

WILSON Bank & Trust

A N N U A L R E P O R T 2 0 1 9

Middle Tennessee's Community Bank™



WILSON Bank & Trust



ANNUAL REPORT 2019

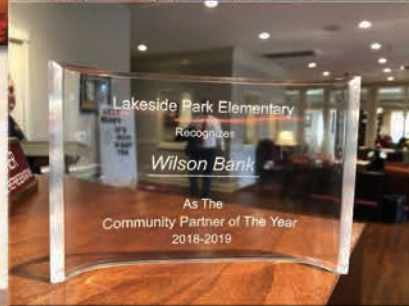
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For more information:
Wilson Bank & Trust
623 West Main Street
Lebanon, Tennessee 37087
(615) 444-BANK (2265)
wilsonbank.com







BOARD OF DIRECTORS

Front Row (L-R): Will Jordan, Tony Patton, John McDearman, Mike Maynard

Middle Row (L-R): Elmer Richerson, Randall Clemons

Back Row (L-R): Jack Bell, Clint Swain, Jimmy Comer

Jack Bell

Jack W. Bell Builders, Inc.

Will Jordan

Farming, Real Estate Investment

James Anthony Patton

C & T Farms

Randall Clemons

Retired CEO — Wilson Bank & Trust

Mike Maynard

Four Star Paving Company

Elmer Richerson

Retired President —
Wilson Bank & Trust

Jimmy Comer

Comerica Enterprises
Chairman—Wilson Bank
Holding Company

John McDearman

President/CEO —
Wilson Bank Holding Company,
CEO — Wilson Bank & Trust

Clint Swain

Fakes & Hooker Lumber



EMERITUS DIRECTORS

From Left: Jerry Franklin, Charles Bell,
Bob VanHooser, Johnny Trice



NEW DIRECTORS

In 2019, Wilson Bank Holding Company welcomed two new board members with strong ties to the bank and our service area.



MIKE MAYNARD

Mike is an owner and founding partner at Four Star Paving, one of Middle Tennessee's premier paving companies. Born and raised in the Lancaster community of Smith County, Maynard is a graduate of Gordonsville High School and Tennessee Tech University. He worked for the Tennessee Department of Transportation early in his career, and served at pavement construction company APAC for 19 years, including 5 years as a division president. He helped found Four Star Paving in 2002.

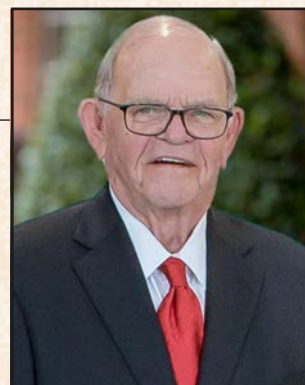


CLINT SWAIN

Clint is an owner at Fakes & Hooker, a lumber and building supply company in Lebanon that's become a local market leader in an industry normally dominated by national companies. A Wilson County native, Swain graduated from Lebanon High School and the University of Tennessee. He helped Fakes & Hooker achieve record sales prior to purchasing the company with business partner Ryan Aulds in 2008.

REMEMBERED

The WBT family mourned the loss of original board member Harold Patton in spring 2019. Widely loved and appreciated for his generosity, Mr. Patton was known by many through his association with the Wilson Farmer's Co-op, where he served as manager for 33 years before retiring in 2002. He also led an active church life at Shop Springs Baptist Church, where he was a member for 56 years and also served as a deacon, worship leader and treasurer. Beyond his great contributions to the board, he's missed dearly for his friendship, compassion and personality.





TO OUR SHAREHOLDERS

Strong profits and growth, the full fruition of a long-term succession plan and the celebration of a brilliant executive career were among the highlights of a successful chapter in the Wilson Bank & Trust story in 2019. In marking the retirement of WBT's very first employee, longtime CEO and chairman Randall Clemons, our bank family honored a true leader who helped shape our organization over the course of 33 years. Because of the foundation laid by Randall and our board of directors, we have the stability and support to keep growing and thriving in an ever changing banking industry, and our future opportunities far outweigh the challenges we face as a growing company. Randall also set a tremendous example for the team of executives that will lead our bank for years to come, a group whose individual roles were finalized in 2019. As they work together with the rest of our management team – and our staff of more than 530 dedicated employees – we believe there is every reason to keep expecting great things for Wilson Bank & Trust and our customers.

Net income for 2019 totaled \$36.044 million, compared to \$32.594 million in 2018. Earnings per share totaled \$3.36 for 2019 compared to \$3.09 for 2018. The solid growth in earnings for 2019 was attributable in part to our healthy increase in interest income. Our shareholder return for 2019 was 11.31% compared to 11.70% in 2018, and dividends per share totaled \$1.10 per year in 2019 compared to \$.90 per year in 2018. Stockholders' equity increased \$41.3 million in 2019, aided by strong net earnings, dividend reinvestment by our shareholders and an increase in the market values of our investment portfolio.

Your stock's book value increased \$3.41 per share to \$31.22 for the year in 2019, and our return on assets was 1.34% in 2019.

Alongside financial performance, plenty of external indicators also revealed 2019 as a year of solid achievement. Bank Director magazine recognized Wilson Bank & Trust as the 17th best institution in the nation among banks of \$1 to \$5 billion in total assets. The publication's rankings

are scored by profitability, capital adequacy and asset quality. Financial Management Consulting Group ranked us as the 11th best bank in Tennessee using an evaluation that incorporates similar criteria plus efficiency and return on assets. Also, for the 23rd consecutive quarter, we received the highest 5-Star rating from BauerFinancial, Inc., based on September 2019 financial data.

We were excited in 2019 to add two new directors to our board, Mike Maynard and Clint Swain. Their strong business acumen and vision have already been evident in the short time they have been with us. A few focal points for our bank in 2019 were customer experience, market share, learning and continuous improvement. These areas of focus provided much of the framework for our work this past year, and we were pleased with the progress that was made in each of them. Also, an emphasis on continually improving technology helped improve internal efficiency and the banking capabilities of our customers. We believe good to great technology paired with heartfelt human interaction is a winning formula.

Thank you for being a part of our journey here at the bank. Truly, your support and encouragement have been heard and felt. We are also grateful that you send your family and friends to us for their own banking needs. That is the greatest compliment we could receive from you, and it's a driving force behind our success.

Sincerely,

John McDearman
President/CEO
Wilson Bank Holding Company

John Foster
President
Wilson Bank & Trust



EXECUTIVE MANAGEMENT

Front Row (L-R): Damon Bates, SVP/Investment Center; Tonya Strobel, SVP/Mortgage President; Lisa Pominski, Executive VP/CFO; John McDearman, CEO; Mac Griffin, SVP/Regulatory; Taylor Walker, SVP/North Region President; John Foster, President; Christy Norton, SVP/Operations; Amelia Vance, SVP/Central Region President; Vickie Shrum, SVP/Human Resources

Middle Row (L-R): John Goodman, SVP/West Region President; Clark Oakley, Executive VP/COO; Gary Whitaker, Executive VP/Chief Credit Officer; Andy Jakes, SVP/South Region President; Stephen Jaquish, SVP/Technology

Back Row (L-R): Scott Jasper, EVP/Retail Banking; Wes Taylor, SVP/East Region President; Greg Sullins, SVP/Strategy, Quality & Productivity Management

OUR MISSION

The mission of Wilson Bank Holding Company is to maximize sustainable earnings while being a responsible business that renders high-quality service to customers through the efforts of fairly treated employees. We will offer banking services to meet the needs of the communities we serve while assuring equal access to credit for everyone. The management and staff of the bank are to operate the bank in a sound manner to provide a proper return on assets. We believe that great things happen when management, employees and directors work together as a team!

Read on to learn more about the members of our core executive team.



EXECUTIVE MANAGEMENT

JOHN MCDearMAN, CEO



Career notes:

After joining Wilson Bank in 1998, McDearman worked as a commercial lender and then a branch manager. He later returned to the Main Office in a lending role, and eventually served as a regional president before succeeding Elmer Richerson as president in 2018.

Way back when:

John started college as a biology major, with plans to become a dentist.

Family sport:

From his mom, John inherited a competitive spirit and a love for golf, which he's also passed along to his own children. John was a collegiate golfer and played in an OVC Championship at Tennessee Tech.



JOHN FOSTER, PRESIDENT



Career notes:

John began his banking career at Wilson Bank Gladeville office in 1998, and eventually worked his way up to manager there. In 2011 he joined the Main Office team, where he's served in various lending and executive management roles.

In the community:

John has served as chairman of the Wilson County Fellowship of Christian Athletes and as a board member with United Way of Wilson County. He's a deacon at Gladeville Baptist Church and a graduate of Leadership Wilson.

Beyond banking:

John's a lifelong resident of the Gladeville community in Wilson County. He enjoys taking trips to the beach with his family and he's an avid University of Tennessee football fan, attending as many games as possible in the fall.



SCOTT JASPER, EVP/RETAIL BANKING



Career notes:

Scott joined Wilson Bank as a collections officer in October 1997. Prior to being named executive vice president of retail banking, he had served as a loan officer, office manager, regional president and senior vice president of retail banking.

Banking credentials:

Scott has earned industry diplomas from the Graduate School of Banking at LSU; the Southeastern School of Banking; the Southeastern School of Consumer Credit; the Southeastern Schools of Commercial Lending and Advanced Commercial Lending; and the Tennessee Bankers Leadership Academy.

Beyond banking:

Outside of the bank, Scott enjoys hunting, fishing and cheering on the Kentucky Wildcats, in addition to volunteering with several community organizations.



CLARK OAKLEY, EVP/COO



Career notes:

Clark's tenure with Wilson Bank began in October 1995 as a mortgage lender, and later moved to the Watertown office as an assistant manager. In the years prior to being named Chief Operations Officer, he also served as an office manager and regional president. Clark is a graduate of MTSU, Southeastern School of Banking, and The Graduate School of Banking at LSU.

In the community:

Clark is a deacon at First Baptist Church in Alexandria, and board Chairman for United Way of Wilson County and the Upper Cumberland. He is also a Leadership Wilson Alumni and involved with Rotary International and Gideons International.

Beyond banking:

Clark enjoys spending time outdoors, and traveling with his family and friends to see and experience new places.



LISA POMINSKI, EVP/CFO



Career notes:

Lisa joined Wilson Bank as an assistant cashier in 1987. She served in a number of accounting-related roles prior to being named Chief Financial Officer in the early 2000s, and was promoted to executive vice president in 2017.

Class of '87:

Lisa is one of the original members of the Wilson Bank team, following Randall Clemons from People's Bank in 1987 to work in the converted 2-bedroom house that served as Wilson Bank's

office for its first eight months.

Beyond banking:

In her spare time, Lisa really enjoys gardening, quilting, reading, going to the beach and spending time with family – especially her two-year-old granddaughter Jocie!



GARY WHITAKER, EVP/CHIEF CREDIT OFFICER



Career notes:

A tenured executive, Gary has helped lead Wilson Bank's lending arm since 1997.

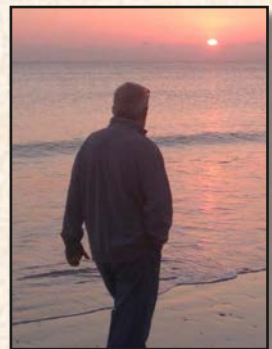
Life-changing charity:

Following the loss of his wife Sherry to colon cancer in 2004, Gary helped found Sherry's Run, a charitable organization that provides financial support for those affected by cancer. Since its inception, the non-profit has provided more than \$4,000,000 in assistance to

area cancer patients and their families.

Beyond banking:

For Gary, the beach is the perfect place for growing, building upon or expanding relationships. He spends as much time there as he can with his wife Tammye and often the rest of his family.





CELEBRATING AN ICON: LONGTIME CHIEF EXECUTIVE RANDALL CLEMONS CLOSES OUT SUCCESSFUL CAREER

With tremendous grace and great optimism for the bank's future, and in accordance with an executive succession plan laid out several years earlier, Wilson Bank & Trust's inaugural employee, CEO Randall Clemons, stepped away from his day-to-day role as a banker at the end of 2019 with a lasting legacy.

Over a 32-year career with WBT, Randall Clemons proved again and again that he was the type of leader you can build an organization around, and Wilson Bank & Trust did just that. More than anyone else at the bank, he laid the foundation for a thriving institution with a culture of service and charity. Throughout his tenure, the bank reached new heights repeatedly, and earned a reputation for profitability, steady growth and smart decisions.



Clemons was feted, and his legacy celebrated, during special receptions in late December that involved government proclamations, gift presentations and well wishes from directors, shareholders, employees and customers.

Clemons remains a member of the bank's board of directors, and will continue to help promote and support Wilson Bank in certain capacities in retirement. He also continues to be active in his roles in the community, including tourism development in his hometown of Granville; as president of the Wilson County Fair; and in his activities in two churches.



VALUES & VISION

As the era of Randall Clemons' leadership reached its final year, it was more important than ever that the intangible characteristics that define Wilson Bank & Trust could continue to be passed along to all new and future employees. Under the direction of strategist and senior vice president Greg Sullins, a project was undertaken to clearly define and document WBT's core values, and to verbalize the organization's vision. A collaborative effort among many bank officers and team members helped specify these defining principles that, while already ingrained and important, can now be easily communicated for generations to come.



OUR VISION

To be the Bank of choice in Tennessee, providing every customer relationship a brighter financial future by fulfilling their dreams with our unique community-centric approach.

TEAMWORK

We believe in the effectiveness of a cohesive and welcoming work environment that recognizes the value of teamwork and continuous learning. This enables us to build relationships and meet the evolving needs of our community.



INTEGRITY

We act with integrity and honesty in the work that we do, the people we interact with, and in the decisions that we make. We are accountable to one another and to those whom we serve.



FAITH

We are strong in faith, dedication and commitment. We share responsibility and embrace the strengths and abilities of one another while working toward common goals.



SUCCESS

We have a goal to achieve excellent results in all we do for our customers, communities, and shareholders. We recognize that profitability is essential to our future success.





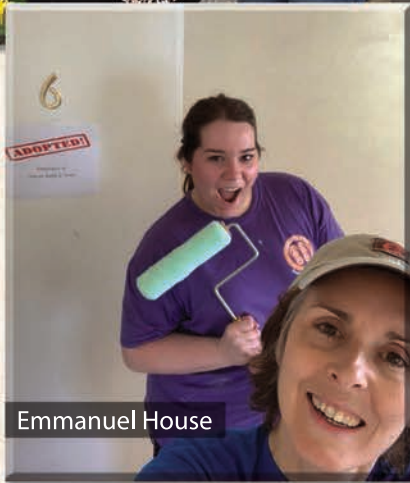
Smith County Animal Rescue Organization



Old Friends



Wilson County Special Olympics



Emmanuel House



Brooks House



Sumner Food Bank



Humane Society of Sumner County



Grace Point



Special Kids

2019 Giving Highlights

American Cancer Society (Relay For Life)	\$56,315
We Believe Together program	\$31,342
Second Harvest Food Bank (Ms. Cheap Penny Drive)	\$26,381
Donations	\$230,533
Sponsorships	\$299,141



WE BELIEVE TOGETHER

Through charitable donations, fundraising, giveaways and school-related sponsorships, Wilson Bank & Trust gave back more than \$1 million to the community in 2019. Among those efforts were the We Believe Together giving program, through which each office and department supported local charities of their own choosing, and bank-wide support campaigns for organizations like Second Harvest Food Bank and the American Cancer Society.

WILSON BANK HOLDING COMPANY FINANCIAL HIGHLIGHTS (UNAUDITED)

In Thousands, Except Per Share Information

As Of December 31,

CONSOLIDATED

BALANCE SHEETS:

	2019	2018	2017	2016	2015
Total assets end of year	\$ 2,794,209	2,543,682	2,317,033	2,198,051	2,021,604
Loans, net	\$ 2,057,175	2,016,005	1,727,253	1,667,088	1,443,179
Securities	\$ 421,145	285,252	365,196	349,209	359,323
Deposits	\$ 2,417,605	2,235,655	2,037,745	1,942,135	1,789,850
Stockholders' equity	\$ 336,984	295,667	267,730	244,620	223,438

CONSOLIDATED STATEMENTS

Years Ended December 31,

OF EARNINGS:

	2019	2018	2017	2016	2015
Interest income	\$ 118,077	103,525	91,020	84,746	78,839
Interest expense	22,647	14,018	8,889	8,284	8,608
Net interest income	95,430	89,507	82,131	76,462	70,231
Provision for loan losses	2,040	4,298	1,681	379	388
Net interest income after provision for loan losses	93,390	85,209	80,450	76,083	69,843
Non-interest income	28,349	25,248	22,821	21,654	19,941
Non-interest expense	74,628	69,080	60,391	57,263	52,159
Earnings before income taxes	47,111	41,377	42,880	40,474	37,625
Income taxes	11,067	8,783	19,354	14,841	13,762
Net earnings	<u>\$ 36,044</u>	<u>32,594</u>	<u>23,526</u>	<u>25,633</u>	<u>23,863</u>
Cash dividends declared	<u>\$ 11,725</u>	<u>9,447</u>	<u>6,729</u>	<u>5,756</u>	<u>4,935</u>

PER SHARE DATA: (1)

Basic earnings per common share	\$ 3.36	3.09	2.26	2.49	2.35
Diluted earnings per common share	\$ 3.35	3.08	2.26	2.49	2.35
Cash dividends	\$ 1.10	0.90	0.65	0.56	0.49
Book value	\$ 31.22	27.83	25.62	23.71	21.90

RATIOS:

Return on average stockholders' equity	11.31%	11.70	9.06	10.80	11.17
Return on average assets	1.34%	1.35	1.04	1.21	1.23
Total capital to assets	12.06%	11.62	11.55	11.13	11.05
Dividends declared per share as a percentage of basic earnings per share	32.74%	29.13	28.76	22.49	20.85

(1) Per share data for the year ended December 31, 2015 has been retroactively adjusted to reflect a 4 for 3 stock split which occurred effective March 30, 2016.

