Clinton M. Swain Clinton M. Swain	Director	March 6, 2023
/s/ H. Elmer Richerson H. Elmer Richerson	Director	March 6, 2023
/s/ Deborah Varallo Deborah Varallo	Director	March 6, 2023

Exhibit 13.1

WILSON BANK HOLDING COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, the anticipated financial and operating results of the Company. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

The Company cautions investors that future financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. The words "expect," "intend," "should," "may," "could," "believe," "suspect," "anticipate," "seek," "plan," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical fact may also be considered forward-looking. Such forward-looking statements involve known and unknown risks and uncertainties, including, but not limited to those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 and also include, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in credit losses and provisions for these losses, (ii) deterioration in the real estate market conditions in the Company's market areas including demand for residential real estate loans as a result of rising rates on residential real estate mortgage loans, (iii) the impact of increased competition with other financial institutions, including pricing pressures on loans and deposits, and the resulting impact on the Company's results, including as a result of compression to net interest margin, (iv) adverse conditions in local or national economies, including the economy in the Company's market areas, including as a result of the impact of inflationary pressures, supply chain disruptions and labor shortages on our customers and on their businesses, (v) fluctuations or differences in interest rates on earning assets and interest bearing liabilities from those that the Company is modeling or anticipating, including as a result of the Bank's inability to maintain deposit rates or defer increases to those rates in a rising rate environment in connection with the changes in the short-term rate environment, or that affect the yield curve, (vi) the ability to grow and retain low-cost core deposits, (vii) significant downturns in the business of one or more large customers, (viii) the inability of the Company to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies, required capital maintenance levels, or regulatory requests or directives, (ix) changes in state or Federal regulations, policies, or legislation applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, (x) changes in capital levels and loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments, (xi) inadequate allowance for credit losses, (xii) the effectiveness of the Company's activities in improving, resolving or liquidating lower quality assets, (xiii) results of regulatory examinations, (xiv) the vulnerability of the Company's network and online banking portals, and the systems of parties with whom the Company contracts, to unauthorized access, computer viruses, phishing schemes, spam attacks, ransomware attacks, human error, natural disasters, power loss, and other security breaches, (xv) the possibility of additional increases to compliance costs or other operational expenses as a result of increased regulatory oversight, (xvi) loss of key personnel, and (xvii) adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, examinations or other legal and/or regulatory actions. These risks and uncertainties may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. The Company's future operating results depend on a number of factors which were derived utilizing numerous assumptions that could cause actual results to differ materially from those projected in forward-looking statements

Impact of COVID-19

Information regarding the impact of the COVID-19 pandemic on our financial condition and results of operations as of and for the twelve months ended December 31, 2022 and comparable prior year periods is noted throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

WILSON BANK HOLDING COMPANY
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

General

The Company is a registered bank holding company that owns 100% of the common stock of Wilson Bank and Trust (“Wilson Bank”), a Tennessee state-chartered bank headquartered in Lebanon, Tennessee. The Company was formed in 1992. Wilson Bank commenced operations in 1987.

Wilson Bank is a community bank headquartered in Lebanon, Tennessee, serving Wilson County, DeKalb County, Smith County, Trousdale County, Rutherford County, Davidson County, Putnam County, Sumner County, and Williamson County, Tennessee as its primary market areas. The markets served by the Bank are largely within the Nashville-Davidson-Murfreesboro-Franklin, Tennessee metropolitan statistical area. At December 31, 2022, Wilson Bank had twenty-nine locations in Wilson, Davidson, DeKalb, Smith, Sumner, Rutherford, Putnam, Trousdale and Williamson Counties. Management believes that these counties offer an environment for continued growth, and the Company’s target market is local consumers, professionals and small businesses. Wilson Bank offers a wide range of banking services, including checking, savings and money market deposit accounts, certificates of deposit and loans for consumer, commercial and real estate purposes. The Company also offers an investment center which offers a full line of investment services to its customers.

Wilson Bank also holds an ownership interest in Encompass Home Loan Lending, LLC ("Encompass"), a company offering mortgage banking services that is 51% owned by Wilson Bank and 49% owned by two home builders operating in Wilson Bank's market areas. The results of Encompass, which commenced operations on June 1, 2022, are consolidated in the Company's financial statements included elsewhere in this Annual Report.

The following discussion and analysis is designed to assist readers in their analysis of the Company’s consolidated financial statements and should be read in conjunction with such consolidated financial statements and the notes thereto.

Application of Critical Accounting Policies and Accounting Estimates

We follow accounting and reporting policies that conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information, forecasted economic conditions, and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our financial statements.

Accounting policies related to the allowance for credit losses on financial instruments including loans and off-balance-sheet credit exposures are considered to be critical as these policies involve considerable subjective judgment and estimation by management. As discussed in Note 1 - Summary of Significant Accounting Policies, our policies related to allowances for credit losses changed on January 1, 2022 in connection with the adoption of a new accounting standard update as codified in Accounting Standards Codification (“ASC”) Topic 326 (“ASC 326”) Financial Instruments - Credit Losses. In the case of loans, the allowance for credit losses is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. In the case of off-balance-sheet credit exposures, the allowance for credit losses is a liability account, calculated in accordance with ASC 326, reported as a component of accrued interest payable and other liabilities in our consolidated balance sheets. The amount of each allowance account represents management's best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. For additional information regarding critical accounting policies, refer to Note 1 - Summary of Significant Accounting Policies and Note 2 - Loans and Allowance for Credit Losses in the notes to consolidated financial statements contained elsewhere in this Annual Report.

Non-GAAP Financial Measures

This Annual Report contains certain financial measures that are not measures recognized under U.S. GAAP and, therefore, are considered non-GAAP financial measures. Members of Company management use these non-GAAP financial measures in their analysis of the Company's performance, financial condition, and efficiency of operations. Management of the Company believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods. Management of the Company also believes that investors find these non-GAAP financial measures useful as they assist investors in understanding underlying operating performance and identifying and analyzing ongoing operating trends. However, the non-GAAP financial measures discussed herein should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with U.S. GAAP. Moreover, the manner in which the non-GAAP financial measures discussed herein are calculated may differ from the manner in which measures with similar names are calculated by other companies. You should understand how other companies calculate their financial measures similar to, or with names similar to, the non-GAAP financial measures we have discussed herein when comparing such non-GAAP financial measures.

The non-GAAP measures in this Annual Report include "pre-tax pre-provision income," "pre-tax pre-provision diluted earnings per share," "pre-tax pre-provision annualized return on average stockholders' equity," and "pre-tax pre-provision annualized return on average assets." A reconciliation of these measures to the comparable GAAP measures is included below.

Selected Financial Information

The Executive management and Board of Directors of the Company evaluate key performance indicators (KPIs) on a continuing basis. These KPIs serve as benchmarks of Company performance and are used in making strategic decisions. The following table represents the KPIs that management has determined to be important in making decisions for the Bank, in each case as of and for the year ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
PER SHARE DATA:			
Diluted earnings per common share (GAAP)	$ 4.65	$ 4.43	$ 3.51
Pre-tax pre-provision diluted earnings per share (2)	$ 6.66	$ 5.89	$ 5.31
Cash dividends per common share	$ 1.85	$ 1.35	$ 1.20
Dividends declared per common share as a percentage of basic earnings per common share	39.78%	30.47%	34.19%

	2022	2021	2020
PERFORMANCE RATIOS:			
Return on average stockholders' equity (GAAP) (1)	14.36%	12.45%	10.65%
Pre-tax pre-provision return on average stockholders' equity (2)	20.51%	16.52%	16.06%
Return on average assets (GAAP) (3)	1.29%	1.35%	1.24%
Pre-tax pre-provision return on average assets (2)	1.84%	1.79%	1.88%
Efficiency ratio (GAAP) (4)	55.15%	56.60%	56.84%

(1) Return on average stockholders' equity is the result of net income divided by average stockholders' equity.
(2) Excludes income tax expense, and for 2022 provision for credit losses and provision for credit losses on off-balance sheet exposures. For 2021 and 2020 excludes income tax expense, provision for loan losses, and provision for off-balance sheet exposures.
(3) Return on average assets is the result of net income divided by average assets.
(4) Efficiency ratio is the ratio of noninterest expense to the sum of net interest income and non-interest income.

	December 31, 2022	December 31, 2021
BALANCE SHEET RATIOS:		
Total capital to assets ratio	8.41%	10.37%
Equity to asset ratio (Average equity divided by average total assets)	8.99%	10.86%
Tier 1 capital to average assets	11.18%	10.77%
Non-performing asset ratio	0.02%	0.01%
Book value per common share	$ 31.42	$ 36.93

Reconciliation of Non-GAAP Financial Measures

	December 31, 2022	December 31, 2021	December 31, 2020
Pre-tax pre-provision income:			
Net income attributable to common stockholders (GAAP)	$ 53,042	$ 49,426	$ 38,492
Add: provision for credit losses	8,656	1,143	9,696
Add: provision expense (benefit) for credit losses on off-balance sheet exposures	(1,014)	262	259
Add: income tax expense	15,056	14,732	9,618
Pre-tax pre-provision income	$ 75,740	$ 65,563	$ 58,065
Pre-tax pre-provision basic earnings per share:			
Pre-tax pre-provision income	$ 75,740	$ 65,563	$ 58,065
Weighted average shares	11,377,617	11,131,897	10,927,065
Diluted earnings per common share (GAAP)	$ 4.65	$ 4.43	$ 3.51
Provision for credit losses	$ 0.76	$ 0.10	$ 0.89
Provision expense (benefit) for credit losses on off-balance sheet exposures	$ (0.09)	$ 0.02	$ 0.02
Income tax expense	$ 1.34	$ 1.34	$ 0.89
Pre-tax pre-provision diluted earnings per common share	$ 6.66	$ 5.89	$ 5.31
Pre-tax pre-provision return on average assets:			
Pre-tax pre-provision income	$ 75,740	$ 65,563	$ 58,065
Average assets	4,107,738	3,653,528	3,095,584
Return on average assets (GAAP)	1.29%	1.35%	1.24%
Provision for credit losses	0.21%	0.03%	0.31%
Provision expense (benefit) for credit losses on off-balance sheet exposures	(0.02)%	0.01%	0.01%
Income tax expense	0.36%	0.40%	0.32%
Pre-tax pre-provision return on average assets	1.84%	1.79%	1.88%
Pre-tax pre-provision return on average stockholders' equity:			
Pre-tax pre-provision income	$ 75,740	$ 65,563	$ 58,065
Average total stockholders' equity	369,314	396,879	361,544
Return on average stockholders' equity (GAAP)	14.36%	12.45%	10.65%
Provision for credit losses	2.34%	0.29%	2.68%
Provision expense (benefit) for credit losses on off-balance sheet exposures	(0.27)%	0.07%	0.07%
Income tax expense	4.08%	3.71%	2.66%
Pre-tax pre-provision return on average stockholders' equity	20.51%	16.52%	16.06%

Results of Operations

Net earnings for the year ended December 31, 2022 were $53,042,000, an increase of $3,616,000, or 7.32%, compared to net earnings of $49,426,000 for the year ended December 31, 2021. Our 2021 net earnings were 28.41%, or $10,934,000, higher than our net earnings of $38,492,000 for 2020. Basic earnings per share were $4.66 in 2022, compared with $4.44 in 2021 and $3.52 in 2020. Diluted earnings per share were $4.65 in 2022, compared to $4.43 in 2021 and $3.51 in 2020. The increase in net earnings and diluted and basic earnings per share during the year ended December 31, 2022 as compared to the year ended December 31, 2021 was primarily due to an increase in net interest income, partially offset by a decrease in non-interest income, an increase in provision for credit losses on loans, and an increase in non-interest expense. The increase in net interest income was due to an increase in average loan and securities balances between the relevant periods and an increased net interest margin. Net interest margin for the year ended December 31, 2022 was 3.70%, compared to 3.44% and 3.60% for the years ended December 31, 2021 and December 31, 2020, respectively. Net interest spread for the year ended December 31, 2022 was 3.62%, compared to 3.36% and 3.46% for the years ended December 31, 2021 and December 31, 2020, respectively. The increase in non-interest expense resulted from the Company's continued growth as well as rising costs of employees' salaries and benefits as a result of competition we are experiencing for human capital in our market areas. See below for further discussion regarding variances related to net interest income, provision for credit losses, non-interest income, non-interest expense and income taxes.

The decrease in Return on Average Assets (ROA) for the year ended December 31, 2022 when compared to December 31, 2021 as set forth in the table above was primarily attributable to an increase in average assets, an increase in provision expense, a decrease in fees and gains on sales of mortgage loans, a loss on sale of securities, and an increase in employee salaries and benefits, partially offset by an increase in net interest income. The increase in Return on Average Assets (ROA) for the year ended December 31, 2021 when compared to December 31, 2020 as set forth in the table above was primarily attributable to an increase in net interest income, an increase in debit and credit card interchange income, an increase in brokerage income, and a decrease in provision expense from elevated levels in 2020 due to the COVID-19 pandemic, offset in part by an increase in employee salaries and benefits.

The decrease in total capital to assets ratio and the equity to asset ratio for the year ended December 31, 2022 when compared to December 31, 2021 as set forth in the table above was primarily attributable to an increase in the unrealized loss of our available-for-sale securities as a result of the impact of the rising rate environment.

Net Interest Income

The schedule which follows indicates the average balances for each major balance sheet item, an analysis of net interest income and net interest expense and the change in interest income and interest expense attributable to changes in volume and changes in rates.

The difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities is net interest income, which is the Company's gross margin. Analysis of net interest income is more meaningful when income from tax-exempt earning assets is adjusted to a tax equivalent basis. Accordingly, the following schedule includes a tax equivalent adjustment of tax-exempt earning assets, assuming a weighted average Federal income tax rate of 21% for 2022, 2021 and 2020.

In this schedule, "change due to volume" is the change in volume multiplied by the interest rate for the prior year. "Change due to rate" is the change in interest rate multiplied by the volume for the prior year. Changes in interest income and expense not due solely to volume or rate changes have been allocated to the "change due to volume" and "change due to rate" in proportion to the relationship of the absolute dollar amounts of the change in each category.

Non-accrual loans have been included in the loan category.

Dollars In Thousands

	2022			2021			2022/2021 Change			
	Average Balance	**Rates/Yields**	**Income/ Expense**	**Average Balance**	**Rates/Yields**	**Income/ Expense**	**Due to Volume**	**Due to Rate**	**Total**	**Percent Change**
Loans, net of unearned interest (1) (2)	$2,796,301	5.05%	138,161	$2,382,262	5.07%	118,676	$ 20,079	(594)	19,485	
Investment securities—taxable	814,716	1.95	15,902	645,513	1.38	8,922	2,714	4,266	6,980	
Investment securities—tax exempt	72,724	1.91	1,392	79,096	1.55	1,229	(105)	268	163	
Taxable equivalent adjustment (3)	—	0.51	370	—	0.41	327	(27)	70	43	
Total tax-exempt investment securities	72,724	2.42	1,762	79,096	1.97	1,556	(132)	338	206	
Total investment securities	887,440	1.99	17,664	724,609	1.45	10,478	2,582	4,604	7,186	
Loans held for sale	7,131	3.70	264	16,478	2.66	438	(306)	132	(174)	
Federal funds sold	15,486	0.72	111	31,083	0.04	13	(10)	108	98	
Interest bearing deposits	204,300	0.74	1,522	349,000	0.13	445	(256)	1,333	1,077	
Restricted equity securities	4,768	3.94	188	5,089	2.32	118	(7)	77	70	
Total earning assets	3,915,426	4.11	157,910	3,508,521	3.77	130,168	22,082	5,660	27,742	21.31%
Cash and due from banks	24,335			31,225						
Allowance for credit losses - loans	(36,444)			(39,194)						
Bank premises and equipment	61,807			59,772						
Other assets	142,614			93,204						
Total assets	$4,107,738			$3,653,528						

Dollars In Thousands

	2022			2021			2022/2021 Change			
	Average Balance	**Rates/Yields**	**Income/ Expense**	**Average Balance**	**Rates/Yields**	**Income/ Expense**	**Due to Volume**	**Due to Rate**	**Total**	**Percent Change**
Deposits:										
Negotiable order of withdrawal accounts	$1,083,028	0.24%	2,546	$ 912,577	0.20%	1,866	$ 378	302	680	
Money market demand accounts	1,250,916	0.47	5,905	1,079,002	0.14	1,547	283	4,075	4,358	
Time deposits	601,100	1.08	6,486	605,162	1.26	7,610	(51)	(1,073)	(1,124)	
Other savings deposits	332,918	0.34	1,116	253,265	0.19	480	185	451	636	
Total interest-bearing deposits	3,267,962	0.49	16,053	2,850,006	0.40	11,503	795	3,755	4,550	
Federal Home Loan Bank advances	—	—	—	858	15.50	133	(133)	—	(133)	
Fed funds purchased	256	5.47	14	—	—	—	14	—	14	
Finance leases	1,928	3.43	66	—	—	—	66	—	66	
Total interest-bearing liabilities	3,270,146	0.49	16,133	2,850,864	0.41	11,636	742	3,755	4,497	38.65%
Demand deposits	434,443			385,264						
Other liabilities	33,835			20,521						
Stockholders’ equity	369,314			396,879						
Total liabilities and stockholders’ equity	$4,107,738			$3,653,528						
Net interest income			$141,777			$118,532	$ 21,340	$ 1,905	$ 23,245	19.61%
Net interest margin (4)		3.70%			3.44%					
Net interest spread (5)		3.62%			3.36%					

(1) Yields on loans and total earning assets include the impact of State income tax credits related incentive loans at below market rates and tax exempt loans to municipalities of $3.0 million and $2.1 million for the years ended December 31, 2022 and 2021.

(2) Loan fees of $12.9 million are included in interest income in 2022, inclusive of $139,000 in SBA fees related to PPP loans. Loan fees of $16.1 million are included in interest income in 2021, inclusive of $3.6 million in SBA fees related to PPP loans.

(3) The tax equivalent adjustment for 2022 and 2021 have been computed using a 21% Federal tax rate.

(4) Annualized net interest income on a tax equivalent basis divided by average interest-earning assets.
(5) Average interest rate on interest-earning assets less average interest rate on interest-bearing liabilities.

Dollars In Thousands

	2021			2020			2021/2020 Change			
	Average Balance	Rates/Yields	Income/ Expense	Average Balance	Rates/Yields	Income/ Expense	Due to Volume	Due to Rate	Total	Percent Change
Loans, net of unearned interest (1) (2)	$2,382,262	5.07%	118,676	$2,236,815	5.16%	113,224	$ 7,484	(2,032)	5,452	
Investment securities—taxable	645,513	1.38	8,922	430,349	1.69	7,272	3,151	(1,501)	1,650	
Investment securities—tax exempt	79,096	1.55	1,229	67,333	1.64	1,102	185	(58)	127	
Taxable equivalent adjustment (3)	—	0.41	327	—	0.44	293	49	(15)	34	
Total tax-exempt investment securities	79,096	1.97	1,556	67,333	2.08	1,395	234	(73)	161	
Total investment securities	724,609	1.45	10,478	497,682	1.74	8,667	3,385	(1,574)	1,811	
Loans held for sale	16,478	2.66	438	22,432	2.75	616	(159)	(19)	(178)	
Federal funds sold	31,083	0.04	13	7,183	0.78	56	49	(92)	(43)	
Interest bearing deposits	349,000	0.13	445	206,281	0.28	582	280	(417)	(137)	
Restricted equity securities	5,089	2.32	118	4,939	2.35	116	3	(1)	2	
Total earning assets	3,508,521	3.77	130,168	2,975,332	4.22	123,261	11,042	(4,135)	6,907	5.60%
Cash and due from banks	31,225			19,145						
Allowance for credit losses - loans	(39,194)			(32,360)						
Bank premises and equipment	59,772			59,353						
Other assets	93,204			74,114						
Total assets	$3,653,528			$3,095,584						

Dollars In Thousands

	2021			2020			2021/2020 Change			
	Average Balance	Rates/Yields	Income/ Expense	Average Balance	Rates/Yields	Income/ Expense	Due to Volume	Due to Rate	Total	Percent Change
Deposits:										
Negotiable order of withdrawal accounts	$ 912,577	0.20%	1,866	$ 711,306	0.30%	2,150	$ 517	(801)	(284)	
Money market demand accounts	1,079,002	0.14	1,547	881,669	0.40	3,496	653	(2,602)	(1,949)	
Time deposits	605,162	1.26	7,610	619,387	1.77	10,939	(246)	(3,083)	(3,329)	
Other savings deposits	253,265	0.19	480	171,849	0.39	667	238	(425)	(187)	
Total interest-bearing deposits	2,850,006	0.40	11,503	2,384,211	0.72	17,252	1,162	(6,911)	(5,749)	
Federal Home Loan Bank advances	858	15.50	133	18,858	5.13	967	581	(1,415)	(834)	
Total interest-bearing liabilities	2,850,864	0.41	11,636	2,403,069	0.76	18,219	1,743	(8,326)	(6,583)	(36.13)%
Demand deposits	385,264			306,595						
Other liabilities	20,521			24,376						
Stockholders' equity	396,879			361,544						
Total liabilities and stockholders' equity	$3,653,528			$3,095,584						
Net interest income			$118,532			$105,042	$ 9,299	$ 4,191	$ 13,490	12.84%
Net interest margin (4)		3.44%			3.60%					
Net interest spread (5)		3.36%			3.46%					

(1) Yields on loans and total earning assets include the impact of State income tax credits related incentive loans at below market rates and tax exempt loans to municipalities of $2.1 million and $2.2 million for the years ended December 31, 2021 and 2020.

(2) Loan fees of $16.1 million are included in interest income in 2021, inclusive of $3.6 million in SBA fees related to PPP loans. Loan fees of $12.0 million are included in interest income in 2020, inclusive of $3.2 million in SBA fees related to PPP loans.

(3) The tax equivalent adjustment for 2021 and 2020 have been computed using a 21% Federal tax rate.

(4) Annualized net interest income on a tax equivalent basis divided by average interest-earning assets.
(5) Average interest rate on interest-earning assets less average interest rate on interest-bearing liabilities.

The components of our loan yield, a key driver to our net interest margin for the years ended December 31, 2022, 2021, and 2020 were as follows:

	December 31, 2022		December 31, 2021		December 31, 2020	
	Interest Income	Average Yield	Interest Income	Average Yield	Interest Income	Average Yield
Loan yield components:						
Contractual interest rates	125,281	4.48%	102,592	4.31%	101,181	4.52%
Origination and other fee income	12,741	0.46%	12,476	0.52%	8,854	0.40%
PPP loan fee income	139	—%	3,608	0.15%	3,189	0.14%
Loan tax credits and tax-exempt loan interest	2,953	0.11%	2,112	0.09%	2,216	0.10%
Total	$ **141,114**	**5.05%**	$ **120,788**	**5.07%**	$ **115,440**	**5.16%**

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Company's earnings. Total interest income in 2022 was $157,540,000, up 21.33% when compared with $129,841,000 in 2021, which was up 5.59% when compared to $122,968,000 in 2020, in each case excluding tax exempt adjustments relating to tax exempt securities and loans. The increase in total interest income in 2022 when compared to 2021 was primarily attributable to an increase in interest and fees earned on loans, an increase in interest and dividends earned on securities, and an increase in interest earned on interest bearing deposits. The increase in interest and fees earned on loans resulted from an overall increase in average loan balances, partially offset by a decrease in our loan yields. The decrease in yield on loans was primarily due to decreased PPP loan fees for the year ended December 31, 2022 compared to the comparable period in 2021, though such decline was partially offset by rising interest rates. Our contractual interest rates were up 17 basis points for the year ended December 31, 2022 when compared to the comparable period in 2021. Eighty percent of the loans in our loan portfolio are variable rate loans, primarily indexed to the Federal Reserve prime rate. Many of our variable rate loans had contractual repricing dates that extended beyond 2022, impacting our contractual yields. Loan fees related to PPP loans in 2022 and 2021 accounted for no basis points versus 15 basis points, respectively, of our loan yields. Fees earned on loans totaled $12,880,000, $16,084,000 and $12,043,000 for the years ended 2022, 2021 and 2020, respectively. The total amount of state income tax credits and tax-exempt loan interest included in our loan yields were $2,953,000, $2,112,000 and $2,216,000 for the years ended 2022, 2021 and 2020, respectively. The increase in interest and dividends earned on securities resulted from an overall increase in the average balance of securities and the higher yields earned on the securities purchased throughout the year as management continued to invest liquid funds into the securities portfolio. The increase in interest earned on interest bearing deposits resulted from an increase in the yield earned due to the increased rate environment. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, increased 425 basis points in 2022, as the Federal Reserve sought to address higher levels of inflation. The direction and speed with which short-term interest rates move has an impact on our net interest income. The Bank anticipates that its net interest margin is likely to contract during 2023 because of the competitive pressures in its markets, which put pressure on the Bank's deposit pricing and compress loan yields, and the expected short-term impact of the anticipated increases in federal funds rate due to the Company's liability sensitive position.

