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DELTA REPORT

10-Q

THIRD COAST BANCSHARES, I

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1360
CHANGES	518
DELETIONS	448
ADDITIONS	394

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, March 31, 2023 2024

OR

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

For the transition period from ____________ to _____________

Commission File Number: 001-41028

THIRD COAST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Texas	**46-2135597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
20202 Highway 59 North, Suite 190	
Humble, Texas	**77338**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (281) 446-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	TCBX	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 2, 2023 May 2, 2024, the registrant had 13,604,471 13,652,999 shares of common stock, par value $1.00 per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- interest rate risk and fluctuations in interest rates;
- market conditions and economic trends generally and in the banking industry;
- our ability to maintain important deposit relationships;
- our ability to grow or maintain our deposit base;
- our ability to implement our expansion strategy;
- our geographic concentration in the Greater Houston market, Dallas-Fort Worth market, and Austin-San Antonio market;
- changes in the economy affecting real estate values and liquidity;
- changes in value of the collateral securing our loans;
- credit risk associated with our business;
- credit risks associated with our real estate and construction lending;
- the adequacy of our allowance for credit losses;
- the amount of nonperforming and classified assets that we hold;
- our borrowers’ ability to repay loans;
- the risk of fraud related to our asset-based lending and commercial finance products;
- additional debt or future issuances of new debt securities or preferred stock;
- our ability to raise additional capital in the future;
- changes in key management personnel;
- the accuracy of the valuation techniques we use in evaluating collateral;
- competition from financial services companies and other companies that offer banking services;
- systems failures, fraudulent activity, interruptions or data breaches involving our information technology and communications systems of third parties;
- natural disasters and other catastrophes;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;

- the rise of Artificial Intelligence as a commonly used resource in banking;

- monetary policies and regulations of the Board of Governors of the Federal Reserve System; System (the “Federal Reserve”);

- the sustainment of an active, liquid market for our common stock;
- fluctuations in the market price of our common stock; and
- other factors that are discussed in “Part II – Other Information – Item 1A. Risk Factors.”

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 filed with the Securities and Exchange Commission on March 15, 2023 March 7, 2024. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward- looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
ASSETS	(unaudited)		(unaudited)	
Cash and cash equivalents:				
Cash and due from banks	$ 142,122	$ 329,864	$ 367,831	$ 296,926
Federal funds sold	144,408	2,150	130,429	114,919
Total cash and cash equivalents	286,530	332,014	498,260	411,845
Investment securities available-for-sale	201,035	176,067	246,291	178,087
Loans, net of allowance for credit losses of $38,067 and $30,351 at September 30, 2023 and December 31, 2022, respectively	3,521,886	3,077,200		

Loans, net of allowance for credit losses of $38,140 and $37,022 at March 31, 2024 and December 31, 2023, respectively			3,708,038	3,601,766
Accrued interest receivable	22,821	18,340	25,769	23,120
Premises and equipment, net	29,010	28,662	26,844	28,554
Bank-owned life insurance	65,303	60,761	66,443	65,861
Non-marketable equity securities, at cost	15,799	14,618	16,095	16,041
Deferred tax asset, net	8,335	6,303	8,712	9,227
Derivative assets	10,889	9,213	11,015	8,828
Right-of-use asset - operating leases	21,192	17,872	20,729	21,439
Core Deposit Intangible, net	1,009	1,131	929	969
Goodwill	18,034	18,034	18,034	18,034
Other assets	13,949	12,933	13,244	12,303
Total assets	$ 4,215,792	$ 3,773,148	$ 4,660,403	$ 4,396,074
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$ 500,187	$ 486,114	$ 424,019	$ 459,553
Interest bearing	3,146,635	2,750,032	3,626,653	3,343,595
Total deposits	3,646,822	3,236,146	4,050,672	3,803,148
Accrued interest payable	4,318	2,545	3,927	4,794
Derivative liabilities	10,519	9,221	8,253	10,687
Lease liability - operating leases	21,958	18,209	21,647	22,280
Other liabilities	15,467	14,024	27,806	23,763
Line of credit - Senior Debt	35,875	30,875	43,875	38,875
Note payable - Subordinated Debt, net	80,502	80,348		
Note payable - Subordinated Debentures, net			80,605	80,553