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, 2019, and also include, without limitation, (i) deterioration in the financial condition of borrowers of Wilson Bank resulting in significant increases in loan losses and provisions for those losses, (ii) renewed deterioration in the real estate market conditions in the Company's market areas, (iii) the impact of increased competition with other financial institutions, including pricing pressures, and the resulting impact on the Company's results, including as a result of compression to net yield on earning assets, (iv) the deterioration of the economy in the Company's market areas, (v) fluctuations or differences in interest rates on loans or deposits from those that the Company is modeling or anticipating, including as a result of Wilson Bank's inability to better match deposit rates 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 Wilson Bank to maintain the historical growth rate of its loan portfolio, (ix) risks of expansion into new geographic or product markets, (x) the possibility of increased compliance and operational costs as a result of increased regulatory oversight, (xi) the inability of the Company to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels, (xii) changes in state or Federal regulations, policies, or legislation applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), (xiii) changes in capital levels and loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments, (xiv) inadequate allowance for loan losses, (xv) the effectiveness of the Company's activities in improving, resolving or liquidating lower quality assets, (xvi) results of regulatory examinations, (xvii) the vulnerability of our network and online banking portals, and the systems of parties with whom the Company contracts, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches, (xviii) the possibility of additional increases to compliance costs as a result of increased regulatory oversight, (xix) loss of key personnel, and (xx) adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future obligatory 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.

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 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. Generally, this market is the Nashville-Davidson-Murfreesboro-Franklin, Tennessee metropolitan statistical area. At December 31, 2019, Wilson Bank had twenty-eight 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.

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.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses have been critical to the determination of our financial position and results of operations. Additional information regarding significant accounting policies is described in Note 1 to the Company's consolidated financial statements for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K.

WILSON BANK HOLDING COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

Impairment of Goodwill - Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. Goodwill is assigned to reporting units and tested for impairment at least annually on December 31, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. See Note 6 (Acquired Intangible Assets and Goodwill) to the Company’s consolidated financial statements for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K. Should the Company determine in a future period that the goodwill has become impaired, then a charge to earnings will be recorded in the period such determination is made.

WILSON BANK HOLDING COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Other-than-temporary Impairment—Impaired securities are assessed quarterly for the presence of other-than-temporary impairment ("OTTI"). A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether OTTI has occurred, management considers factors such as (1) length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for an anticipated recovery in fair value. If management deems a security to be OTTI, management reviews the present value of the future cash flows associated with the security. A shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss. If a credit loss is identified, the credit loss is recognized in that period as a charge to earnings and a new cost basis for the security is established. If management concludes that no credit loss exists and it is not more-likely-than-not that the Company will be required to sell the security before the recovery of the security's cost basis, then the security is not deemed OTTI and the shortfall is recorded as a component of equity.

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 21 to the Company's consolidated financial statements for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Results of Operations

Net earnings for the year ended December 31, 2019 were \$36,044,000, an increase of \$3,450,000, or 10.58%, compared to net earnings of \$32,594,000 for the year ended December 31, 2018. Our 2018 net earnings were 38.54%, or \$9,068,000, above our net earnings of \$23,526,000 for 2017. Basic earnings per share were \$3.36 in 2019, compared with \$3.09 in 2018 and \$2.26 in 2017. Diluted earnings per share were \$3.35 in 2019, compared to \$3.08 in 2018 and \$2.26 in 2017. The increase in net earnings and diluted and basic earnings per share during the year ended December 31, 2019 as compared to the year ended December 31, 2018 was primarily due to an increase in net interest income, reflecting an increase in average interest earning asset balances and yields between the relevant periods, as well as an increase in non-interest income, partially offset by an increase in interest expense and non-interest expense. The increase in interest expense resulted from an increase in deposit rates along with an increase in balances, and the increase in non-interest expense resulted from the Company's continued growth. Income tax expense was also higher in 2019 when compared to 2018. Net income and diluted and basic earnings per share in 2017 were significantly and negatively impacted by the revaluation of the Company's deferred tax assets triggered by the passage of the Tax Cuts and Jobs Act in late December 2017. Net yield on earning assets for the year ended December 31, 2019 was 3.81%, compared to 4.01% and 3.84% for the years ended December 31, 2018 and December 31, 2017, respectively. Net interest spread for the year ended December 31, 2019 was 3.60%, compared to 3.87% and 3.75% for the years ended December 31, 2018 and December 31, 2017, respectively. See below for further discussion regarding variances related to net interest income, provision for loan losses, non-interest income, non-interest expense and income taxes.

Net Interest Income

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Company's earnings. Total interest income in 2019 was \$118,077,000, up 14.06% when compared with \$103,525,000 in 2018 and the year ended December 31, 2018 was up 13.74% when compared to \$91,020,000 in 2017, in each case excluding tax exempt adjustments relating to tax exempt securities and loans. The increase in total interest income in 2019 when compared to 2018 was primarily attributable to an overall increase in average loan balances and the resulting increase in the aggregate amount of interest and fees earned on loans as well as an increase in average loan yields from 5.11% to 5.32% and an increase in yield on securities from 2.31% to 2.47%. The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, decreased 75 basis points during 2019. During 2018, the prime rate increased 100 basis points. During 2017, the prime rate increased 75 basis points. Although prime rates decreased during 2019 and we faced competitive pressures in our markets, we were able to increase our yield on loans due to the delayed affects of the rising rate environment in 2017 and 2018, strategic loan pricing on certain loan segments, and an increase in loans qualified to received state income tax credit. Fees earned on loans totaled \$7,751,000, \$7,400,000 and \$6,773,000 for the years ended 2019, 2018 and 2017, respectively. Late in 2019, the Company added several loans qualifying for state income tax credit, which is included in our loan yield calculation. The total amount of credits included in our loan yields were \$2,154,000, \$1,997,000 and \$503,000 for the years ended 2019, 2018 and 2017, respectively. The increase in yield on securities was due to management's ability to invest in higher yielding securities as the overall rates in the market increased in 2018.

The ratio of average earning assets to total average assets was 95.8%, 95.0% and 95.4% for each of the years ended December 31, 2019, 2018 and 2017, respectively. Average earning assets increased \$277,823,000 from December 31, 2018 to December 31, 2019. The average rate earned on earning assets for 2019 was 4.69%, compared with 4.62% in 2018 and 4.25% in 2017.

Total Interest expense for 2019 was \$22,647,000, an increase of \$8,629,000, or 61.56%, compared to total interest expense of \$14,018,000 in 2018, an increase of \$5,129,000 or 57.70%. The increase in total interest expense in 2019 and 2018. Average interest-bearing deposits increase to \$2,054,817,000 for 2019 compared to \$1,867,037,000 for 2018. The average rate paid on interest-bearing deposits was 1.07% for 2019 compared to 0.75% for 2018. Total interest expense increased from \$8,889,000 in 2017 to \$14,018,000 in 2018, an increase of \$5,129,000 or 57.70%. The increases in total interest expense in 2019 and 2018 resulted primarily from the higher

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rates on deposits from the rising rate environment of 2018 and the first half of 2019, and competitive pressures in our markets, as well as an overall increase in the volume of average interest-bearing deposits. We also incurred additional funding costs related to the utilization of Federal Home Loan Bank borrowings and brokered deposits beginning late in the first quarter of 2019 to increase our balance sheet liquidity. These borrowings are at a higher rate than our core deposits. Interest expense was also impacted by our inability to quickly reprice deposits with the start of the downward rate environment when it began in 2019.

Net interest income for 2019 totaled \$95,430,000 as compared to \$89,507,000 and \$82,131,000 in 2018 and 2017, 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), decreased to 3.60% in 2019 from 3.87% in 2018. The net interest spread was 3.75% in 2017. Net yield on earning assets decreased to 3.81% in 2019 from 4.01% in 2018. The net yield on earning assets was 3.84% in 2017. The change in net yield on earning assets resulted from an increase in the interest paid on our interest-bearing liabilities that was only partially offset by the increase in yields on loans and securities. Our net yield on earning assets and our net interest spread declined during 2019 as the impact of the declining rate environment more quickly impacted our earning assets than our interest-bearing liabilities, and competitive pressures in our markets limited our ability to reduce the rates we pay on our interest bearing liabilities. Declining loan balances also negatively impacted our net interest spread. Management is anticipating a steady growth in the loan portfolio in 2020 that should have a positive effect on our yield on earning assets and our net interest spread.

The Company's liabilities are positioned to re-price faster than its assets such that a short-term declining rate environment could have a positive impact on the Company's earnings as its interest expense decreases faster than interest income. Conversely, a rising rate environment could have a short-term negative impact on margins, as deposits would likely re-price faster than assets. 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 continue to rise or these competitive pressures limit the Company's ability to lower deposit rates in a declining rate environment.

Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. The 2019 provision for loan losses was \$2,040,000, a decrease of \$2,258,000 from the provision of \$4,298,000 in 2018, which was \$2,617,000 higher than the provision in 2017. The decrease in the provision for the year ended December 31, 2019 is primarily attributable to a decrease in the volume of loans originated during the period and a decrease in the amount of net loans charged off. Loan growth totaled \$43,568,000, \$293,655,000 and \$61,826,000 for the years ended 2019, 2018, and 2017, respectively. Management continues to fund the allowance for loan losses through provisions based on management's calculation of the allowance for loan losses. The provision for loan losses is based on past loan experience and other factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include growth and composition of the loan portfolio, review of specific problem loans, past due and nonperforming loans, change in lending staff, the recommendations of the Company's regulators, and current economic conditions that may affect the borrowers' ability to repay.

Wilson Bank's charge-off policy for impaired 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 decreased to \$488,000 in 2019 from \$1,033,000 in 2018. Net charge-offs in 2017 totaled \$503,000. The ratio of net charge-offs to average total outstanding loans was 0.02% in 2019, 0.05% in 2018 and 0.03% in 2017. Overall, Wilson Bank has continued to experience a stabilization in past dues and nonaccruals and is experiencing fewer foreclosures than it experienced in the recession.

The decrease in charge-offs in 2019 resulted in an increase of the allowance for loan losses (net of charge-offs and recoveries) to \$28,726,000 at December 31, 2019 from \$27,174,000 at December 31, 2018 and \$23,909,000 at December 31, 2017. The allowance for loan losses increased 5.71% between December 31, 2018 and December 31, 2019 as compared to the 2.09% increase in total loans over the same period. The allowance for loan losses was 1.38% of total loans outstanding at December 31, 2019 compared to 1.33% at December 31, 2018 and 1.37% at December 31, 2017. As a percentage of nonperforming loans at December 31, 2019, 2018 and 2017, the allowance for loan losses represented 359%, 473% and 337% respectively. The internally classified loans as a percentage of the allowance for loan losses were 37.1% and 44.3%, respectively, at December 31, 2019 and 2018.

The level of the allowance and the amount of the provision involve evaluation of uncertainties and matters of judgment. The Company maintains an allowance for loan losses which management believes is adequate to absorb losses inherent in the loan portfolio. A formal review is prepared quarterly by the Chief Financial Officer and Chief Credit Officer and is provided to the Board of Directors to assess the risk in the portfolio and to determine the adequacy of the allowance for loan losses. The review includes analysis of historical performance, the level of non-performing and adversely rated loans, specific analysis of certain problem loans, loan activity since the previous assessment, reports prepared by the Company's independent Loan Review Department, consideration of current economic conditions and other pertinent information. The level of the allowance to net loans outstanding will vary depending on the overall results of this quarterly assessment. See the discussion above under "Critical Accounting Estimates" for more information. Management believes the allowance for loan losses at December 31, 2019 to be adequate, but if economic conditions deteriorate beyond management's current expectations and additional charge-offs are incurred, the allowance for loan losses may require an increase through additional provision for loan losses expense which would negatively impact earnings.

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Non-Interest Income

The components of the Company's non-interest income includes service charges on deposit accounts, other fees and commissions, fees and gains on sales of loans, gains (losses) on sales of securities, income on bank-owned life insurance(BOLI) and annuity contracts, gains on the sale of other real estate and other income. Total non-interest income for 2019 was \$28,349,000, compared with \$25,248,000 in 2018 and \$22,821,000 in 2017. The 12.28% increase from 2018 to 2019 was primarily due to an increase in other fees and commissions, an increase in service charges on deposits, a decrease in the loss on the sale of securities, and an increase on the gain on sale of loans offset in part by an increase in the loss on the sale of fixed assets and a decrease in income on BOLI and annuity contracts. Other fees and commissions increased \$529,000, or 3.86%, to \$14,233,000 in 2019 when compared to 2018. Other fees and commissions include income on brokerage accounts, debit and credit card interchange fee income, and various other fees. The increase in other fees and commissions is primarily due to an increase in brokerage income, debit card interchange fee income, and credit card interchange fee income of 2019 when compared to the comparable periods in 2018. Debit card and credit card interchange fee income increased due to an increase in the number and volume of debit card and credit card holders and transactions. The service charges on deposit accounts increased \$153,000, or 2.25%, to \$6,952,000 for the year ended December 31, 2019 compared to the year ended December 31, 2018 due to an increase in the number of consumer checking accounts and the number of transactions, and an increase in the per item service charge fee on insufficient funds. The fees and gains on sales of mortgage loans increased \$2,163,000, or 46.63%, to \$6,802,000 for the year ended December 31, 2019 compared to the year ended December 31, 2018. Overall, volume from the sale of loans increased \$25,707,000 from December 31, 2018 to December 31, 2019 primarily resulting from a new capital markets execution process which consisted of transitioning to the mandatory delivery process from the best efforts delivery process and an increase in the volume of loan originations. The mandatory delivery process was implemented by the mortgage department in November 2018. The gain on sale of mortgage loans also benefited from expanding our loan sale investor count and a new pricing strategy we implemented in 2019. Loss on sale of securities decreased \$382,000, or 58.77%, to \$268,000 in 2019 when compared to \$650,000 in 2018 due to management actively monitoring the liquidity needs of the Company and trading securities to manage liquidity needs and to optimize yield on earning assets. 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.

Non-Interest Expenses

Non-interest expenses consist primarily of employee costs, FDIC premiums, occupancy expenses, furniture and equipment expenses, data processing expenses, directors' fees, and other operating expenses. Total non-interest expenses for 2019 increased 8.03% to \$74,628,000 from \$69,080,000 in 2018. Non-interest expenses for 2018 were up 14.39% over non-interest expenses in 2017 which totaled \$60,391,000. The increase in non-interest expenses in 2019 is primarily attributable to a year-over-year increase in salaries and employee benefits of \$2,951,000, other operating expenses of \$452,000, occupancy expenses of \$386,000, furniture and equipment expenses of \$343,000, accounting, legal and consulting fees of \$405,000, data processing expenses of \$1,595,000 and ATM and interchange fees of \$348,000, partially offset by a decrease in equity-based compensation expense of \$451,000 and a decrease in FDIC insurance of \$470,000. Salaries and employee benefits were up in 2019 when compared to 2018 because the number of employees continued to increase in order to support the Company's growth in operations and new branch expansions. The decrease in equity-based compensation expense is due to the increased expense associated with stock appreciation rights in 2018 as three members of the Board of Directors retired and became fully vested and the Company recognized the expense accordingly.

The increase in other operating expenses is due to increased account servicing costs associated with an increase in consumer checking accounts, brokerage accounts and loans made to customers. The increase in salaries and employee benefits is primarily attributable to an increase in the number of employees necessary to support the Company's growth in operations and branch expansion. The increase in furniture and equipment expenses is primarily attributable to an increase in depreciation related to the opening of the operations building in Lebanon, Tennessee, Cool Springs office in Williamson County and West End office in Davidson County and an increase in the cost of maintenance and repairs. The increase in occupancy expense is similarly attributable to the opening of the operations center in the second quarter of 2018, and the lease expense associated with the opening of the new branch in Davidson County in the third quarter of 2018 and the new branch in Williamson County in the fourth quarter of 2018. The increase in data processing expenses is primarily attributable to an increase in computer maintenance and computer licenses due to the upgrade of our current systems as well as additional investments in computer software due to branch expansion, an increase in I.T. consulting expense, and an increase in computer home banking expense that resulted from the evolution of our new mobile application. This expense is now incurred on a per user basis as opposed to an overall fee. The increase in ATM and interchange fees is primarily attributable to the addition of ATMs as branch expansion has occurred and increasing interchange fees associated with a higher volume of debit card transactions. The Company's efficiency ratios, which measure a bank's overhead as a percentage of its revenue, were 60.29%, 60.20% and 57.54% for the years ended 2019, 2018, and 2017, respectively. The Company anticipates that salaries and employee benefits expense and occupancy expense will continue to increase as the Company's operations grow.

Income Taxes

The Company's income tax expense was \$11,067,000 for 2019, an increase of \$2,284,000 from \$8,783,000 for 2018, which was down by \$10,571,000 from the 2017 total of \$19,354,000. The percentage of income tax expense to earnings before taxes was 23.5% in 2019, 21.2% in 2018 and 45.1% in 2017. The increase in income tax expense in 2019 from 2018 was due to the increase in earnings before income taxes and the decrease in 2018 from 2017 was due to the reduction in statutory corporate tax rates as a result of the Tax Cuts

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and Jobs Act (the "Act"), a tax reform bill passed in December 2017 which, among other items, reduced the then current corporate federal tax rate to 21% from 35%. 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 certain federal and state tax credits. The rate reduction under the Act was effective January 1, 2018. The Company concluded that the Act caused the Company's deferred tax assets to be revalued. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. During the fourth quarter of 2017, we reduced the value of our deferred tax assets by \$3.6 million and recorded an additional income tax expense, thus causing the decrease in income tax expense from 2017 to 2018.

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 Act.

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.

Earnings Per Share

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

The following is a summary of components comprising basic and diluted earnings per share ("EPS") for the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in Thousands except per share amounts)		
Basic EPS Computation:			
Numerator – Earnings available to common stockholders	\$ 36,044	32,594	23,526
Denominator – Weighted average number of common shares outstanding	10,743,269	10,564,172	10,407,211
Basic earnings per common share	<u>\$ 3.36</u>	<u>3.09</u>	<u>2.26</u>
Diluted EPS Computation:			
Numerator – Earnings available to common stockholders	\$ 36,044	32,594	23,526
Denominator – Weighted average number of common shares outstanding	10,743,269	10,564,172	10,407,211
Dilutive effect of stock options	18,198	8,049	5,325
	<u>10,761,467</u>	<u>10,572,221</u>	<u>10,412,536</u>
Diluted earnings per common share	<u>\$ 3.35</u>	<u>3.08</u>	<u>2.26</u>

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Financial Condition

Balance Sheet Summary

The Company's total assets increased in 2019 by \$250,527,000 or 9.85%, to \$2,794,209,000 at December 31, 2019, after increasing 9.78% in 2018 to \$2,543,682,000 at December 31, 2018. Loans, net of allowance for loan losses, totaled \$2,057,175,000 at December 31, 2019, a 2.04% increase compared to December 31, 2018. In the first half of 2019 management made a strategic decision to begin focusing loan growth in the commercial and industrial and residential 1-4 family segments of our loan portfolio, which have historically grown at slower rates than the other segments of the portfolio. As a result, loan growth slowed in 2019. Loan growth was also affected by the payoff of several large loan relationships in 2019. We operate in a market area that is experiencing economic growth, which caused our commercial real estate, residential 1-4 family, and commercial and industrial portfolio to increase as of December 31, 2019, when compared to December 31, 2018. At year end 2019, securities totaled \$421,145,000, an increase of 47.64% from \$285,252,000 at December 31, 2018, primarily as a result of slowing loan growth and management's decision to invest liquid funds in higher yielding assets through the purchase of securities.