The ratio of average earning assets to total average assets was 95.3%, 96.0% and 96.1% for each of the years ended December 31, 2022, 2021 and 2020, respectively. Average earning assets increased $406,905,000 from December 31, 2021 to $3,915,426,000 at December 31, 2022. For the year ended December 31, 2020, average earning assets were $2,975,332,000. The average rate earned on earning assets for 2022 was 4.11%, compared with 3.77% in 2021 and 4.22% in 2020. The increase in average earning assets was largely due to an increase in the average balance of loans due to loan growth and an increase in the average balance of investment securities due to management's decision to purchase securities to utilize excess liquidity. This was partially offset by a decrease in the average balance of interest bearing deposits due to loan growth that outpaced deposit growth. The increase in the average rate earned on earning assets resulted from the rising interest rate environment we experienced in 2022.

Total interest expense for 2022 was $16,133,000, an increase of $4,497,000, or 38.65%, compared to total interest expense of $11,636,000 in 2021. For 2020, total interest expense totaled $18,219,000. Average interest-bearing deposits increased to $3,267,962,000 for 2022 compared to $2,850,006,000 for 2021. The average rate paid on interest-bearing deposits was 0.49% for 2022 compared to 0.40% for 2021. Total interest expense decreased from $18,219,000 in 2020 to $11,636,000 in 2021, a decrease of $6,583,000, or 36.13%. The increase in total interest expense in 2022 resulted primarily from an increase in the rate and volume paid on average interest bearing deposits, other than time deposits, reflecting a rising interest rate environment and competitive pressures in our markets. The Company was able to maintain its time deposit rates at or below 2021 levels during the first two quarters of 2022 despite the rising rate environment. However, during the second half of 2022 the Company raised its time deposit rates to maintain liquidity levels and offer competitive rates in our markets. The decrease in total interest expense in 2021 resulted primarily from a decrease in the rates on average interest bearing deposits, reflecting the declining rate environment that had been experienced since the first quarter of 2020, partially offset by an overall increase in the volume of average interest-bearing deposits and a pre-payment penalty related to the early payoff of our FHLB advances. Should our liquidity decrease, including as a result of loan growth that outpaces deposit growth and continued interest rate increases by the Federal Reserve, the rates we pay on our deposits may increase. In addition, if interest rates remain elevated when those time deposits that were priced in 2021 mature in 2023, our interest expense will likely increase if such deposits are renewed. We expect deposit costs to continue to increase during the first half of 2023.

Net interest income for 2022 totaled $141,407,000 as compared to $118,205,000 and $104,749,000 in 2021 and 2020, respectively. The net interest spread, defined as the effective yield on earning assets less the effective cost of deposits and borrowed funds (calculated on a fully taxable equivalent basis), increased to 3.62% in 2022 from 3.36% in 2021. The net interest spread was 3.46% in 2020. Net interest margin increased to 3.70% in 2022 from 3.44% in 2021. The net interest margin was 3.60% in 2020. The increase in net interest margin in 2022 was due to an increase in the yield earned on all earning assets, other than loans, that outpaced the increase in rates paid on our interest bearing liabilities, in each case for the reasons discussed above. Changes in interest rates paid on products such as interest checking, savings, and money market accounts will generally increase or decrease in a manner that is consistent with changes in the short-term environment, but are also impacted by competitive market conditions.

Provision for Credit Losses

On January 1, 2022, we adopted FASB ASU 2016-13, which introduces the current expected credit losses (CECL) methodology and requires us to estimate all expected credit losses over the remaining life of our loan portfolio. The provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation is adequate to provide coverage for all expected credit losses. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity. Refer to Note 1, "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements for a detailed discussion regarding ACL methodology.

The 2022 provision for credit losses-loans was $8,656,000 calculated under the CECL methodology, compared to a provision of $1,143,000 and $9,696,000 in 2021 and 2020, respectively, under the incurred loss methodology. Upon adoption of ASC 326, we booked an opening balance sheet adjustment to our allowance for credit losses-off-balance sheet exposures of $6,195,000. The provision for credit losses on off-balance sheet exposures in 2022 was a recovery of $1,014,000, respectively, calculated under the CECL methodology, compared to a provision of $262,000 and $259,000 in 2021 and 2020, respectively under the incurred loss methodology. The decrease in the provision for credit losses-off-balance sheet credit exposures was the result of an increase in our unconditionally cancellable commitments, which are excluded from ASC 326 and a decrease in the rate at which we were reserving against the off-balance sheet exposures.

The increase in the provision for credit losses for the year ended December 31, 2022 was primarily attributable to an increase in the volume of loans originated during the period. The provision for loan losses recorded during 2021 was primarily the result of loan growth. Gross loan growth totaled $671,824,000, $165,338,000 and $237,558,000 ($62,437,000 of which was attributable to PPP loans) for the years ended 2022, 2021 and 2020, respectively.

The following detail provides a breakdown of the provision for credit loss-loans expense and net (charge-offs) recoveries at December 31, 2022, 2021 and 2020:

	In Thousands, Except Percentages			
	Provision for Credit Loss - Loans Expense (Benefit)	**Net (Charge-Offs) Recoveries**	**Average Loans**	**Ratio of Net (Charge-offs) Recoveries to Average Loans**
December 31, 2022				
Residential 1-4 family real estate	$ 1,353	$ 108	$ 762,580	0.01%
Commercial and multi-family real estate	1,886	—	974,101	—
Construction, land development and farmland	3,795	19	736,728	—
Commercial, industrial and agricultural	(117)	6	119,855	0.01
1-4 family equity lines of credit	396	—	120,104	—
Consumer and other	1,343	(1,044)	82,933	(1.26)
Total	$ 8,656	$ (911)	$ 2,796,301	(0.03)%
December 31, 2021				
Residential 1-4 family real estate	$ 971	$ 68	$ 609,075	0.01%
Commercial and multi-family real estate	(1,497)	—	917,106	—
Construction, land development and farmland	1,296	371	551,183	0.07
Commercial, industrial and agricultural	(35)	(27)	144,209	(0.02)
1-4 family equity lines of credit	101	—	84,460	—
Consumer and other	307	(462)	76,229	(0.61)
Total	$ 1,143	$ (50)	$ 2,382,262	0.00%
December 31, 2020				
Residential 1-4 family real estate	$ 883	$ 53	$ 539,244	0.01%
Commercial and multi-family real estate	5,812	300	930,343	0.03
Construction, land development and farmland	1,733	173	479,612	0.04
Commercial, industrial and agricultural	341	(9)	138,473	(0.01)
1-4 family equity lines of credit	74	34	76,489	0.04
Consumer and other	853	(434)	72,654	(0.60)
Total	$ 9,696	$ 117	$ 2,236,815	0.01%

Following our adoption of CECL, the provision for credit losses charged to operating expense requires us to estimate all expected credit losses over the remaining life of our loan portfolio. Other factors which, in management's judgment, deserve current recognition in estimating expected credit losses include growth and composition of the loan portfolio, review of specific problem loans, the relationship of the allowance for credit losses to outstanding loans, adverse situations that may affect our borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions that may affect our borrowers' ability to pay.

Credit loss expense related to off-balance sheet exposures was previously reported as a component of other non-interest expense. Such amounts have been reclassified to credit loss expense to make prior periods comparable to the current presentation. See the section captioned "Allowance for Credit Losses" elsewhere in this discussion for further analysis of credit loss expense related to loans and off-balance sheet credit exposures.

Non-Interest Income

The Company's non-interest income is composed of several components, some of which vary significantly between periods. Service charges on deposit accounts and other non-interest income generally reflect the Company's growth, while fees for origination of mortgage loans and brokerage fees and commissions will often reflect home mortgage market and stock market conditions and fluctuate more widely from period to period.

The following is a summary of our non-interest income for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	Twelve Months Ended December 31,				Twelve Months Ended December 31,			
	2022	2021	$ Increase (Decrease)	% Increase (Decrease)	2021	2020	$ Increase (Decrease)	% Increase (Decrease)
Service charges on deposits	$ 7,382	$ 6,137	$ 1,245	20.29%	$ 6,137	$ 5,659	$ 478	8.45%
Brokerage income	6,929	6,368	561	8.81	6,368	4,837	1,531	31.65
Debit and credit card interchange income, net	8,416	7,783	633	8.13	7,783	5,842	1,941	33.22
Other fees and commissions	1,653	1,446	207	14.32	1,446	1,404	42	2.99
BOLI and annuity earnings	1,346	1,109	237	21.37	1,109	959	150	15.64
Gain (loss) on sale of securities, net	(1,620)	28	(1,648)	(5,885.71)	28	882	(854)	(96.83)
Fees and gains on sales of mortgage loans	2,973	9,997	(7,024)	(70.26)	9,997	9,560	437	4.57
Mortgage servicing income	111	—	111	100.00	—	—	—	—
Gain (loss) on sale of other real estate, net	—	(15)	15	100.00	(15)	658	(673)	(102.28)
Gain (loss) on the sale of fixed assets, net	291	(43)	334	776.74	(43)	(63)	20	(31.75)
Gain (loss) on sale of other assets, net	8	6	2	33.33	6	(4)	10	(250.00)
Other income	(69)	34	(103)	(302.94)	34	61	(27)	(44.26)
Total non-interest income	$ 27,420	$ 32,850	$ (5,430)	(16.53%)	$ 32,850	$ 29,795	$ 3,055	10.25%

2022 v. 2021

The decrease in non-interest income for the year ended December 31, 2022 when compared to the year ended December 31, 2021 is primarily attributable to a decrease in security gain (losses), net and a decrease in fees and gains on sales of mortgage loans, offset in part by an increase in service charges on deposit accounts, an increase in debit and credit card interchange income, an increase in brokerage income, and an increase in the gain on sale of fixed assets.

The loss on sale of securities we recorded in 2022 was due to management's decision to sell these securities due to the rising rate environment to restructure a portion of the securities portfolio into higher yielding securities in an effort to increase net interest margin in future periods.

The decrease in the fees and gains on sales of mortgage loans was due to the rising rate environment which contributed to weakened demand for purchase money mortgage loans and refinancing transactions, offset in part by gains in our mortgage hedging activities. In addition, inflation has increased home prices which has contributed to a decrease in the volume of home purchases in our markets. The volume of mortgage loans originated for 2022 was $106,601,000 compared to $215,813,000 in 2021. The mortgage industry expects volume to continue to decrease during 2023. In anticipation of the slowing of mortgage origination volume due to the rising rate environment, the Company began to retain servicing rights on some of the loans it originated during 2022.

Service charges on deposit accounts primarily increased due to an increase in overdraft fees and fees for paper statements.

Debit and credit card interchange income primarily increased due to an increase in the number and volume of debit card and credit card holders and transactions.

Brokerage income primarily increased due to the opening of new investment accounts as well as growth in assets under management, which can be attributed to marketing efforts and overall population growth of the middle Tennessee markets. In addition, the increase in interest rates has increased customers' interest in opportunities to capitalize on products and services provided.

2021 v. 2020

The increase in non-interest income for the year ended December 31, 2021 when compared to the year ended December 31, 2020 was primarily attributable to an increase in debit and credit card interchange income, an increase in brokerage income, an increase in service charges on deposit accounts, and an increase in fees and gains on sales of mortgage loans, offset in part by a decrease in gain on sale of securities and an increase in loss on sale of other real estate.

Debit and credit card interchange income primarily increased due to an increase in the number and volume of debit card and credit card holders and transactions. The increase in the volume of transactions was partially attributable to an increase in economic activity as many businesses reopened and mitigation efforts were relaxed as the COVID-19 pandemic abated, which resulted in increased consumer spending.

Brokerage income primarily increased due to the opening of new investment accounts, which was aided by the hiring of new investment managers and an increase in estate planning and trust asset accounts. Brokerage income was also aided by the continued strong recovery in the stock market from the lows of the first quarter of 2020 resulting from the COVID-19 pandemic.

Service charges on deposit accounts primarily increased due to an increase in service charges earned on overdraft fees, fees for paper statements, analysis charges, and fees from ATM transactions. The increase in service charges earned on overdraft fees and ATM transactions resulted from increased consumer spending resulting from the increase in economic activity. The increase in analysis charges resulted from an increase in monthly maintenance fees resulting from an increase in business customers.

The fees and gains on sales of mortgage loans primarily increased due to the continued influx of refinance volume as a result of continued low interest rates due to ongoing pandemic stimulus efforts. Beginning in 2021 rates started an upward climb as a result of inflationary pressure and tapering of the Federal Reserve's purchase of mortgage backed securities from quantitative easing which reduced growth on fees and gains on sale of mortgage loans in 2022.

The decrease in the gain on sale of securities for the year ended December 31, 2021 when compared to December 31, 2020 was due to management's opportunistic trading in 2020 to recognize additional income and management's strategy to sell securities in the fourth quarter of 2020 and use the gain to pay down Federal Home Loan Bank advances.

Non-Interest Expenses

Non-interest expenses consist primarily of employee costs, FDIC premiums, occupancy expenses, furniture and equipment expenses, advertising and public relations expenses, data processing expenses, directors' fees, audit, legal and consulting fees, and other operating expenses.

The following is a summary of the Company's non-interest expense for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	Twelve Months Ended December 31,				Twelve Months Ended December 31,			
	2022	2021	$ Increase (Decrease)	% Increase (Decrease)	2021	2020	$ Increase (Decrease)	% Increase (Decrease)
Employee salaries and benefits	$ 56,707	$ 52,722	$ 3,985	7.56%	$ 52,722	$ 45,661	$ 7,061	15.46%
Equity-based compensation	1,864	1,428	436	30.53	1,428	1,180	248	21.02
Occupancy expenses	5,563	5,473	90	1.64	5,473	5,216	257	4.93
Furniture and equipment expenses	3,389	3,323	66	1.99	3,323	3,267	56	1.71
Data processing expenses	7,727	6,079	1,648	27.11	6,079	5,101	978	19.17
Advertising expenses	3,455	2,736	719	26.28	2,736	2,487	249	10.01
Accounting, legal & consulting expenses	1,019	988	31	3.14	988	909	79	8.69
FDIC insurance	1,527	1,130	397	35.13	1,130	598	532	88.96
Directors' fees	650	686	(36)	(5.25)	686	634	52	8.20
Other operating expenses	11,208	10,927	281	2.57	10,927	11,426	(499)	(4.37)
Total non-interest expense	$ 93,109	$ 85,492	$ 7,617	8.91%	$ 85,492	$ 76,479	$ 9,013	11.78%

2022 v. 2021

The increase in non-interest expenses for the year ended December 31, 2022 when compared to the year ended December 31, 2021 is primarily attributable to a year-over-year increase in salaries and employee benefits, equity-based compensation, data processing expenses, advertising expenses, and FDIC insurance.

The increase in salaries and employee benefits for the year ended December 31, 2022 when compared to the year ended December 31, 2021 is primarily attributable to an increase in the number of employees necessary to support the Company's growth in operations and branch count as well as an increase in incentives and temporary salaries, offset by a decrease in commission salaries and mortgage lender compensation. The increase in equity-based compensation is due to equity awards granted to certain of our directors, senior executive officers and other officers and an increase in the weighted average grant date value of those awards. The Company anticipates that salaries and employee benefits expense and occupancy expense will continue to increase as the Company's operations and facilities continue to grow and competition to retain and attract associates remains relevant.

The increase in data processing expenses is primarily attributable to an increase in computer maintenance, computer license expense, and call center expense. The computer maintenance and license expenses included movement of in-house systems to cloud servers, additional investments in digital banking solutions, and an increase in information security expenses. The increase in call center expense resulted from the call center extending their operating hours. The Company anticipates that data processing expenses will continue to increase as the Company's operations grow and the focus by the Company on the acceleration of digital product offerings increases.

The increase in advertising expenses is primarily attributable to the opening of a new branch which included targeted marketing efforts to drive traffic and awareness for the new location, as well as additional targeted marketing efforts to help increase market share in our growth areas. We also saw an increase in expenses related to the return of in-person events as COVID-19 restrictions continued to loosen. The Company was also the sole sponsor for a Habitat for Humanity home build as well as a sponsor for several other community events for the markets we serve.

The increase in FDIC insurance is primarily attributable to an increase in deposit growth.

The increase in other operating expenses was related to meals and entertainment, supplies, and debit and credit card losses.

The efficiency ratio is a common and comparable KPI used in the banking industry. The Company uses this metric to monitor how effective management is at using our internal resources. It is calculated by taking our non-interest expense divided by our net-interest income plus non-interest income. Our efficiency ratio for the years ended 2022, 2021 and 2020 was 55.15%, 56.60% and 56.84%, respectively. The improvement in the efficiency ratio in 2022 when compared to 2021 was due to increased levels of interest income, partially offset by a decrease in the gain on sale of loans due to the rising rate environment and a loss on the sale of securities due to management's decision to restructure a portion of its securities portfolio as discussed above.

2021 v. 2020

The increase in non-interest expenses for the year ended December 31, 2021 when compared to the year ended December 31, 2020 was primarily attributable to a year-over-year increase in salaries and employee benefits, equity-based compensation, occupancy expenses, data processing expenses, ATM and interchange fees, FDIC insurance, and advertising expenses, partially offset by a decrease in other operating expenses.

The increase in salaries and employee benefits for the year ended December 31, 2021 when compared to the year ended December 31, 2020 was primarily attributable to an increase in the number of employees necessary to support the Company's growth in operations as well as an increase in salaries for employees including as a result of increased levels of competition for talent in our market areas. The increase was also due to increases in incentives and commissions, due to an increase in the volume of booked mortgage loans and the success of new additional investment advisor personnel. This increase also resulted from the payment of an $812,000, in the aggregate, mid-year bonus paid to employees in the second quarter of 2021 to acknowledge their hard work and perseverance throughout the pandemic and implementation of PPP. The increase in equity-based compensation is due to equity awards granted to certain of our directors, senior executive officers and other officers, in connection with their assumption of additional responsibilities and an increase in the weighted average grant date value of those awards. The increase in occupancy expense was primarily attributable to an increase in maintenance and repairs on buildings, an increase in property taxes, an increase in depreciation expense on buildings resulting from improvements, an increase in lease expense due to an increase in leased branches, and an increase in utility expense due to a transition back to the office by employees.

The increase in data processing expenses was primarily attributable to an increase in computer maintenance and computer licenses. These expenses included upgrades of our current systems as well as additional investments in computer software, an increase in I.T. consulting expense and an increase in information security expenses.

The increase in ATM and interchange fees was primarily attributable to an increase in debit card interchange fee expense due to the volume of transactions, and the increase in economic activity.

The increase in FDIC insurance was primarily attributable an increase in deposit account balances resulting from economic growth and stimulus programs.

The increase in advertising expenses was primarily attributable to targeted marketing efforts in order to increase our market share in existing markets.

The decrease in other operating expenses was primarily attributable to a decrease in professional fees on loans and a decrease in state bank assessment fees, partially offset by an increase in telephone expense, cash back expense, and fees and licenses expense. The decrease in professional fees on loans resulted from the investment in required software to facilitate participation in PPP lending that occurred in June 2020. The increase in telephone expense resulted from a one-time setup fee resulting from a conversion to a new vendor. The increase in cash back expense resulted from growth in market share that resulted in the opening of new deposit accounts.

Income Taxes

The Company's income tax expense was $15,056,000 for 2022, an increase of $324,000 from $14,732,000 for 2021, which was up by $5,114,000 from the 2020 total of $9,618,000. The percentage of income tax expense to earnings before taxes was 22.1% in 2022, 23.0% in 2021 and 20.0% in 2020. The increase in income tax expense in 2022 from 2021 was due to an increase in earnings before income taxes, partially offset by additional state tax credits that lowered our effective tax rate. The increase in 2021 from 2020 was due to an increase in earnings before income taxes and an increase in our effective tax rate. Our effective tax rate represents our blended federal and state rate of 26.135% affected by the impact of anticipated favorable permanent differences between our book and taxable income such as bank-owned life insurance, income earned on tax-exempt securities and loans, and certain federal and state tax credits.

Our income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes at both the federal and state level. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for changes in accounting policies and incorporate assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income. Changes in current tax laws and rates could also affect recorded deferred tax assets and liabilities in the future as was the case with the passage of the Tax Cuts and Jobs Act in 2017.

Financial Accounting Standards Board ("FASB") ASC Topic 740, Income Taxes ("ASC 740") provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. ASC Topic 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We recognize tax liabilities in accordance with ASC Topic 740 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Financial Condition

Balance Sheet Summary

The Company’s total assets increased in 2022 by $296,054,000 or 7.42%, to $4,285,650,000 at December 31, 2022, after increasing 18.40% in 2021 to $3,989,596,000 at December 31, 2021. Loans, net of allowance for credit losses, totaled $3,113,796,000 at December 31, 2022, a $669,514,000, or 27.39%, increase compared to December 31, 2021. In 2021, management targeted owner-occupied commercial real estate, residential real estate lending and consumer lending as areas of focus. In 2022, management targeted owner-occupied commercial real estate, residential real estate lending and small business lending as areas of focus. The increase in loans in 2022 resulted from an overall increase in loan demand across all loan segments, primarily driven by a robust local housing, construction and commercial real estate market. Although the Company continued to grow loans in 2022, the Company expects to experience slower loan growth in 2023 as interest rates continue to rise and economic conditions appear likely to continue to worsen, including as a result of persistent elevated levels of inflation. At year-end 2022, securities totaled $822,812,000, a decrease of 8.33% from $897,585,000 at December 31, 2021, primarily due to an increase in interest rates that caused the fair market value of our securities portfolio to decline, partially offset by the purchase of new securities. As a result of loan growth that outpaced deposit growth, interest bearing deposits at other financial institutions decreased by $322,246,000, to $78,694,000 at December 31, 2022. Deferred income taxes totaled $51,323,000 at December 31, 2022, a $38,531,000, or 301.21%, increase compared to December 31, 2021. The increase in deferred income taxes was largely attributable to an increase in the unrealized losses on our available-for-sale securities of $140,953,000.

Total liabilities increased by $349,319,000, or 9.77%, to $3,925,198,000 at December 31, 2022 compared to $3,575,879,000 at December 31, 2021. This increase was composed primarily of the $337,634,000 increase in total deposits to $3,892,705,000, a 9.50% increase from December 31, 2021. The increase in total deposits since December 31, 2021 was primarily attributable to growth in market share and branching and brokered deposit activities, which resulted in the opening of new deposit accounts. Accrued interest and other liabilities increased to $32,493,000 from $20,808,000 at respective year ends 2022 and 2021. The increase in accrued interest and other liabilities was due to an increase in reserve for off-balance sheet exposures due to the adoption of CECL on January 1, 2022, which resulted in an adjustment to the opening balance of the reserve for off-balance sheet exposures of $6,195,000. This increase was also attributable to an increase in escrow payable, an increase in finance lease payable due to the opening of a branch in January 2022, and an increase in interest payable on interest bearing deposit accounts, partially offset by a decrease in reserve for income and excise taxes.