Total liabilities	3,815,461	3,391,368	4,236,785	3,984,100
Shareholders' equity:				
Preferred stock, $1 par value; 1,000,000 shares authorized				
Series A Convertible Non-Cumulative Preferred Stock, $1 par value; 69,400 shares authorized and outstanding at September 30, 2023 and December 31, 2022, respectively	69	69		
Series B Convertible Perpetual Preferred Stock, $1 par value; 69,400 shares authorized at September 30, 2023 and December 31, 2022, respectively	—	—		
Common stock, $1 par value; 50,000,000 shares authorized; 13,678,673 and 13,610,198 issued; and 13,600,211 and 13,531,736 outstanding at September 30, 2023 and December 31, 2022, respectively	13,679	13,610		
Common stock - non-voting, $1 par value; 3,500,000 and no shares authorized at September 30, 2023 and December 31, 2022, respectively	—	—		
Preferred stock, $1 par value; 1,000,000 shares authorized				
Series A Convertible Non-Cumulative Preferred Stock, $1 par value; 69,400 shares authorized and outstanding at March 31, 2024 and December 31, 2023			69	69
Series B Convertible Perpetual Preferred Stock, $1 par value; 69,400 shares authorized at March 31, 2024 and December 31, 2023			—	—
Common stock, $1 par value; 50,000,000 shares authorized; 13,731,350 and 13,683,127 issued; and 13,652,888 and 13,604,665 outstanding at March 31, 2024 and December 31, 2023, respectively			13,731	13,683
Common stock - non-voting, $1 par value; 3,500,000 shares authorized at March 31, 2024 and December 31, 2023			—	—
Additional paid-in capital	319,134	318,033	320,077	319,613
Retained earnings	70,283	53,270	87,971	78,775
Accumulated other comprehensive loss	(1,735)	(2,103)		
Treasury stock: at cost; 78,462 shares at September 30, 2023 and December 31, 2022, respectively	(1,099)	(1,099)		
Accumulated other comprehensive income			2,869	933
Treasury stock: at cost; 78,462 shares at March 31, 2024 and December 31, 2023			(1,099)	(1,099)
Total shareholders' equity	400,331	381,780	423,618	411,974
Total liabilities & shareholders' equity	$ 4,215,792	$ 3,773,148		
Total liabilities and shareholders' equity			$ 4,660,403	$ 4,396,074

The accompanying notes are an integral part of these consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

(unaudited)

(Dollars in thousands, except share and per share data)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Interest income:						
Loans, including fees	$ 65,380	$ 40,498	$ 178,586	$ 98,344	$ 70,671	$ 53,911
Investment securities available-for-sale	1,990	1,367	5,567	2,537	3,093	1,548
Federal funds sold and other	2,015	1,237	5,324	1,914	5,112	1,920
Total interest income	69,385	43,102	189,477	102,795	78,876	57,379
Interest expense:						
Deposit accounts	30,345	9,727	77,373	15,014	38,698	22,092
FHLB advances and other borrowings	3,772	2,020	9,910	3,478	2,099	2,457
Total interest expense	34,117	11,747	87,283	18,492	40,797	24,549
Net interest income	35,268	31,355	102,194	84,303	38,079	32,830
Provision for credit losses	2,620	2,900	5,220	10,250	1,560	1,200
Net interest income after credit loss expense	32,648	28,455	96,974	74,053	36,519	31,630
Noninterest income:						
Service charges and fees	884	772	2,383	2,008	1,505	779
Earnings on bank-owned life insurance					582	475
Gain on sale of investment securities available-for-sale	364	—	461	—	157	97
Gain on sale of SBA loans	114	729	114	827	30	—
Earnings on bank-owned life insurance	541	424	1,542	815		
Derivative fees	159	313	405	1,142	66	(1)
Other	(196)	300	1,143	678	3	552
Total noninterest income	1,866	2,538	6,048	5,470	2,343	1,902
Noninterest expense:						
Salaries and employee benefits	17,353	14,719	46,098	42,037	16,502	13,712
Data processing and network expense	1,284	1,256	3,748	3,110		
Occupancy and equipment expense	2,925	2,232	8,410	5,935	3,045	2,633
Legal and professional	2,001	1,353	5,478	5,100	1,385	1,930
Data processing and network expense					1,418	1,203
Regulatory assessments					980	666

Advertising and marketing					355	686
Software purchases and maintenance					817	352
Loan operations	272	284	539	844	226	(35)
Advertising and marketing	515	438	2,013	1,332		
Telephone and communications	117	122	385	321	134	139
Software purchases and maintenance	729	318	1,536	717		
Regulatory assessments	532	1,000	1,656	2,601		
Loss on sale of other real estate owned	—	—	—	350		
Other	1,777	1,006	3,521	3,335	1,052	758
Total noninterest expense	27,505	22,728	73,384	65,682	25,914	22,044
Net income before income tax expense	7,009	8,265	29,638	13,841	12,948	11,488
Income tax expense	1,431	1,495	5,926	2,707	2,581	2,245
Net income	5,578	6,770	23,712	11,134	10,367	9,243
Preferred stock dividends declared	1,184	—	3,539	—	1,171	1,171
Net income available to common shareholders	$ 4,394	$ 6,770	$ 20,173	$ 11,134	$ 9,196	$ 8,072
Earnings per common share:						
Basic earnings per share	$ 0.32	$ 0.50	$ 1.49	$ 0.83	$ 0.68	$ 0.60
Diluted earnings per share	$ 0.32	$ 0.49	$ 1.41	$ 0.81	$ 0.61	$ 0.55

The accompanying notes are an integral part of these consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
(Dollars in thousands)	2023	2022	2023	2022	2024	2023
Net Income	$ 5,578	$ 6,770	$ 23,712	$ 11,134	$ 10,367	$ 9,243
Other comprehensive income (loss):						