Total liabilities increased by \$209,210,000, or 9.31%, to \$2,457,225,000 at December 31, 2019 compared to \$2,248,015,000 at December 31, 2018. This increase was composed primarily of the \$181,950,000 increase in total deposits to \$2,417,605,000, an 8.14% increase from December 31, 2018. Federal home loan bank advances increased to \$23,613,000 during 2019 due to management's decision in the first quarter of 2019 to borrow funds from the FHLB to purchase pledgeable securities as part of our strategy to improve our balance sheet liquidity and as a result of slowing loan growth.

Stockholders' equity increased \$41,317,000, or 13.97%, in 2019, due to net earnings, the issuance of stock pursuant to the Company's Dividend Reinvestment Plan, an increase in the fair value of available-for-sale securities, and the exercise of stock options, partially offset by the repurchase of common stock and dividends paid on the Company's common stock. The change in stockholders' equity includes a \$8,398,000 increase in net unrealized gains on available-for-sale securities, net of taxes during the period. A more detailed discussion of assets, liabilities and capital follows.

Loans

Loan category amounts and the percentage of loans in each category to total loans are as follows:

	December 31, 2019		December 31, 2018	
	<i>(Dollar Amounts in Thousands)</i>		<i>(Dollar Amounts in Thousands)</i>	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Commercial, financial and agricultural	\$ 108,883	5.2%	\$ 89,554	4.3%
Installment and other	54,834	2.6	48,759	2.4
Real estate – mortgage	1,504,140	71.9	1,393,641	68.0
Real estate – construction	425,185	20.3	518,245	25.3
Total	\$ 2,093,042	100.0%	\$ 2,050,199	100.0%

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 loan losses, increased 2.04% at year end 2019 when compared to year end 2018. The loan portfolio is composed of four primary loan categories: commercial, financial and agricultural; installment and other; real estate-mortgage; and real estate-construction. The table above sets forth the loan categories and the percentage of such loans in the portfolio as of December 31, 2019 and 2018.

As represented in the table, Wilson Bank experienced loan growth for the year ended December 31, 2019 in three loan categories. Real estate mortgage loans increased 7.93% in 2019 and comprised 71.9% of the total loan portfolio at December 31, 2019, compared to 68.0% at December 31, 2018. Management believes the increase in real estate mortgage loans was primarily due to the continued favorable population growth in the Company's market areas and the Company's ability to increase its market share of such loans while maintaining its loan underwriting standards. Installment loans increased 12.46% in 2019 and comprised 2.6% of the total loan portfolio at December 31, 2019, compared to 2.4% at December 31, 2018. Commercial, financial, and agricultural loans increased 21.58% in 2019 and comprised 5.2% of the total loan portfolio at December 31, 2019, compared to 4.3% at December 31, 2018. The increase in commercial and industrial loans is a result of an increase in demand for such loans in the overall economy and the Company's markets. Real estate construction loans decreased 17.96% in 2019 and comprised 20.3% of the portfolio at December 31, 2019, compared to 25.3% at December 31, 2018. The decrease in real estate construction loans and the increase in installment loans, commercial and industrial and 1-4 family residential mortgage loans during 2019 reflected a strategic decision made by management to begin focusing on these specific types of loans to increase diversification of the overall loan portfolio. Because the construction portfolio remains a meaningful portion of our portfolio, Wilson Bank has implemented an additional layer of monitoring 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 now monitored and administered by a credit administration department independent of the lending function. Wilson Bank continues to seek to diversify its real estate portfolio as it seeks to lessen concentrations in any one type of loan.

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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, 2019, the Company had no highly leveraged transactions, and there were no foreign loans outstanding during any of the reporting periods. As of December 31, 2019, the Company had not underwritten any loans in connection with capital leases.

The following tables present the Company's nonaccrual loans and past due loans as of December 31, 2019 and December 31, 2018.

<i>Loans on Nonaccrual Status</i>	<i>In Thousands</i>	
	2019	2018
Residential 1-4 family	\$ 949	\$ 948
Multifamily	—	—
Commercial real estate	1,661	1,102
Construction	—	—
Farmland	—	—
Second mortgages	—	—
Equity lines of credit	—	—
Commercial	—	—
Agricultural, installment and other	—	—
Total	<u>\$2,610</u>	<u>\$2,050</u>

	30-59 Days Past Due	60-89 Days Past Due	Non- accrual and Greater Than 90 Days Past Due	Past Due	Current	Loans	Loans Greater Than 90 Days Past Due and Accruing Interest
December 31, 2019							
Residential 1-4 family	\$ 4,760	799	2,336	7,895	503,355	511,250	\$ 1,387
Multifamily	—	—	—	—	97,104	97,104	—
Commercial real estate	500	—	1,661	2,161	791,218	793,379	—
Construction	1,535	147	594	2,276	422,909	425,185	594
Farmland	57	—	8	65	19,203	19,268	8
Second mortgages	—	—	100	100	10,660	10,760	100
Equity lines of credit	143	—	372	515	71,864	72,379	372
Commercial	71	30	—	101	98,164	98,265	—
Agricultural, installment and other	517	116	46	679	64,773	65,452	46
Total	<u>\$ 7,583</u>	<u>1,092</u>	<u>5,117</u>	<u>13,792</u>	<u>2,079,250</u>	<u>2,093,042</u>	<u>\$ 2,507</u>
December 31, 2018							
Residential 1-4 family	\$ 3,258	1,092	1,868	6,218	454,474	460,692	\$ 920
Multifamily	—	—	—	—	134,613	134,613	—
Commercial real estate	312	109	1,174	1,595	699,460	701,055	72
Construction	1,567	26	32	1,625	516,620	518,245	32
Farmland	43	9	21	73	23,998	24,071	21
Second mortgages	333	—	—	333	10,864	11,197	—
Equity lines of credit	297	—	45	342	61,671	62,013	45
Commercial	93	—	24	117	78,128	78,245	24
Agricultural, installment and other	407	85	95	587	59,481	60,068	95
Total	<u>\$ 6,310</u>	<u>1,321</u>	<u>3,259</u>	<u>10,890</u>	<u>2,039,309</u>	<u>2,050,199</u>	<u>\$ 1,209</u>

Non-performing loans, which include nonaccrual loans and loans 90 days past due, totaled \$5,117,000 at December 31, 2019, an increase from \$3,259,000 at December 31, 2018, resulting from a \$560,000, or 27.32%, increase in nonaccrual loans and a \$1,298,000, or 107.36%, increase in 90 day past due and accruing loans. The increase in non-performing loans during the year ended December 31,

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2019 of \$1,858,000 was due primarily to an increase in non-performing residential 1-4 family real estate loans of \$468,000, an increase in non-performing construction loans of \$562,00, an increase in non-performing equity lines of credit of \$327,000 and an increase in non-performing commercial real estate loans of \$487,000. The increase in non-performing loans resulted primarily from the addition of two large commercial real estate secured loans on nonaccrual status and three large real estate secured loans that were greater than 90 days past due. Nonaccrual loans are loans on which interest is no longer accrued because management believes collection of such interest is doubtful due to management's evaluation of the borrower's financial condition, collateral liquidation value, economic and business conditions and other factors affecting the borrower's ability to pay. Management believes that it is probable that it will incur losses on nonperforming loans but believes that these losses should not exceed the amount in the allowance for loan losses already allocated to these loans, unless there is a deterioration of local real estate values.

At December 31, 2019, the Company had three impaired loans totaling \$2,610,000 which were on non-accruing interest status. At December 31, 2018, the Company had two impaired loans totaling \$2,050,000 which were on non-accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings.

The following table presents the Company's impaired loans (including loans on nonaccrual status and loans past due 90 days or more) at December 31, 2019 and December 31, 2018.

<i>In Thousands</i>					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2019					
With no related allowance recorded:					
Residential 1-4 family	\$ 1,090	1,464	—	1,090	99
Multifamily	—	—	—	—	—
Commercial real estate	951	1,124	—	910	17
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 2,041</u>	<u>2,588</u>	<u>—</u>	<u>2,000</u>	<u>116</u>
With allowance recorded:					
Residential 1-4 family	\$ 1,489	1,480	795	1,590	83
Multifamily	—	—	—	—	—
Commercial real estate	1,522	1,520	341	2,015	17
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 3,011</u>	<u>3,000</u>	<u>1,136</u>	<u>3,605</u>	<u>100</u>
Total					
Residential 1-4 family	\$ 2,579	2,944	795	2,680	182
Multifamily	—	—	—	—	—
Commercial real estate	2,473	2,644	341	2,925	34
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 5,052</u>	<u>5,588</u>	<u>1,136</u>	<u>5,605</u>	<u>216</u>

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2018					
With no related allowance recorded:					
Residential 1-4 family	\$ 1,196	1,795	—	1,862	42
Multifamily	—	—	—	—	—
Commercial real estate	317	316	—	320	16
Construction	690	686	—	822	42
Farmland	—	—	—	233	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 2,203</u>	<u>2,797</u>	<u>—</u>	<u>3,237</u>	<u>100</u>
With allowance recorded:					
Residential 1-4 family	\$ 1,641	1,635	852	1,782	77
Multifamily	—	—	—	—	—
Commercial real estate	1,515	1,515	312	2,001	17
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 3,156</u>	<u>3,150</u>	<u>1,164</u>	<u>3,783</u>	<u>94</u>
Total					
Residential 1-4 family	\$ 2,837	3,430	852	3,644	119
Multifamily	—	—	—	—	—
Commercial real estate	1,832	1,831	312	2,321	33
Construction	690	686	—	822	42
Farmland	—	—	—	233	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	<u>\$ 5,359</u>	<u>5,947</u>	<u>1,164</u>	<u>7,020</u>	<u>194</u>

A loan is considered impaired, in accordance with the impairment accounting guidance of FASB ASC 310, when the current net worth and financial capacity of the borrower or of the collateral pledged, if any, is viewed as inadequate and it is probable that the Company will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Company's criteria for nonaccrual status. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the fair value of the impaired loan is less than the recorded investment in the loan, the Company shall recognize 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. The decrease in impaired loans during the year ended December 31, 2019 as compared to the year ended December 31, 2018 was the result of the pay-off or pay-down of three loan relationships, partially offset by three additional loan relationships becoming impaired in 2019. Overall, the Company's market areas have seen continued strengthening in the residential real estate market in recent years while the commercial real estate market has remained steady. The allowance for loan losses related to collateral dependent impaired loans was measured based upon the estimated fair value of related collateral.

The Company considers all loans subject to the provisions of FASB ASC 310 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Delays or shortfalls in loan payments are evaluated with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based

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on an evaluation of the borrower's financial condition, collateral liquidation value, and other factors that affect the borrower's ability to pay.

The Company also internally classifies loans which, although current, management questions the borrower's ability to comply with the present repayment terms of the loan agreement. These internally classified loans totaled \$10,651,000, inclusive of the Company's nonperforming loans, at December 31, 2019, as compared to \$12,039,000 at December 31, 2018. Of the internally classified loans at December 31, 2019, \$10,432,000 are real estate secured loans (including loans to home builders and developers of land, commercial real estate loans, as well as multifamily mortgage loans) and \$219,000 are various other types of loans. These loans have been graded accordingly considering bankruptcies, inadequate cash flows and delinquencies. Overall, in 2019 Wilson Bank experienced a stabilization in internally graded loans as the cash flows from home builders, land developers and commercial real estate borrowers continue to improve. Management does not anticipate losses on these loans to exceed the amount already allocated to loan losses for these loans, unless there is a deterioration of local real estate values.

The internally classified loans as a percentage of the allowance for loan losses were 37.1% and 44.3%, respectively, at December 31, 2019 and 2018.

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, 2019 increased \$651,000 to \$1,467,000 at December 31, 2019 when compared to December 31, 2018 due to the addition of one large TDR loan relationships that was nonperforming at December 31, 2019. Total TDRs increased \$2,055,000 to \$4,547,000 from December 31, 2018 to December 31, 2019 due the addition of three large loan relationships that were classified as TDRs in 2019.

The allowance for loan losses is discussed under "Critical Accounting Estimates" and "Provision for Loan Losses." The Company maintains its allowance for loan losses at an amount believed by management to be adequate to absorb probable loan losses inherent in the loan portfolio as of December 31, 2019.

Substantially all of the Company's loans are from Wilson, DeKalb, Smith, Putnam, Trousdale, Davidson, Rutherford, 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 1-4 family residential real estate, commercial real estate, multifamily, construction, second mortgages, farmland, and equity lines of credit. At December 31, 2019, no single industry segment accounted for more than 10% of the Company's portfolio other than construction, commercial real estate, and residential 1-4 family real estate loans.

The Company's management believes there is an opportunity to increase the loan portfolio in 2020 as economic conditions in the Company's primary market areas continue to outperform other markets. The Company will target owner-occupied commercial real estate, residential real estate lending and consumer lending as areas of emphasis in 2020. At December 31, 2019, the Company's total loans equaled 86.3% of its total deposits. As a practice, the Company 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.

Securities

Securities increased 47.64% to \$421,145,000 at December 31, 2019 from \$285,252,000 at December 31, 2018, and comprised the second largest and other primary component of the Company's earning assets. Securities increased as the result of slowing loan growth and management's decision to invest liquid funds into higher yielding assets through the purchase of securities. During the year ended December 31, 2018, the Company sold securities classified as held-to-maturity with a book value of \$4,843,000 for a loss of \$79,000. Due to the sale, management determined the Company no longer had the intent to hold the remaining securities classified as held-to-maturity to their respective maturity dates and transferred the remaining book value of \$22,800,000 to the available-for-sale classification. The average yield, excluding tax equivalent adjustment, of the securities portfolio at December 31, 2019 was 2.42% with a weighted average life of 7.08 years, as compared to an average yield of 2.45% and a weighted average life of 6.50 years at December 31, 2018. 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.

No securities have been classified as trading securities or held-to-maturity at December 31, 2019.

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The Company's classification of securities as of December 31, 2019 and December 31, 2018 is as follows:

	December 31, 2019	
	Available-For-Sale	
	Amortized Cost	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)	\$ 59,735	\$ 59,579
Mortgage-backed securities	265,648	267,313
Asset-backed securities	27,531	27,229
Obligations of state and political subdivisions	67,293	67,024
	<u>\$ 420,207</u>	<u>\$ 421,145</u>

	December 31, 2018	
	Available-For-Sale	
	Amortized Cost	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)	\$ 71,446	\$ 68,467
Mortgage-backed securities	152,375	147,510
Asset-backed securities	22,534	21,700
Obligations of state and political subdivisions	49,328	47,575
	<u>\$ 295,683</u>	<u>\$ 285,252</u>

The classification of a portion of the securities portfolio as available-for-sale was made to provide for more flexibility in asset/liability management and capital management.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019:

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available-for-Sale Securities:								
GSEs	\$ 16,507	\$ 114	5	\$ 24,658	\$ 90	9	\$ 41,165	\$ 204
Mortgage-backed securities	45,862	182	21	56,917	453	52	102,779	635
Asset-backed securities	17,807	161	10	7,317	142	4	25,124	303
Obligations of states and political subdivisions	30,423	783	26	3,858	45	10	34,281	828
	\$110,599	\$ 1,240	62	\$ 92,750	\$ 730	75	\$203,349	\$ 1,970

The impaired securities are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments. Impaired securities are assessed quarterly for the presence of other-than-temporary impairment ("OTTI"). A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether OTTI has occurred, management considers factors such as (1) length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for an anticipated recovery in fair value. If management deems a security to be OTTI, management reviews the present value of the future cash flows associated with the security. A shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss. If a credit loss is identified, the credit loss is recognized in that period as a charge to earnings and a new cost basis for the security is established. If management concludes that no credit loss exists and it is not more-likely-than-not that it will be required to sell the security before the recovery of the security's cost basis, then the security is not deemed OTTI and the shortfall is recorded as a component of equity. Accordingly, as of December 31, 2019, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in our consolidated income statement.

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Deposits

The increases in assets in 2019 and 2018 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 \$2,417,605,000 at December 31, 2019 compared to \$2,235,655,000 at December 31, 2018, an increase of 8.1%. 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 \$181,950,000, or 8.14%, growth in deposits in 2019 was due to a \$19,925,000, or 3.71%, increase in certificates of deposits, a \$74,332,000, or 10.22%, increase in money market accounts, a \$30,454,000, or 11.98%, increase in demand deposit accounts, a \$55,310,000, or 10.99% increase in Now accounts, and a \$3,625,000, or 2.65% increase in savings accounts, offset by a decrease in individual retirement accounts of \$1,696,000, or 2.22%. The average rate paid on average total interest-bearing deposits was 1.07% for 2019 compared to 0.75% for 2018. The average rate paid in 2017 was 0.50%. Competitive pressure from other banks in our market area relating to deposit pricing continues to 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 this were to happen our net yield on earning assets would experience compression and our results of operations would be negatively impacted, as was the case in 2019, during which the impact of the declining rate environment more quickly impacted our earning assets than our interest-bearing liabilities, which consequently compressed our net yield on earning assets. The ratio of average loans to average deposits was 87.4% in 2019, 89.7% in 2018, and 86.5% in 2017. To increase our levels of on-balance sheet liquidity in 2019, we borrowed money from the Federal Home Loan Bank. These borrowings typically have interest rates that are higher than the rates we pay on deposits and, accordingly, result in increases to our funding costs.