Stockholders’ equity decreased $53,265,000, or 12.87%, in 2022, due to decrease in the fair value of available-for-sale securities and dividends paid on the Company’s common stock, partially offset by net earnings, the issuance of common stock pursuant to the Company’s Dividend Reinvestment Plan, the exercise of stock options, the effect of change in accounting principle for the adoption of CECL, and non-controlling contributions related to Encompass. The change in stockholders’ equity includes a $104,115,000 increase in net unrealized losses on available-for-sale securities, net of taxes during the period. A more detailed discussion of assets, liabilities and capital follows.

Loans

The following schedule details the loans and percentage of loans in each category of the Company at December 31, 2022 and 2021 (dollars in thousands):

	December 31, 2022		December 31, 2021	
	AMOUNT	%	AMOUNT	%
Residential 1-4 family real estate	$ 854,970	27.0%	$ 689,579	27.6%
Commercial and multi-family real estate	1,064,297	33.6	908,673	36.4
Construction, land development and farmland	879,528	27.8	612,659	24.5
Commercial, industrial and agricultural	124,603	3.9	118,155	4.8
1-4 family equity lines of credit	151,032	4.8	92,229	3.7
Consumer and other	93,332	2.9	74,643	3.0
Total loans before net deferred loan fees	3,167,762	100.0%	2,495,938	100.0%
Net deferred loan fees	(14,153)		(12,024)	
Total loans	3,153,609		2,483,914	
Less: Allowance for credit losses	(39,813)		(39,632)	
Net loans	$3,113,796		$2,444,282	

Loans are the largest component of the Company's assets and are its primary source of income. The Company's loan portfolio, net of allowance for credit losses, increased 27.39% at year-end 2022 when compared to year-end 2021. The table above sets forth the loan categories and the percentage of such loans in the portfolio as of December 31, 2022 and 2021.

As represented in the table, Wilson Bank experienced loan growth for the year ended December 31, 2022 in all loan categories. Residential 1-4 family real estate loans increased 24.0% in 2022 and comprised 27.0% of the total loan portfolio at December 31, 2022, compared to 27.6% at December 31, 2021. Management believes the increase in residential 1-4 family real estate loans was attributable to the Bank being able to grow its residential portfolio through marketing efforts directed at those building houses, and the developing investor sector of 1-4 family. Commercial and multi-family real estate loans increased 17.1% in 2022 and comprised 33.6% of the total loan portfolio at December 31, 2022, compared to 36.4% at December 31, 2021. The increase in commercial and multi-family real estate loans is attributable to a continued robust demand for each within the Bank's footprint, with major contributing factors being strong economic and population growth. Construction, land development and farmland loans increased 43.6% in 2022 and comprised 27.8% of the total loan portfolio at December 31, 2022, compared to 24.5% at December 31, 2021. The increase in construction, land development and farmland loans reflected the overall increase in demand for such loans in our markets. Because the construction portfolio remains a meaningful portion of our portfolio, Wilson Bank actively monitors these loans as it seeks to avoid advancing funds that exceed the present value of the collateral securing the loan. The responsibility for monitoring percentage of completion and distribution of funds tied to these completion percentages are monitored and administered by a credit administration department independent of the lending function. One-to-four family equity lines of credit loans increased 63.8% in 2022 and comprised 4.8% of the total loan portfolio at December 31, 2022, compared to 3.7% at December 31, 2021. The increase in 1-4 family equity lines of credit loans is largely attributable to a series of focused efforts through bank marketing and events in 2022, with a goal to establish and deepen overall total customer relationships. Wilson Bank continues to seek to diversify its real estate portfolio over the long term as it seeks to lessen concentrations in any one type of loan. As noted above, the Company expects loan growth to slow in 2023 as a result of the rising rate environment and the likely challenging economic conditions.

Banking regulators define highly leveraged transactions to include leveraged buy-outs, acquisition loans and recapitalization loans of an existing business. Under the regulatory definition, at December 31, 2022, the Company had no highly leveraged transactions, and there were no foreign loans outstanding during any of the reporting periods. As of December 31, 2022, the Company had not underwritten any loans in connection with capital leases.

The following table classifies the Company's fixed and variable rate loans at December 31, 2022 according to contractual maturities of: (1) one year or less, (2) after one year through five years, (3) after five years through fifteen years, and (4) after fifteen years (dollars in thousands):

	December 31, 2022				
	One Year or Less	After One Year Through Five Years	After Five Years Through Fifteen Years	After Fifteen Years	Total
Residential 1-4 family real estate	$ 52,259	$ 30,378	$ 114,258	$ 658,075	$ 854,970
Commercial and multi-family real estate	37,002	41,511	231,523	754,261	1,064,297
Construction, land development and farmland	249,916	205,837	83,280	340,495	879,528
Commercial, industrial and agricultural	17,988	42,196	37,220	27,199	124,603
1-4 family equity lines of credit	4,902	17,044	129,086	—	151,032
Consumer and other	19,350	47,043	11,290	15,649	93,332
Total	$ 381,417	$ 384,009	$ 606,657	$ 1,795,679	$ 3,167,762
Loans with fixed interest rates:					
Residential 1-4 family real estate	$ 39,595	$ 13,227	$ 20,770	$ 58,657	$ 132,249
Commercial and multi-family real estate	23,973	20,489	14,128	5,500	64,090
Construction, land development and farmland	176,425	75,190	19,071	23,380	294,066
Commercial, industrial and agricultural	13,883	36,318	8,523	—	58,724
1-4 family equity lines of credit	4,286	4,239	106	—	8,631
Consumer and other	8,685	45,641	7,966	1,385	63,677
Total	$ 266,847	$ 195,104	$ 70,564	$ 88,922	$ 621,437
Loans with variable interest rates:					
Residential 1-4 family real estate	$ 12,664	$ 17,151	$ 93,488	$ 599,418	$ 722,721
Commercial and multi-family real estate	13,029	21,022	217,395	748,761	1,000,207
Construction, land development and farmland	73,491	130,647	64,209	317,115	585,462
Commercial, industrial and agricultural	4,105	5,878	28,697	27,199	65,879
1-4 family equity lines of credit	616	12,805	128,980	—	142,401
Consumer and other	10,665	1,402	3,324	14,264	29,655
Total	$ 114,570	$ 188,905	$ 536,093	$ 1,706,757	$ 2,546,325

The following table details selected information as to non-accrual loans of the Company at December 31, 2022, 2021 and 2020:

	In Thousands, Except Percentages								
	December 31, 2022			December 31, 2021			December 31, 2020		
		Non-Accrual Loans			Non-Accrual Loans			Non-Accrual Loans	
	Total Loans	Amount	Percent of Loans in Category	Total Loans	Amount	Percent of Loans in Category	Total Loans	Amount	Percent of Loans in Category
Residential 1-4 family real estate	$ 854,970	$ —	—%	$ 689,579	$ —	—%	$ 544,427	$ 1,022	0.19%
Commercial and multi-family real estate	1,064,297	—	—	908,673	—	—	949,412	311	0.03
Construction, land development and farmland	879,528	—	—	612,659	—	—	504,055	—	—
Commercial, industrial and agricultural	124,603	—	—	118,155	—	—	174,017	—	—
1-4 family equity lines of credit	151,032	—	—	92,229	—	—	78,889	—	—
Consumer and other	93,332	—	—	74,643	—	—	79,800	—	—
Total	$3,167,762	$ —		$2,495,938	$ —		$2,330,600	$ 1,333	
Allowance for credit losses on loans		$ 39,813			$ 39,632			$ 38,539	
Ratio of non-accrual loans to total loans outstanding			—%			—%			0.06%
Ratio of allowance for credit losses on loans to non-accrual loans		—%			—%			2,891.15%	

The accrual of interest income is discontinued when it is determined that collection of interest is less than probable or the collection of any amount of principal is doubtful. The decision to place a loan on non-accrual status is based on an evaluation of the borrower's financial condition, collateral liquidation value, economic and business conditions and other factors that affect the borrower's ability to pay. At the time a loan is placed on non-accrual status, the accrued but unpaid interest is also evaluated as to collectability. If collectability is doubtful, the unpaid interest is charged off. Thereafter, interest on non-accrual loans is recognized only as received. There were no non-accrual loans at December 31, 2022 or December 31, 2021.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic, or other, concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. The concessions typically result from the Company's loss mitigation activities and could include reduction in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. Nonperforming TDRs as of December 31, 2022 decreased $15,000 to $150,000 at December 31, 2022 when compared to December 31, 2021 due to the pay down of two TDR loan relationships that were non-performing at December 31, 2021, partially offset by two TDR loan relationship that were performing at December 31, 2021 that are now classified as non-performing at December 31, 2022. Total TDRs decreased $113,000 to $928,000 from December 31, 2021 to December 31, 2022 largely due the payoff of 3 loan relationships that were classified as TDRs in 2021.

At December 31, 2022, and December 31, 2021, there was no other real estate owned outstanding.

The following table sets forth for the reported periods loans that were at least 30 days but less than 60 days past due, 60 days but less than 90 days past due and nonaccrual loans and those loans past due greater than 89 days:

	(In thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual and Greater Than 89 Days Past Due	Past Due	Current	Total Loans	Loans Greater Than 89 Days Past Due and Accruing Interest
December 31, 2022							
Residential 1-4 family real estate	$ 2,046	1,080	426	3,552	851,418	854,970	$ 426
Commercial and multi-family real estate	397	1,626	400	2,423	1,061,874	1,064,297	400
Construction, land development and farmland	591	—	—	591	878,937	879,528	—
Commercial, industrial and agricultural	49	62	—	111	124,492	124,603	—
1-4 family equity lines of credit	74	77	—	151	150,881	151,032	—
Consumer and other	403	184	43	630	92,702	93,332	43
Total	$ 3,560	3,029	869	7,458	3,160,304	3,167,762	$ 869
December 31, 2021							
Residential 1-4 family real estate	$ 2,072	169	357	2,598	686,981	689,579	$ 357
Commercial and multi-family real estate	—	—	—	—	908,673	908,673	—
Construction, land development and farmland	1,154	215	—	1,369	611,290	612,659	—
Commercial, industrial and agricultural	58	81	—	139	118,016	118,155	—
1-4 family equity lines of credit	170	—	9	179	92,050	92,229	9
Consumer and other	288	99	23	410	74,233	74,643	23
Total	$ 3,742	564	389	4,695	2,491,243	2,495,938	$ 389

Past due loans, which include nonaccrual loans and loans greater than 89 days past due, totaled $7,458,000 at December 31, 2022, an increase from $4,695,000 at December 31, 2021. The increase in nonaccrual and greater than 89 days past due loans during the year ended December 31, 2022 of $480,000 was due primarily to the addition of one large residential 1-4 family real estate loan relationship that was greater than 89 days past due and the addition of one large commercial and multi-family real estate loan relationship that was greater than 89 days past due. The increase in 60-89 days past due loans during the year ended December 31, 2022 of $2,465,000 was due to the addition of one large residential 1-4 family real estate loan and three large commercial and multi-family real estate loans. Management believes that it is probable that it will incur losses on nonaccrual and greater than 89 days past due loans but believes that these losses should not exceed the amount in the allowance for credit losses already allocated to these loans, unless there is a deterioration of local real estate values.

The net non-performing asset ratio (NPA) is used as a measure of the overall quality of the Company's assets. Our NPA ratio is calculated by dividing the total of our loans greater than 89 days past due and accruing interest, non-accrual loans, nonperforming TDRs, and other real estate owned by our total assets outstanding. Our NPA ratios for the periods ended December 31, 2022 and December 31, 2021 were 0.02% and 0.01%, respectively. The increase in our NPA ratio was impacted by increases in loans greater than 90 days past due and accruing interest.

The internally classified loans as a percentage of the allowance for credit losses were 16.0% and 19.4%, respectively, at December 31, 2022 and 2021. At December 31, 2022, loans totaling $6,376,000 were included in the Company's internal classified loan list. Of these loans $5,917,000 are real estate secured and $459,000 are secured by various other types of collateral. Such loans are listed as classified when information obtained about possible credit problems of the borrowers has prompted management to question the ability of the borrower to comply with the repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

The allowance for credit losses is discussed under "Critical Accounting Estimates", "Provision for Credit Losses", and "Summary of Significant Accounting Policies." The Company maintains its allowance for credit losses at an amount believed by management to be adequate to absorb probable credit losses inherent in the loan portfolio as of December 31, 2022.

Substantially all of the Company's loans are from Wilson, DeKalb, Smith, Putnam, Trousdale, Davidson, Rutherford, Sumner, Williamson and adjacent counties. Although the majority of the Company's loans are in the real estate market, the Company seeks to exercise prudent risk management in lending through the diversification by loan category within the real estate segment, including residential 1-4 family real estate, commercial and multi-family real estate, construction, land development and farmland, and 1-4 family equity lines of credit.

The Company will target owner-occupied commercial real estate, residential real estate lending and consumer lending as areas of emphasis in 2023. At December 31, 2022, the Company's total loans equaled 81.0% of its total deposits as compared to 69.9% at December 31, 2021. As a practice, the Company generally generates its own loans and does not buy participations from other institutions. The Company may sell portions of the loans it generates to other financial institutions for cash in order to improve the liquidity of the Company's loan portfolio or extend its lending capacity.

Allowance for Credit Losses

On January 1, 2022, we adopted FASB ASU 2016-13, which introduces the current expected credit losses (CECL) methodology and requires us to estimate all expected credit losses over the remaining life of our loan portfolio. The provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation, is adequate to provide coverage for all expected credit losses.

The allowance for credit losses represents the portion of the loan's amortized cost basis that we do not expect to collect due to credit losses over the loan's life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions considering macroeconomic forecasts. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for credit losses is based on the loan's amortized cost basis, excluding accrued interest receivable, as we promptly charge off accrued interest receivable determined to be uncollectible. We determine the appropriateness of the allowance through quarterly discounted cash flow modeling of the loan portfolio which considers lending-related commitments and other relevant factors, including macroeconomic forecasts and historical loss rates. In future quarters, we may update information and forecasts that may cause significant changes in the estimate in those future quarters.

Our allowance for credit losses at December 31, 2022 reflects an amount deemed appropriate to adequately cover all expected future losses as of the date the allowance is determined based on our allowance for credit losses assessment methodology. Provision for credit losses in 2022 resulted in an increase of the allowance for credit losses (net of charge-offs and recoveries) to $39,813,000 at December 31, 2022 from $39,632,000 at December 31, 2021 and $38,539,000 at December 31, 2020. The allowance for credit losses increased 24.15%, when including the Company's opening balance adjustment for ASC 326, between December 31, 2021 and December 31, 2022 as compared to the 26.96% increase in total loans over the same period. The allowance for credit losses was 1.26% of total loans outstanding at December 31, 2022 compared to an allowance for loan losses of 1.60% at December 31, 2021 and an allowance for loan losses of 1.66% at December 31, 2020. The internally classified loans as a percentage of the allowance for credit losses and allowance for loan losses, as applicable, were 16.0% and 19.4%, respectively, at December 31, 2022 and 2021.

The following schedule provides an allocation of the year-end allowance for credit losses on loans by portfolio segment for the Company as of and for the fiscal years ended December 31, 2022 and 2021:

	In Thousands, Except Percentages			
	Amount of Allowance Allocated	**Percent of Loans in Each Category to Total Loans**	**Total Loans**	**Ratio of Allowance Allocated to Loans in Each Category**
December 31, 2022				
Residential 1-4 family real estate	$ 7,310	27.0%	$ 854,970	0.86%
Commercial and multi-family real estate	15,299	33.6	1,064,297	1.44
Construction, land development and farmland	13,305	27.8	879,528	1.51
Commercial, industrial and agricultural	1,437	3.9	124,603	1.15
1-4 family equity lines of credit	1,170	4.8	151,032	0.77
Consumer and other	1,292	2.9	93,332	1.38
Total	$ 39,813	100.0%	3,167,762	1.26
Net deferred loan fees			(14,153)	
			$ 3,153,609	1.26%
December 31, 2021				
Residential 1-4 family real estate	$ 9,242	27.6%	$ 689,579	1.34%
Commercial and multi-family real estate	16,846	36.4	908,673	1.85
Construction, land development and farmland	9,757	24.5	612,659	1.59
Commercial, industrial and agricultural	1,329	4.8	118,155	1.12
1-4 family equity lines of credit	1,098	3.7	92,229	1.19
Consumer and other	1,360	3.0	74,643	1.82
Total	$ 39,632	100.0%	2,495,938	1.59
Net deferred loan fees			(12,024)	
			$ 2,483,914	1.60%

The allowance for credit losses is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. The allowance for credit losses as a percentage of total loans outstanding at December 31, 2022, net of deferred fees, decreased from the year ended December 31, 2021. This decrease was largely due to the implementation of CECL on January 1, 2022, which resulted in a downward adjustment to the opening balance of the allowance for credit losses of $7.6 million, offset by an increased provision expense due to loan growth.

We measure expected credit losses over the life of each loan utilizing two models. For residential 1-4 family, commercial and multi-family real estate, construction and land development, commercial and industrial, 1-4 family equity lines of credit, municipal, and certain other loan types, we use discounted cash flow models which measure probability of default and loss given default. For farmland, agricultural, credit cards, auto, and other consumer loans we use the remaining life method to estimate credit losses. The measurement of expected credit losses for loan segments utilizing discounted cash flow is impacted by certain macroeconomic variables. Models are adjusted to reflect the current impact of certain macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period.

In estimating expected credit losses as of December 31, 2022, we utilized the Moody's Analytics December 2022 BL Baseline Scenario (the "December BL Scenario") to forecast the macroeconomic variables used in our models. The December BL Scenario was based on the review of a variety of surveys of baseline forecasts of the U.S. economy. The December BL Scenario projections included, among other things, (i) U.S. Gross Domestic Product ("GDP") annualized quarterly growth rates in the range of approximately 0.78% to 1.14% during 2023 and 1.45% to 2.55% through the end of the forecast period in the fourth quarter of 2024; (ii) a U.S. unemployment rate in the range of approximately 3.80% to 4.15% during 2023 and 3.91% to 4.19% through the end of the forecast period in the fourth quarter of 2024; and (iii) a Home Price Index annualized quarterly growth rates in the range of approximately (4.46)% to 1.75% during 2023 and (4.67)% to (3.54)% through the end of the forecast period in the fourth quarter of 2024.

We adjust model results using qualitative factor ("Q-factor") adjustments. Q-Factor adjustments are based upon management judgment and current assessment as to the impact of risks related to changes in lending policies and procedures; economic and business conditions; loan portfolio attributes and credit concentrations; and external factors, among other things, that are not already captured within the modeling inputs, assumptions and other processes. Management assesses the potential impact of such items within a range of major risk to improvement and adjusts the modeled expected credit loss by an aggregate adjustment percentage based upon the assessment.

Wilson Bank's charge-off policy for collateral dependent loans is similar to its charge-off policy for all loans in that loans are charged-off in the month when a determination is made that the loan is uncollectible. Net charge-offs increased to $911,000 in 2022 from net charge-offs of $50,000 in 2021. Net recoveries in 2020 totaled $117,000. The ratio of net charge-offs to average total outstanding loans was 0.03% in 2022, 0.00% in 2021 and (0.01%) in 2020. Overall, the Bank experienced minimal charge-offs during 2022. It is expected that charge-offs will be modest for 2023; however, a deterioration in local economic conditions may negatively impact charge-offs in the future.

We also maintain an allowance for credit losses on off-balance sheet exposures, which decreased $1.0 million when compared to our day one allowance for credit losses for off-balance sheet exposures as a result of an increase in our unconditionally cancellable commitments, which are excluded from ASC 326 and a decrease in the rate at which we were reserving against the off-balance sheet exposures.

The level of the allowance and the amount of the provision for credit losses involve evaluation of uncertainties and matters of judgment. The Company maintains an allowance for credit losses which management believes is adequate to absorb losses in the loan portfolio. A formal calculation is prepared quarterly by the Company's Chief Financial Officer and provided to the Board of Directors to determine the adequacy of the allowance for credit losses. The calculation includes an evaluation of historical default and loss experience, current and forecasted economic conditions, an evaluation of qualitative factors, industry and peer bank loan quality indicators and other factors. See the discussion above under "Application of Critical Accounting Policies and Accounting Estimates" for more information. Management believes the allowance for credit losses at December 31, 2022 to be adequate, but if forecasted economic conditions do not meet management's current expectations, the allowance for credit losses may require an increase through additional provision for credit loss expense which would negatively impact earnings.

Securities

Securities decreased 8.33% to $822,812,000 at December 31, 2022 from $897,585,000 at December 31, 2021, and comprised the second largest and other primary component of the Company's earning assets. Securities decreased due to an increase in interest rates that caused the fair market value of our securities portfolio to decline, partially offset by the purchase of new securities. The average yield, including tax equivalent adjustment, of the securities portfolio at December 31, 2022 was 2.15% with a weighted average life of 8.25 years, as compared to an average yield of 1.60% and a weighted average life of 8.17 years at December 31, 2021. The weighted average lives on mortgage-backed securities reflect the repayment rate used for book value calculations.

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Upon and subsequent to adoption of CECL, for available-for-sale debt securities in an unrealized loss position, we evaluate the securities at each measurement date to determine whether the decline in the fair value below the amortized cost basis is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized through the allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings via provision for credit loss. At January 1, 2022 and December 31, 2022, we determined that available-for-sale securities that experienced a decline in fair value below the amortized cost basis were due to noncredit-related factors, principally the result of the rising interest rate environment we have been experiencing. Therefore, there was no provision for credit loss recognized during the twelve months ended December 31, 2022 with respect to our available-for-sale securities.

No securities have been classified as trading securities or held-to-maturity at December 31, 2022, December 31, 2021, or December 31, 2020.

Investment securities at December 31, 2022 and December 31, 2021 consisted of the following:

	December 31, 2022 Securities Available-For-Sale (In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. government agencies	$ 7,353	—	856	6,497
U.S. Government-sponsored enterprises (GSEs)	177,261	—	32,049	145,212
Mortgage-backed securities	518,727	1	74,290	444,438
Asset-backed securities	47,538	—	2,288	45,250
Corporate bonds	2,500	—	97	2,403
Obligations of states and political subdivisions	218,936	—	39,924	179,012
	$ 972,315	1	149,504	822,812

	December 31, 2021 Securities Available-For-Sale (In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. government agencies	$ 7,320	—	99	7,221
U.S. Government-sponsored enterprises (GSEs)	163,700	20	4,490	159,230
Mortgage-backed securities	465,588	2,726	6,537	461,777
Asset-backed securities	46,583	213	83	46,713
Corporate bonds	2,500	75	—	2,575
Obligations of states and political subdivisions	220,444	2,611	2,986	220,069
	$ 906,135	5,645	14,195	897,585

The following table details the contractual maturities and weighted average yields of investment securities of the Company. Actual maturities may differ from contractual maturities of mortgage and asset-backed securities because the mortgages or other assets underlying such securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories noted below as of December 31, 2022:

	December 31, 2022	
Available-For-Sale Securities	**Estimated Market Value**	**Weighted Average Yields**
	(In Thousands, Except Yields)	
Mortgage and asset-backed securities		
One year or less	$ 77	2.33%
After one year through five years	27,245	2.00
After five years through ten years	76,271	2.73
After ten years	386,095	2.29
Total Mortgage and asset backed securities	489,688	2.34
U.S. Treasury and other U.S. government agencies:		
One year or less	—	—
After one year through five years	6,497	1.00
After five years through ten years	—	—
After ten years	—	—
Total U.S. Treasury and other U.S. government agencies:	6,497	1.00
U.S. Government-sponsored enterprises (GSEs):		
One year or less	4,853	0.33
After one year through five years	29,739	0.99
After five years through ten years	90,139	1.44
After ten years	20,481	1.90
Total U.S. Government-sponsored enterprises (GSEs)	145,212	1.38
Obligations of states and political subdivisions*:		
One year or less	—	—
After one year through five years	5,431	2.00
After five years through ten years	59,675	1.89
After ten years	113,906	2.50
Total obligations of states and political subdivisions	179,012	2.28
Corporate bonds:		
One year or less	—	—
After one year through five years	2,403	4.25
After five years through ten years	—	—
After ten years	—	—
Total corporate bonds	2,403	4.25
Total available-for-sale securities	$ 822,812	2.15%

* Weighted average yield on tax-exempt obligations is stated on a tax-equivalent basis, assuming a weighted average Federal income tax rate of 21%.

We computed weighted average yields using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. We computed the weighted average yield for each maturity range using the fair value of each security in that range.

Premises and Equipment, net

Premises and equipment decreased $815,000, or 1.30%, from December 31, 2021 to December 31, 2022. The primary reason for the decrease was due to current year depreciation of $4,462,000 and the sale of a property which was originally purchased for a new branch location, which was partially offset by an increase in leasehold improvements and an increase in furniture, fixtures and equipment from the opening of a new branch, the purchase of a lot for possible future expansion, the remodel of five branches, an increase in computer software, and the purchase of four company vehicles.

Bank Owned Life Insurance

Bank owned life insurance increased $11,801,000, or 25.54%, from December 31, 2021 to December 31, 2022. The primary reason for the increase was due to the purchase of multiple policies totaling $10,500,000 and an increase in the overall cash surrender value of $1,300,000.

Deposits

The increases in assets in 2022 and 2021 were funded primarily by increases in deposits and the Company's earnings. Total deposits, which are the principal source of funds for the Company, totaled $3,892,705,000 at December 31, 2022 compared to $3,555,071,000 at December 31, 2021, an increase of 9.50%. The Company has targeted local consumers, professionals and small businesses as its central clientele; therefore, deposit instruments in the form of demand deposits, savings accounts, money market demand accounts, certificates of deposits and individual retirement accounts are offered to customers. Management believes the Wilson County, Davidson County, DeKalb County, Putnam County, Smith County, Sumner County, Rutherford County, Trousdale County and Williamson County areas are attractive economic markets offering growth opportunities for the Company; however, the Company competes with several larger banks and community banks that have bank offices in these counties which may negatively impact market growth or maintenance of current market share. Even though the Company is in a very competitive market, management currently believes that its market share can be maintained or expanded.

The $337,634,000, or 9.50%, growth in deposits in 2022 was due to a $100,114,000, or 8.33%, increase in money market accounts, an increase in certificates of deposits of $178,510,000, or 34.12%, a $39,886,000, or 3.87%, increase in NOW accounts, and a $42,529,000, or 14.35%, increase in savings accounts, partially offset by a $18,595,000, or 4.29%, decrease in demand deposit accounts and a decrease in individual retirement accounts of $4,810,000, or 6.87%. The increase in interest-bearing deposits is due to the Bank increasing rates to remain competitive in our market areas and customers shifting to these products from non-interest bearing accounts. The average rate paid on average total interest-bearing deposits was 0.49% for 2022 compared to 0.40% for 2021. The average rate paid in 2020 was 0.72%. The increase in total deposits since December 31, 2021 is primarily attributable to growth in market share which resulted in the opening of new accounts. Competitive pressure from other banks in our market area relating to deposit pricing could adversely affect the rates paid on deposit accounts as it limits our ability to lower deposit rates as short-term interest rates fall. It's these same competitive pressures that may cause our deposit rates to rise more quickly than we are able to increase the rates we earn on loans in a rising rate environment. If either of these scenarios were to happen, as it did in the second half of 2022, our net interest margin would experience compression and our results of operations would be negatively impacted. As noted above, we raised rates on time deposits to maintain liquidity levels and offer competitive rates in our markets. We expect deposit rates to continue to increase during the first half of 2023. The ratio of average loans to average deposits was 75.5% in 2022, 73.6% in 2021, and 83.1% in 2020.

The average amounts and average interest rates for deposits for 2022 and 2021 are detailed in the following schedule:

	2022		2021	
	Average Balance In Thousands	**Average Rate**	*Average Balance In Thousands*	**Average Rate**
Non-interest bearing deposits	$ 434,443	—%	$ 385,264	—%
Interest-bearing deposits:				
Negotiable order of withdrawal accounts	1,083,028	0.24	912,577	0.20
Money market demand accounts	1,250,916	0.47	1,079,002	0.14
Time deposits	601,100	1.08	605,162	1.26
Other savings	332,918	0.34	253,265	0.19
Total interest-bearing deposits	3,267,962	0.49%	2,850,006	0.40%
Total deposits	$ 3,702,405	0.43%	$ 3,235,270	0.36%

At December 31, 2022 and 2021, we estimate that we had approximately $1.2 billion and $1.1 billion, respectively, in uninsured deposits, which are the portion of deposit amounts that exceed the FDIC insurance limit.

The following schedule details the maturities of estimated uninsured time deposits greater than $250,000 at December 31, 2022:

	In Thousands
Time deposits otherwise uninsured with a maturity of:	
Three months or less	$ 21,340
Over three through six months	49,146
Over six through twelve months	55,999
Over twelve months	64,132

Portion of U.S. time deposits in excess of insurance limit	$ 190,617

Off Balance Sheet Arrangements

At December 31, 2022, the Company had unfunded lines of credit of $1.2 billion and outstanding standby letters of credit of $118 million. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. If needed to fund these outstanding commitments, the Company's bank subsidiary has the ability to access interest-bearing deposits in other financial institutions, liquidate Federal funds sold or securities available-for-sale or on a short-term basis to borrow and purchase Federal funds from other financial institutions. Additionally, the Company's bank subsidiary could sell participations in these or other loans to correspondent banks. Liquidation of securities available-for-sale could trigger recognition of losses by the Bank if those securities sold to meet these commitments were in a loss position when sold. As mentioned below, Wilson Bank has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, its investment security maturities, and short-term borrowings.

Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both short term and long term earnings through funds management/interest rate risk management. The Company's rate sensitivity position has an important impact on earnings. Senior management of the Company meets quarterly to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments.

Liquidity and Asset Management

The Company's management seeks to maximize net interest income by managing the Company's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers and fund attractive investment opportunities. Liquid assets include cash, due from banks, interest bearing deposits in other financial institutions and unpledged investment securities. At December 31, 2022, the Company's liquid assets totaled approximately $522.7 million, inclusive of $417.7 million of unpledged investment securities available-for-sale. Additionally, as of December 31, 2022, the Company had available approximately $126.2 million in unused federal funds lines of credit and, subject to certain restrictions and collateral requirements, approximately $526.5 million of borrowing capacity with the Federal Home Loan Bank of Cincinnati to meet short term funding needs.

The Company maintains a formal asset and liability management process to quantify, monitor and control interest rate risk, and to assist management in maintaining stability in the net interest margin under varying interest rate environments. The Company accomplishes this process through the development and implementation of lending, funding and pricing strategies designed to maximize net interest income under varying interest rate environments subject to specific liquidity and interest rate risk guidelines and competitive market conditions.

Analysis of rate sensitivity and rate gap analysis are the primary tools used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Included in the analysis are cash flows and maturities of financial instruments held for purposes other than trading, changes in market conditions, loan volumes and pricing and deposit volume and mix. These assumptions are inherently uncertain, and, as a result, net interest income cannot be precisely estimated nor can the impact of higher or lower interest rates on net interest income be precisely predicted. Actual results will differ due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management's strategies, among other factors.

The Company's primary source of liquidity is a stable core deposit base. In addition, short-term borrowings, loan payments and investment security maturities provide a secondary source. At December 31, 2022, the Company had a liability sensitive position (a negative gap). Liability sensitivity means that more of the Company's liabilities are capable of re-pricing over certain time frames than its assets. The interest rates associated with these liabilities may not actually change over this period but are capable of changing. Liability sensitivity generally should lead to an expansion in net interest margin in a declining rate environment, but for that to occur the Bank will need to reprice its deposits more quickly than it reprices rates it earns on loans. Conversely, a rising rate environment could have a short-term negative impact on net interest margin, as deposits would likely re-price faster than assets and rates on our variable rate loan portfolio would not reprice until the contractual repricing dates within each agreement are met before we begin to see the benefit of rising rates on those loans. Management regularly monitors the deposit rates of the Company's competitors and these rates continue to put pressure on the Company's deposit pricing, just as loan pricing pressure from competition within our markets continues to negatively impact loan yields. This pressure could continue to negatively impact the Company's net interest margin and earnings if short-term rates rise or these competitive pressures limit the Company's ability to lower deposit rates in a declining rate environment. As discussed elsewhere herein, the Bank anticipates that its net interest margin is likely to contract during 2023 because of such competitive pressures in its markets and the expected short-term impact of the anticipated increases in federal funds rate due to the Company's liability sensitive position.

The Company's securities portfolio consists of earning assets that provide interest income. Securities classified as available-for-sale include securities intended to be used as part of the Company's asset/liability strategy and/or securities that may be sold in response to changes in interest rates, prepayment risk, the need or desire to increase capital and similar economic factors. At December 31, 2022, securities totaling approximately $61.7 million mature or will be subject to rate adjustments within the next twelve months.

A secondary source of liquidity is the Company's loan portfolio. At December 31, 2022, loans totaling app roximately $1.0 billion either will become due or will be subject to rate adjustments within twelve months from that date. Continued emphasis will be placed on structuring adjustable rate loans.

As for liabilities, certificates of deposit and individual retirement accounts of $250,000 or greater totaling approximately $190.2 million will become due or reprice during the next twelve months. Historically, there has been no significant reduction in immediately withdrawable accounts such as negotiable order of withdrawal accounts, money market demand accounts, demand deposit accounts and regular savings accounts. Management anticipates that there will be no significant withdrawals from these accounts in the future.

Interest Rate Sensitivity Gaps

The following schedule details the Company's interest rate sensitivity gaps for different time periods at December 31, 2022:

		Repricing Within				
(In Thousands)	**Total**	**0-30 Days**	**31-90 Days**	**91-180 Days**	**181-365 Days**	**Over 1 Year**
Earning assets:						
Loans, net of deferred fees	$ 3,153,609	474,155	84,236	119,455	326,422	2,149,341
Securities	822,812	31,792	4,901	488	24,485	761,146
Loans held for sale	3,355	—	—	—	—	3,355
Interest bearing deposits	78,694	78,694	—	—	—	—
Federal funds sold	308	308	—	—	—	—
Restricted equity securities	4,357	4,357	—	—	—	—
Total earning assets	4,063,135	589,306	89,137	119,943	350,907	2,913,842
Interest-bearing liabilities:						
Negotiable order of withdrawal accounts	1,070,629	1,070,629	—	—	—	—
Money market demand accounts	1,301,349	1,301,349	—	—	—	—
Individual retirement accounts	65,202	3,230	6,655	7,410	14,268	33,639
Other savings	338,963	338,963	—	—	—	—
Certificates of deposit	701,657	23,282	86,821	166,640	186,339	238,575
Finance leases	2,281	—	—	—	—	2,281
	3,480,081	2,737,453	93,476	174,050	200,607	274,495
Interest-sensitivity gap	$ 583,054	(2,148,147)	(4,339)	(54,107)	150,300	2,639,347
Cumulative gap		(2,148,147)	(2,152,486)	(2,206,593)	(2,056,293)	583,054
Interest-sensitivity gap as % of total assets		(50.1)%	(0.1)%	(1.3)%	3.5%	61.6%
Cumulative gap as % of total assets		(50.1)%	(50.2)%	(51.5)%	(48.0)%	13.6%

As detailed in the chart, as of December 31, 2022, the Company is forecasted to maintain a liability sensitive position over the next twelve months. However, management expects that liabilities of a demand nature will renew and that it may be necessary to replace them with higher cost of funds.

The Company also uses simulation modeling to evaluate both the level of interest rate sensitivity as well as potential balance sheet strategies. The Asset Liability Committee meets quarterly to analyze the interest rate shock simulation. The interest rate simulation model is based on a number of assumptions. The assumptions relate primarily to loan and deposit growth, asset and liability prepayments, the call features of investment securities, interest rates and balance sheet management strategies. The Company also uses Economic Value of Equity ("EVE") sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest rate scenarios. The EVE is a longer term view of interest rate risk because it measures the present value of the future cash flows. Presented below is the estimated impact on Wilson Bank's net interest income and EVE as of December 31, 2022, assuming an immediate shift in interest rates:

	% Change from Base Case for Immediate Parallel Changes in Rates					
	-300 BP	-200 BP	-100 BP	+100 BP	+200 BP	+300 BP
Net interest income	(7.95)%	(3.59)%	(1.25)%	(2.31)%	(4.57)%	(7.00)%
EVE	(16.55)%	(6.96)%	(1.45)%	(1.66)%	(4.03)%	(6.93)%

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, we believe that a gradual shift in interest rates would have a more modest impact. Further, the earnings simulation model does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate any potential adverse impact of changes in interest rates. Moreover, since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, hedging strategies that we may institute, and changing product spreads that could mitigate any potential adverse impact of changes in interest rates.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Company's rate sensitivity position has an important impact on earnings. Senior management of the Company analyzes the rate sensitivity position quarterly. Management focuses on the spread between the Company's cost of funds and interest yields generated primarily through loans and investments.

Management believes that with present maturities, borrowing capacity with the Federal Home Loan Bank of Cincinnati and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future.

Impact of Inflation

Although interest rates are significantly affected by inflation, for the fiscal years ended December 31, 2022, 2021, and 2020, the inflation rate is believed to have had an immaterial impact on the Company's results of operations. While inflation increased in 2022, inflation has moderated in the last quarter of 2022. Outside of its potential impact on our customers, we do not expect such increased inflation to have a material impact on our operations in 2023 other than any effect it may have on interest rates, though continued elevated levels of inflation could also negatively impact our non-interest expense.

Capital Resources, Capital Position and Dividends

At December 31, 2022, total stockholders' equity was $360,452,000, or 8.41% of total assets, which compares with $413,717,000, or 10.37% of total assets, at December 31, 2021, and $380,121,000, or 11.28% of total assets, at December 31, 2020. The dollar decrease in the Company's stockholders' equity during 2022 reflects (i) the net change in unrealized loss on available-for-sale securities of $104,115,000, (ii) cash dividends of $1.85 per share totaling $20,880,000, (iii) the issuance of 250,365 shares of common stock for $16,117,000, as reinvestment of cash dividends, (iv) the issuance of 19,687 shares of common stock pursuant to exercise of stock options for $635,000, (v) stock-based compensation expense of $910,000, (v) net income of $53,042,000, (vi) $1,011,000 related to the cumulative effect of change in accounting principle for the adoption of CECL, (vii) $22,000 of net loss related to minority interest, and (viii) $37,000 in non-controlling contributions related to Encompass.

For a discussion of the Company's and Wilson Bank's capital levels and required minimum levels of capital each is required to maintain under applicable regulatory requirements see Note 17, Regulatory Matters and Restrictions on Dividends in the notes to the Company's consolidated financial statements appearing elsewhere in this report.

Holding Company & Stock Information
Wilson Bank Holding Company Directors

H. Elmer Richerson, Chairman; James Anthony Patton; James F. Comer; J. Randall Clemons; Jack W. Bell; William P. Jordan; John C. McDearman III; Clinton M. Swain; Michael G. Maynard; and Deborah Varallo.

Common Stock Market Information

The common stock of Wilson Bank Holding Company is not traded on an exchange nor is there a known active trading market. The number of stockholders of record at February 22, 2023 was 4,674. Based solely on information made available to the Company from limited numbers of buyers and sellers, the Company believes that the following table sets forth the quarterly range of sale prices for the Company's common stock during the years 2021 and 2022.

On January 1, 2021, a $.60 per share cash dividend was declared and on July 1, 2021, a $.75 per share cash dividend was declared and paid to shareholders of record on those dates.On January 1, 2022, a $.75 per share cash dividend was declared, on April 11, 2022, a $.35 per share cash dividend was declared, and on July 1, 2022, a $0.75 per share cash dividend was declared and thereafter paid to shareholders of record as of those dates. Future dividends will be dependent upon the Company's profitability, its capital needs, overall financial condition and economic and regulatory considerations.

Stock Prices

2021	High	Low
First Quarter	$ 59.80	$ 58.75
Second Quarter	$ 60.95	$ 59.80
Third Quarter	$ 62.10	$ 60.95
Fourth Quarter	$ 63.25	$ 62.10

2022	High	Low
First Quarter	$ 64.40	$ 63.25
Second Quarter	$ 65.55	$ 63.25*
Third Quarter	$ 70.00**	$ 65.55
Fourth Quarter	$ 67.85	$ 65.55*

*Represents one transaction of 712 shares during the second quarter of 2022 and one transaction of 500 shares during the fourth quarter of 2022 of which the Company is aware where the sale price was at least $1.15 lower than any other trade during the quarter. The volume weighted average stock price during the second quarter of 2022 was $64.44 and the volume weighted average stock price during the fourth quarter of 2022 was $67.36.

**Represents one transaction of 2,429 shares during the third quarter of 2022 of which the Company is aware where the sale price was at least $3.30 higher than any other trade during the quarter. The volume weighted average stock price during the third quarter of 2022 was $66.14.

Annual Meeting and Information Contacts

The Annual Meeting of Shareholders of Wilson Bank Holding Company will be held on Tuesday, April 25, 2023 at 6:00 p.m. (CDT) at the Clemons-Richerson Operations Center, located at 105 North Castle Heights Avenue, Lebanon, TN 37087.

For further information concerning Wilson Bank Holding Company or Wilson Bank & Trust, or to obtain a copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission, which is available without charge to shareholders, please contact Lisa Pominski, CFO, Wilson Bank & Trust, P.O. Box 768, Lebanon, Tennessee 37088-0768, phone (615) 443-6612.

WILSON BANK HOLDING COMPANY FINANCIAL HIGHLIGHTS (UNAUDITED)

	In Thousands, Except Per Share Information As Of December 31,				
	2022	2021	2020	2019	2018
CONSOLIDATED BALANCE SHEETS:					
Total assets end of year	$ 4,285,650	3,989,596	3,369,604	2,794,209	2,543,682
Loans, net	$ 3,113,796	2,444,282	2,282,766	2,057,175	2,016,005
Securities	$ 822,812	897,585	580,543	421,145	285,252
Deposits	$ 3,892,705	3,555,071	2,960,595	2,417,605	2,235,655
Stockholders' equity	$ 360,452	413,717	380,121	336,984	295,667

	Years Ended December 31,				
	2022	2021	2020	2019	2018
CONSOLIDATED STATEMENTS OF EARNINGS:					
Interest income	$ 157,540	129,841	122,968	118,077	103,525
Interest expense	16,133	11,636	18,219	23,379	14,618
Net interest income	141,407	118,205	104,749	94,698	88,907
Provision for credit losses - loans	8,656	1,143	9,696	2,040	4,298
Provision for credit losses - off-balance sheet exposures	(1,014)	262	259	75	23
Net interest income after provision for credit losses	133,765	116,800	94,794	92,583	84,586
Non-interest income	27,420	32,850	29,795	25,410	22,641
Non-interest expense	93,109	85,492	76,479	70,882	65,850
Earnings before income taxes	68,076	64,158	48,110	47,111	41,377
Income taxes	15,056	14,732	9,618	11,067	8,783
Net earnings	53,020	49,426	38,492	36,044	32,594
Net loss attributable to noncontrolling interest	22	—	—	—	—
Net earnings attributable to Wilson Bank Holding Company	$ 53,042	49,426	38,492	36,044	32,594
Cash dividends declared	$ 20,880	14,909	13,013	11,725	9,447
PER SHARE DATA:					
Basic earnings per common share	$ 4.66	4.44	3.52	3.36	3.09
Diluted earnings per common share	$ 4.65	4.43	3.51	3.35	3.08
Cash dividends	$ 1.85	1.35	1.20	1.10	0.90
Book value	$ 31.42	36.93	34.58	31.24	27.83
RATIOS:					
Return on average stockholders' equity	14.36%	12.45	10.65	11.31	11.70
Return on average assets	1.29%	1.35	1.24	1.34	1.35
Total capital to assets	8.41%	10.37	11.28	12.06	11.62
Dividends declared per share as a percentage of basic earnings per share	39.70%	30.41	34.09	32.74	29.13

WILSON BANK HOLDING COMPANY

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)

Stephen M. Maggart, CPA, ABV, CFF
J. Mark Allen, CPA
Joshua K. Cundiff, CPA
Michael T. Holland, CPA, ABV, CFF
M. Todd Maggart, CPA, ABV, CFF
P. Jason Ricciardi, CPA, CGMA
David B. von Dohlen, CPA
T. Keith Wilson, CPA, CITP

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Wilson Bank Holding Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Wilson Bank Holding Company (the Company) as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2023 expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method for accounting for allowance for credit losses effective January 1, 2022, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments - Credit Losses ("ASC 326"). The Company adopted the new credit loss standard using the modified retrospective method provided in Accounting Standards Update No. 2016-13 such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Allowance for Credit Losses on Loans -Reasonable and Supportable Forecasts and Qualitative Adjustments

The Company adopted ASC 326, Financial Instruments – Credit Losses, as of January 1, 2022, which, among other things, required that the Company recognize expected credit losses over the contractual life of financial assets utilizing the Current Expected Credit Losses (“CECL”) methodology. As of January 1, 2022, the Company recorded an allowance for credit losses (“ACL”) of $32.1 million and an increase to retained earnings, net of tax of $5.6 million as a cumulative-effect adjustment using a modified retrospective approach. See change in accounting principle explanatory paragraph above. As of December 31, 2022, the Company’s loan portfolio totaled $3.2 billion, and its ACL was $39.8 million. Provision for credit losses was $8.7 million for the year then ended. The Company disclosed information regarding the adoption of the standard and the Company’s financial assets and allowance for credit losses in Note 1. Summary of Significant Accounting Policies and Note 2 Loans and Allowance for Credit Losses to the consolidated financial statements.

The Company primarily used a discounted cash flow (DCF) model to calculate its ACL. DCF calculates the present value of the future expected cash flows for all loans included in the analysis at the loan’s effective interest rate. The analysis was performed using a bottom-up approach with loan-level data. The loan-level calculations were rolled up to the pool level to get the total amortized cost of cash flow loans by each pool. The amortized cost is then discounted back to the present value. The total dollar reserve applied to the pool is the total amortized cost net present value.

Within its DCF model, the Company primarily employed a probability of default (“PD”) and loss given default (“LGD”) modeling approach. The PD assumption of the Company’s ACL model utilized historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. Losses are forecasted over a period of time determined to be reasonable and supportable, and then reverted to long term historical averages. The Company adjusted its overall ACL with qualitative adjustments that are not inherently considered in the quantitative component of the methodology.

While the qualitative categories and the measurements utilized to quantify the risks associated with each of the qualitative adjustments are built primarily upon objective measurements where applicable, they are subjectively developed and interpreted by management.

The audit procedures over the reasonable and supportable forecast scenarios and qualitative adjustments utilized in management's methodology involved challenging and subjective auditor judgment. Therefore, we identified auditing the reasonable and supportable forecast scenarios and qualitative adjustments applied as a critical audit matter.

The primary audit procedures we performed to address this critical audit matter included the following:

- Tested the operating effectiveness of controls specific to:
  - Determining the reasonableness of the forecasted macroeconomic scenarios used in the model.
  - The identification and application of qualitative adjustments to the ACL model.
  - The relevance and reliability of data used by the Company's third-party vendor to develop forecast scenarios.
  - The Company's allowance committee's oversight and review of the overall ACL.