Contractual Obligations

The Company's contractual obligations at December 31, 2019 are as follows:

<i>(In Thousands)</i>	Less than 1Year	1 –3 Years	3-5 Years	More than 5 Years	Total
Long-Term Debt	\$ 8,250	\$ 10,486	\$ 4,877	\$ -	\$ 23,613
Operating Leases	444	602	116	9	1,171
Deposits with Stated Maturity Dates	326,212	232,946	72,585	250	631,993
Purchases	—	—	—	—	—
Other Long-Term Liabilities	—	—	—	—	—
Total	\$ 334,906	\$ 244,034	\$ 77,578	\$ 259	\$ 656,777

Long-term debt contractual obligations include advances from the Federal Home Loan Bank, and at December 31, 2019, the Company had \$ 23,613,000 in advances. The Company leases land for certain branch facilities and automatic teller machine locations. Future minimum rental payments required under the terms of these non-cancellable leases are included in operating lease obligations.

Off Balance Sheet Arrangements

At December 31, 2019, the Company had unfunded lines of credit of \$633 million and outstanding standby letters of credit of \$73 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 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. 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.

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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. Higher levels of liquidity bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher interest expense involved in extending liability maturities. Liquid assets include cash and cash equivalents, interest bearing deposits held at other banks, fed funds sold, and unpledged investments. At December 31, 2019, the Company's liquid assets totaled approximately \$324.5 million.

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

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

The Company's primary source of liquidity is a stable core deposit base. In addition, short-term borrowings, loan payments and investment security maturities provide a secondary source. At December 31, 2019, 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.

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

The Company's securities portfolio consists of earning assets that provide interest income. For those securities classified as held-to-maturity, the Company has the ability and intent to hold these securities to maturity or on a long-term basis. Securities classified as available-for-sale include securities intended to be used as part of the Company's asset/liability strategy and/or securities that may be sold in response to changes in interest rates, prepayment risk, the need or desire to increase capital and similar economic factors. At December 31, 2019, securities totaling approximately \$35.2 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, 2019, loans totaling approximately \$719.7 million 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 \$73.6 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 2020.

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At December 31, 2019, the scheduled maturities of these advances and interest rates were as follows (scheduled maturities will differ from scheduled repayments):

Scheduled Maturities	Amount	Weighted Average Rates
2020	\$ 1,000	2.65%
2021	2,500	2.67
2022	2,250	2.68
2023	2,438	2.68
2024	15,425	2.67
Thereafter	—	—
	<u>\$ 23,613</u>	2.67%

Management believes that with present maturities, the anticipated growth in deposit base, and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future. At the present time there are no known trends or any known commitments, demands, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity changing in a materially adverse way.

The following table shows the rate sensitivity gaps for different time periods as of December 31, 2019:

Interest Rate Sensitivity Gaps

<i>(In Thousands)</i>	1-90 Days	91-180 Days	181-365 Days	One Year And Longer	Total
Interest-earning assets	\$ 570,203	109,045	227,119	1,770,365	2,676,732
Interest-bearing liabilities	(1,630,556)	(63,386)	(134,271)	(328,394)	(2,156,607)
Interest-rate sensitivity gap	<u>\$ (1,060,353)</u>	<u>45,659</u>	<u>92,848</u>	<u>1,441,971</u>	<u>520,125</u>
Cumulative gap	<u><u>\$ (1,060,353)</u></u>	<u><u>(1,014,694)</u></u>	<u><u>(921,846)</u></u>	<u><u>520,125</u></u>	

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, 2019, assuming an immediate shift in interest rates:

	% Change from Base Case for Immediate Parallel Changes in Rates				
	-200 BP(1)	-100 BP(1)	+100 BP	+200 BP	+300 BP
Net interest income	(8.02)%	(2.31)%	(0.25)%	(0.83)%	(1.74)%
EVE	(17.93)	(5.96)	0.46	(0.26)	(1.73)

(1) Currently, some short term interest rates are below the standard down 200 and 300 rate scenarios. The asset liability model does not calculate negative interest rates and will floor any indexes at a nominal rate.

Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in

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calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. We review each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of our responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies.

Management believes that with present maturities, the anticipated growth in deposit base, and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future. At the present time there are no other known trends or any known commitments, demands, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity changing in a materially adverse way.

Impact of Inflation

Although interest rates are significantly affected by inflation, for the fiscal years ended December 31, 2019, 2018, and 2017, the inflation rate is believed to have had an immaterial impact on the Company's results of operations.

Capital Resources, Capital Position and Dividends

At December 31, 2019, total stockholders' equity was \$336,984,000, or 12.06% of total assets, which compares with \$295,667,000, or 11.62% of total assets, at December 31, 2018, and \$267,730,000, or 11.55% of total assets, at December 31, 2017. The dollar increase in the Company's stockholders' equity during 2019 reflects (i) net income of \$36,044,000 less cash dividends of \$1.10 per share totaling \$11,725,000, (ii) the issuance of 179,199 shares of common stock for \$9,134,000, as reinvestment of cash dividends, (iii) the issuance of 21,764 shares of common stock pursuant to exercise of stock options for \$775,000, (iv) the net change in unrealized gain on available-for-sale securities of \$8,398,000, (v) the repurchase of 31,774 shares of stock for \$1,629,000, (vi) the cumulative effect of accounting change of \$27,000 and (vii) a stock-based compensation expense of \$347,000.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and Wilson Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2019 and December 31, 2018, the Company and the Wilson Bank are considered to be "well-capitalized" under applicable regulatory definitions.

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

framework for prompt corrective action. To be categorized as well capitalized for prompt corrective action regulations as of December 31, 2019 and December 31, 2018, an institution was required to maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables and not be subject to a written agreement, order or directive to maintain a specific capital level. There are no conditions or events since the notification that management believes have changed Wilson Bank's category. The Company's and Wilson Bank's actual capital amounts and ratios as of December 31, 2019 and 2018, are presented in the following table (dollar amounts in thousands):

	Actual		Minimum Capital Adequacy Requirements With Basel III Capital Conservation Buffer		Minimum To Be Well Capitalized Under Applicable Prompt Corrective Action Regulatory Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
<u>December 31, 2019</u>						
Total capital to risk weighted assets:						
Consolidated	\$ 360,645	15.0%	\$ 253,215	10.5%	\$ 241,157	10.0%
Wilson Bank	359,576	14.9	252,675	10.5	240,643	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	331,485	13.7	204,984	8.5	144,694	6.0
Wilson Bank	330,416	13.7	204,547	8.5	192,515	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	331,485	13.7	168,810	7.0	N/A	N/A
Wilson Bank	330,416	13.7	168,451	7.0	156,418	6.5
Tier 1 capital to average assets:						
Consolidated	331,485	12.4	106,565	4.0	N/A	N/A
Wilson Bank	330,416	11.9	110,764	4.0	138,454	5.0

	Actual		Minimum Capital Adequacy Requirements With Basel III Capital Conservation Buffer		Minimum To Be Well Capitalized Under Applicable Prompt Corrective Action Regulatory Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
<u>December 31, 2018</u>						
Total capital to risk weighted assets:						
Consolidated	\$ 326,099	14.1%	\$ 227,974	9.875%	\$ 230,860	10.0%
Wilson Bank	323,852	14.0	227,915	9.875	230,800	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	298,566	12.9	181,802	7.875	138,516	6.0
Wilson Bank	296,319	12.8	181,756	7.875	184,641	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	298,566	12.9	147,173	6.375	N/A	N/A
Wilson Bank	296,319	12.8	147,136	6.375	150,021	6.5
Tier 1 capital to average assets:						
Consolidated	298,566	12.3	97,022	4.0	N/A	N/A
Wilson Bank	296,319	11.9	99,373	4.0	124,217	5.0

WILSON BANK HOLDING COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In July 2013, the Federal banking regulators, in response to the Statutory Requirements of The Dodd-Frank Act, adopted new regulations implementing the Basel Capital Adequacy Accord ("Basel III") and the related higher minimum capital ratios. The new capital requirements were effective beginning January 1, 2015 and include a new "Common Equity Tier 1 Ratio", which has stricter rules as to what qualifies as Common Equity Tier 1 Capital.

The guidelines under Basel III establish a 2.5% capital conservation buffer requirement that was phased in over four years beginning January 1, 2016. The buffer is related to Risk Weighted Assets. In order to avoid limitations on capital distributions such as dividends and certain discretionary bonus payments to executive officers, a banking organization must maintain capital ratios above the minimum ratios including the buffer. The Basel III minimum requirements after giving effect to the buffer as of January 1, of each year presented are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Common Equity Tier 1 Ratio	5.125%	5.75%	6.375%	7.0%
Tier 1 Capital to Risk Weighted Assets Ratio	6.625%	7.25%	7.875%	8.5%
Total Capital to Risk Weighted Assets Ratio	8.625%	9.25%	9.875%	10.5%

The requirements of Basel III also place more restrictions on the inclusion of deferred tax assets and capitalized mortgage servicing rights as a percentage of Tier 1 Capital. In addition, the risk weights assigned to certain assets such as past due loans and certain real estate loans have been increased.

The requirements of Basel III allowed banks and bank 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 Wilson Bank have opted out of this requirement.

The application of these more stringent capital requirements to the Company and Wilson Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if the Company and Wilson Bank were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of the final rules regarding Basel III could result in the Company or Wilson Bank having to lengthen the term of their funding, restructure their business models and/or increase their holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit the Company's and Wilson Bank's ability to make distributions, including paying dividends or buying back shares.

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, requires the federal banking agencies to issue regulations allowing community bank organizations with total assets of less than \$10.0 billion in assets 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 under the Growth Act that exempt a qualifying community bank and its holding company that have community bank leverage ratios, calculated as Tier 1 capital over average total consolidated assets, of greater than 9 percent from the risk-based capital requirements of the capital rules issued under the Dodd-Frank Act. A qualifying community banking organization and its holding company that have chosen the proposed framework are not required to calculate the existing risk-based and leverage capital requirements. Such a bank would also be considered to have met the capital ratio requirements to be well capitalized for the agencies' prompt corrective action rules provided it has a community bank leverage ratio greater than 9 percent.

The Growth Act also raised the eligibility for the small bank holding company policy statement to \$3 billion of assets from \$1 billion.

The Company is currently evaluating whether or not it will take advantage of these new capital rules under the Growth Act.

WILSON

BANK HOLDING CO.


YOUR FAMILY FINANCIAL CENTER

REPORT OF MANAGEMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

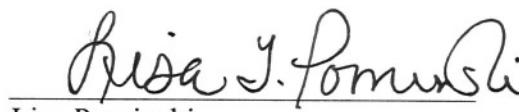
The management of Wilson Bank Holding Company is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and 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.

Wilson Bank Holding Company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2019. 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 our assessment, we believe that, as of December 31, 2019, the company's internal control over financial reporting is effective based on those criteria. Wilson Bank Holding Company's independent auditors have issued an audit report on our assessment of the company's internal control over financial reporting.

February 18, 2020



John C. McDearman III
CEO



Lisa Pominski
Executive Vice President and CFO

623 WEST MAIN ST. • P.O. BOX 768 • LEBANON, TN 37088-0768 • 615-444-2265



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
Michael F. Murphy, CPA
P. Jason Ricciardi, CPA, CGMA
David B. von Dahlen, CPA
T. Keith Wilson, CPA, CITP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of
Wilson Bank Holding Company:

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Wilson Bank Holding Company and Subsidiary (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinion

The Company's management is responsible for these financial statements, 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 financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatements 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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.

Maggart & Associates, P.C.

MAGGART & ASSOCIATES, P.C.

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

Nashville, Tennessee
February 18, 2020

WILSON BANK HOLDING COMPANY

Consolidated Balance Sheets

December 31, 2019 and 2018

	<i>Dollars In Thousands</i>	
	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Loans, net of allowance for loan losses of \$28,726 and \$27,174, respectively	\$ 2,057,175	2,016,005
Available-for-sale securities, at market (amortized cost \$420,207 and \$295,683, respectively)	421,145	285,252
Loans held for sale	18,179	7,484
Interest bearing deposits	126,827	80,215
Federal funds sold	20,000	9,000
Restricted equity securities, at cost	<u>4,680</u>	<u>3,012</u>
Total earning assets	<u>2,648,006</u>	<u>2,400,968</u>
Cash and due from banks	12,943	9,976
Premises and equipment, net	60,295	58,363
Accrued interest receivable	5,945	6,724
Deferred income taxes	6,136	8,901
Other real estate	697	1,357
Bank owned life insurance	31,762	30,952
Goodwill	4,805	4,805
Other assets	<u>23,620</u>	<u>21,636</u>
Total assets	<u><u>\$ 2,794,209</u></u>	<u><u>2,543,682</u></u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits	\$ 2,417,605	2,235,655
Federal Home Loan Bank advances	23,613	-
Accrued interest and other liabilities	<u>16,007</u>	<u>12,360</u>
Total liabilities	<u>2,457,225</u>	<u>2,248,015</u>
Stockholders' equity:		
Common stock, par value \$2.00 per share, authorized 50,000,000 shares, 10,792,999 and 10,623,810 shares issued and outstanding, respectively	21,586	21,248
Additional paid-in capital	82,249	73,960
Retained earnings	232,456	208,164
Net unrealized gains (losses) on available-for-sale securities, net of taxes of \$245 and \$2,726, respectively	<u>693</u>	<u>(7,705)</u>
Total stockholders' equity	<u>336,984</u>	<u>295,667</u>
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	<u><u>\$ 2,794,209</u></u>	<u><u>2,543,682</u></u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Consolidated Statements of Earnings

Three Years Ended December 31, 2019

	<i>Dollars In Thousands (except per share data)</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest income:			
Interest and fees on loans	\$ 105,783	94,917	83,120
Interest and dividends on securities:			
Taxable securities	8,559	6,158	5,397
Exempt from Federal income taxes	773	1,020	1,208
Interest on loans held for sale	325	184	324
Interest on Federal funds sold	275	83	97
Interest on interest bearing deposits	2,164	979	723
Interest and dividends on restricted equity securities	<u>198</u>	<u>184</u>	<u>151</u>
Total interest income	<u>118,077</u>	<u>103,525</u>	<u>91,020</u>
Interest expense:			
Interest on negotiable order of withdrawal accounts	2,311	1,823	1,308
Interest on money market accounts and other savings accounts	6,855	4,231	2,211
Interest on certificates of deposit and individual retirement accounts	12,896	7,944	5,353
Interest on securities sold under repurchase agreements	-	16	9
Interest on Federal funds purchased	4	4	8
Interest on Federal Home Loan Bank advances	<u>581</u>	<u>-</u>	<u>-</u>
Total interest expense	<u>22,647</u>	<u>14,018</u>	<u>8,889</u>
Net interest income before provision for loan losses	95,430	89,507	82,131
Provision for loan losses	<u>2,040</u>	<u>4,298</u>	<u>1,681</u>
Net interest income after provision for loan losses	93,390	85,209	80,450
Non-interest income	28,349	25,248	22,821
Non-interest expense	<u>(74,628)</u>	<u>(69,080)</u>	<u>(60,391)</u>
Earnings before income taxes	47,111	41,377	42,880
Income taxes	<u>11,067</u>	<u>8,783</u>	<u>19,354</u>
Net earnings	<u>\$ 36,044</u>	<u>32,594</u>	<u>23,526</u>
Basic earnings per common share	<u>\$ 3.36</u>	<u>3.09</u>	<u>2.26</u>
Diluted earnings per common share	<u>\$ 3.35</u>	<u>3.08</u>	<u>2.26</u>
Weighted average common shares outstanding:			
Basic	<u>10,743,269</u>	<u>10,564,172</u>	<u>10,407,211</u>
Diluted	<u>10,761,467</u>	<u>10,572,221</u>	<u>10,412,536</u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Consolidated Statements of Comprehensive Earnings

Three Years Ended December 31, 2019

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net earnings	\$ 36,044	32,594	23,526
Other comprehensive earnings (losses), net of tax:			
Net unrealized gains (losses) on available-for-sale securities			
arising during period, net of taxes of \$2,901, \$1,398 and			
\$271, respectively	8,200	(3,950)	437
Reclassification adjustment for net losses included in net			
earnings, net of taxes of \$70, \$170 and \$67, respectively	198	480	108
Other comprehensive earnings (losses)	<u>8,398</u>	<u>(3,470)</u>	<u>545</u>
Comprehensive earnings	\$ <u>44,442</u>	<u>29,124</u>	<u>24,071</u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Consolidated Statements of Changes in Stockholders' Equity

Three Years Ended December 31, 2019

	<i>Dollars In Thousands</i>				
	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) On Available-For- Sale Securities	Total
Balance December 31, 2016	\$ 20,639	60,541	167,523	(4,083)	244,620
Cash dividends declared, \$.65 per share	-	-	(6,729)	-	(6,729)
Issuance of 125,960 shares of common stock pursuant to dividend reinvestment plan	252	5,014	-	-	5,266
Issuance of 5,078 shares of common stock pursuant to exercise of stock options	10	142	-	-	152
Reclassification of deferred tax asset revaluation	-	-	697	(697)	-
Share based compensation expense	-	350	-	-	350
Net change in fair value of available-for-sale securities during the year, net of taxes of \$338	-	-	-	545	545
Net earnings for the year	-	-	23,526	-	23,526
Balance December 31, 2017	20,901	66,047	185,017	(4,235)	267,730
Cash dividends declared, \$.90 per share	-	-	(9,447)	-	(9,447)
Issuance of 161,514 shares of common stock pursuant to dividend reinvestment plan	324	7,146	-	-	7,470
Issuance of 11,585 shares of common stock pursuant to exercise of stock options	23	371	-	-	394
Share based compensation expense	-	396	-	-	396
Net change in fair value of available-for-sale securities during the year, net of taxes of \$1,228	-	-	-	(3,470)	(3,470)
Net earnings for the year	-	-	32,594	-	32,594
Balance December 31, 2018	21,248	73,960	208,164	(7,705)	295,667
Cash dividends declared, \$1.10 per share	-	-	(11,725)	-	(11,725)
Issuance of 179,199 shares of common stock pursuant to dividend reinvestment plan	358	8,776	-	-	9,134
Issuance of 21,764 shares of common stock pursuant to exercise of stock options	44	731	-	-	775
Share based compensation expense	-	347	-	-	347
Net change in fair value of available-for-sale securities during the year, net of taxes of \$2,971	-	-	-	8,398	8,398
Cumulative effect of accounting change	-	-	(27)	-	(27)
Repurchase of 31,774 common shares	(64)	(1,565)	-	-	(1,629)
Net earnings for the year	-	-	36,044	-	36,044
Balance December 31, 2019	<u>\$ 21,586</u>	<u>82,249</u>	<u>232,456</u>	<u>693</u>	<u>336,984</u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Consolidated Statements of Cash Flows