- Performed substantive testing over the qualitative adjustments including:
  - Evaluated the reasonableness and appropriateness of the policies and methodologies employed including, but not limited to, evaluating their conceptual soundness and inspecting and testing significant assumptions and judgments.
  - Evaluated management's judgments in the selection and application of the forecasted macroeconomic scenarios.
  - Evaluated management's rationale for determining qualitative adjustments were relevant and warranted for each loan segment and assessed the measurement of qualitative factor adjustments applied by management.
  - Assessed changes in qualitative factors year-over-year against overall trends in credit quality within the Company and broader trends within the industry and local and national economies to evaluate reasonableness of management's qualitative factor adjustments.

/s/ MAGGART & ASSOCIATES, P.C.

We have served as the Company's auditor since 1987.

Nashville, Tennessee (PCAOB 763)
March 1, 2023

MAGGART & ASSOCIATES, P.C.
CPAs & Advisors

Stephen M. Maggart, CPA, ABV, CFF
J. Mark Allen, CPA
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T. Keith Wilson, CPA, CITP

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Wilson Bank Holding Company

Opinion on Internal Control over Financial Reporting

We have audited Wilson Bank Holding Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Wilson Bank Holding Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated March 1, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ MAGGART & ASSOCIATES, P.C.

Nashville, Tennessee (PCAOB 763)
March 1, 2023

WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
December 31, 2022 and 2021

		Dollars in thousands	
		2022	**2021**
ASSETS			
Loans, net of allowance for credit losses of $39,813 and $39,632, respectively	$	3,113,796	2,444,282
Available-for-sale securities, at market (amortized cost $972,315 and $906,135, respectively)		822,812	897,585
Loans held for sale		3,355	11,843
Interest bearing deposits		78,694	400,940
Federal funds sold		308	27,055
Restricted equity securities, at cost		4,357	5,089
Total earning assets		4,023,322	3,786,794
Cash and due from banks		25,787	25,423
Premises and equipment, net		62,031	62,846
Accrued interest receivable		11,397	7,641
Deferred income taxes		51,323	12,792
Bank owned life insurance		58,007	46,206
Goodwill		4,805	4,805
Other assets		48,978	43,089
Total assets	$	4,285,650	3,989,596
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing		414,905	433,500
Interest bearing		3,477,800	3,121,571
Total deposits		3,892,705	3,555,071
Accrued interest and other liabilities		32,493	20,808
Total liabilities		3,925,198	3,575,879
Stockholders' equity:			
Common stock, par value $2.00 per share, authorized 50,000,000 shares, 11,472,181 and 11,201,504 shares issued and outstanding, respectively		22,944	22,403
Additional paid-in capital		122,298	105,177
Retained earnings		325,625	292,452
Noncontrolling interest in consolidated subsidiary		15	—
Accumulated other comprehensive losses, net of taxes of $39,073 and $2,235, respectively		(110,430)	(6,315)
Total stockholders' equity		360,452	413,717
Total liabilities and stockholders' equity	$	4,285,650	3,989,596

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Years Ended December 31, 2022

	Dollars In Thousands (except per share data)		
	2022	**2021**	**2020**
Interest income:			
Interest and fees on loans	$ 138,161	118,676	113,224
Interest and dividends on securities:			
Taxable securities	15,902	8,922	7,272
Exempt from Federal income taxes	1,392	1,229	1,102
Interest on loans held for sale	264	438	616
Interest on Federal funds sold	111	13	56
Interest on interest bearing deposits	1,522	445	582
Interest and dividends on restricted equity securities	188	118	116
Total interest income	157,540	129,841	122,968
Interest expense:			
Interest on negotiable order of withdrawal accounts	2,546	1,866	2,150
Interest on money market accounts and other savings accounts	7,021	2,027	4,163
Interest on certificates of deposit and individual retirement accounts	6,486	7,610	10,939
Interest on Federal funds purchased	14	—	—
Interest on Federal Home Loan Bank advances	—	133	967
Interest on finance leases	66	—	—
Total interest expense	16,133	11,636	18,219
Net interest income before provision for credit losses	141,407	118,205	104,749
Provision for credit losses - loans	8,656	1,143	9,696
Provision for credit losses - off-balance sheet exposures	(1,014)	262	259
Net interest income after provision for credit losses	133,765	116,800	94,794
Non-interest income	27,420	32,850	29,795
Non-interest expense	93,109	85,492	76,479
Earnings before income taxes	68,076	64,158	48,110
Income taxes	15,056	14,732	9,618
Net earnings	53,020	49,426	38,492
Net loss attributable to noncontrolling interest	22	—	—
Net earnings attributable to Wilson Bank Holding Company	$ 53,042	49,426	38,492
Basic earnings per common share	$ 4.66	4.44	3.52
Diluted earnings per common share	$ 4.65	4.43	3.51
Weighted average common shares outstanding:			
Basic	11,377,617	11,131,897	10,927,065
Diluted	11,408,924	11,162,956	10,953,746

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Years Ended December 31, 2022

	Dollars In Thousands		
	2022	**2021**	**2020**
Net earnings	$ 53,020	49,426	38,492
Other comprehensive earnings (losses):			
Unrealized gains (losses) on available-for-sale securities	(142,573)	(18,223)	9,645
Reclassification adjustment for net losses (gains) included in net earnings	1,620	(28)	(882)
Tax effect	36,838	4,771	(2,291)
Other comprehensive earnings (losses)	(104,115)	(13,480)	6,472
Comprehensive earnings (losses)	$ (51,095)	35,946	44,964
Comprehensive losses attributable to noncontrolling interest	22	—	—
Comprehensive earnings (losses) attributable to Wilson Bank Holding Company	$ (51,073)	35,946	44,964

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY
Consolidated Statements of Changes in Stockholders' Equity
Three Years Ended December 31, 2022

	Dollars In Thousands					
	Common Stock	**Additional Paid In Capital**	**Retained Earnings**	**Noncontrolling Interest**	**Accumulated Other Comprehensive Earnings (Loss)**	**Total**
Balance January 1, 2020	$ 21,586	82,249	232,456	—	693	336,984
Cash dividends declared, $1.20 per share	—	—	(13,013)	—	—	(13,013)
Issuance of 180,424 shares of common stock pursuant to dividend reinvestment plan	361	9,695	—	—	—	10,056
Issuance of 19,981 shares of common stock pursuant to exercise of stock options	40	678	—	—	—	718
Share based compensation expense	—	412	—	—	—	412
Net change in fair value of available-for-sale securities during the year, net of taxes of $2,291	—	—	—	—	6,472	6,472
Net earnings for the year	—	—	38,492	—	—	38,492
Balance December 31, 2020	21,987	93,034	257,935	—	7,165	380,121
Cash dividends declared, $1.35 per share	—	—	(14,909)	—	—	(14,909)
Issuance of 186,583 shares of common stock pursuant to dividend reinvestment plan	373	10,815	—	—	—	11,188
Issuance of 21,517 shares of common stock pursuant to exercise of stock options	43	819	—	—	—	862
Share based compensation expense	—	509	—	—	—	509
Net change in fair value of available-for-sale securities during the year, net of taxes of $4,771	—	—	—	—	(13,480)	(13,480)
Net earnings for the year	—	—	49,426	—	—	49,426
Balance December 31, 2021	22,403	105,177	292,452	—	(6,315)	413,717
Cash dividends declared, $1.85 per share	—	—	(20,880)	—	—	(20,880)
Issuance of 250,365 shares of common stock pursuant to dividend reinvestment plan	501	15,616	—	—	—	16,117
Issuance of 19,687 shares of common stock pursuant to exercise of stock options	39	596	—	—	—	635
Vesting of 625 restricted share awards	1	(1)	—	—	—	—
Share based compensation expense	—	910	—	—	—	910
Net change in fair value of available-for-sale securities during the year, net of taxes of $36,838	—	—	—	—	(104,115)	(104,115)
Cumulative effect of change in accounting principle from the adoption of ASC 326	—	—	1,011	—	—	1,011
Noncontrolling interest contribution	—	—	—	37	—	37
Net earnings (loss) for the year	—	—	53,042	(22)	—	53,020
Balance December 31, 2022	$ 22,944	122,298	325,625	15	(110,430)	360,452

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Three Years Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents

	Dollars In Thousands		
	2022	**2021**	**2020**
OPERATING ACTIVITIES			
Consolidated net income	$ 53,020	$ 49,426	$ 38,492
Adjustments to reconcile consolidated net income to net cash provided by operating activities			
Provision for credit losses	7,642	1,405	9,955
Deferred income taxes provision	(2,051)	(932)	(3,304)
Depreciation and amortization of premises and equipment	4,462	4,235	4,250
Loss (gain) on disposal of premises and equipment	(291)	43	63
Net amortization of securities	4,003	5,377	4,588
Net realized losses (gains) on sales of securities	1,620	(28)	(882)
Gains on mortgage loans sold, net	(2,973)	(9,997)	(9,560)
Stock-based compensation expense	1,864	1,428	1,180
Loss (gain) on other real estate	—	15	(658)
Loss (gain) on sale of other assets	(8)	(6)	4
Increase in value of life insurance and annuity contracts	(1,345)	(1,109)	(959)
Mortgage loans originated for resale	(106,601)	(215,813)	(213,483)
Proceeds from sale of mortgage loans	118,062	233,441	221,748
Gain on lease modification	—	—	(29)
Right of use asset amortization	397	387	376
Change in			
Accrued interest receivable	(3,756)	(125)	(1,571)
Other assets	248	(4,458)	(805)
Accrued interest payable	1,516	(1,458)	(763)
Other liabilities	(2,602)	(383)	1,596
TOTAL ADJUSTMENTS	20,187	12,022	11,746
NET CASH PROVIDED BY OPERATING ACTIVITIES	73,207	61,448	50,238
INVESTING ACTIVITIES			
Activities in available for sale securities			
Purchases	(200,075)	(530,155)	(409,996)
Sales	42,728	39,652	54,870
Maturities, prepayments and calls	85,544	149,861	200,785
Redemptions (purchases) of restricted equity securities	732	—	(409)
Net increase in loans	(673,871)	(164,095)	(236,411)
Purchase of buildings, leasehold improvements, and equipment	(5,022)	(8,922)	(2,220)
Proceeds from sale of premises and equipment	1,758	—	—
Proceeds from sale of other assets	34	109	9
Proceeds from sale of other real estate	—	167	2,307
Purchase of life insurance and annuity contracts	(10,978)	(15,079)	(6,687)
Redemption of annuity contracts	248	—	—
Increase in other investments	—	(2,000)	—
NET CASH USED IN INVESTING ACTIVITIES	(758,902)	(530,462)	(397,752)
FINANCING ACTIVITIES			
Net change in deposits - non-maturing	163,933	612,696	563,605
Net change in deposits - time	173,701	(18,220)	(20,615)
Net change in Federal Home Loan Bank Advances	—	(3,638)	(19,975)
Change in escrow balances	3,549	(4,403)	5,824
Repayment of finance lease obligation	(26)	—	—
Noncontrolling interest contributions	37	—	—
Issuance of common stock related to exercise of stock options	635	862	718
Issuance of common stock pursuant to dividend reinvestment plan	16,117	11,188	10,056
Cash dividends paid on common stock	(20,880)	(14,909)	(13,013)
NET CASH PROVIDED BY FINANCING ACTIVITIES	337,066	583,576	526,600
NET CHANGE IN CASH AND CASH EQUIVALENTS	(348,629)	114,562	179,086
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	453,418	338,856	159,770
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 104,789	$ 453,418	$ 338,856

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Three Years Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents

	Dollars In Thousands		
	2022	**2021**	**2020**
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 14,617	$ 12,106	$ 18,146
Taxes	$ 19,446	$ 16,827	$ 13,156
Non-cash investing and financing activities:			
Change in fair value of securities available-for-sale, net of taxes of $36,838 in 2022, $4,771 in 2021, and $(2,291) in 2020	$ (104,115)	$ (13,480)	$ 6,472
Non-cash transfers from loans to other real estate	$ -	$ 182	$ 992
Non-cash transfers from other real estate to loans	$ -	$ -	$ 40
Non-cash transfers from loans to other assets	$ -	$ 129	$ 14

See accompanying notes to consolidated financial statements.

(1) ***Summary of Significant Accounting Policies***

The accounting and reporting policies of Wilson Bank Holding Company ("the Company") and its wholly owned subsidiary, Wilson Bank & Trust ("Wilson Bank" or "the Bank"), are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry. The following is a brief summary of the significant policies.

(a) ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Wilson Bank, and Wilson Bank's 51% owned subsidiary, Encompass Home Lending, LLC ("Encompass"). On June 1, 2022, the Bank began operations with a newly-formed joint venture, Encompass Home Lending, LLC. Encompass offers residential mortgage banking services to customers of certain home builders in our markets. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) ***Nature of Operations***

Wilson Bank operates under a state bank charter and provides full banking services. As a Tennessee state-chartered bank that is not a member of the Federal Reserve, Wilson Bank is subject to regulations of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). The areas served by Wilson Bank include Wilson County, DeKalb County, Rutherford County, Smith County, Trousdale County, Putnam County, Sumner County, Davidson County and Williamson County, Tennessee and surrounding counties in Middle Tennessee. Services are provided at the main office and twenty-eight branch locations.

(c) ***Use of Estimates***

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses - loans and off-balance sheet credit exposures, the valuation of deferred tax assets, determination of any impairment of goodwill or other intangibles, the valuation of other real estate (if any), and the fair value of financial instruments.

(d) ***Significant Group Concentrations of Credit Risk***

Most of the Company's activities are with customers located within Middle Tennessee. The types of securities in which the Company invests are described in note 3. The types of lending in which the Company engages are described in note 2. The Company does not have any significant concentrations to any one industry or customer other than as disclosed in note 2.

(e) ***Loans***

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Middle Tennessee. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for credit losses, and any unamortized deferred fees or costs on originated loans, and premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance.

Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized on a straight line basis over the respective term of the loan.

As part of its routine credit monitoring process, the Company performs regular credit reviews of the loan portfolio and loans receive risk ratings by the assigned credit officer, which are subject to validation by the Company's independent loan review department. Risk ratings are categorized as pass, special mention, substandard or doubtful. The Company believes that its categories follow those outlined by the FDIC, Wilson Bank's primary federal regulator.

Generally the accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than when they become 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(f) Allowance for Credit Losses - Loans

On January 1, 2022, the Company adopted Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as subsequently updated for certain clarifications, targeted relief and codification improvements. Accounting Standards Codification ("ASC") Topic 326 ("ASC 326") replaces the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new current expected credit loss ("CECL") model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet credit exposures based on historical experience, current conditions, and reasonable and supportable forecasts. ASC 326 also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASC 326 includes certain changes to the accounting for available-for-sale securities including the requirement to present credit losses as an allowance rather than as a direct write-down for available-for-sale securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

Effective January 1, 2022, the Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Upon adoption, the Company recognized an after-tax cumulative effect increase to retained earnings totaling $1.0 million. Operating results for periods after January 1, 2022 are presented in accordance with ASC 326 while prior period amounts continue to be reported in accordance with previously applicable standards and the accounting policies described below.

In connection with the adoption of ASC 326, the Company revised certain accounting policies and implemented certain accounting policy elections. The revised accounting policies are described below.

The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326 that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The Company's discounted cash flow methodology incorporates a probability of default and loss given default model, as well as expectations of future economic conditions, using reasonable and supportable forecasts. Together, the probability of default and loss given default model with the use of reasonable and supportable forecasts generate estimates for cash flows expected and not expected to be collected over the estimated life of a loan. Estimates of future expected cash flows ultimately reflect assumptions made concerning net credit losses over the life of a loan. The use of reasonable and supportable forecasts requires significant judgment. Management leverages economic projections from reputable and independent third parties to inform and provide its reasonable and supportable economic forecasts. The Company's model reverts to a straight line basis for purposes of estimating cash flows beyond a period deemed reasonable and supportable. The Company forecasts probability of default and loss given default based on economic forecast scenarios over an eight quarter time period before reverting to a straight line basis for a four quarter time period. The duration of the forecast horizon, the period over which forecasts revert to a straight line basis, the economic forecasts that management utilizes, as well as additional internal and external indicators of economic forecasts that management considers, may change over time depending on the nature and composition of our loan portfolio. Changes in economic forecasts, in conjunction with changes in loan specific attributes, impact a loan's probability of default and loss given default, which can drive changes in the determination of the ACL. Expectations of future cash flows are discounted at the loan's effective interest rate. The resulting ACL represents the amount by which the loan's amortized cost exceeds the net present value of a loan's discounted cash flows expected to be collected. The ACL is recorded through a charge to provision for credit losses and is reduced by charge-offs, net of recoveries on loans previously charged-off. It is the Company's policy to charge-off loan balances at the time they have been deemed uncollectible.

For segments where the discounted cash flow methodology is not used, a remaining life methodology is utilized. The remaining life method uses an average annual charge-off rate applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining balance of assets.

The estimated credit losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon the following:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.

2. Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.

3. Changes in the nature and volume of the portfolio and in the terms of loans.

4. Changes in the experience, ability, and depth of lending management and other relevant staff.

5. Changes in the volume and severity of past-due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans.

6. Changes in the quality of the Company's loan review system.

7. Changes in the value of underlying collateral for collateral-dependent loans.

8. The existence and effect of any concentrations of credit, and changes in the level of such concentrations.

9. The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company’s existing portfolio.

The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan segment based on the assessment of these various qualitative factors.

Loans that do not share similar risk characteristics with the collectively evaluated pools are evaluated on an individual basis and are excluded from the collectively evaluated pools. Individual evaluations are generally performed for loans greater than $500,000 which have experienced significant credit deterioration. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral, less selling costs. For loans for which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral, the Company has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, with selling costs considered in the event sale of the collateral is expected. Loans for which terms have been modified in a TDR are evaluated using these same individual evaluation methods. In the event the discounted cash flow method is used for a TDR, the original interest rate is used to discount expected cash flows.

In assessing the adequacy of the allowance for credit losses, the Company considers the results of the Company's ongoing independent loan review process. The Company undertakes this process both to ascertain those loans in the portfolio with elevated credit risk and to assist in its overall evaluation of the risk characteristics of the entire loan portfolio. Its loan review process includes the judgment of management, independent internal loan reviewers and reviews that may have been conducted by third-party reviewers including regulatory examiners. The Company incorporates relevant loan review results in the allowance.

In accordance with CECL, losses are estimated over the remaining contractual terms of loans, adjusted for prepayments and curtailment. The contractual term excludes expected extensions, renewals and modifications unless management has a reasonable expectation at the reporting date that a TDR will be executed or such renewals, extensions or modifications are included in the original loan agreement and are not unconditionally cancellable by the Company.

Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding and deferred loan fees and costs.

While management utilizes its best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

(g) Allowance for Loan Losses (Allowance)

Prior to the Adoption of FASB ASC 326 on January 1, 2022, which introduced the CECL methodology for credit losses, the allowance for loan losses was composed of the result of two independent analyses pursuant to the provisions of ASC 450-20, Loss Contingencies and ASC 310-10-35, Receivables. The ASC 450-20 analysis was intended to quantify the inherent risks in the performing loan portfolio. The ASC 310-10-35 analysis included a loan-by-loan analysis of impaired loans, primarily consisting of loans reported as nonaccrual or troubled-debt restructurings.

The allowance allocation began with a process of estimating the probable losses in each of the twelve loan segments. The estimates for these loans were based on our historical loss data for that category over twenty quarters. Each segment was then analyzed such that an allocation of the allowance was estimated for each loan segment.

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

We then tested the resulting allowance by comparing the balance in the allowance to industry and peer information. Our management then evaluated the result of the procedures performed, including the result of our testing, and concluded on the appropriateness of the balance of the allowance in its entirety. The board of directors reviewed and approved the assessment prior to the filing of quarterly and annual financial information.

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

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

(h) Allowance for Credit Losses - Off-Balance Sheet Credit Exposures

The allowance for credit losses on off-balance sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. The allowance is reported as a component of accrued interest and other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of provision for credit losses - off-balance sheet exposures.

Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans in note 1 - Summary of Significant Accounting Policies, letter (f) Allowance for Credit Losses - Loans as if such commitments were funded.

(i) Debt Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value based on available market prices, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss) on an after-tax basis. Securities classified as "available-for-sale" are held for indefinite periods of time and may be sold in response to movements in market interest rates, changes in the maturity or mix of Company assets and liabilities or demand for liquidity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal and interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

No securities have been classified as trading securities or held-to-maturity securities at December 31, 2022 or 2021.

(j) Allowance for Credit Losses - Securities Available-for-Sale

For any securities classified as available-for-sale that are in an unrealized loss position at the balance sheet date, the Company assesses whether or not it intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through net income. If neither criteria is met, the Company evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited by the amount by which the amortized cost exceeds fair value. Any impairment not recognized in the allowance for credit losses is recognized in other comprehensive income.

(k) Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

(l) Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(m) Federal Home Loan Bank (FHLB) Stock

The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(n) Loans Held for Sale

Mortgage loans held for sale are carried at fair value. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

(o) Premises and Equipment

Premises and equipment are stated at cost. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years. Gains or losses realized on items retired and otherwise disposed of are credited or charged to operations and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renovations and improvements of premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

(p) Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less the estimated cost to sell at the date the Company acquires the property, establishing a new cost basis. Subsequent to their acquisition by the Company, valuations of these assets are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance *[i.e. any direct write-downs]* are included within non-interest expense.

(q) Goodwill and Other Intangible Assets

Goodwill arises from business combinations and is determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected September 30th as the date to perform the annual impairment test. No impairment was determined as a result of the test performed by the

Company on September 30, 2022. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

(r) ***Leases***

Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line bases, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of earnings. The Company's variable lease expense include rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. The amortization of the right-of-use asset arising from finance leases is expensed through occupancy and equipment expense and the interest on the related lease liability is expenses through interest expense on borrowings on the Company's consolidated statements of earnings.

(s) ***Mortgage Servicing Rights***

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within non-interest income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as mortgage servicing income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against servicing fee income. Servicing fees totaled $111,000 for the year ended December 31, 2022. Late fees and ancillary fees related to loan servicing are not material.

(t) ***Cash and Cash Equivalents***

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, interest-bearing deposits with maturities fewer than 90 days, amounts due from banks and Federal funds sold. Generally, Federal funds sold are purchased and sold for one day periods. Management makes deposits only with financial institutions it considers to be financially sound.

(u) ***Long-Term Assets***

Premises and equipment, intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

(v) ***Bank Owned Life Insurance***

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

(w) ***<u>Income Taxes</u>***

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes*). The Company follows accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more-likely-than-not" means a likelihood of more than 50 percent. The terms "examined" and "upon examination" also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

(x) ***<u>Derivatives</u>***

<u>Mortgage Banking Derivatives</u>

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on sale of mortgage loans.

<u>Fair Value Hedges</u>

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The gain or loss on the derivative instrument is presented on the same income statement line item as the earnings effect of the hedged item. The Company utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate loans. The hedging strategy on loans converts the fixed interest rates to LIBOR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the maturity dates of the hedged loans.

(y) ***<u>Stock-Based Compensation</u>***

Stock compensation accounting guidance (FASB ASC 718, "*Compensation—Stock Compensation"*) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, cash-settled stock appreciation rights (SARs), and employee share purchase plans. Because cash-settled SARs do not give the grantee the choice of receiving stock, all cash-settled SARs are accounted for as liabilities, not equity, as expense is accrued over the requisite service period.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options and cash-settled SARs.

(z) ***<u>Retirement Plans</u>***

Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

(aa) Advertising Costs

Advertising costs are expensed as incurred by the Company and totaled $3,455,000, $2,736,000 and $2,487,000 for 2022, 2021 and 2020, respectively.

(bb) Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

(cc) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, net of taxes, which are also recognized as separate components of equity.

(dd) Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(ee) Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements
.

(ff) Segment Reporting

Management analyzes the operations of the Company assuming one operating segment, community lending services.

(gg) Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in note 22 - Disclosures About Fair Value of Financial Instruments of the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

(hh) Reclassification

Certain reclassifications have been made to the 2021 and 2020 figures to conform to the presentation for 2022.

(ii) Off-Balance-Sheet Financial Instruments

In the ordinary course of business, Wilson Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

(jj) Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 1, 2023, which is the date the financial statements were available to be issued.

(kk) <u>Accounting Standard Updates</u>

ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." ASU *2016-13* requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. As noted above, effective *January 1, 2022* the Company adopted ASU *2016-13,* which resulted in a $7.6 million decrease to the allowance for credit losses and a $6.2 million increase to the reserve for off-balance sheet exposures, resulting in a $1.0 million increase in retained earnings (net of taxes). See Note *2* – Loans and Allowance for Credit Losses for additional information.

ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*." In March 2020, the FASB issued this ASU and has issued subsequent amendments thereto, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022.

ASU 2022-06, "*Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*." In December 2022, the FASB issued this ASU, which extends the period of time entities can utilize the reference rate reform relief guidance under ASU 2020-04 from December 31, 2022 to December 31, 2024. The Company has implemented a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company discontinued originating LIBOR-based loans during 2022 and has begun negotiating loans primarily using its preferred replacement index, the Secured Overnight Financing Rate ("SOFR"). For the Company's currently outstanding LIBOR-based loans, the timing and manner in which each customer's contract transitions to SOFR will vary on a case-by-case basis. The Company expects to complete all transitions by August 2023.

ASU 2022-01, "*Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method*." ASU *2022-01* was issued to expand the scope of assets eligible for portfolio layer method hedging to include all financial assets. The update also expands the current last-of-layer method that permits only *one* hedged layer to allow multiple hedged layers of a single closed portfolio. The last-of-layer method is renamed the portfolio layer method, because more than the last layer of a portfolio could be hedged. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2022*. The adoption of ASU *2022-01* did not have a significant impact on our financial statements.

ASU 2022-02, "*Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*." ASU *2022-02* was issued to respond to feedback received from post-implementation review of Topic *326*. The amendments eliminate the troubled debt restructuring (TDR) recognition and measurement guidance and now require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosures and include new disclosure requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. To improve consistency for vintage disclosures, the ASU requires that public business entities disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic *326-20*. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. As permitted, we elected to partially adopt this ASU with regards to reporting gross charge-offs by vintage. We will adopt the TDR guidance beginning January 1, 2023.

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

(2) ***Loans and Allowance for Credit Losses***

Loans are reported at their outstanding principal balances less unearned income, the allowance for credit losses at December 31, 2022 and the allowance for loan losses at December 31, 2021 and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.

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

The classification of loans at December 31, 2022 and 2021 is as follows:

	In Thousands	
	2022	**2021**
Residential 1-4 family real estate	$ 854,970	$ 689,579
Commercial and multi-family real estate	1,064,297	908,673
Construction, land development and farmland	879,528	612,659
Commercial, industrial and agricultural	124,603	118,155
1-4 family equity lines of credit	151,032	92,229
Consumer and other	93,332	74,643
Total loans before net deferred loan fees	3,167,762	2,495,938
Net deferred loan fees	(14,153)	(12,024)
Total loans	3,153,609	2,483,914
Less: Allowance for credit losses	(39,813)	(39,632)
Net loans	$ 3,113,796	2,444,282

At December 31, 2022, variable rate and fixed rate loans totaled $2,546,325,000 and $621,437,000, respectively. At December 31, 2021, variable rate and fixed rate loans totaled $1,916,960,000 and $578,978,000, respectively.

Risk characteristics relevant to each portfolio segment are as follows:

Construction, land development and farmland: Loans for non-owner-occupied real estate construction or land development are generally repaid through cash flow related to the operation, sale or refinance of the property. The Company also finances construction loans for owner-occupied properties. A portion of the Company's construction and land portfolio segment is comprised of loans secured by residential product types (residential land and single-family construction). With respect to construction loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, market sales activity, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential 1-4 family real estate: Residential real estate loans represent loans to consumers or investors to finance a residence. These loans are typically financed on 15 to 30 year amortization terms, but generally with shorter maturities of 5 to 15 years. Many of these loans are extended to borrowers to finance their primary or secondary residence. Loans to an investor secured by a 1-4 family residence will be repaid from either the rental income from the property or from the sale of the property. This loan segment also includes closed-end home equity loans that are secured by a first or second mortgage on the borrower's residence. This allows customers to borrow against the equity in their home. Loans in this portfolio segment are underwritten and approved based on a number of credit quality criteria including limits on maximum Loan-to-Value (LTV), minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment.

1-4 family equity lines of credit: This loan segment includes open-end home equity loans that are secured by a first or second mortgage on the borrower's residence. This allows customers to borrow against the equity in their home utilizing a revolving line of credit. These loans are underwritten and approved based on a number of credit quality criteria including limits on maximum LTV, minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment. Because of the revolving nature of these loans, as well as the fact that many represent second mortgages, this portfolio segment can contain more risk than the amortizing 1-4 family residential real estate loans.

Commercial and multi-family real estate: Commercial and multi-family real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans (which are discussed below), in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate.

Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting the market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Non-owner occupied commercial real estate loans are loans secured by multifamily and commercial properties where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail properties. Owner-occupied commercial real estate loans are loans where the primary source of repayment is the cash flow from the ongoing operations and business activities conducted by the party, or affiliate of the party, who owns the property.

Commercial and industrial: The commercial and industrial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Also included in this category are PPP loans guaranteed by the SBA, which totaled $89,000 at December 31, 2022 and $5.0 million at December 31, 2021. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral, if any, provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans, if any, may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporates a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer: The consumer loan portfolio segment includes non-real estate secured direct loans to consumers for household, family, and other personal expenditures. Consumer loans may be secured or unsecured and are usually structured with short or medium term maturities. These loans are underwritten and approved based on a number of consumer credit quality criteria including limits on maximum LTV on secured consumer loans, minimum credit scores, and maximum debt to income. Many traditional forms of consumer installment credit have standard monthly payments and fixed repayment schedules of one to five years. These loans are made with either fixed or variable interest rates that are based on specific indices. Installment loans fill a variety of needs, such as financing the purchase of an automobile, a boat, a recreational vehicle or other large personal items, or for consolidating debt. These loans may be unsecured or secured by an assignment of title, as in an automobile loan, or by money in a bank account. In addition to consumer installment loans, this portfolio segment also includes secured and unsecured personal lines of credit as well as overdraft protection lines. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

The following tables present the Company's nonaccrual loans, credit quality indicators and past due loans as of December 31, 2022 and 2021.

Loans on Nonaccrual Status

	In Thousands	
	2022	2021
Residential 1-4 family real estate	$ —	$ —
Commercial and multi-family real estate	—	—
Construction, land development and farmland	—	—
Commercial, industrial and agricultural	—	—
1-4 family equity lines of credit	—	—
Consumer and other	—	—
Total	$ —	$ —

At December 31, 2022, the Company had no collateral dependent loans that were on non-accruing interest status. At December 31, 2021, the Company had no impaired loans that were on non-accruing interest status.

There was no impact on net interest income given the lack of these types of loans for the years ended December 31, 2022 and December 31, 2021. The impact on net interest income for these loans was not material to the Company's results of operations for the year ended December 31, 2020.

Potential problem loans, which include nonperforming loans, amounted to approximately $6.4 million at December 31, 2022 compared to $7.7 million at December 31, 2021. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Company's primary federal regulator, for loans classified as special mention, substandard, or doubtful, excluding the impact of nonperforming loans.

The following table presents our loan balances by primary loan classification and the amount classified within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard and doubtful which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- Doubtful loans have all the characteristics of substandard loans with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Company considers all doubtful loans to be collateral dependent and places the loans on nonaccrual status.

Credit Quality Indicators

The following table presents loan balances classified within each risk rating category by primary loan type and based on year of origination as well as current period gross charge-offs by primary loan type and based on year of origination as of December 31, 2022.

	In Thousands							
	2022	2021	2020	2019	2018	Prior	Revolving Loans	Total
December 31, 2022								
Residential 1-4 family real estate:								
Pass	$ 288,041	262,690	106,107	61,984	29,526	83,503	17,751	849,602
Special mention	245	300	885	62	115	1,955	349	3,911
Substandard	—	—	—	131	—	1,326	—	1,457
Total Residential 1-4 family real estate	$ 288,286	262,990	106,992	62,177	29,641	86,784	18,100	854,970
Residential 1-4 family real estate:								
Current-period gross charge-offs	$ —	—	—	—	—	8	—	8
Commercial and multi-family real estate:								
Pass	$ 269,129	246,265	161,326	107,908	74,494	168,541	36,342	1,064,005
Special mention	—	—	162	—	—	40	—	202
Substandard	—	—	—	—	—	90	—	90
Total Commercial and multi-family real estate	$ 269,129	246,265	161,488	107,908	74,494	168,671	36,342	1,064,297
Commercial and multi-family real estate:								
Current-period gross charge-offs	$ —	—	—	—	—	—	—	—
Construction, land development and farmland:								
Pass	$ 364,681	237,051	90,341	9,648	5,212	9,445	163,076	879,454
Special mention	—	—	—	—	—	60	—	60
Substandard	—	—	—	—	—	14	—	14
Total Construction, land development and farmland	$ 364,681	237,051	90,341	9,648	5,212	9,519	163,076	879,528
Construction, land development and farmland:								
Current-period gross charge-offs	$ —	—	—	—	—	1	—	1
Commercial, industrial and agricultural:								
Pass	$ 39,222	10,812	15,743	20,441	5,062	4,641	28,567	124,488
Special mention	—	44	17	—	—	47	—	115
Substandard	—	—	—	—	—	—	—	—
Total Commercial, industrial and agricultural	$ 39,229	10,856	15,760	20,441	5,062	4,688	28,567	124,603
Commercial, industrial and agricultural:								
Current-period gross charge-offs	$ 21	—	—	—	—	—	—	21
1-4 family equity lines of credit:								
Pass	$ —	—	—	—	—	—	150,849	150,849
Special mention	—	—	—	—	—	—	67	67
Substandard	—	—	—	—	—	—	116	116
Total 1-4 family equity lines of credit	$ —	—	—	—	—	—	151,032	151,032
1-4 family equity lines of credit:								
Current-period gross charge-offs	$ —	—	—	—	—	—	—	—
Consumer and other:								
Pass	$ 28,487	11,163	18,075	5,995	345	6,757	22,166	92,988
Special mention	74	130	20	2	—	—	—	226
Substandard	74	19	13	—	11	1	—	118
Total Consumer and other	$ 28,635	11,312	18,108	5,997	356	6,758	22,166	93,332
Consumer and other:								
Current-period gross charge-offs	$ 66	74	41	1	—	—	1,345	1,527

The following table presents loan balances classified within each risk rating category based on year of origination as of December 31, 2022.

	In Thousands
	Revolving

	2022	2021	2020	2019	2018	Prior	Loans	Total
December 31, 2022								
Pass	$ 989,560	767,981	391,592	205,976	114,639	272,887	418,751	3,161,386
Special mention	326	474	1,084	64	115	2,102	416	4,581
Substandard	74	19	13	131	11	1,431	116	1,795
Total	$ 989,960	768,474	392,689	206,171	114,765	276,420	419,283	3,167,762

The following table outlines the risk category of loans as of December 31, 2021.

	In Thousands						
	Residential 1-4 Family Real Estate	**Commercial and Multi-family Real Estate**	**Construction, Land Development and Farmland**	**Commercial, Industrial and Agricultural**	**1-4 Family Equity Lines of Credit**	**Consumer and Other**	**Total**
Credit Risk Profile by Internally Assigned Grade							
December 31, 2021							
Pass	$ 682,527	908,409	612,537	118,058	92,208	74,513	2,488,252
Special mention	5,566	—	93	96	11	89	5,855
Substandard	1,486	264	29	1	10	41	1,831
Total	$ 689,579	908,673	612,659	118,155	92,229	74,643	2,495,938

Age Analysis of Past Due Loans

	In Thousands						
	30-59 Days Past Due	**60-89 Days Past Due**	**Nonaccrual and Greater Than 89 Days**	**Total Nonaccrual and Past Due**	**Current**	**Total Loans**	**Recorded Investment Greater Than 89 Days and Accruing**
December 31, 2022							
Residential 1-4 family real estate	$ 2,046	1,080	426	3,552	851,418	854,970	$ 426
Commercial and multi-family real estate	397	1,626	400	2,423	1,061,874	1,064,297	400
Construction, land development and farmland	591	—	—	591	878,937	879,528	—
Commercial, industrial and agricultural	49	62	—	111	124,492	124,603	—
1-4 family equity lines of credit	74	77	—	151	150,881	151,032	—
Consumer and other	403	184	43	630	92,702	93,332	43
Total	$ 3,560	3,029	869	7,458	3,160,304	3,167,762	$ 869
December 31, 2021							
Residential 1-4 family real estate	$ 2,072	169	357	2,598	686,981	689,579	$ 357
Commercial and multi-family real estate	—	—	—	—	908,673	908,673	—
Construction, land development and farmland	1,154	215	—	1,369	611,290	612,659	—
Commercial, industrial and agricultural	58	81	—	139	118,016	118,155	—
1-4 family equity lines of credit	170	—	9	179	92,050	92,229	9
Consumer and other	288	99	23	410	74,233	74,643	23
Total	$ 3,742	564	389	4,695	2,491,243	2,495,938	$ 389

Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, a loan may be partially charged-off after a "confirming event" has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.

Transactions in the allowance for credit losses for the year ended December 31, 2022 is summarized as follows:

In Thousands						
Residential 1-4 Family Real Estate	**Commercial and Multi-family Real Estate**	**Construction, Land Development and Farmland**	**Commercial, Industrial and Agricultural**	**1-4 family Equity Lines of Credit**	**Consumer and Other**	**Total**

December 31, 2022							
Allowance for credit losses:							
Beginning balance	$ 9,242	16,846	9,757	1,329	1,098	1,360	39,632
Impact of adopting ASC 326	(3,393)	(3,433)	(266)	219	(324)	(367)	(7,564)
Provision	1,353	1,886	3,795	(117)	396	1,343	8,656
Charge-offs	(8)	—	(1)	(21)	—	(1,527)	(1,557)
Recoveries	116	—	20	27	—	483	646
Ending balance	$ 7,310	15,299	13,305	1,437	1,170	1,292	39,813

The following tables detail the allowance for loan losses and recorded investment in loans by loan classification and by impairment evaluation method as of December 31, 2021 and December 31, 2020, as determined in accordance with ASC 310 prior to the adoption of ASC 326:

	In Thousands						
	Residential 1-4 Family Real Estate	**Commercial and Multi-family Real Estate**	**Construction, Land Development and Farmland**	**Commercial, Industrial and Agricultural**	**1-4 family Equity Lines of Credit**	**Consumer and Other**	**Total**
December 31, 2021							
Allowance for loan losses:							
Beginning balance	$ 8,203	18,343	8,090	1,391	997	1,515	38,539
Provision	971	(1,497)	1,296	(35)	101	307	1,143
Charge-offs	—	—	(23)	(33)	—	(992)	(1,048)
Recoveries	68	—	394	6	—	530	998
Ending balance	$ 9,242	16,846	9,757	1,329	1,098	1,360	39,632
Ending balance individually evaluated for impairment	—	—	—	—	—	—	—
Ending balance collectively evaluated for impairment	$ 9,242	16,846	9,757	1,329	1,098	1,360	39,632
Loans:							
Ending balance	$ 689,579	908,673	612,659	118,155	92,229	74,643	2,495,938
Ending balance individually evaluated for impairment	$ 134	531	—	—	—	—	665
Ending balance collectively evaluated for impairment	$ 689,445	908,142	612,659	118,155	92,229	74,643	2,495,273

	In Thousands						
	Residential 1-4 Family Real Estate	**Commercial and Multi-family Real Estate**	**Construction, Land Development and Farmland**	**Commercial, Industrial and Agricultural**	**1-4 family Equity Lines of Credit**	**Consumer and Other**	**Total**
December 31, 2020							
Allowance for loan losses:							
Beginning balance	$ 7,267	12,231	6,184	1,059	889	1,096	28,726
Provision	883	5,812	1,733	341	74	853	9,696
Charge-offs	—	—	—	(9)	(7)	(898)	(914)
Recoveries	53	300	173	—	41	464	1,031
Ending balance	$ 8,203	18,343	8,090	1,391	997	1,515	38,539

The following table presents the amortized cost basis of collateral dependent loans at December 31, 2022 which are individually evaluated to determine expected credit losses:

	In Thousands		
	Real Estate	**Other**	**Total**
December 31, 2022			
Residential 1-4 family real estate	$ 130	—	130
Commercial and multi-family real estate	508	—	508
Construction, land development and farmland	—	—	—
Commercial, industrial and agricultural	—	—	—
1-4 family equity lines of credit	—	—	—
Consumer and other	—	—	—
	$ 638	—	638

The following table presents impaired loans at December 31, 2021 as determined under ASC 310 prior to the adoption of ASC 326. Impaired loans generally include nonaccrual loans, troubled debt restructurings, and other loans deemed to be impaired but that continue to accrue interest. Presented are the recorded investment, unpaid principal balance and related allowance of impaired loans at December 31, 2021 by loan classification:

	In Thousands				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
December 31, 2021					
With no related allowance recorded:					
Residential 1-4 family real estate	$ 136	134	—	614	7
Commercial and multi-family real estate	532	531	—	303	25
Construction, land development and farmland	—	—	—	—	—
Commercial, industrial and agricultural	—	—	—	—	—
1-4 family equity lines of credit	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$ 668	665	—	917	32
With allowance recorded:					
Residential 1-4 family real estate	$ —	—	—	602	—
Commercial and multi-family real estate	—	—	—	342	—
Construction, land development and farmland	—	—	—	—	—
Commercial, industrial and agricultural	—	—	—	—	—
1-4 family equity lines of credit	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$ —	—	—	944	—
Total:					
Residential 1-4 family real estate	$ 136	134	—	1,216	7
Commercial and multi-family real estate	532	531	—	645	25
Construction, land development and farmland	—	—	—	—	—
Commercial, industrial and agricultural	—	—	—	—	—
1-4 family equity lines of credit	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$ 668	665	—	1,861	32

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic or other concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. The concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

The following table summarizes the carrying balances of TDRs at December 31, 2022 and December 31, 2021 (dollars in thousands):

	2022	2021
Performing TDRs	$ 778	876
Nonperforming TDRs	150	165
Total TDRs	$ 928	1,041

The following table outlines the amount of each TDR categorized by loan classification for the years ended December 31, 2022, 2021 and 2020 (dollars in thousands):

	December 31, 2022			December 31, 2021		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family real estate	—	$ —	$ —	—	$ —	$ —
Commercial and multi-family real estate	—	—	—	—	—	—
Construction, land development and farmland	—	—	—	—	—	—
Commercial, industrial and agricultural	—	—	—	—	—	—
1-4 family equity lines of credit	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
Total	—	$ —	$ —	—	$ —	$ —

	December 31, 2020		
	Number of Loans	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family real estate	—	$ —	$ —
Commercial and multi-family real estate	1	111	132
Construction, land development and farmland	—	—	—
Commercial, industrial and agricultural	—	—	—
1-4 family equity lines of credit	—	—	—
Consumer and other	—	—	—
Total	1	$ 111	$ 132

As of December 31, 2022, 2021 and 2020 the Company did not have any loan previously classified as a TDR default within twelve months of the restructuring. A default is defined as an occurrence which violates the terms of the receivable's contract.

As of December 31, 2022 the Bank had $11,000 of consumer mortgage loans in the process of foreclosure. As of December 31, 2021 the Bank had $262,000 of consumer mortgage loans in the process of foreclosure.

The Company's principal customers are primarily in Middle Tennessee. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans including collateral vary depending upon the purpose of the credit and the borrower's financial condition. In the normal course of business, Wilson Bank has made loans at prevailing interest rates and terms to directors and executive officers of the Company and to their affiliates. The aggregate amount of these loans was $6,859,000 and $5,725,000 at December 31, 2022 and 2021, respectively. None of these loans were restructured, charged-off or involved more than the normal risk of collectibility or presented other unfavorable features during the three years ended December 31, 2022.

An analysis of the activity with respect to such loans to related parties is as follows:

	In Thousands	
	December 31,	
	2022	**2021**
Balance, January 1	$ 5,725	$ 7,675
New loans and renewals during the year	13,379	11,009
Repayments (including loans paid by renewal) during the year	(12,245)	(12,959)
Balance, December 31	$ 6,859	$ 5,725

In 2022, 2021 and 2020, Wilson Bank originated mortgage loans for sale into the secondary market of $106,601,000, $215,813,000 and $213,483,000, respectively. The fees and gain on sale of these loans totaled $2,973,000, $9,997,000 and $9,560,000 in 2022, 2021 and 2020, respectively.

In some instances, Wilson Bank sells loans that contain provisions which permit the buyer to seek recourse against Wilson Bank in certain circumstances. At December 31, 2022 and 2021, total mortgage loans sold with recourse in the secondary market aggregated $84,162,000 and $165,061,000, respectively. At December 31, 2022, Wilson Bank has not been required to repurchase a significant amount of the mortgage loans originated by Wilson Bank and sold in the secondary market. Management expects no material losses to result from these recourse provisions.

(3) Debt Securities

Debt securities have been classified in the consolidated balance sheet according to management's intent. Debt securities at December 31, 2022 consist of the following:

	Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and other U.S. government agencies	$ 7,353	—	856	6,497
U.S. Government-sponsored enterprises (GSEs)	177,261	—	32,049	145,212
Mortgage-backed securities	518,727	1	74,290	444,438
Asset-backed securities	47,538	—	2,288	45,250
Corporate bonds	2,500	—	97	2,403
Obligations of states and political subdivisions	218,936	—	39,924	179,012
	$ 972,315	1	149,504	822,812

The Company's classification of securities at December 31, 2021 was as follows:

	Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and other U.S. government agencies	$ 7,320	—	99	7,221
U.S. Government-sponsored enterprises (GSEs)	163,700	20	4,490	159,230
Mortgage-backed securities	465,588	2,726	6,537	461,777
Asset-backed securities	46,583	213	83	46,713
Corporate bonds	2,500	75	—	2,575
Obligations of states and political subdivisions	220,444	2,611	2,986	220,069
	$ 906,135	5,645	14,195	897,585

As of December 31, 2022, there was no allowance for credit losses on available-for-sale securities.

Included in mortgage-backed securities are collateralized mortgage obligations totaling $148,460,000 (fair value of $126,190,000) and $130,594,000 (fair value of $128,281,000) at December 31, 2022 and 2021, respectively.

The amortized cost and estimated market value of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities of mortgage and asset-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	In Thousands	
Securities Available-For-Sale	Amortized Cost	Fair Value
Due in one year or less	$ 5,078	4,930
Due after one year through five years	79,925	71,315
Due after five years through ten years	270,747	226,085
Due after ten years	616,565	520,482
	$ 972,315	822,812

Results from sales of debt securities are as follows:

	In Thousands		
	2022	2021	2020
Gross proceeds	$ 42,728	39,652	54,870
Gross realized gains	$ —	137	901
Gross realized losses	(1,620)	(109)	(19)
Net realized gains (losses)	$ (1,620)	28	882

Securities carried on the balance sheet of approximately $477,051,000 (approximate market value of $405,043,000) and $368,718,000 (approximate market value of $364,893,000) were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2022 and 2021, respectively.

At December 31, 2022, there were no holdings of securities of any one issuer, other than U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Included in the securities above are $111,505,000 (approximate market value of $90,008,000) and $111,103,000 (approximate market value of $110,384,000) at December 31, 2022 and 2021, respectively, in obligations of political subdivisions located within the states of Tennessee, Alabama, and Texas.