Three Years Ended December 31, 2019

Increase (Decrease) in Cash and Cash Equivalents

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Interest received	\$ 121,366	105,318	93,506
Fees and other income received	27,987	20,503	17,876
Proceeds from sales of loans	157,028	131,321	149,775
Origination of loans held for sale	(167,723)	(129,060)	(135,835)
Interest paid	(21,966)	(12,565)	(8,612)
Cash paid to suppliers and employees	(69,681)	(64,186)	(57,643)
Income taxes paid	<u>(10,934)</u>	<u>(10,558)</u>	<u>(16,400)</u>
Net cash provided by operating activities	<u>36,077</u>	<u>40,773</u>	<u>42,667</u>
Cash flows from investing activities:			
Purchase of available-for-sale securities	(255,432)	(9,118)	(96,180)
Proceeds from calls, maturities and paydowns of available-for-sale securities	90,805	36,955	38,839
Proceeds from sale of available-for-sale securities	37,325	35,093	35,555
Purchase of restricted equity securities	(1,668)	-	-
Proceeds from maturities and paydowns of held-to-maturity securities	-	4,651	3,859
Proceeds from sale of held-to-maturity securities	-	4,764	-
Loans made to customers, net of repayments	(43,568)	(293,655)	(61,826)
Purchase of bank owned life insurance and annuity contracts	-	(4,301)	-
Purchase of bank premises and equipment	(6,044)	(7,752)	(12,660)
Proceeds from sale of other assets	14	4	43
Proceeds from sale of other real estate	<u>952</u>	<u>796</u>	<u>2,876</u>
Net cash used in investing activities	<u>(177,616)</u>	<u>(232,563)</u>	<u>(89,494)</u>
Cash flows from financing activities:			
Net increase in non-interest bearing, savings, NOW and money market deposit accounts	163,720	101,248	87,116
Net increase in time deposits	18,230	96,662	8,494
Net increase (decrease) in securities sold under agreements to repurchase	-	(864)	128
Net increase in Federal Home Loan Bank advances	23,613	-	-
Dividends paid	(11,725)	(9,447)	(6,729)
Proceeds from sale of common stock pursuant to dividend reinvestment	9,134	7,470	5,266
Repurchase of common stock	(1,629)	-	-
Proceeds from sale of common stock pursuant to exercise of stock options	<u>775</u>	<u>394</u>	<u>152</u>
Net cash provided by financing activities	<u>202,118</u>	<u>195,463</u>	<u>94,427</u>
Net increase in cash and cash equivalents	60,579	3,673	47,600
Cash and cash equivalents at beginning of year	<u>99,191</u>	<u>95,518</u>	<u>47,918</u>
Cash and cash equivalents at end of year	<u>\$ 159,770</u>	<u>99,191</u>	<u>95,518</u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Consolidated Statements of Cash Flows, Continued

Three Years Ended December 31, 2019

Increase (Decrease) in Cash and Cash Equivalents

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reconciliation of net earnings to net cash provided by operating activities:			
Net earnings	\$ 36,044	32,594	23,526
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	6,494	5,853	5,507
Provision for loan losses	2,040	4,298	1,681
Share-based compensation expense	347	1,237	692
Provision for deferred tax benefit	(206)	(248)	(607)
Revaluation of deferred tax assets due to change in tax rates	-	-	3,603
Loss (gain) on sales of other real estate, net	48	80	(6)
Loss on sales of other assets	4	3	15
Loss on disposal of premises and equipment	128	2	-
Security losses	268	650	175
Decrease (increase) in loans held for sale	(10,695)	(2,378)	9,682
Increase (decrease) in taxes payable	339	(1,526)	(42)
Increase in other assets, bank owned life insurance and annuity contract earnings	(194)	(1,684)	(1,231)
Decrease (increase) in accrued interest receivable	779	(458)	(162)
Increase in interest payable	682	1,453	277
Increase (decrease) in other liabilities	(1)	897	(443)
Total adjustments	<u>33</u>	<u>8,179</u>	<u>19,141</u>
Net cash provided by operating activities	<u>\$ 36,077</u>	<u>40,773</u>	<u>42,667</u>
Supplemental Schedule of Non-Cash Activities:			
Change in fair value of securities available-for-sale, net of taxes of \$2,971 in 2019, \$1,228 in 2018 and \$338 in 2017	<u>\$ 8,398</u>	<u>(3,470)</u>	<u>545</u>
Non-cash transfers from held-to-maturity securities to available-for-sale securities	<u>\$ -</u>	<u>22,800</u>	<u>-</u>
Non-cash transfers from loans to other real estate	<u>\$ 884</u>	<u>693</u>	<u>173</u>
Non-cash transfers from other real estate to loans	<u>\$ 544</u>	<u>95</u>	<u>195</u>
Non-cash transfers from loans to other assets	<u>\$ 18</u>	<u>\$ 7</u>	<u>2</u>

See accompanying notes to consolidated financial statements.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements

December 31, 2019, 2018 and 2017

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

The accounting and reporting policies of Wilson Bank Holding Company (the "Company") and Wilson Bank & Trust ("Wilson Bank") are in accordance with accounting principles generally accepted in the United States of America ("U.S.") 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 and its wholly-owned subsidiary Wilson Bank. 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 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) **Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States ("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 loan losses, the valuation of deferred tax assets and other real estate, other-than-temporary impairments of securities, 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.

Residential 1-4 family, commercial real estate and construction mortgage loans, represented 24%, 38% and 20% and 22%, 34% and 25% of the loan portfolio at December 31, 2019 and 2018, respectively.

(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 loan losses, and any unamortized deferred fees or costs on originated loans, and premiums or discounts on purchased loans.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(e) Loans, Continued

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 our independent loan review department. Risk ratings are categorized as pass, special mention, substandard or doubtful. The Company believes 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 Loan Losses

Management provides for loan losses by establishing an allowance. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's quarterly review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

In addition to the independent loan review process, the aforementioned risk ratings are subject to continual review by loan officers to determine that the appropriate risk ratings are being utilized in our allowance for loan loss process. Each risk rating is also subject to review by our independent loan review department. Currently, our independent loan review department targets reviews of 100% of existing loan relationships with aggregate debt of \$1.0 million and greater and new loans with aggregate debt of \$500,000 and greater. In addition, our independent loan review department targets particular portfolio segments, loans assigned to a particular lending officer, past due loans, and loans with four or more renewals.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(f) Allowance for Loan Losses, Continued

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are individually classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience, historical loan loss factors, loss experience of various loan segments and other adjustments based on management's assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial, mortgage and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

(g) Debt and Equity 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 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.

Other-than-temporary Impairment - Impaired securities are assessed quarterly for the presence of other-than-temporary impairment ("OTTI"). A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether OTTI has occurred, management considers factors such as (1) length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospectus of the issuer, and (3) Wilson Bank's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. If management deems a security to be OTTI, management reviews the present value of the future cash flows associated with the security. A shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss. If a credit loss is identified, the credit loss is recognized as a charge to earnings and a new cost basis for the security is established. If management concludes that no credit loss exists and it is not "more-likely-than-not" that it will be required to sell the security before the recovery of the security's cost basis, then the security is not deemed OTTI and the shortfall is recorded as a component of equity.

No securities have been classified as trading securities or held-to-maturity securities at December 31, 2019.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

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

(h) **Federal Home Loan Bank Stock**

The Company, as a member of the Federal Home Loan Bank (“FHLB”) Cincinnati system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at par value, which approximates its fair value. Management reviews the investment for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2019, this minimum required investment was valued at approximately \$4.0 million. Stock redemptions are at the discretion of the FHLB.

(i) **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.

(j) **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. 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.

(k) **Other Real Estate**

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.

(l) **Intangible Assets**

The Financial Accounting Standards Board “FASB” Accounting Standards Codification “ASC” 350, *Goodwill and Other Intangible Assets* requires that management determine the allocation of intangible assets into identifiable groups at the date of acquisition and that appropriate amortization periods be established. Under the provisions of FASB ASC 350, goodwill is not to be amortized; rather, it is to be monitored for impairment and written down to the impairment value at the time impairment occurs. The Company has determined that no impairment loss needs to be recognized related to its goodwill.

(m) **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, interest-bearing deposits, 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.

(n) **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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(o) Securities Sold Under Agreements to Repurchase

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by Federal deposit insurance.

(p) Income Taxes

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.

(q) Mortgage Banking Derivatives

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 value 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.

(r) Equity-Based Incentives

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 compensation is accrued over the requisite service period.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

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

(r) **Equity-Based Incentives, Continued**

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.

(s) **Advertising Costs**

Advertising costs are expensed as incurred by the Company and totaled \$2,498,000, \$2,552,000 and \$2,326,000 for 2019, 2018 and 2017, respectively.

(t) **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.

(u) **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 21 – 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.

(v) **Reclassifications**

Certain reclassifications have been made to the 2018 and 2017 figures to conform to the presentation for 2019.

(w) **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.

(x) **Accounting Standard Updates**

Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09. Because of this, our adoption of this Standard in the first quarter of 2018 did not have a significant impact on our financial statements.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(x) Accounting Standard Updates, Continued

ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-01 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

ASU 2016-02, “Leases (Topic 842).” ASU 2016-02, among other things, requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-02 was effective for us on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842) - Targeted Improvements,” which, among other things, provides an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, “Leases (Topic 842) - Narrow-Scope Improvements for Lessors,” which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. Upon adoption of ASU 2016-02, ASU 2018-11 and ASU 2018-20 on January 1, 2019, we recorded a right-of-use asset in the amount of \$2,600,000 and an offsetting lease liability in the amount of \$2,627,000. Upon adoption, using a modified retrospective transition adoption approach, we recognized a cumulative effect reduction to retained earnings totaling \$27,000. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We utilized the modified-retrospective transition approach prescribed by ASU 2018-11.

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. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,” was issued to address certain codification improvements and to provide certain accounting policy electives related to accrued interest as well as disclosure related to credit losses, among other things. In May 2019, ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,” was issued to provide transition relief in connection with the adoption of ASU 2016-03 whereby entities would have the option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. ASU 2016-13, as updated, became effective on January 1, 2020.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(x) Accounting Standard Updates, Continued

We are currently working through our implementation plan for ASU 2016-13 under the direction of our Chief Financial Officer and our Chief Credit Officer. Our implementation plan includes assessment and documentation of processes, internal controls and data sources; model development, documentation and validation; and system configuration, among other things. We are also in the process of implementing a third-party vendor solution to assist us in the application of ASU 2016-13. Based upon our preliminary parallel run as of December 31, 2019, we currently expect the adoption of ASU 2016-13 will not result in a significant change to our current allowance for loan losses and our reserves for unfunded commitments. The adoption of ASU 2016-13 is also currently not expected to have a significant impact on our regulatory capital ratios. The ultimate impact of adoption in future periods could be significantly different than our current expectation as our modeling processes will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of that date, notwithstanding any further refinements to our expected credit loss models.

ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment." ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will become effective for us on January 1, 2020 and is not expected to have a significant impact on our financial statements.

ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. ASU 2017-05 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 provides guidance on the amortization period for certain purchased callable debt securities held at a premium. This update shortens the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument related to certain cash flow issues. ASU 2017-08 was effective for us on January 1, 2019 and did not have a significant impact on our financial statements.

ASU 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting." ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 became effective for us on January 1, 2018 and did not have a significant impact on our financial statements.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

(x) Accounting Standard Updates, Continued

ASU 2017-12, "Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 was effective for us on January 1, 2019 and did not have a significant impact on our financial statements.

ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." Under ASU 2018-02, entities may elect to reclassify certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings. ASU 2018-02 also requires certain accounting policy disclosures. We elected to adopt the provisions of ASU 2018-02 for the year ended December 31, 2018 in advance of the required application date of January 1, 2019. See Note 10 - Income Taxes.

ASU 2018-05, "Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118." ASU 2018-05 amends the Accounting Standards Codification to incorporate various SEC paragraphs pursuant to the issuance of SAB 118. SAB 118 addresses the application of generally accepted accounting principles in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. See Note 10 - Income Taxes.

ASU 2018-13, "Fair Value Measurement (Topic 820) - Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in this update remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 became effective for us on January 1, 2020, and is not expected to have a significant impact on our financial statements.

ASU 2018-16, "Derivatives and Hedging (Topic 815) - Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." The amendments in this update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the interest rates on direct U.S. Treasury obligations, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. ASU 2018-16 was effective for us on January 1, 2019 and did not have a significant impact on our financial statements.

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

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses

The classification of loans at December 31, 2019 and 2018 is as follows:

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Mortgage loans on real estate:		
Residential 1-4 family	\$ 511,250	460,692
Multifamily	97,104	134,613
Commercial	793,379	701,055
Construction	425,185	518,245
Farmland	19,268	24,071
Second mortgages	10,760	11,197
Equity lines of credit	<u>72,379</u>	<u>62,013</u>
Total mortgage loans on real estate	<u>1,929,325</u>	<u>1,911,886</u>
Commercial loans	<u>98,265</u>	<u>78,245</u>
Agricultural loans	<u>1,569</u>	<u>1,985</u>
Consumer installment loans:		
Personal	50,532	45,072
Credit cards	<u>4,302</u>	<u>3,687</u>
Total consumer installment loans	<u>54,834</u>	<u>48,759</u>
Other loans	<u>9,049</u>	<u>9,324</u>
	2,093,042	2,050,199
Net deferred loan fees	<u>(7,141)</u>	<u>(7,020)</u>
Total loans	2,085,901	2,043,179
Less: Allowance for loan losses	<u>(28,726)</u>	<u>(27,174)</u>
Loans, net	<u>\$ 2,057,175</u>	<u>2,016,005</u>

At December 31, 2019, variable rate and fixed rate loans totaled \$1,640,991,000 and \$452,051,000, respectively. At December 31, 2018, variable rate and fixed rate loans totaled \$1,495,918,000 and \$554,281,000, respectively.

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 \$12,878,000 and \$13,019,000 at December 31, 2019 and 2018, 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, 2019.

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

	<i>In Thousands</i>	
	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance, January 1	\$ 13,019	7,759
New loans and renewals during the year	31,548	17,278
Repayments (including loans paid by renewal) during the year	<u>(31,689)</u>	<u>(12,018)</u>
Balance, December 31	<u>\$ 12,878</u>	<u>13,019</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) **Loans and Allowance for Loan Losses, Continued**

Risk characteristics relevant to each portfolio segment are as follows:

Construction and land development: 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 repayments 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.

1-4 family residential 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 HELOC: 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.

Multi-family and commercial real estate: Multi-family and commercial 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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

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. 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 provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans 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.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Substantially all of the Company's impaired loans are collateral dependent.

The following tables, present the Company's impaired loans at December 31, 2019 and 2018:

<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2019</u>					
With no related allowance recorded:					
Residential 1-4 family	\$ 1,090	1,464	-	1,090	99
Multifamily	-	-	-	-	-
Commercial real estate	951	1,124	-	910	17
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 2,041</u>	<u>2,588</u>	<u>-</u>	<u>2,000</u>	<u>116</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2019</u>					
With allowance recorded:					
Residential 1-4 family	\$ 1,489	1,480	795	1,590	83
Multifamily	-	-	-	-	-
Commercial real estate	1,522	1,520	341	2,015	17
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 3,011</u>	<u>3,000</u>	<u>1,136</u>	<u>3,605</u>	<u>100</u>
<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2019</u>					
Total:					
Residential 1-4 family	\$ 2,579	2,944	795	2,680	182
Multifamily	-	-	-	-	-
Commercial real estate	2,473	2,644	341	2,925	34
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 5,052</u>	<u>5,588</u>	<u>1,136</u>	<u>5,605</u>	<u>216</u>
<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2018</u>					
With no related allowance recorded:					
Residential 1-4 family	\$ 1,196	1,795	-	1,862	42
Multifamily	-	-	-	-	-
Commercial real estate	317	316	-	320	16
Construction	690	686	-	822	42
Farmland	-	-	-	233	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 2,203</u>	<u>2,797</u>	<u>-</u>	<u>3,237</u>	<u>100</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2018</u>					
With allowance recorded:					
Residential 1-4 family	\$ 1,641	1,635	852	1,782	77
Multifamily	-	-	-	-	-
Commercial real estate	1,515	1,515	312	2,001	17
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 3,156</u>	<u>3,150</u>	<u>1,164</u>	<u>3,783</u>	<u>94</u>

<i>In Thousands</i>					
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2018</u>					
Total:					
Residential 1-4 family	\$ 2,837	3,430	852	3,644	119
Multifamily	-	-	-	-	-
Commercial real estate	1,832	1,831	312	2,321	33
Construction	690	686	-	822	42
Farmland	-	-	-	233	-
Second mortgages	-	-	-	-	-
Equity lines of credit	-	-	-	-	-
Commercial	-	-	-	-	-
Agricultural, installment and other	-	-	-	-	-
	<u>\$ 5,359</u>	<u>5,947</u>	<u>1,164</u>	<u>7,020</u>	<u>194</u>

The following tables present the Company's nonaccrual loans, credit quality indicators and past due loans as of December 31, 2019 and 2018.

Loans on Nonaccrual Status

<i>In Thousands</i>		
	<u>2019</u>	<u>2018</u>
Residential 1-4 family	\$ 949	948
Multifamily	-	-
Commercial real estate	1,661	1,102
Construction	-	-
Farmland	-	-
Second mortgages	-	-
Equity lines of credit	-	-
Commercial	-	-
Agricultural, installment and other	-	-
Total	<u>\$ 2,610</u>	<u>2,050</u>

The impact on net interest income for these loans was not material to the Company's results of operations for the years ended December 31, 2019, 2018 and 2017.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

Potential problem loans, which include nonperforming loans, amounted to approximately \$10.7 million at December 31, 2019 compared to \$12.0 million at December 31, 2018. 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 information 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 impaired and places the loans on nonaccrual status.