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	In Thousands, Except Number of Securities							
	Less than 12 Months			**12 Months or More**			**Total**	
2022	**Fair Value**	**Unrealized Losses**	**Number of Securities Included**	**Fair Value**	**Unrealized Losses**	**Number of Securities Included**	**Fair Value**	**Unrealized Losses**
Available-for-Sale Securities:								
Debt securities:								
U.S. Treasury and other U.S. government agencies	$ —	$ —	—	$ 6,497	$ 856	3	$ 6,497	$ 856
U.S. Government-sponsored enterprises (GSEs)	9,747	872	4	135,465	31,177	54	145,212	32,049
Mortgage-backed securities	148,441	14,601	113	295,431	59,689	136	443,872	74,290
Asset-backed securities	35,276	1,607	21	9,974	681	11	45,250	2,288
Corporate bonds	2,403	97	1	—	—	—	2,403	97
Obligations of states and political subdivisions	58,567	6,056	76	120,445	33,868	128	179,012	39,924
	$ 254,434	$ 23,233	215	$ 567,812	$ 126,271	332	$ 822,246	$ 149,504

	In Thousands, Except Number of Securities							
	Less than 12 Months			**12 Months or More**			**Total**	
2021	**Fair Value**	**Unrealized Losses**	**Number of Securities Included**	**Fair Value**	**Unrealized Losses**	**Number of Securities Included**	**Fair Value**	**Unrealized Losses**
Available-for-Sale Securities:								
Debt securities:								
U.S. Treasury and other U.S. government agencies	$ 7,221	$ 99	3	$ —	$ —	—	$ 7,221	$ 99
U.S. Government-sponsored enterprises (GSEs)	110,981	2,466	33	45,725	2,024	19	156,706	4,490
Mortgage-backed securities	317,211	4,644	96	54,692	1,893	33	371,903	6,537
Asset-backed securities	17,945	67	9	484	16	1	18,429	83
Corporate bonds	—	—	—	—	—	—	—	—
Obligations of states and political subdivisions	83,510	1,460	74	36,225	1,526	32	119,735	2,986
	$ 536,868	$ 8,736	215	$ 137,126	$ 5,459	85	$ 673,994	$ 14,195

The applicable date for determining when securities are in an unrealized loss position is December 31, 2022 and 2021. As such, it is possible that a security had a market value less than its amortized cost on other days during the twelve-month periods ended December 31, 2022 and 2021, but is not in the "Investments with an Unrealized Loss of less than 12 months" category above.

As shown in the tables above, at December 31, 2022 and 2021, the Company had unrealized losses of $149.5 million and $14.2 million on $822.2 million and $674.0 million, respectively, of securities. As described in note 1. Summary of Significant Accounting Policies, for any securities classified as available-for-sale that are in an unrealized loss position at the balance sheet date, the Company assesses whether or not it intends to sell the security, or more-likely-than-not will be required to sell the security, before recovery of its amortized cost basis which would require a write-down to fair value through net income. Because the Company currently does not intend to sell those securities that have an unrealized loss at December 31, 2022, and it is likely that the Company will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Company has determined that no write-down is necessary. In addition, the Company evaluates whether any portion of the decline in fair value is the result of credit deterioration, which would require the recognition of an allowance for credit losses. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. The unrealized losses associated with securities at December 31, 2022 are driven by changes in interest rates and not due to the credit quality of the securities, and accordingly, no allowance for credit losses is considered necessary related to available-for-sale securities at December 31, 2022. These securities will continue to be monitored as a part of the Company's ongoing evaluation of credit quality.

Mortgage-Backed Securities

At December 31, 2022, approximately 98% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies. Because the decline in fair value is attributable to interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired (OTTI) at December 31, 2022.

The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of $11.0 million which had unrealized losses of approximately $1.8 million at December 31, 2022. These non-agency mortgage-backed securities were rated AAA at purchase. The Company monitors to ensure it has adequate credit support and as of December 31, 2022, the Company believes there is no OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuers continue to make timely principal and interest payments on the bonds.

Obligations of States and Political Subdivisions

Unrealized losses on municipal bonds have not been recognized into income because the issuers bonds are of high credit quality (rated A or higher), management does not intend to sell the securities and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

(4) Restricted Equity Securities

Restricted equity securities consists of stock of the FHLB of Cincinnati amounting to $4,357,000 and $5,089,000 at December 31, 2022 and 2021, respectively. The stock can be sold back only at par or a value as determined by the issuing institution and only to the respective financial institution or to another member institution. These securities are recorded at cost.

(5) Premises and Equipment

The detail of premises and equipment at December 31, 2022 and 2021 is as follows:

	In Thousands	
	2022	2021
Land	$ 20,822	$ 20,156
Buildings	46,579	46,112
Leasehold improvements	1,621	1,155
Furniture and equipment	14,858	14,705
Automobiles	373	241
Construction-in-progress	2,711	3,335
	86,964	85,704
Less accumulated depreciation	(24,933)	(22,858)
	$ 62,031	$ 62,846

During 2022, 2021 and 2020, payments of $379,000, $1,227,000 and $571,000, respectively, were made to an entity owned by a director for the construction of buildings and repair work on existing buildings.

Depreciation expense was $4,370,000, $4,235,000 and $4,250,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

(6) Goodwill

The Company's intangible assets result from the excess of purchase price over the applicable book value of the net assets acquired related to outside ownership of two previously 50% owned subsidiaries that the Company acquired 100% of in 2005.

	In Thousands	
	2022	2021
Goodwill:		
Balance at January 1,	$ 4,805	4,805
Goodwill acquired during year	—	—
Impairment loss	—	—
Balance at December 31,	$ 4,805	4,805

(7) ***Leases***

Lessee Accounting

The majority of leases in which the Company is the lessee are comprised of real estate property for branches and office space and are recorded as operating leases with terms extending beyond 2027. The Company has one finance lease, which it entered into in 2022, with a lease term through 2031. These leases are classified as operating or finance leases at commencement. Right-of-use assets representing the right to use the underlying asset and lease liabilities representing the obligation to make future lease payments are recognized on the balance sheet. These assets and liabilities are estimated based on the present value of future lease payments discounted using the Company's incremental secured borrowing rates as of the commencement date of the lease. Certain lease agreements contain renewal options which are considered in the determination of the lease term if they are deemed reasonably certain to be exercised. The Company has elected not to recognize leases with an original term of less than 12 months on the balance sheet.

The following table represents lease assets and lease liabilities as of December 31, 2022 and December 31, 2021 (in thousands).

Lease right-of-use assets	Classification		December 31, 2022	December 31, 2021
Operating lease right-of-use assets	Other Assets	$	4,519	4,110
Finance lease right-of-use assets	Other Assets		2,215	—

Lease liabilities	Classification		December 31, 2022	December 31, 2021
Operating lease liabilities	Other Liabilities	$	4,671	4,247
Finance lease liabilities	Other Liabilities		2,281	—

The total lease cost related to operating leases and short term leases is recognized on a straight-line basis over the lease term. For finance leases, right-of-use assets are amortized on a straight-line basis over the lease term and interest imputed on the lease liability is recognized using the effective interest method. The components of the Bank's total lease cost were as follows for the years ended December 31, 2022 and 2021.

	In Thousands		
		2022	**2021**
Operating lease cost	$	563	550
Finance lease cost		159	—
Short-term lease cost		—	40
Net lease cost	$	722	590

The weighted average remaining lease term and weighted average discount rate for operating leases at December 31, 2022 and 2021 were as follows:

	2022	**2021**
Operating Leases		
Weighted average remaining lease term (in years)	10.53	10.42
Weighted average discount rate	4.25%	4.00%

The weighted average remaining lease term and weighted average discount rate for finance leases at December 31, 2022 and 2021 were as follows:

	2022	**2021**
Finance Leases		
Weighted average remaining lease term (in years)	24.35	—
Weighted average discount rate	2.90%	—%

Cash flows related to operating and finance leases during the year ended December 31, 2022 and 2021 were as follows:

	In Thousands		
		2022	**2021**
Operating cash flows related to operating leases	$	547	535
Operating cash flows related to finance leases		66	—
Financing cash flows related to finance leases		26	—

Future undiscounted lease payments for operating leases with initial terms of more than 12 months at December 31, 2022 and 2021 were as follows:

	In Thousands	
	2022	**2021**
Operating Leases		
2023	$ 595	544
2024	635	553
2025	642	566
2026	649	571
2027	657	576
Thereafter	2,686	2,392
Total undiscounted lease payments	5,864	5,202
Less: imputed interest	(1,193)	(955)
Net lease liabilities	$ 4,671	4,247

Future undiscounted lease payments for finance leases with initial terms of more than 12 months at December 31, 2022 and 2021 were as follows:

	In Thousands	
	2022	**2021**
Finance Leases		
2023	$ 96	—
2024	98	—
2025	101	—
2026	105	—
2027	108	—
Thereafter	2,787	—
Total undiscounted lease payments	3,295	—
Less: imputed interest	(1,014)	—
Net lease liabilities	$ 2,281	—

(8) *Mortgage Servicing Rights*

During the first quarter of 2022, the Company began selling a portfolio of residential mortgage loans to a third party, while retaining the rights to service the loans. The principal balances of these loans as of December 31, 2022 are as follows:

December 31, 2022	*In Thousands* 2022
Mortgage loan portfolios serviced for:	
FHLMC	$ 85,742

For the year ended December 31, 2022, the change in carrying value of the Company's mortgage servicing rights accounted for under the amortization method was as follows:

December 31, 2022	*In Thousands* 2022
Balance at beginning of period	$ —
Servicing rights retained from loans sold	1,597
Amortization	(532)
Valuation Allowance Provision	—
Balance at end of period	$ 1,065
Fair value, end of period	$ 1,252

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2022 were as follows:

	December 31, 2022
Prepayment speed	7.18%
Weighted-average life (in years)	8.98
Weighted-average note rate	4.34%
Weighted-average discount rate	9.00%

(9) *Deposits*

Deposits at December 31, 2022 and 2021 are summarized as follows:

	In Thousands 2022	2021
Demand deposits	$ 414,905	433,500
Savings accounts	338,963	296,434
Negotiable order of withdrawal accounts	1,070,629	1,030,743
Money market demand accounts	1,301,349	1,201,235
Certificates of deposit $250,000 or greater	230,408	123,297
Other certificates of deposit	471,249	399,850
Individual retirement accounts $250,000 or greater	7,727	8,618
Other individual retirement accounts	57,475	61,394
Total	$ 3,892,705	3,555,071

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2022 are as follows:

Maturity	*(In Thousands)* Total
2023	$ 494,645
2024	153,385
2025	77,029
2026	15,993
2027	25,807
Thereafter	—
	$ 766,859

The aggregate amount of overdrafts reclassified as loans receivable was $1,453,000 and $529,000 at December 31, 2022 and 2021, respectively.

The aggregate balances of related party deposits at December 31, 2022 and 2021 were $9,743,000 and $5,806,000, respectively.

As of December 31, 2022 and 2021, Wilson Bank was not required to maintain a cash balance with the Federal Reserve.

(10) Non-Interest Income and Non-Interest Expense

The significant components of non-interest income and non-interest expense for the years ended December 31, 2022, 2021 and 2020 are presented below:

	In Thousands		
	2022	**2021**	**2020**
Non-interest income:			
Service charges on deposits	$ 7,382	6,137	5,659
Brokerage income	6,929	6,368	4,837
Debit and credit card interchange income, net	8,416	7,783	5,842
Other fees and commissions	1,653	1,446	1,404
BOLI and annuity earnings	1,346	1,109	959
Gain (loss) on sale of securities, net	(1,620)	28	882
Fees and gains on sales of mortgage loans	2,973	9,997	9,560
Mortgage servicing income	111	—	—
Gain (loss) on sale of other real estate, net	—	(15)	658
Gain (loss) on sale of fixed assets, net	291	(43)	(63)
Gain (loss) on sale of other assets, net	8	6	(4)
Other income (loss)	(69)	34	61
	$ 27,420	32,850	29,795

	In Thousands		
	2022	**2021**	**2020**
Non-interest expense:			
Employee salaries and benefits	$ 56,707	52,722	45,661
Equity-based compensation	1,864	1,428	1,180
Occupancy expenses	5,563	5,473	5,216
Furniture and equipment expenses	3,389	3,323	3,267
Data processing expenses	7,727	6,079	5,101
Advertising expenses	3,455	2,736	2,487
Accounting, legal & consulting expenses	1,019	988	909
FDIC insurance	1,527	1,130	598
Directors' fees	650	686	634
Other operating expenses	11,208	10,927	11,426
	$ 93,109	85,492	76,479

(11) Income Taxes

The components of the net deferred tax asset at December 31, 2022 and 2021 were as follows:

	In Thousands	
	2022	2021
Deferred tax asset:		
Federal	$ 40,690	11,604
State	13,095	3,613
	53,785	15,217
Deferred tax liability:		
Federal	(1,850)	(1,822)
State	(612)	(603)
	(2,462)	(2,425)
Net deferred tax asset	$ 51,323	12,792

The tax effects of each type of significant item that gave rise to deferred tax assets (liabilities) at December 31, 2022 and 2021 were:

	In Thousands	
	2022	2021
Financial statement allowance for credit losses in excess of tax allowance	$ 10,128	10,129
Excess of depreciation deducted for tax purposes over the amounts deducted in the financial statements	(1,801)	(2,098)
Financial statement deduction for deferred compensation in excess of deduction for tax purposes	1,464	1,347
Financial statement income on FHLB stock dividends not recognized for tax purposes	(327)	(327)
Financial statement off-balance sheet exposure allowance for credit losses in excess of tax allowance	1,604	—
Unrealized loss on securities available-for-sale	39,073	2,235
Equity based compensation	1,224	1,028
Other items, net	(42)	478
Net deferred tax asset	$ 51,323	12,792

The components of income tax expense (benefit) at December 31, 2022, 2021 and 2020 are summarized as follows:

	In Thousands		
	Federal	State	Total
2022			
Current	$ 15,096	2,011	17,107
Deferred	(1,565)	(486)	(2,051)
Total	$ 13,531	1,525	15,056
2021			
Current	$ 13,580	2,084	15,664
Deferred	(698)	(234)	(932)
Total	$ 12,882	1,850	14,732
2020			
Current	$ 11,383	1,539	12,922
Deferred	(2,503)	(801)	(3,304)
Total	$ 8,880	738	9,618

A reconciliation of actual income tax expense of $15,056,000, $14,732,000 and $9,618,000 for the years ended December 31, 2022, 2021 and 2020, respectively, to the "expected" tax expense (computed by applying the statutory rate of 21% for 2022, 2021 and 2020 to earnings before income taxes) is as follows:

	In Thousands		
	2022	**2021**	**2020**
Computed "expected" tax expense	$ 14,301	13,473	10,103
State income taxes, net of Federal income tax benefit	1,117	1,584	552
Tax exempt interest, net of interest expense exclusion	(274)	(237)	(245)
Earnings on cash surrender value of life insurance	(273)	(205)	(173)
Expenses not deductible for tax purposes	23	12	14
Equity based compensation	(55)	(28)	(6)
Other	217	133	(627)
	$ 15,056	14,732	9,618

Total income tax expense (benefit) for 2022, 2021 and 2020, includes $(423,000), $7,000 and $231,000 of expense (benefit) related to the realized gain and loss on sale of securities, respectively.

As of December 31, 2022, 2021 and 2020 the Company has not accrued or recognized interest or penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

No valuation allowance for deferred tax assets was recorded at December 31, 2022 and 2021 as management believes it is more likely than not that all of the deferred tax assets will be realized against deferred tax liabilities and projected future taxable income. There were no unrecognized tax benefits during any of the reported periods.

The Company and Wilson Bank file income tax returns in the United States ("U.S."), as well as in the State of Tennessee. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2019. The Company's Federal tax returns have been audited through December 31, 2005 with no changes.

(12) Commitments and Contingent Liabilities

The Company is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's consolidated financial position.

At December 31, 2022 and 2021, respectively, the Company has lines of credit with other correspondent banks totaling $101,208,000 and $74,817,000. At December 31, 2022 and 2021, respectively, there was no balance outstanding under these lines of credit.

The Company also has a Cash Management Advance ("CMA") Line of Credit agreement. The CMA is a component of the Company's Blanket Agreement for advances with the FHLB of Cincinnati. The purpose of the CMA is to assist with short-term liquidity management. Under the terms of the CMA, the Company may borrow a maximum of $25,000,000, selecting a variable rate of interest for up to 90 days or a fixed rate for a maximum of 30 days. There were no borrowings outstanding under the CMA at December 31, 2022 or December 31, 2021.

(13) Financial Instruments with Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	In Thousands Contract or Notional Amount	
	2022	**2021**
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	$ 1,217,963	1,147,654
Standby letters of credit	118,064	90,929
Total	$ 1,336,027	1,238,583

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The fair value of standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments and the present creditworthiness of such counterparties. Such commitments have been made on terms which are competitive in the markets in which the Company operates; thus, the fair value of standby letters of credit equals the carrying value for the purposes of this disclosure. The maximum potential amount of future payments that the Company could be required to make under the guarantees totaled $118,064,000 at December 31, 2022.

The following table details activity in the allowance for credit losses on off-balance-sheet credit exposures for the years ended December 31, 2022, 2021 and 2020.

	(In Thousands)		
	2022	**2021**	**2020**
Beginning balance, January 1	$ 955	693	434
Impact of adopting ASC 326	6,195	—	—
Credit loss expense (benefit)	(1,014)	262	259
Ending balance, December 31,	$ 6,136	955	693

The Bank originates residential mortgage loans, sells them to third-party purchasers, and may or may not retain the servicing rights. These loans are originated internally and are primarily to borrowers in the Company's geographic market footprint. These sales are typically to investors that follow guidelines of conventional government sponsored entities ("GSE") and the Department of Housing and Urban Development/U.S. Department of Veterans Affairs ("HUD/VA"). Generally, loans held for sale are underwritten by the Company, including HUD/VA loans. The Bank participates in a mandatory delivery program that requires the Bank to deliver a particular volume of mortgage loans by agreed upon dates. A majority of the Bank's secondary mortgage volume is delivered to the secondary market via mandatory delivery with the remainder done on a best efforts basis. The Bank does not realize any exposure delivery penalties as the mortgage department only bids loans post-closing to ensure that 100% of the loans are deliverable to the investors.

Each purchaser has specific guidelines and criteria for sellers of loans, and the risk of credit loss with regard to the principal amount of the loans sold is generally transferred to the purchasers upon sale. While the loans are sold without recourse, the purchase agreements require the Bank to make certain representations and warranties regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. If it is determined that the loans sold were in breach of these representations or warranties or the loan had an early payoff or payment default, the Bank has obligations to either repurchase the loan for the unpaid principal balance and related investor fees or make the purchaser whole for the economic benefits of the loan.

To date, repurchase activity pursuant to the terms of these representations and warranties or due to early payoffs or payment defaults has been insignificant and has resulted in insignificant losses to the Company.

Based on information currently available, management believes that the Bank does not have significant exposure to contingent losses that may arise relating to the representations and warranties that it has made in connection with its mortgage loan sales or for early payoffs or payment defaults of such mortgage loans.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at December 31, 2022 will not have a material impact on the Company's consolidated financial statements.

(14) ***Concentration of Credit Risk***

Practically all of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. Practically all such customers are depositors of Wilson Bank. The concentrations of credit by type of loan are set forth in note 2 - Loans and Allowance for Credit Losses.

Interest bearing deposits totaling $2,299,000 were deposited with three commercial banks at December 31, 2022. Included in interest bearing deposits is $900,000 of collateral deposits related to our fixed rate loan hedging program deposited with one commercial bank. In addition, the Bank has funds deposited with the FHLB of Cincinnati in the amount of $372,000. Funds deposited with the FHLB of Cincinnati are not insured by the FDIC.

Federal funds sold in the amount of $308,000 were deposited with one commercial bank at December 31, 2022.

(15) ***Employee Benefit Plan***

Wilson Bank has in effect a 401(k) plan (the "401(k) Plan") which covers eligible employees. To be eligible an employee must have obtained the age of 18. The provisions of the 401(k) Plan provide for both employee and employer contributions. For the years ended December 31, 2022, 2021 and 2020, Wilson Bank contributed $3,309,000, $3,120,000, and $2,926,000, respectively, to the 401(k) Plan.

(16) ***Dividend Reinvestment Plan***

Under the terms of the Company's dividend reinvestment plan (the "DRIP") holders of common stock may elect to automatically reinvest cash dividends in additional shares of common stock. The Company may elect to sell original issue shares or to purchase shares in the open market for the account of participants. Original issue shares of 250,365 in 2022, 186,583 in 2021 and 180,424 in 2020 were sold to participants under the terms of the DRIP.

(17) ***Regulatory Matters and Restrictions on Dividends***

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank and the Company met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If an institution is classified as adequately capitalized or lower, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is growth and expansion, and capital restoration plans are required. As of December 31, 2022, and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and Wilson Bank's actual capital amounts and ratios as of December 31, 2022 and December 31, 2021 are presented in the following tables. The capital conservation buffer of 2.5% is not included in the required minimum ratios of the tables presented below.

	Actual		Minimum Capital Adequacy		For Classification Under Corrective Action Plan as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2022						
Total capital to risk weighted assets:						
Consolidated	$ 512,025	13.5%	$ 303,440	8.0%	$ 379,300	10.0%
Wilson Bank	509,169	13.4	303,334	8.0	379,168	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	466,076	12.3	227,580	6.0	303,440	8.0
Wilson Bank	463,220	12.2	227,500	6.0	303,333	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	466,061	12.3	170,685	4.5	N/A	N/A
Wilson Bank	463,205	12.2	170,625	4.5	246,458	6.5
Tier 1 capital to average assets:						
Consolidated	466,076	11.2	166,712	4.0	N/A	N/A
Wilson Bank	463,220	11.1	166,648	4.0	208,310	5.0

	Actual		Minimum Capital Adequacy		For Classification Under Corrective Action Plan as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2021						
Total capital to risk weighted assets:						
Consolidated	$ 455,813	13.9%	$ 261,404	8.0%	$ 326,755	10.0%
Wilson Bank	452,130	13.8	261,317	8.0	326,646	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	415,226	12.7	196,052	6.0	261,403	8.0
Wilson Bank	411,543	12.6	195,987	6.0	261,316	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	415,226	12.7	147,039	4.5	N/A	N/A
Wilson Bank	411,543	12.6	146,990	4.5	212,319	6.5
Tier 1 capital to average assets:						
Consolidated	415,226	10.8	154,280	4.0	N/A	N/A
Wilson Bank	411,543	10.7	154,230	4.0	192,787	5.0

Dividend Restrictions

The Company and the Bank are subject to dividend restrictions set forth by the Tennessee Department of Financial Institutions and federal banking agencies, as applicable. Additional restrictions may be imposed by the Tennessee Department of Financial Institutions and federal banking agencies under the powers granted to them by law.

(18) ***Salary Deferral Plans***

The Company provides some of its officers non-qualified pension benefits through an Executive Salary Continuation Plan ("the Plan") and Supplemental Executive Retirement Plan (SERP) Agreements ("SERP Agreements"). The Plan and SERP Agreements were established by the Board of Directors to reward executive management for past performance and to provide additional incentive to retain the service of executive management. The Plan and SERP Agreements generally provide executives with benefits of a portion of their salary beginning at retirement through life. As a result, the Company has accrued a liability for future obligations under the Plan and SERP Agreements. At December 31, 2022 and 2021, the liability related to the Plan totaled $1,575,000 and $1,660,000, respectively. At December 31, 2022 and 2021 the liability related to the SERP Agreements totaled $4,026,000 and $3,496,000, respectively. The expense incurred for these plans totaled $789,000, $705,000 and $575,000 for the year ended December 31, 2022, 2021 and 2020, respectively.

The Company has purchased life insurance policies to provide the benefits related to the Plan, which at December 31, 2022 and 2021 had an aggregate cash surrender value of $6,306,000 and $5,669,000, respectively, and an aggregate face value of insurance policies in force of $16,377,000 and $15,497,000, respectively. The life insurance policies remain the sole property of the Company and are payable to the Company.

The Company has also purchased bank owned life insurance policies on some of its officers. The insurance policies remain the sole property of the Company and are payable to the Company. The cash surrender value of the life insurance contracts totaled $51,701,000 and $40,536,000 and the face amount of the insurance policies in force approximated $121,634,000 and $98,879,000 at December 31, 2022 and 2021, respectively.

The Company has also purchased Flexible Premium Indexed Deferred Annuity Contracts (“Annuity Contracts”) to provide benefits related to the SERP Agreements. The Annuity Contracts remain the sole property of the Company and are payable to the Company. Included in other assets at December 31, 2022 and 2021 are the Annuity Contracts with an aggregate value of $24,135,000 and $23,861,000, respectively.

(19) Equity Incentive Plan

In April 2009, the Company's shareholders approved the Wilson Bank Holding Company 2009 Stock Option Plan (the "2009 Stock Option Plan"). The 2009 Stock Option Plan was effective as of April 14, 2009. Under the 2009 Stock Option Plan, awards could be in the form of options to acquire common stock of the Company. Subject to adjustment as provided by the terms of the 2009 Stock Option Plan, the maximum number of shares of common stock with respect to which awards could be granted under the 2009 Stock Option Plan was 100,000 shares. The 2009 Stock Option Plan terminated on April 13, 2019, and no additional awards may be issued under the 2009 Stock Option Plan. The awards granted under the 2009 Stock Option Plan prior to the Plan's expiration will remain outstanding until exercised or otherwise terminated. As of December 31, 2022, the Company had outstanding 5,476 options under the 2009 Stock Option Plan with a weighted average exercise price of $35.42.

During the second quarter of 2016, the Company's shareholders approved the Wilson Bank Holding Company 2016 Equity Incentive Plan, which authorizes awards of up to 750,000 shares of common stock. The 2016 Equity Incentive Plan was approved by the Board of Directors and effective as of January 25, 2016 and approved by the Company's shareholders on April 12, 2016. On September 26, 2016, the Board of Directors approved an amendment and restatement of the 2016 Equity Incentive Plan (as amended and restated the "2016 Equity Incentive Plan") to make clear that directors who are not also employees of the Company may be awarded stock appreciation rights. The primary purpose of the 2016 Equity Incentive Plan is to promote the interest of the Company and its shareholders by, among other things, (i) attracting and retaining key officers, employees and directors of, and consultants to, the Company and its subsidiaries and affiliates, (ii) motivating those individuals by means of performance-related incentives to achieve long-range performance goals, (iii) enabling such individuals to participate in the long-term growth and financial success of the Company, (iv) encouraging ownership of stock in the Company by such individuals, and (v) linking their compensation to the long-term interests of the Company and its shareholders. Except for certain limitations, awards can be in the form of stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted shares and restricted share units, performance awards and other stock-based awards. As of December 31, 2022, the Company had 245,731 shares remaining available for issuance under the 2016 Equity Incentive Plan. As of December 31, 2022, the Company had outstanding under the 2016 Equity Incentive Plan 238,362 stock options with a weighted average exercise price of $56.21 and 170,940 cash-settled stock appreciation rights with a weighted average exercise price of $54.26.

As of December 31, 2022, under all of its equity incentive plans, the Company had outstanding 243,838 stock options with a weighted average exercise price of $55.74 and 170,940 cash-settled stock appreciation rights with a weighted average exercise price of $54.26. Included in other liabilities at December 31, 2022 and 2021 were $3,020,000 and $2,708,000 in accrued stock appreciation rights, respectively.

The fair value of each stock option and cash-settled SAR grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2022, 2021 and 2020:

	2022	2021	2020
Expected dividends	1.85%	1.53%	1.56%
Expected term (in years)	7.78	9.13	7.38
Expected stock price volatility	37%	36%	31%
Risk-free rate	3.03%	1.45%	0.52%

The expected stock price volatility is based on historical volatility adjusted for consideration of other relevant factors. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield and forfeiture rate assumptions are based on the Company's history and expectation of dividend payouts and forfeitures.

A summary of the stock option and cash-settled SAR activity for 2022, 2021 and 2020 is as follows:

	2022		2021		2020	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	357,254	$ 50.18	284,591	$ 43.71	273,039	$ 41.19
Granted	117,665	64.13	121,830	61.48	43,833	55.72
Exercised	(58,841)	43.27	(48,867)	40.76	(24,881)	37.84
Forfeited or expired	(1,300)	45.50	(300)	37.60	(7,400)	41.70
Outstanding at end of year	414,778	$ 55.13	357,254	$ 50.18	284,591	$ 43.71
Options and cash-settled SARs exercisable at year end	167,918	$ 46.09	159,560	$ 41.93	151,695	$ 40.89

The weighted average fair value at the grant date of options and cash-settled SARs granted during the years 2022, 2021 and 2020 was $22.64, $22.10 and $14.92, respectively. The total intrinsic value of options and cash-settled SARs exercised during the years 2022, 2021 and 2020 was $1,310,000, $962,000 and $463,000, respectively.

The following table summarizes information about outstanding and exercisable stock options and cash-settled SARs at December 31, 2022:

	Options and Cash-Settled SARs Outstanding			Options and Cash-Settled SARs Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/22	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Number Outstanding at 12/31/22	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
$32.81 - $51.00	132,266	$ 41.55	4.00	123,166	$ 41.33	3.96
$51.25 - $66.70	282,512	$ 61.49	8.48	44,752	$ 59.09	7.00
	414,778			167,918		
Aggregate intrinsic value (in thousands)	$ 5,275			$ 3,658		

As of December 31, 2022, there was $4,766,000 of total unrecognized cost related to non-vested share-based compensation arrangements granted under the Company's equity incentive plans. The cost is expected to be recognized over a weighted-average period of 3.70 years.

A summary of restricted stock shares activity is as follows:

	Restricted Stock Shares	
	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2021	1,250	$ 62.10
Granted	450	66.70
Vested	(625)	62.10
Forfeited	—	—
Outstanding at December 31, 2022	1,075	$ 64.03

The shares vest over various time periods. As of December 31, 2022, there was $60,000 of unrecognized compensation cost related to non-vested restricted share awards. The cost is expected to be charged over a weighted-average period of 1.79 years for the restricted stock share awards. As of December 31, 2022, the fair value of share awards vested totaled $42,000.

(20) Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share for the Company begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options.

The following is a summary of the components comprising basic and diluted earnings per share ("EPS"):

	Years Ended December 31,		
	2022	2021	2020
Basic EPS Computation:			
Numerator – Earnings available to common stockholders	$ 53,042	49,426	38,492
Denominator – Weighted average number of common shares outstanding	11,377,617	11,131,897	10,927,065
Basic earnings per common share	$ 4.66	4.44	3.52
Diluted EPS Computation:			
Numerator – Earnings available to common stockholders	$ 53,042	49,426	38,492
Denominator – Weighted average number of common shares outstanding	11,377,617	11,131,897	10,927,065
Dilutive effect of stock options and restricted stock shares	31,307	31,059	26,681
	11,408,924	11,162,956	10,953,746
Diluted earnings per common share	$ 4.65	4.43	3.51

(21) Derivatives

Derivatives Designated as Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The gain or loss on the derivative instrument is presented on the same income statement line item as the earnings effect of the hedged item. The Company utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate loans. The hedging strategy on loans converts the fixed interest rates to LIBOR-based variable interest rates, though in 2023, such LIBOR-based variable interest rates will transition to SOFR-based variable rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the maturity dates of the hedged loans.

During the second quarter of 2020, the Company entered into one swap transaction with a notional amount of $30,000,000 pursuant to which the Company pays the counter-party a fixed interest rate and receives a floating rate equal to 1 month LIBOR. The derivative transaction is designated as a fair value hedge.

A summary of the Company's fair value hedge relationships as of December 31, 2022 and December 31, 2021 are as follows (in thousands):

December 31, 2022

	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
Interest rate swap agreements - loans	Other assets	7.42	0.65%	1 month LIBOR	$ 30,000	4,520

December 31, 2021

	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
Interest rate swap agreements - loans	Other assets	8.42	0.65%	1 month LIBOR	$ 30,000	1,192

The effects of fair value hedge relationships reported in interest income on loans on the consolidated statements of income for the twelve months ended December 31, 2022 and 2021 were as follows (in thousands):

	Twelve Months Ended December 31,	
Gain (loss) on fair value hedging relationship	**2022**	**2021**
Interest rate swap agreements - loans:		
Hedged items	$ (3,265)	(1,125)
Derivative designated as hedging instruments	3,328	1,243

The following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges at December 31, 2022 and December 31, 2021 (in thousands):

	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
Line item on the balance sheet	**December 31, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Loans	$ 25,452	28,717	(4,548)	(1,283)

Mortgage Banking Derivatives

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. At December 31, 2022 and December 31, 2021, the Company had approximately $6,923,000 and $20,340,000, respectively, of interest rate lock commitments and approximately $6,250,000 and $20,500,000, respectively, of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by derivative assets of $123,000 and $657,000 and derivative assets of $62,000 and $6,000, respectively, at December 31, 2022 and December 31, 2021. Changes in the fair values of these mortgage-banking derivatives are included in net gains on sale of loans.

The net gains (losses) relating to free-standing derivative instruments used for risk management is summarized below:

	In Thousands		
	2022		**2021**
Interest rate contracts for customers	$	(535)	(57)
Forward contracts related to mortgage loans held for sale and interest rate contracts		56	163

The following table reflects the amount and fair value of mortgage banking derivatives included in the consolidated balance sheet as of December 31, 2022 and December 31, 2021:

	In Thousands				
	2022			**2021**	
	Notional Amount		**Fair Value**	**Notional Amount**	**Fair Value**
Included in other assets (liabilities):					
Interest rate contracts for customers	$	6,923	123	20,340	657
Forward contracts related to mortgage loans held-for-sale		6,250	62	20,500	6

(22) ***Disclosures About Fair Value of Financial Instruments***

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures (“ASC 820”)*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 - inputs to the valuation methodology include all prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Asset

Securities available-for-sale - Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy. Quarterly we will validate prices supplied by our third party vendor by comparison to prices obtained from third parties.

Hedged loans - The fair value of our hedged loan portfolio is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction.

Collateral dependent loans - Collateral dependent loans are measured at the fair value of the collateral securing the loan less estimated selling costs. The fair value of real estate collateral is determined based on real estate appraisals which are generally based on recent sales of comparable properties which are then adjusted for property specific factors. Non-real estate collateral is valued based on various sources, including third party asset valuations and internally determined values based on cost adjusted for depreciation and other judgmentally determined discount factors. Collateral dependent loans are classified within Level 3 of the valuation hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Other real estate owned - Other real estate owned (“OREO”) represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Upon acquisition, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for credit losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest income. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

Mortgage loans held for sale - Mortgage loans held for sale are carried at fair value, and are classified within Level 2 of the valuation hierarchy. The fair value of mortgage loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan.

Derivative instruments - The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Other investments - Included in other investments are investments recorded at fair value primarily in certain nonpublic investments and funds. The valuation of these nonpublic investments requires management judgment due to the absence of observable quoted market prices, inherent lack of liquidity and the long-term nature of such assets. These investments are valued initially based upon transaction price. The carrying values of other investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties. These investments are included in Level 3 of the valuation hierarchy if the entities and funds are not widely traded and the underlying investments are in privately-held and/or start-up companies for which market values are not readily available.

The following tables present the financial instruments carried at fair value as of December 31, 2022 and December 31, 2021, by caption on the consolidated balance sheet and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	Measured on a Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022				
Hedged Loans	$ 25,452	—	25,452	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agencies	6,497	6,497	—	—
U.S. Government sponsored enterprises	145,212	—	145,212	—
Mortgage-backed securities	444,438	—	444,438	—
Asset-backed securities	45,250	—	45,250	—
Corporate bonds	2,403	—	2,403	—
State and municipal securities	179,012	—	179,012	—
Total investment securities available-for-sale	822,812	6,497	816,315	—
Mortgage loans held for sale	3,355	—	3,355	—
Derivative instruments	4,705	—	4,705	—
Other investments	1,965	—	—	1,965
Total assets	$ 858,289	6,497	849,827	1,965
Derivative instruments	$ —	—	—	—
Total liabilities	$ —	—	—	—

	Measured on a Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2021				
Hedged Loans	$ 28,717	—	28,717	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agencies	7,221	7,221	—	—
U.S. Government sponsored enterprises	159,230	—	159,230	—
Mortgage-backed securities	461,777	—	461,777	—
Asset-backed securities	46,713	—	46,713	—
Corporate bonds	2,575	—	2,575	—
State and municipal securities	220,069	—	220,069	—
Total investment securities available-for-sale	897,585	7,221	890,364	—
Mortgage loans held for sale	11,843	—	11,843	—
Derivative instruments	1,855	—	1,855	—
Other investments	2,034	—	—	2,034
Total assets	$ 942,034	7,221	932,779	2,034
Derivative instruments	$ —	—	—	—
Total liabilities	$ —	—	—	—

	Measured on a Non-Recurring Basis				
	Total Carrying Value in the Consolidated Balance Sheet		Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022					
Other real estate owned	$	—	—	—	—
Collateral dependent loans (1)		638	—	—	638
Total	$	638	—	—	638
December 31, 2021					
Other real estate owned	$	—	—	—	—
Impaired loans, net (1)		668	—	—	668
Total	$	668	—	—	668

(1) As of December 31, 2022 no valuation allowance was recorded on collateral dependent loans. As of December 31, 2021 no valuation allowance was recorded on impaired loans.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which we have utilized Level 3 inputs to determine fair value at December 31, 2022 and 2021:

	Valuation Techniques (2)	Significant Unobservable Inputs	Range (Weighted Average)
Collateral dependent loans	Appraisal	Estimated costs to sell	10%
Other real estate owned	Appraisal	Estimated costs to sell	10%

(1) The fair value is generally determined through independent appraisals of the underlying collateral, which may include Level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

In the case of its investment securities portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the twelve months ended December 31, 2022, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the year ended December 31, 2022 and 2021 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the Year Ended December 31,			
	2022		2021	
	Other Assets		Other Assets	
Fair value, January 1	$	2,034	$	—
Total realized gains (losses) included in income		(69)		34
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at December 31		—		—
Purchases, issuances and settlements, net		—		2,000
Transfers out of Level 3		—		—
Fair value, December 31	$	1,965	$	2,034
Total realized gains (losses) included in income related to financial assets and liabilities still on the consolidated balance sheet at December 31	$	(69)	$	34

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2022 and December 31, 2021. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Cash and cash equivalents - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Loans - The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the following categories: variable rate loans, collateral dependent loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for collateral dependent loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

Mortgage servicing rights - The fair value of servicing rights is based on the present value of estimated future cash flows of mortgages sold, stratified by rate and maturity date. Assumptions that are incorporated in the valuation of servicing rights include assumptions about prepayment speeds on mortgages and the cost to service loans.

Deposits and Federal Home Loan Bank advances - Fair values for deposits and Federal Home Loan Bank advances are estimated using discounted cash flow models, using current market interest rates offered on deposits with similar remaining maturities.

Off-balance sheet instruments - The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2022 and December 31, 2021. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

(in Thousands)	Carrying/Notional Amount	Estimated Fair Value (1)	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 104,789	104,789	104,789	—	—
Loans, net	3,088,344	2,992,161	—	—	2,992,161
Mortgage servicing rights	1,065	1,252	—	1,252	—
Financial liabilities:					
Deposits	3,892,705	3,210,581	—	—	3,210,581
December 31, 2021					
Financial assets:					
Cash and cash equivalents	$ 453,418	453,418	453,418	—	—
Loans, net	2,444,282	2,439,539	—	—	2,439,539
Financial liabilities:					
Deposits	3,555,071	3,227,520	—	—	3,227,520

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.

(23) Wilson Bank Holding Company -
Parent Company Financial Information

WILSON BANK HOLDING COMPANY
(Parent Company Only)
Balance Sheets
December 31, 2022 and 2021

	Dollars In Thousands	
	2022	2021
ASSETS		
Cash	$ 4,241 *	5,113 *
Investment in wholly-owned commercial bank subsidiary	357,596 *	410,034 *
Deferred income taxes	1,223	1,028
Refundable income taxes	538	362
Total assets	$ 363,598	416,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 3,146	2,820
Total liabilities	3,146	2,820
Stockholders' equity:		
Common stock, par value $2.00 per share, authorized 50,000,000 shares, 11,472,181 and 11,201,504 shares issued and outstanding, respectively	22,944	22,403
Additional paid-in capital	122,298	105,177
Retained earnings	325,625	292,452
Noncontrolling interest in consolidated subsidiary	15	—
Accumulated other comprehensive losses, net of taxes of $39,073 and $2,235, respectively	(110,430)	(6,315)
Total stockholders' equity	360,452	413,717
Total liabilities and stockholders' equity	$ 363,598	416,537

* Eliminated in consolidation.

WILSON BANK HOLDING COMPANY
(Parent Company Only)
Statements of Earnings
Three Years Ended December 31, 2022

	Dollars In Thousands		
	2022	**2021**	**2020**
Income:			
Dividends from commercial bank subsidiary	$ 4,200	4,300	5,000
Other income	—	—	61
	4,200	4,300	5,061
Expenses:			
Directors' fees	355	341	335
Other	2,187	1,575	1,264
	2,542	1,916	1,599
Income before Federal income tax benefits and equity in undistributed earnings of Wilson Bank	1,658	2,384	3,462
Federal income tax benefits	733	475	471
	2,391	2,859	3,933
Equity in undistributed earnings of Wilson Bank	50,651 *	46,567 *	34,559 *
Net earnings	$ 53,042	49,426	38,492

* Eliminated in consolidation.

WILSON BANK HOLDING COMPANY
(Parent Company Only)
Statements of Cash Flows
Three Years Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents

	Dollars In Thousands		
	2022	**2021**	**2020**
Cash flows from operating activities:			
Net earnings	$ 53,042	49,426	38,492
Adjustments to reconcile net earnings to net cash used in operating activities:			
Equity in earnings of commercial bank subsidiary	(54,851)	(50,867)	(39,559)
Decrease (increase) in refundable income taxes	(176)	(120)	(110)
Increase in deferred taxes	(195)	(174)	(229)
Share based compensation expense	1,866	1,428	1,180
Increase in other liabilities	14	113	—
Total adjustments	(53,342)	(49,620)	(38,718)
Net cash used in operating activities	(300)	(194)	(226)
Cash flows from investing activities:			
Dividends received from commercial bank subsidiary	4,200	4,300	5,000
Net cash provided by investing activities	4,200	4,300	5,000
Cash flows from financing activities:			
Payments made to stock appreciation rights holders	(644)	(515)	(53)
Dividends paid	(20,880)	(14,909)	(13,013)
Proceeds from sale of stock pursuant to dividend reinvestment plan	16,117	11,188	10,056
Proceeds from exercise of stock options	635	862	718
Net cash used in financing activities	(4,772)	(3,374)	(2,292)
Net increase (decrease) in cash and cash equivalents	(872)	732	2,482
Cash and cash equivalents at beginning of year	5,113	4,381	1,899
Cash and cash equivalents at end of year	$ 4,241	5,113	4,381

(24) Quarterly Financial Data (Unaudited)

Selected quarterly results of operations for the four quarters ended December 31 are as follows:

	(In Thousands, except per share data)											
	2022				**2021**				**2020**			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest income	$ 44,920	42,024	37,097	33,499	$ 33,810	33,719	31,570	30,742	$ 30,351	30,961	31,569	30,087
Interest expense	7,855	3,894	2,240	2,144	2,507	2,840	3,031	3,258	4,189	4,324	4,510	5,196
Net interest income	37,065	38,130	34,857	31,355	31,303	30,879	28,539	27,484	26,162	26,637	27,059	24,891
Provision for credit losses	2,596	2,543	1,625	1,892	131	130	55	827	3,065	1,038	4,124	1,469
Earnings before income taxes	15,342	19,706	18,484	14,544	17,512	17,405	14,449	14,792	10,771	14,669	11,313	11,357
Net earnings attributable to Wilson Bank Holding Company	12,340	15,190	14,139	11,373	13,801	13,342	11,139	11,144	8,902	11,532	9,027	9,031
Basic earnings per common share	1.08	1.33	1.25	1.01	1.23	1.19	1.00	1.01	0.81	1.05	0.83	0.83
Diluted earnings per common share	1.07	1.33	1.24	1.00	1.23	1.19	1.00	1.00	0.81	1.05	0.83	0.83

(25) Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company’s sources of non-interest income for the periods presented. Items outside the scope of ASC Topic 606 are noted as such.

	Years ended December 31,		
	2022	**2021**	**2020**
		(dollars in thousands)	
Fees and gains on sales of mortgage loans(1)	$ 2,973	$ 9,997	$ 9,560
Service charges on deposits	7,382	6,137	5,659
Debit and credit card interchange income, net	8,416	7,783	5,842
Brokerage income	6,929	6,368	4,837
BOLI and annuity earnings(1)	1,346	1,109	959
Security gain (loss), net(1)	(1,620)	28	882
Other non-interest income	1,994	1,428	2,056
Total non-interest income	$ 27,420	$ 32,850	$ 29,795

(1)Not within the scope of ASC Topic 606.

A description of the Company's revenue streams accounted for under ASC Topic 606 follows:

Service charges on deposit accounts - The Company earns fees on its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM usage fees, stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed and the Company fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Account maintenance fees are recognized in the same month the Company earns and satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

Debit and credit card interchange income, net - The Company earns interchange fees from debit and credit cardholder transactions conducted through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Certain expenses directly associated with the debit and credit cards are recorded on a net basis with the interchange income.

Brokerage income - The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a bi-monthly basis based upon customer activity for the month. The fees are recognized monthly when the Company satisfies the performance obligation. Because the Company (1) acts as an agent in arranging the relationship between the customer and third-party service provider and (2) does not control the services rendered to the customer, investment brokerage fees are presented net of related servicing and administration costs.

EXHIBIT 21.1

SUBSIDIARIES OF THE ISSUER

The Company has a wholly-owned subsidiary, Wilson Bank and Trust, a state chartered bank incorporated under the laws of the State of Tennessee and doing business under the same name.

Wilson Bank holds an ownership interest in Encompass Home Loan Lending, LLC, a Tennessee limited liability company doing business under the same name, offering mortgage banking services that is 51% owned by Wilson Bank.

EXHIBIT 23.1

MAGGART
& ASSOCIATES, P.C.
CPAs & Advisors

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports, dated March 1, 2023, with respect to the consolidated financial statements included in the Annual Report of Wilson Bank Holding Company on Form 10-K for the year ended December 31, 2022. We consent to the incorporation by reference of said reports in the following Registration Statements of Wilson Bank Holding Company:

- Registration Statement (Form S-8, No. 333-158621) pertaining to the Wilson Bank Holding Company 2009 Stock Option Plan
- Registration Statement (Form S-8, No. 333-210927) pertaining to the Wilson Bank Holding Company 2016 Equity Incentive Plan
- Registration Statement (Form S-3, No. 333-235739) pertaining to the Amended and Restated Wilson Bank Holding Company Dividend Reinvestment Plan

/s/ Maggart & Associates, P.C.
Maggart & Associates, P.C.

Nashville, Tennessee
March 1, 2023

EXHIBIT 31.1

CERTIFICATIONS

I, John C. McDearman III, certify that:

1. I have reviewed this annual report on Form 10-K of Wilson Bank Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c)Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d)Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function):
   (a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 6, 2023

By:/s/ John C. McDearman III
Name: John C. McDearman
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Lisa Pominski , certify that:

1. I have reviewed this annual report on Form 10-K of Wilson Bank Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c)Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d)Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   (a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2023

By:/s/ Lisa Pominski
Name: Lisa Pominski
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Wilson Bank Holding Company (the “Company”) on Form 10-K for the period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John C. McDearman, III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John C. McDearman III
John C McDearman III
President and Chief Executive Officer

Date: March 6, 2023

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Wilson Bank Holding Company (the "Company") on Form 10-K for the period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lisa Pominski, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lisa Pominski

Lisa Pominski, Executive Vice President and Chief
Financial Officer

Date: March 6, 2023