Credit Quality Indicators

	In Thousands									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
Credit Risk Profile by Internally Assigned Grade										
December 31, 2019										
Pass	\$ 503,861	97,104	791,610	424,517	19,106	10,458	72,237	98,243	65,255	2,082,391
Special mention	2,923	-	-	635	103	174	-	-	101	3,936
Substandard	4,466	-	1,769	33	59	128	142	22	96	6,715
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	\$ 511,250	97,104	793,379	425,185	19,268	10,760	72,379	98,265	65,452	2,093,042
December 31, 2018										
Pass	\$ 452,411	134,613	698,083	518,123	23,895	10,979	61,927	78,206	59,923	2,038,160
Special mention	3,949	-	1,690	64	112	179	-	39	78	6,111
Substandard	4,332	-	1,282	58	64	39	86	-	67	5,928
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	\$ 460,692	134,613	701,055	518,245	24,071	11,197	62,013	78,245	60,068	2,050,199

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) *Loans and Allowance for Loan Losses, Continued*

Age Analysis of Past Due Loans

	<i>In Thousands</i>					<i>Recorded Investment Greater Than 90 Days and Accruing</i>
	<i>30-59 Days Past Due</i>	<i>60-89 Days Past Due</i>	<i>Nonaccrual and Greater Than 90 Days</i>	<i>Total Nonaccrual and Past Due</i>	<i>Current</i>	<i>Total Loans</i>
December 31, 2019						
Residential 1-4 family	\$ 4,760	799	2,336	7,895	503,355	511,250
Multifamily	-	-	-	-	97,104	97,104
Commercial real estate	500	-	1,661	2,161	791,218	793,379
Construction	1,535	147	594	2,276	422,909	425,185
Farmland	57	-	8	65	19,203	19,268
Second mortgages	-	-	100	100	10,660	10,760
Equity lines of credit	143	-	372	515	71,864	72,379
Commercial	71	30	-	101	98,164	98,265
Agricultural, installment and other	517	116	46	679	64,773	65,452
Total	<u>\$ 7,583</u>	<u>1,092</u>	<u>5,117</u>	<u>13,792</u>	<u>2,079,250</u>	<u>2,093,042</u>
						<u>46</u>
						<u>2,507</u>
December 31, 2018						
Residential 1-4 family	\$ 3,258	1,092	1,868	6,218	454,474	460,692
Multifamily	-	-	-	-	134,613	134,613
Commercial real estate	312	109	1,174	1,595	699,460	701,055
Construction	1,567	26	32	1,625	516,620	518,245
Farmland	43	9	21	73	23,998	24,071
Second mortgages	333	-	-	333	10,864	11,197
Equity lines of credit	297	-	45	342	61,671	62,013
Commercial	93	-	24	117	78,128	78,245
Agricultural, installment and other	407	85	95	587	59,481	60,068
Total	<u>\$ 6,310</u>	<u>1,321</u>	<u>3,259</u>	<u>10,890</u>	<u>2,039,309</u>	<u>2,050,199</u>
						<u>95</u>
						<u>1,209</u>

WILSON BANK HOLDING COMPANY
Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

Transactions in the allowance for loan losses for the years ended December 31, 2019 and 2018 are summarized as follows:

	In Thousands									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
December 31, 2019										
Allowance for loan losses:										
Beginning balance	\$ 6,297	1,481	9,753	7,084	221	118	731	622	867	27,174
Provision	838	(364)	1,484	(1,510)	(34)	5	158	422	1,041	2,040
Charge-offs	(15)	-	(173)	-	-	-	-	(15)	(1,160)	(1,363)
Recoveries	24	-	50	423	-	-	-	15	363	875
Ending balance	<u>\$ 7,144</u>	<u>1,117</u>	<u>11,114</u>	<u>5,997</u>	<u>187</u>	<u>123</u>	<u>889</u>	<u>1,044</u>	<u>1,111</u>	<u>28,726</u>
Ending balance individually evaluated for impairment	<u>\$ 795</u>	<u>-</u>	<u>341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,136</u>
Ending balance collectively evaluated for impairment	<u>\$ 6,349</u>	<u>1,117</u>	<u>10,773</u>	<u>5,997</u>	<u>187</u>	<u>123</u>	<u>889</u>	<u>1,044</u>	<u>1,111</u>	<u>27,590</u>
Loans:										
Ending balance	<u>\$ 511,250</u>	<u>97,104</u>	<u>793,379</u>	<u>425,185</u>	<u>19,268</u>	<u>10,760</u>	<u>72,379</u>	<u>98,265</u>	<u>65,452</u>	<u>2,093,042</u>
Ending balance individually evaluated for impairment	<u>\$ 2,569</u>	<u>-</u>	<u>2,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,040</u>
Ending balance collectively evaluated for impairment	<u>\$ 508,681</u>	<u>97,104</u>	<u>790,908</u>	<u>425,185</u>	<u>19,268</u>	<u>10,760</u>	<u>72,379</u>	<u>98,265</u>	<u>65,452</u>	<u>2,088,002</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

	In Thousands									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
December 31, 2018										
Allowance for loan losses:										
Beginning balance	\$ 5,156	1,011	9,267	6,094	487	94	723	401	676	23,909
Provision	1,568	470	436	921	(266)	24	7	218	920	4,298
Charge-offs	(492)	-	-	(19)	-	-	-	-	(1,152)	(1,663)
Recoveries	65	-	50	88	-	-	1	3	423	630
Ending balance	\$ 6,297	1,481	9,753	7,084	221	118	731	622	867	27,174
Ending balance individually evaluated for impairment	\$ 852	-	312	-	-	-	-	-	-	1,164
Ending balance collectively evaluated for impairment	\$ 5,445	1,481	9,441	7,084	221	118	731	622	867	26,010
Loans:										
Ending balance	\$ 460,692	134,613	701,055	518,245	24,071	11,197	62,013	78,245	60,068	2,050,199
Ending balance individually evaluated for impairment	\$ 2,829	-	1,831	686	-	-	-	-	-	5,346
Ending balance collectively evaluated for impairment	\$ 457,863	134,613	699,224	517,559	24,071	11,197	62,013	78,245	60,068	2,044,853

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

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, 2019 and December 31, 2018 (dollars in thousands):

	2019	2018
Performing TDRs	\$ 3,080	1,676
Nonperforming TDRs	1,467	816
Total TDRs	<u>\$ 4,547</u>	<u>2,492</u>

The following table outlines the amount of each TDR categorized by loan classification for the years ended December 31, 2019 and 2018 (dollars in thousands):

	December 31, 2019				December 31, 2018			
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance		Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	
Residential 1-4 family	1	\$ 1,338	\$ 619	4	4	\$ 448	\$ 448	
Multifamily	-	-	-	-	-	-	-	
Commercial real estate	4	2,677	2,399	-	-	-	-	
Construction	-	-	-	-	-	-	-	
Farmland	-	-	-	-	-	-	-	
Second mortgage	-	-	-	-	-	-	-	
Equity lines of credit	-	-	-	-	-	-	-	
Commercial	-	-	-	-	-	-	-	
Agricultural, installment and other	-	-	-	-	-	-	-	
Total	<u>5</u>	<u>\$ 4,015</u>	<u>\$ 3,018</u>	<u>2</u>	<u>6</u>	<u>\$ 453</u>	<u>\$ 453</u>	<u>5</u>

At December 31, 2019 and 2018, 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, 2019, the Bank did not have any consumer mortgage loans in the process of foreclosure.

As of December 31, 2018, the Company's recorded investment in consumer mortgage loans in the process of foreclosure amounted to \$200,000.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(2) Loans and Allowance for Loan Losses, Continued

The Company's principal customers are primarily in the Middle Tennessee area with a concentration in Wilson County, 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 2019, 2018 and 2017, Wilson Bank originated mortgage loans for sale into the secondary market of \$167,723,000, \$129,060,000 and \$135,835,000, respectively. The fees and gain on sale of these loans totaled \$6,802,000, \$4,639,000 and \$4,258,000 in 2019, 2018 and 2017, respectively. All of these loan sales transfer servicing rights to the buyer.

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, 2019 and 2018, total mortgage loans sold with recourse in the secondary market aggregated \$115,789,000 and \$94,801,000, respectively. At December 31, 2019, 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 and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. Debt and equity securities at December 31, 2019 consist of the following:

	Securities Available-For-Sale			
	<i>In Thousands</i>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Government-sponsored enterprises (GSEs)	\$ 59,735	48	204	59,579
Mortgage-backed securities	265,648	2,300	635	267,313
Asset-backed securities	27,531	1	303	27,229
Obligations of states and political subdivisions	67,293	559	828	67,024
	<u>\$ 420,207</u>	<u>2,908</u>	<u>1,970</u>	<u>421,145</u>

The Company's classification of securities at December 31, 2018 is as follows:

	Securities Available-For-Sale			
	<i>In Thousands</i>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Government-sponsored enterprises (GSEs)	\$ 71,446	-	2,979	68,467
Mortgage-backed securities	152,375	9	4,874	147,510
Asset-backed securities	22,534	10	844	21,700
Obligations of states and political subdivisions	49,328	22	1,775	47,575
	<u>\$ 295,683</u>	<u>41</u>	<u>10,472</u>	<u>285,252</u>

There were no debt and equity securities classified as held-to-maturity at December 31, 2019 and 2018. During the year ended December 31, 2018, the Company sold securities classified as held-to-maturity with a book value of \$4,843,000 for a loss of \$79,000. Due to the sale, management determined the Company no longer had the intent to hold the remaining securities classified as held-to-maturity to their respective maturity dates and transferred the remaining book value of \$22,800,000 to the available-for-sale classification.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(3) Debt and Equity Securities, Continued

Included in mortgage-backed securities are collateralized mortgage obligations totaling \$46,994,000 (fair value of \$47,442,000) and \$11,564,000 (fair value of \$11,295,000) at December 31, 2019 and 2018, respectively.

The amortized cost and estimated market value of debt securities at December 31, 2019, 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.

<u>Securities Available-For-Sale</u>	<i>In Thousands</i>	
	Amortized Cost	Estimated Market Value
Due in one year or less	\$ 472	471
Due after one year through five years	18,332	18,319
Due after five years through ten years	56,626	56,622
Due after ten years	<u>51,598</u>	<u>51,191</u>
	127,028	126,603
Mortgage and asset-backed securities	<u>293,179</u>	<u>294,542</u>
	<u>\$ 420,207</u>	<u>421,145</u>

Results from sales of debt and equity securities are as follows:

	<i>In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gross proceeds	<u>\$ 37,325</u>	<u>39,857</u>	<u>35,555</u>
Gross realized gains	\$ 75	102	76
Gross realized losses	<u>(343)</u>	<u>(752)</u>	<u>(251)</u>
Net realized gains (losses)	<u>\$ (268)</u>	<u>(650)</u>	<u>(175)</u>

Securities carried on the balance sheet of approximately \$256,300,000 (approximate market value of \$256,598,000) and \$260,562,000 (approximate market value of \$251,549,000) were pledged to secure public deposits and for other purposes as required or permitted by law at December 31, 2019 and 2018, respectively.

Included in the securities above are \$50,193,000 (approximate market value of \$49,903,000) at December 31, 2019 in obligations of political subdivisions located within the States of Tennessee, Idaho, Missouri, and Texas. Management purchases only obligations of such political subdivisions it considers to be financially sound.

Securities that have rates that adjust prior to maturity totaled \$48,018,000 (approximate market value of \$47,784,000) and \$32,864,000 (approximate market value of \$32,217,000) at December 31, 2019 and 2018, respectively.

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(3) Debt and Equity Securities, Continued

Available-for-sale securities that have been in a continuous unrealized loss position at December 31, 2019 and 2018 are as follows:

<i>In Thousands, Except Number of Securities</i>								
Less than 12 Months			12 Months or More			Total		
Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	
2019								
<u>Available-for-Sale Securities:</u>								
Debt securities:								
GSEs	\$ 16,507	\$ 114	5	\$ 24,658	\$ 90	9	\$ 41,165	\$ 204
Mortgage-backed securities	45,862	182	21	56,917	453	52	102,779	635
Asset-backed securities	17,807	161	10	7,317	142	4	25,124	303
Obligations of states and political subdivisions	30,423	783	26	3,858	45	10	34,281	828
	<u>\$ 110,599</u>	<u>\$ 1,240</u>	<u>62</u>	<u>\$ 92,750</u>	<u>\$ 730</u>	<u>75</u>	<u>\$ 203,349</u>	<u>\$ 1,970</u>

2018

Available-for-Sale Securities:

Debt securities:

GSEs	\$ -	\$ -	-	\$ 68,467	\$ 2,979	28	\$ 68,467	\$ 2,979
Mortgage-backed securities	8,651	64	10	137,457	4,810	94	146,108	4,874
Asset-backed securities	-	-	-	20,597	844	14	20,597	844
Obligations of states and political subdivisions	4,064	26	6	39,841	1,749	94	43,905	1,775
	<u>\$ 12,715</u>	<u>\$ 90</u>	<u>16</u>	<u>\$266,362</u>	<u>\$ 10,382</u>	<u>230</u>	<u>\$ 279,077</u>	<u>\$ 10,472</u>

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost.

As of December 31, 2019, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. Any unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2019, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in our consolidated statements of earnings.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(4) Restricted Equity Securities

Restricted equity securities consists of stock of the FHLB of Cincinnati amounting to \$4,680,000 and \$3,012,000 at December 31, 2019 and 2018, 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, 2019 and 2018 is as follows:

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Land	\$ 17,093	17,022
Buildings	46,389	44,921
Leasehold improvements	533	492
Furniture and equipment	13,000	12,600
Automobiles	243	343
Construction-in-progress	<u>1,339</u>	<u>100</u>
	78,597	75,478
Less accumulated depreciation	<u>(18,302)</u>	<u>(17,115)</u>
	<u>\$ 60,295</u>	<u>58,363</u>

During 2019, 2018 and 2017, payments of \$2,207,000, \$2,633,000 and \$5,934,000, respectively, were made to an entity owned by a director for the construction of buildings and repair work on existing buildings.

Depreciation expense was \$3,984,000, \$3,602,000 and \$2,859,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

(6) Acquired Intangible Assets and 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.

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Goodwill:		
Balance at January 1,	\$ 4,805	4,805
Goodwill acquired during year	-	-
Impairment loss	-	-
Balance at December 31,	<u>\$ 4,805</u>	<u>4,805</u>

(7) Deposits

Deposits at December 31, 2019 and 2018 are summarized as follows:

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Demand deposits	\$ 284,611	254,157
Savings accounts	140,270	136,645
Negotiable order of withdrawal accounts	558,745	503,435
Money market demand accounts	801,986	727,654
Certificates of deposit \$250,000 or greater	131,899	134,506
Other certificates of deposit	425,222	402,690
Individual retirement accounts \$250,000 or greater	10,646	8,525
Other individual retirement accounts	<u>64,226</u>	<u>68,043</u>
	<u>\$ 2,417,605</u>	<u>2,235,655</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(7) Deposits, Continued

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2019 are as follows:

<u>Maturity</u>	<u>(In Thousands)</u> <u>Total</u>
2020	\$ 326,212
2021	160,368
2022	72,578
2023	51,327
2024	21,258
Thereafter	250
	<u>\$ 631,993</u>

The aggregate amount of overdrafts reclassified as loans receivable was \$529,000 and \$496,000 at December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, Wilson Bank was not required to maintain a cash balance with the Federal Reserve.

(8) Federal Home Loan Bank Advances

At December 31, 2019 the Company had \$23,613,000 in outstanding advances from the FHLB of Cincinnati. Each advance is amortized and payable monthly with a prepayment penalty for fixed rate advances. The weighted average rate of the total borrowings at December 31, 2019 was 2.67%. The advances are collateralized by a blanket security agreement which includes the Bank's 1-4 family loans. The Company's additional borrowing capacity was \$266,712,000 at December 31, 2019.

Required future principal payments on Federal Home Loan Bank borrowings are as follows:

	<u>(In Thousands)</u> <u>Total</u>
2020	\$ 8,250
2021	5,828
2022	4,658
2023	3,929
2024	948
Thereafter	-
	<u>\$ 23,613</u>

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

The significant components of non-interest income and non-interest expense for the years ended December 31, 2019, 2018 and 2017 are presented below:

	<u>In Thousands</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Non-interest income:			
Service charges on deposits	\$ 6,952	6,799	6,124
Other fees and commissions	14,233	13,704	11,752
BOLI and annuity earnings	810	841	871
Security losses, net	(268)	(650)	(175)
Fees and gains on sales of mortgage loans	6,802	4,639	4,258
Gain (loss) on sale of other real estate, net	(48)	(80)	6
Loss on sales of premises and equipment, net	(128)	(2)	-
Loss on sales of other assets, net	(4)	(3)	(15)
	<u>\$ 28,349</u>	<u>25,248</u>	<u>22,821</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(9) Non-Interest Income and Non-Interest Expense, Continued

	<i>In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Non-interest expense:			
Employee salaries and benefits	\$ 42,541	39,590	35,830
Equity-based compensation	786	1,237	692
Occupancy expenses	4,789	4,403	3,718
Furniture and equipment expenses	3,110	2,767	2,085
Data processing expenses	4,495	2,900	2,834
Advertising expenses	2,498	2,552	2,326
ATM and interchange fees	3,439	3,091	2,569
Accounting, legal and consulting expenses	1,382	977	500
FDIC insurance	373	843	683
Directors' fees	586	543	677
Other operating expenses	<u>10,629</u>	<u>10,177</u>	<u>8,477</u>
	<u>\$ 74,628</u>	<u>69,080</u>	<u>60,391</u>

(10) Income Taxes

In December 2017, the Tax Cuts and Jobs Act was signed into law. As a result, the statutory corporate Federal tax rate was lowered from 35% to 21%, effective January 1, 2018. In accordance with accounting principles generally accepted in the United States of America, the effect of rate changes are to be recorded as an adjustment to income in the year of enactment. As a result of the Tax Cuts and Jobs Act being signed into law, the Company revalued all deferred taxes to reflect the new statutory corporate tax rate resulting in a \$3,603,000 charge to deferred tax expense in the fourth quarter of 2017. This charge included \$697,000 related to unrealized losses on available-for-sale securities. Unrealized losses on available-for-sale securities are recognized as a component of equity as other comprehensive income. Management has elected to reclassify the \$697,000 expense related to the available-for-sale rate change from retained earnings to other comprehensive income.

The components of the net deferred tax asset are as follows:

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Deferred tax asset:		
Federal	\$ 7,444	9,046
State	<u>2,240</u>	<u>2,739</u>
	<u>9,684</u>	<u>11,785</u>
Deferred tax liability:		
Federal	(2,666)	(2,167)
State	<u>(882)</u>	<u>(717)</u>
	<u>(3,548)</u>	<u>(2,884)</u>
Net deferred tax asset	<u>\$ 6,136</u>	<u>8,901</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(10) Income Taxes, Continued

The tax effects of each type of significant item that gave rise to deferred tax assets (liabilities) are:

	<i>In Thousands</i>	
	<u>2019</u>	<u>2018</u>
Financial statement allowance for loan losses in excess of tax allowance	\$ 7,283	6,846
Excess of depreciation deducted for tax purposes over the amounts deducted in the financial statements	(2,976)	(2,557)
Financial statement deduction for deferred compensation in excess of deduction for tax purposes	1,193	1,128
Writedown of other real estate not deductible for income tax purposes until sold	157	176
Financial statement income on FHLB stock dividends not recognized for tax purposes	(327)	(327)
Unrealized loss (gain) on securities available-for-sale	(245)	2,726
Equity based compensation	625	469
Other items, net	426	440
Net deferred tax asset	<u>\$ 6,136</u>	<u>8,901</u>

The components of income tax expense (benefit) are summarized as follows:

	<i>In Thousands</i>		
	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2019</u>			
Current	\$ 10,134	1,411	11,545
Deferred	(335)	(143)	(478)
Total	<u>\$ 9,799</u>	<u>1,268</u>	<u>11,067</u>
<u>2018</u>			
Current	\$ 8,310	721	9,031
Deferred	(136)	(112)	(248)
Total	<u>\$ 8,174</u>	<u>609</u>	<u>8,783</u>
<u>2017</u>			
Current	\$ 14,004	2,354	16,358
Deferred	3,205	(209)	2,996
Total	<u>\$ 17,209</u>	<u>2,145</u>	<u>19,354</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(10) Income Taxes, Continued

A reconciliation of actual income tax expense of \$11,067,000, \$8,783,000 and \$19,354,000 for the years ended December 31, 2019, 2018 and 2017, respectively, to the "expected" tax expense (computed by applying the statutory rate of 21% for 2019 and 2018 and 34% for 2017 to earnings before income taxes) is as follows:

	<i>In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Computed "expected" tax expense	\$ 9,893	8,689	14,579
State income taxes, net of Federal income tax benefit	1,056	432	1,346
Tax exempt interest, net of interest expense exclusion	(186)	(226)	(415)
Federal income tax rate in excess of statutory rate related to taxable income over \$10 million	-	-	399
Earnings on cash surrender value of life insurance	(170)	(177)	(292)
Expenses not deductible for tax purposes	37	16	43
Equity based compensation expense	15	(39)	16
Revaluation of Federal deferred tax assets due to change in tax rates	-	-	3,603
Other	<u>422</u>	<u>88</u>	<u>75</u>
	<u>\$ 11,067</u>	<u>8,783</u>	<u>19,354</u>

Total income tax expense for 2019, 2018 and 2017, includes \$70,000, \$170,000 and \$67,000 of benefit related to the realized gain and loss, respectively, on sale of securities.

As of December 31, 2019, 2018 and 2017 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.

There were no unrecognized tax benefits at December 31, 2019.

Wilson Bank does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balance at December 31, 2019, were approximately \$9.7 millions of tax positions (deferred tax assets) for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

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 2015. The Company's Federal tax returns have been audited through December 31, 2005 with no changes.

(11) 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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(11) Commitments and Contingent Liabilities, Continued

Wilson Bank leases branch facilities and land for certain branch facilities and automatic teller machine locations. Future minimum rental payments required under the terms of the noncancellable leases are as follows:

<u>Years Ending December 31,</u>	<u>In Thousands</u>
2020	\$ 444
2021	387
2022	215
2023	112
2024	4
Thereafter	9

Total rent expense amounted to \$484,000, \$362,000 and \$215,000, respectively, during the years ended December 31, 2019, 2018 and 2017.

At December 31, 2019 and 2018, respectively, the Company has lines of credit with other financial institutions totaling \$53,000,000. At December 31, 2019 and 2018, 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. 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, 2019 or December 31, 2018.

(12) 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.

	<u>In Thousands</u>	
	<u>Contract or</u>	
	<u>Notional Amount</u>	
	<u>2019</u>	<u>2018</u>
Financial instruments whose contract		
amounts represent credit risk:		
Unused commitments to extend credit	\$ 632,686	582,897
Standby letters of credit	<u>72,901</u>	<u>80,165</u>
Total	<u>\$ 705,587</u>	<u>663,062</u>

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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(12) **Financial Instruments with Off-Balance-Sheet Risk, Continued**

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 \$73,000,000 at December 31, 2019.

(13) **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 Loan Losses.

Interest bearing deposits totaling \$89,177,000 were deposited with four commercial banks.

Federal funds sold in the amount of \$20,000,000 were deposited with one commercial bank.

(14) **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 20 1/2. The provisions of the 401(k) Plan provide for both employee and employer contributions. For the years ended December 31, 2019, 2018 and 2017, Wilson Bank contributed \$2,540,000, \$2,383,000 and \$2,145,000, respectively, to the 401(k) Plan.

(15) **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 179,199 in 2019, 161,514 in 2018 and 125,960 in 2017 were sold to participants under the terms of the DRIP.

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and Wilson Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and common equity Tier 1 capital (each as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Company and Wilson Bank meet all capital adequacy requirements to which they are subject.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(16) Regulatory Matters and Restrictions on Dividends, Continued

As of December 31, 2019, the most recent notification from the FDIC categorized Wilson Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed Wilson Bank's category. To be categorized as well capitalized for purposes of prompt corrective action regulations as of December 31, 2019 and 2018, an institution must have maintained minimum capital ratios as set forth in the following tables and not have been subject to a written agreement, order or directive to maintain a higher capital level. The Company's and Wilson Bank's actual capital amounts and ratios as of December 31, 2019 and 2018, are presented in the following tables:

	<i>Actual</i>		<i>Regulatory Minimum Capital Requirement with Basel III Capital Conservation Buffer</i>		<i>Regulatory Minimum To Be Well Capitalized</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
			<i>(dollars in thousands)</i>			
<u>December 31, 2019</u>						
Total capital to risk weighted assets:						
Consolidated	\$ 360,645	15.0%	\$ 253,215	10.5%	\$ 241,157	10.0%
Wilson Bank	359,576	14.9	252,675	10.5	240,643	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	331,485	13.7	204,984	8.5	144,694	6.0
Wilson Bank	330,416	13.7	204,547	8.5	192,515	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	331,485	13.7	168,810	7.0	N/A	N/A
Wilson Bank	330,416	13.7	168,451	7.0	156,418	6.5
Tier 1 capital to average assets:						
Consolidated	331,485	12.4	106,565	4.0	N/A	N/A
Wilson Bank	330,416	11.9	110,764	4.0	138,454	5.0
<u>December 31, 2018</u>						
Total capital to risk weighted assets:						
Consolidated	\$ 326,099	14.1%	\$ 227,974	9.875%	\$ 230,860	10.0%
Wilson Bank	323,852	14.0	227,915	9.875	230,800	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	298,566	12.9	181,802	7.875	138,516	6.0
Wilson Bank	296,319	12.8	181,756	7.875	184,641	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	298,566	12.9	147,173	6.375	N/A	N/A
Wilson Bank	296,319	12.8	147,136	6.375	150,021	6.5
Tier 1 capital to average assets:						
Consolidated	298,566	12.3	97,022	4.0	N/A	N/A
Wilson Bank	296,319	11.9	99,373	4.0	124,217	5.0

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(16) Regulatory Matters and Restrictions on Dividends, Continued

In July 2013, the Federal banking regulators, in response to the Statutory Requirements of The Dodd-Frank Wall Street Reform and Consumer Protection Act, adopted new regulations implementing the Basel Capital Adequacy Accord ("Basel III") and the related minimum capital ratios. The new capital requirements were effective beginning January 1, 2015. The guidelines under Basel III established a 2.5% capital conservation buffer requirement that was phased in over four years beginning January 1, 2016. The buffer is related to Risk Weighted Assets. In order to avoid limitations on capital distributions such as dividends and certain discretionary bonus payments to executive officers, a banking organization must maintain capital ratios above the minimum ratios including the buffer. The Basel III minimum requirements after giving effect to the buffer as of January 1, of each year presented are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Common Equity Tier 1 Ratio	5.125%	5.75%	6.375%	7.0%
Tier 1 Capital to Risk Weighted Assets Ratio	6.625%	7.25%	7.875%	8.5%
Total Capital to Risk Weighted Assets Ratio	8.625%	9.25%	9.875%	10.5%

The requirements of Basel III also place additional restrictions on the inclusion of deferred tax assets and capitalized mortgage servicing rights as a percentage of Tier 1 Capital. In addition, the risk weights assigned to certain assets such as past due loans and certain real estate loans have been increased.

The requirements of Basel III allow banks and bank 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 Wilson Bank have opted out of this requirement.

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, requires the federal banking agencies to issue regulations allowing community bank organizations with total assets of less than \$10.0 billion in assets 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 under the Growth Act that exempt a qualifying community bank and its holding company that have community bank leverage ratios, calculated as Tier 1 capital over average total consolidated assets, of greater than 9 percent from the risk-based capital requirements of the capital rules issued under the Dodd-Frank Act. A qualifying community banking organization and its holding company that have chosen the proposed framework are not required to calculate the existing risk-based and leverage capital requirements. Such a bank would also be considered to have met the capital ratio requirements to be well capitalized for the agencies' prompt corrective action rules provided it has a community bank leverage ratio greater than 9 percent.

The Growth Act also raised the eligibility for the small bank holding company policy statement to \$3 billion of assets from \$1 billion.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(17) **Salary Deferral Plans**

The Company provides its executive officers certain 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, 2019 and 2018 the liability related to the Plan totaled \$1,786,000 and \$1,825,000, respectively. At December 31, 2019 and 2018 the liability related to the SERP Agreements totaled \$2,778,000 and \$2,491,000, respectively.

The Company has purchased life insurance policies to provide the benefits related to the Plan, which at December 31, 2019 and 2018 had an aggregate cash surrender value of \$4,657,000 and \$4,540,000, respectively, and an aggregate face value of insurance policies in force of \$13,526,000 and \$13,523,000, 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 its executive 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 \$27,105,000 and \$26,412,000 and the face amount of the insurance policies in force approximated \$61,067,000 and \$61,202,000 at December 31, 2019 and 2018, 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, 2019 and 2018 are the Annuity Contracts with an aggregate value of \$14,471,000 and \$14,558,000, respectively.

(18) **Equity Incentive Plan**

In April 1999, the stockholders of the Company approved the Wilson Bank Holding Company 1999 Stock Option Plan (the “1999 Stock Option Plan”). The Stock Option Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 200,000 shares of common stock, to officers and other key employees of the Company and its subsidiary. Furthermore, the Company and its Subsidiary could reserve additional shares for issuance under the 1999 Stock Option Plan as needed in order that the aggregate number of shares that could be issued during the term of the 1999 Stock Option Plan was equal to five percent (5%) of the shares of common stock then issued and outstanding. The 1999 Stock Option Plan terminated on April 13, 2009, and no additional awards may be issued under the 1999 Stock Option Plan. The awards granted under the 1999 Stock Option Plan prior to the plan’s termination remained outstanding until exercised or otherwise terminated. As of December 31, 2019, the Company had no outstanding options under the 1999 Stock Option 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 may 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 may be granted under the 2009 Stock Option Plan is 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, 2019, the Company had outstanding 20,065 options under the 2009 Stock Option Plan with a weighted average exercise price of \$32.66.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(18) Equity Incentive Plan, Continued

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, 2019, the Company had 467,271 shares remaining available for issuance under the 2016 Equity Incentive Plan. As of December 31, 2019, the Company had outstanding 120,843 stock options with a weighted average exercise price of \$41.75 and 132,131 cash-settled stock appreciation rights with a weighted average exercise price of \$41.97 under the 2016 Equity Incentive Plan.

As of December 31, 2019, the Company had outstanding 140,908 stock options with a weighted average exercise price of \$40.46 and 132,131 cash-settled stock appreciation rights with a weighted average exercise price of \$41.97.

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 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Expected dividends	1.60%	1.22%	1.27%
Expected term (in years)	7.14	9.35	7.79
Expected stock price volatility	25%	24%	26%
Risk-free rate	1.90%	2.83%	2.23%

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 2019, 2018 and 2017 is as follows:

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	277,820	\$ 40.11	285,780	\$ 39.31	183,747	\$ 38.09
Granted	17,833	51.16	21,666	46.59	112,333	40.87
Exercised	(22,614)	35.78	(22,460)	37.07	(5,078)	29.65
Forfeited or expired	-	-	(7,166)	37.53	(5,222)	39.22
Outstanding at end of year	<u>273,039</u>	<u>\$ 41.19</u>	<u>277,820</u>	<u>\$ 40.11</u>	<u>285,780</u>	<u>\$ 39.31</u>
Options and cash-settled SARs exercisable at year end	<u>122,932</u>	<u>\$ 40.19</u>	<u>94,951</u>	<u>\$ 39.14</u>	<u>42,256</u>	<u>\$ 36.66</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(18) Equity Incentive Plan, Continued

The weighted average fair value at the grant date of options and cash-settled SARs granted during the years 2019, 2018 and 2017 was \$13.43, \$14.41 and \$12.59, respectively. The total intrinsic value of options and cash-settled SARs exercised during the years 2019, 2018 and 2017 was \$369,000, \$200,000 and \$62,000, respectively.

The following tables summarize information about outstanding and exercisable stock options and cash-settled SARs at December 31, 2019:

Range of Exercise Prices	Options and Cash-Settled SARs Outstanding			Options and Cash-Settled SARs Exercisable		
	Number Outstanding at 12/31/19	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Number Exercisable at 12/31/19	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
\$28.00 - \$38.00	20,065	\$ 32.66	2.98 years	8,487	\$ 32.35	2.78 years
\$38.01 - \$51.25	<u>252,974</u>	\$ 41.86	6.68 years	<u>114,445</u>	\$ 40.77	5.74 years
	<u>273,039</u>			<u>122,932</u>		
Aggregate intrinsic value (in thousands)	<u>\$ 3,703</u>			<u>\$ 1,790</u>		

As of December 31, 2019, there was \$1,622,000 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 2.51 years.

(19) Earnings Per Share

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

	<i>In Thousands (except share data)</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Basic EPS Computation:			
Numerator - Earnings available to common stockholders	<u>\$ 36,044</u>	<u>32,594</u>	<u>23,526</u>
Denominator - Weighted average number of common shares outstanding	<u>10,743,269</u>	<u>10,564,172</u>	<u>10,407,211</u>
Basic earnings per common share	<u>\$ 3.36</u>	<u>3.09</u>	<u>2.26</u>
Diluted EPS Computation:			
Numerator - Earnings available to common stockholders	<u>\$ 36,044</u>	<u>32,594</u>	<u>23,526</u>
Denominator - Weighted average number of common shares outstanding	<u>10,743,269</u>	<u>10,564,172</u>	<u>10,407,211</u>
Dilutive effect of stock options	<u>18,198</u>	<u>8,049</u>	<u>5,325</u>
	<u>10,761,467</u>	<u>10,572,221</u>	<u>10,412,536</u>
Diluted earnings per common share	<u>\$ 3.35</u>	<u>3.08</u>	<u>2.26</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(20) 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, 2019 and 2018, the Company had approximately \$10,307,000 and \$9,655,000 of interest rate lock commitments and approximately \$14,000,000 and \$11,750,000 of forward commitments for the future delivery of residential mortgage loans, respectively. The fair value of these mortgage banking derivatives was reflected by a derivative asset and liability of \$328,000 and \$335,000 and \$23,000 and \$88,000, respectively, at December 31, 2019 and 2018. 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:

<i>(In Thousands)</i>	<u>2019</u>	<u>2018</u>
Forward contracts related to mortgage loans held for sale and interest rate contracts	\$ 65	(88)
Interest rate contracts for customers	(7)	335

The following table reflects the amount and fair value of mortgage banking derivatives included in the consolidated balance sheet as of December 31, 2019 and 2018:

	<u>2019</u>		<u>2018</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
Included in other assets (liabilities):				
Interest rate contracts for customers	\$ 10,307	328	9,655	335
Forward contracts related to mortgage loans held-for-sale	14,000	(23)	11,750	(88)

(21) 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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(21) Disclosures About Fair Value of Financial Instruments, Continued

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available-for-sale - Where quoted prices are available 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. From time to time, we will validate prices supplied by our third party vendor by comparison to prices obtained from third parties.

Impaired loans - A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy 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 foreclosure, 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 loan 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.

Bank-Owned Life Insurance - The cash surrender value of bank owned life insurance policies is carried at fair value. The Company uses financial information received from insurance carriers indicating the performance of the insurance policies and cash surrender values in determining the carrying value of life insurance. The Company reflects these assets within Level 3 of the valuation hierarchy due to the unobservable inputs included in the valuation of these items. The Company does not consider the fair values of these policies to be materially sensitive to changes in these unobservable inputs.

Mortgage loans held for sale - Mortgage loans held for sale are carried at fair value. The fair value of mortgage loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan and mortgage loans held for sale are included in Level 2 of the valuation hierarchy.

Derivatives - The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(21) Disclosures About Fair Value of Financial Instruments, Continued

The following tables present the financial instruments carried at fair value as of December 31, 2019 and December 31, 2018, 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)
<u>December 31, 2019</u>				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	\$ 59,579	-	59,579	-
Mortgage-backed securities	267,313	-	267,313	-
Asset-backed securities	27,229	-	27,229	-
State and municipal securities	67,024	-	67,024	-
Total investment securities available-for-sale	421,145	-	421,145	-
Mortgage loans held for sale	18,179	-	18,179	-
Mortgage banking derivatives	328	-	328	-
Bank owned life insurance	31,762	-	-	31,762
Total assets	<u>\$ 471,414</u>	<u>-</u>	<u>439,652</u>	<u>31,762</u>
 Mortgage banking derivatives	 \$ 23	 -	 23	 -
Total liabilities	<u>\$ 23</u>	<u>-</u>	<u>23</u>	<u>-</u>
<u>December 31, 2018</u>				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	\$ 68,467	-	68,467	-
Mortgage-backed securities	147,510	-	147,510	-
Asset-backed securities	21,700	-	21,700	-
State and municipal securities	47,575	-	47,575	-
Total investment securities available-for-sale	285,252	-	285,252	-
Mortgage loans held for sale	7,484	-	7,484	-
Mortgage banking derivatives	335	-	335	-
Bank owned life insurance	30,952	-	-	30,952
Total assets	<u>\$ 324,023</u>	<u>-</u>	<u>293,071</u>	<u>30,952</u>
 Mortgage banking derivatives	 \$ 88	 -	 88	 -
Total liabilities	<u>\$ 88</u>	<u>-</u>	<u>88</u>	<u>-</u>
 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)
<u>December 31, 2019</u>				
Other real estate owned	\$ 697	-	-	697
Impaired loans, net ⁽¹⁾	3,916	-	-	3,916
Total	<u>\$ 4,613</u>	<u>-</u>	<u>-</u>	<u>4,613</u>
<u>December 31, 2018</u>				
Other real estate owned	\$ 1,357	-	-	1,357
Impaired loans, net ⁽¹⁾	4,195	-	-	4,195
Total	<u>\$ 5,552</u>	<u>-</u>	<u>-</u>	<u>5,552</u>

⁽¹⁾ Amount is net of a valuation allowance of \$1,136,000 at December 31, 2019 and \$1,164,000 at December 31, 2018 as required by ASC 310, "Receivables."

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(21) Disclosures About Fair Value of Financial Instruments, Continued

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, 2019 and 2018:

	Valuation Techniques ⁽²⁾	Significant Unobservable Inputs	Range (Weighted Average)
Impaired loans	Appraisal	Estimated costs to sell	10%
Other real estate owned	Appraisal	Estimated costs to sell	10%

⁽²⁾ 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, 2019, 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, 2019 and 2018 (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,	
	2019	2018
	Other	Other
	Assets	Assets
Fair value, January 1	\$ 30,952	\$ 29,475
Total realized gains included in income	810	841
Change in unrealized gains/losses included in other comprehensive income for assets still held at December 31	-	-
Purchases, issuances and settlements, net	-	636
Transfers out of Level 3	-	-
Fair value, December 31	<u>\$ 31,762</u>	<u>\$ 30,952</u>
Total realized gains included in income related to financial assets still on the consolidated balance sheet at December 31	<u>\$ 810</u>	<u>\$ 841</u>

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, 2019 and December 31, 2018. Such amounts have not been revalued for purposes of these consolidated financial statements in 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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(21) Disclosures About Fair Value of Financial Instruments, Continued

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.

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. We believe current market rates capture a market participant's cost of funds, liquidity premiums, capital charges, servicing charges and expectations of future rate movements. 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.

Deposits and Federal Home Loan Bank Advances - Fair values for deposits are estimated using discounted cash flow models, using current market interest rates offered on deposits with similar remaining maturities.

Restricted Equity Securities - It is not practical to determine the fair value of Federal Home Loan Bank or Federal Reserve Bank stock due to restrictions placed on its transferability.

Accrued Interest Receivable/Payable - The carrying amounts of accrued interest approximate fair value resulting in a Level 1, Level 2 or Level 3 classification based on the assets/liability with which they are associated.

Off-Balance Sheet Instruments - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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, 2019 and December 31, 2018. 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.

<i>(in Thousands)</i>	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)
<u>December 31, 2019</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	\$ 159,770	159,770	159,770	-	-
Loans, net	2,057,175	2,053,212	-	-	2,053,212
Restricted equity securities	4,680	N/A	N/A	N/A	N/A
Accrued interest receivable	5,945	5,945	5	1,647	4,293
<i>Financial liabilities:</i>					
Deposits	2,417,605	2,210,038	-	-	2,210,038
Federal Home Loan Bank advances	23,613	23,860	-	-	23,860
Accrued interest payable	3,814	3,814	-	-	3,814
<u>December 31, 2018</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	\$ 99,191	99,191	99,191	-	-
Loans, net	2,016,005	2,017,272	-	-	2,017,272
Restricted equity securities	3,012	N/A	N/A	N/A	N/A
Accrued interest receivable	6,724	6,724	3	1,362	5,359
<i>Financial liabilities:</i>					
Deposits	2,235,655	1,974,554	-	-	1,974,554
Accrued interest payable	3,132	3,132	-	-	3,132

⁽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.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

**(22) Wilson Bank Holding Company -
Parent Company Financial Information**

**WILSON BANK HOLDING COMPANY
(Parent Company Only)**

Balance Sheets

December 31, 2019 and 2018

	<i>Dollars In Thousands</i>	
	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 1,899*	2,759*
Investment in wholly-owned commercial bank subsidiary	335,915	293,420
Deferred income taxes	625	469
Refundable income taxes	<u>132</u>	<u>177</u>
Total assets	<u>\$ 338,571</u>	<u>296,825</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Stock appreciation rights payable	\$ 1,587	1,158
Total liabilities	<u>1,587</u>	<u>1,158</u>
Stockholders' equity:		
Common stock, par value \$2.00 per share, authorized 50,000,000 shares, 10,792,999 and 10,623,810 shares issued and outstanding, respectively	21,586	21,248
Additional paid-in capital	82,249	73,960
Retained earnings	232,456	208,164
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of \$245 and \$2,726, respectively	<u>693</u>	<u>(7,705)</u>
Total stockholders' equity	<u>336,984</u>	<u>295,667</u>
Total liabilities and stockholders' equity	<u>\$ 338,571</u>	<u>296,825</u>

*Eliminated in consolidation.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(22) ***Wilson Bank Holding Company -
Parent Company Financial Information, Continued***

**WILSON BANK HOLDING COMPANY
(Parent Company Only)**

Statements of Earnings

Three Years Ended December 31, 2019

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income:			
Dividends from commercial bank subsidiary	\$ <u>2,800</u>	<u>3,000</u>	<u>1,500</u>
Expenses:			
Directors' fees	283	254	334
Other	<u>885</u>	<u>1,351</u>	<u>805</u>
	<u>1,168</u>	<u>1,605</u>	<u>1,139</u>
Income before Federal income tax benefits and equity in undistributed earnings of commercial bank subsidiary	1,632	1,395	361
Federal income tax benefits	<u>287</u>	<u>468</u>	<u>359</u>
	1,919	1,863	720
Equity in undistributed earnings of commercial bank subsidiary	<u>34,125*</u>	<u>30,731*</u>	<u>22,806*</u>
Net earnings	\$ <u><u>36,044</u></u>	<u><u>32,594</u></u>	<u><u>23,526</u></u>

*Eliminated in consolidation.

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(22) ***Wilson Bank Holding Company -
Parent Company Financial Information, Continued***

**WILSON BANK HOLDING COMPANY
(Parent Company Only)**

Statements of Cash Flows

Three Years Ended December 31, 2019

Increase (Decrease) in Cash and Cash Equivalents

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Cash paid to suppliers and other	\$ (383)	(367)	(447)
Tax benefits received	<u>177</u>	<u>181</u>	<u>169</u>
Net cash used in operating activities	<u>(206)</u>	<u>(186)</u>	<u>(278)</u>
Cash flows from investing activities:			
Dividends received from commercial bank subsidiary	<u>2,800</u>	<u>3,000</u>	<u>1,500</u>
Net cash provided by investing activities	<u>2,800</u>	<u>3,000</u>	<u>1,500</u>
Cash flows from financing activities:			
Payments made to stock appreciation rights holders	(9)	(61)	-
Dividends paid	(11,725)	(9,447)	(6,729)
Proceeds from sale of stock pursuant to dividend reinvestment plan	9,134	7,470	5,266
Proceeds from exercise of stock options	775	394	152
Repurchase of common stock	<u>(1,629)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(3,454)</u>	<u>(1,644)</u>	<u>(1,311)</u>
Net increase (decrease) in cash and cash equivalents	(860)	1,170	(89)
Cash and cash equivalents at beginning of year	<u>2,759</u>	<u>1,589</u>	<u>1,678</u>
Cash and cash equivalents at end of year	<u>\$ 1,899</u>	<u>2,759</u>	<u>1,589</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(22) ***Wilson Bank Holding Company -
Parent Company Financial Information, Continued***

**WILSON BANK HOLDING COMPANY
(Parent Company Only)**

Statements of Cash Flows, Continued

Three Years Ended December 31, 2019

Increase (Decrease) in Cash and Cash Equivalents

	<i>Dollars In Thousands</i>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reconciliation of net earnings to net cash used in operating activities:			
Net earnings	\$ 36,044	32,594	23,526
Adjustments to reconcile net earnings to net cash used in operating activities:			
Equity in earnings of commercial bank subsidiary	(36,925)	(33,731)	(24,306)
Decrease (increase) in refundable income taxes	45	5	(12)
Increase in deferred taxes	(156)	(291)	(178)
Share based compensation expense	<u>786</u>	<u>1,237</u>	<u>692</u>
Total adjustments	<u>(36,250)</u>	<u>(32,780)</u>	<u>(23,804)</u>
Net cash used in operating activities	<u>\$ (206)</u>	<u>(186)</u>	<u>(278)</u>

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(23) Quarterly Financial Data (Unaudited).

Selected quarterly results of operations for the four quarters ended December 31 are as follows:

	2019				2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	\$ 29,897	30,329	29,567	28,284	\$ 27,585	26,298	25,548	24,094	\$ 23,487	22,904	22,871	21,758
Interest income												
Interest expense	5,522	5,991	5,923	5,211	4,606	3,656	3,097	2,659	2,439	2,332	2,094	2,024
Net interest income	24,375	24,338	23,644	23,073	22,979	22,642	22,451	21,435	21,048	20,572	20,777	19,734
Provision for loan losses	686	167	154	1,033	1,097	1,088	1,090	1,023	436	436	420	389
Earnings before income taxes	10,222	13,556	12,451	10,882	10,708	10,718	9,798	10,153	10,694	10,438	11,386	10,362
Net earnings	7,972	10,266	9,516	8,290	9,833	7,972	7,309	7,480	3,574	6,469	6,988	6,495
Basic earnings per common share	0.74	0.95	0.89	0.77	0.93	0.75	0.69	0.71	0.34	0.62	0.67	0.63
Diluted earnings per common share	0.74	0.95	0.89	0.77	0.92	0.75	0.69	0.71	0.34	0.62	0.67	0.63

WILSON BANK HOLDING COMPANY

Notes to Consolidated Financial Statements, Continued

December 31, 2019, 2018 and 2017

(24) Subsequent Events

ASC Topic 855, *Subsequent Events*, as amended by ASU No. 2010-90, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company evaluated all events or transactions that occurred after December 31, 2019, through the date of the issued financial statements. During this period there were no material recognizable subsequent events that required recognition in the disclosures to the Company's December 31, 2019 financial statements.

This financial information has not been reviewed for accuracy or relevance by the FDIC

Holding Company & Stock Information

Wilson Bank Holding Company Directors

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

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 25, 2020 was 4,370. 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 2018 and 2019.

On January 2, 2018, a \$.35 per share cash dividend was declared and on July 1, 2018 a \$.55 per share cash dividend was declared and paid to shareholders of record on those dates. On January 2, 2019, a \$.55 per share cash dividend was declared and on July 1, 2019, a \$.55 per share cash dividend was declared and paid to shareholders of record on 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

2018	High	Low
First Quarter	\$46.00	\$44.75
Second Quarter	\$125.00*	\$46.00
Third Quarter	\$48.50	\$47.25
Fourth Quarter	\$50.00*	\$48.50
2019	High	Low
First Quarter	\$51.00	\$49.75
Second Quarter	\$52.25	\$51.00
Third Quarter	\$53.50	\$52.25
Fourth Quarter	\$54.75	\$53.50

*Represents one transaction of 21 shares during the second quarter of 2018 and one transaction of 20 shares during the fourth quarter of 2018 of which the Company is aware where the sale prices was at least \$0.25 higher than any other trade during the quarter. The volume weighted average stock price during the second quarter of 2018 was \$46.46 and the volume weighted average stock price during the fourth quarter of 2018 was \$48.65.

Annual Meeting and Information Contacts

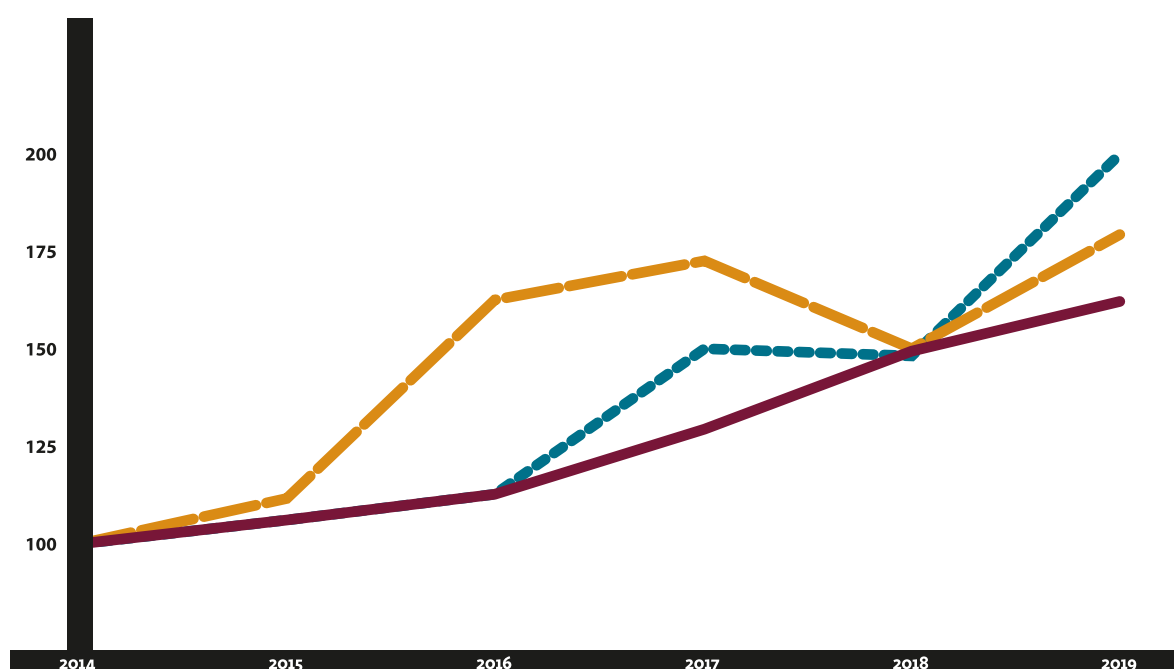
The Annual Meeting of Shareholders will be held in the Main Office of
Wilson Bank Holding Company at 7:00 P.M., April 28, 2020
at 623 West Main Street, Lebanon, Tennessee.

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

Five Year Performance Index

The following graph compares the percentage change in the unaudited total return on the Wilson Bank Holding Company's common stock against the cumulative total return of the NASDAQ Index and The SNL Bank Index (\$1B - \$5B) between December 31, 2014 and December 31, 2019. The graph assumes the value of the investment in Wilson Bank Holding Company's common stock and each index was \$100 at December 31, 2014 and that all dividends were reinvested.



	2014	2015	2016	2017	2018	2019
Wilson Bank Holding Company	100.00	106.44	117.00	130.49	147.91	166.31
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
SNL Bank \$1B-\$5B	100.00	111.94	161.04	171.69	150.42	182.85

WILSON
BANK HOLDING CO.

623 West Main Street • Lebanon, Tennessee 37087
(615) 444-BANK (2265)
wilsonbank.com



WILSON Bank & Trust



ANNUAL REPORT 2019

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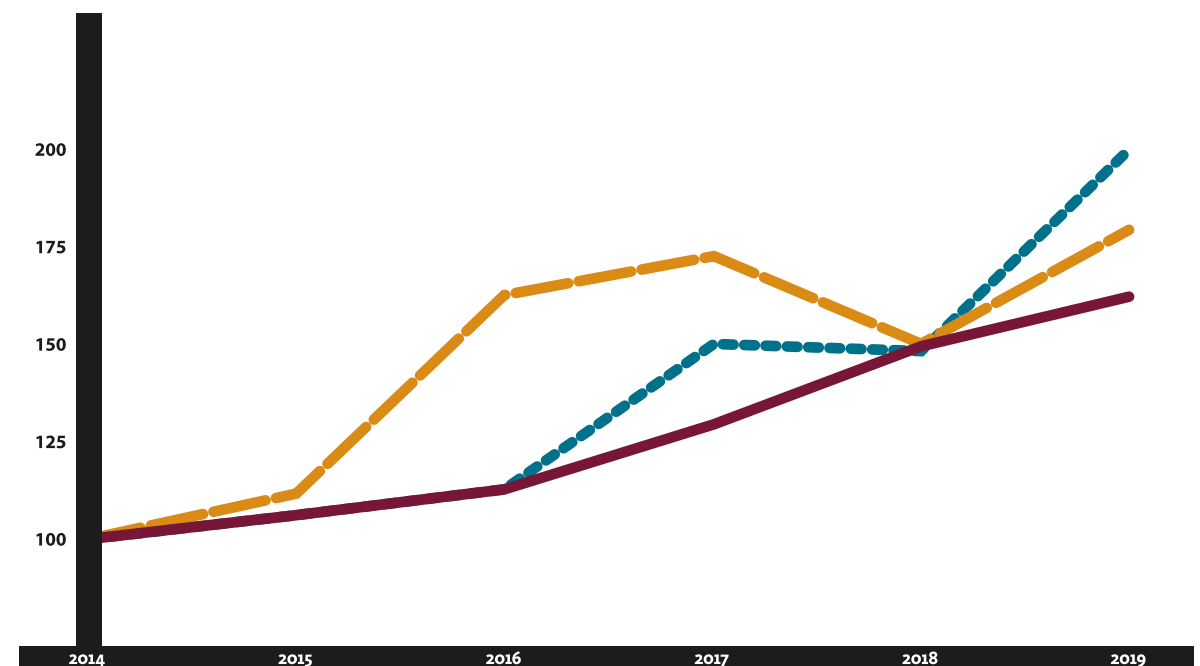
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For more information:
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Wilson Bank Holding Company Five Year Performance Index

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Wilson Bank Holding Company	100.00	106.44	117.00	130.49	147.91	166.31
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SNL Bank \$1B-\$5B	100.00	111.94	161.04	171.69	150.42	182.85