Unrealized loss on securities:						
Unrealized holding gain (loss) arising during the period	353	(2,799)	(2,861)	(6,084)		
Unrealized holding loss arising during the period					(1,082)	(1,245)
Reclassification for net gains realized through the sale of securities	(364)	—	(461)	—	(157)	(97)
Income tax benefit	3	588	698	1,278	260	282
Other comprehensive loss on securities	(8)	(2,211)	(2,624)	(4,806)	(979)	(1,060)
Unrealized gain (loss) on derivatives:						
Gain on termination of derivative instruments	—	3,025	5,007	3,025		
Unrealized gain on derivatives:						
Unrealized holding gain arising during the period					4,135	1,531
Reclassification adjustment for accretion of gain on terminated cash flow hedges recorded in interest expense during the period	(450)	(92)	(1,219)	(195)	(445)	(206)
Income tax benefit (expense)	94	(616)	(796)	(594)		
Other comprehensive (loss) income on derivatives	(356)	2,317	2,992	2,236		
Total other comprehensive (loss) income	(364)	106	368	(2,570)		
Income tax expense					(775)	(278)
Other comprehensive income on derivatives					2,915	1,047
Total other comprehensive income (loss)					1,936	(13)
Total comprehensive income	$ 5,214	$ 6,876	$ 24,080	$ 8,564	$ 12,303	$ 9,230

The accompanying notes are an integral part of these consolidated financial statements.

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THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

Accumulated	Accumulated

(Dollars in thousands)	Preferred Stock Series A	Preferred Stock Series B	Common Stock Voting	Common Stock Non-Voting	Additional Paid in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2021	$ —	$ —	$ 13,482	$ —	$ 249,202	$ 36,029	$ 1,393	$ (1,099)	$ 299,007
Net income	—	—	—	—	—	11,134	—	—	11,134
Share-based compensation	—	—	—	—	982	—	—	—	982
Stock options exercised	—	—	47	—	625	—	—	—	672
Preferred stock issued, private placement	69	—	—	—	66,204	—	—	—	66,273
Issuance of common stock to ESOP	—	—	36	—	820	—	—	—	856
Restricted stock grants	—	—	35	—	(35)	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	(2,570)	—	(2,570)
Balance, September 30, 2022	$ 69	$ —	$ 13,600	$ —	$ 317,798	$ 47,163	$ (1,177)	$ (1,099)	$ 376,354

	Preferred Stock Series A	Preferred Stock Series B	Common Stock Voting	Common Stock Non-Voting	Additional Paid in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total

Balance, December 31, 2022	$ 69	$—	$ 13,610	$—	$ 318,033	$ 53,270	$ (2,103)	$ (1,099)	$ 381,780	$ 69	$ —	$ 13,610	$ —	$ 318,033	$ 53,270	$ (2,103)	$ (1,099)	$ 381,780
Adoption of ASC 326, allowance for credit loss adjustment, net of tax	—	—	—	—	—	(3,160)	—	—	(3,160)	—	—	—	—	—	(3,160)	—	—	(3,160)
Net income	—	—	—	—	—	23,712	—	—	23,712	—	—	—	—	—	9,243	—	—	9,243
Share-based compensation	—	—	—	—	1,135	—	—	—	1,135	—	—	—	—	365	—	—	—	365
Warrants exercised	—	—	4	—	43	—	—	—	47									
Restricted stock grants										—	—	48	—	(48)	—	—	—	—
Other comprehensive loss, net of tax										—	—	—	—	—	—	(13)	—	(13)
Preferred dividends declared - Series A, $16.88 per share										—	—	—	—	—	(1,171)	—	—	(1,171)
Balance, March 31, 2023										$ 69	$ —	$ 13,658	$ —	$ 318,350	$ 58,182	$ (2,116)	$ (1,099)	$ 387,044
Balance, December 31, 2023										$ 69	$ —	$ 13,683	$ —	$ 319,613	$ 78,775	$ 933	$ (1,099)	$ 411,974
Net income										—	—	—	—	—	10,367	—	—	10,367
Share-based compensation										—	—	—	—	356	—	—	—	356
Stock options exercised	—	—	1	—	(1)	—	—	—	—	—	—	17	—	154	—	—	—	171
Restricted stock grants	—	—	76	—	(76)	—	—	—	—	—	—	32	—	(32)	—	—	—	—

Restricted stock forfeited or withheld to satisfy tax obligations	—	—	(12)	—	—	—	—	—	(12)	—	—	(1)	—	(14)	—	—	—	(15)
Other comprehensive income, net of tax	—	—	—	—	—	—	368	—	368	—	—	—	—	—	—	1,936	—	1,936
Preferred dividends declared - Series A, $51.00 per share	—	—	—	—	—	(3,539)	—	—	(3,539)									
Balance, September 30, 2023	$ 69	$ —	$ 13,679	$ —	$ 319,134	$ 70,283	$ (1,735)	$ (1,099)	$ 400,331									
Preferred dividends declared - Series A, $16.88 per share										—	—	—	—	—	(1,171)	—	—	(1,171)
Balance, March 31, 2024										$ 69	$ —	$ 13,731	$ —	$ 320,077	$ 87,971	$ 2,869	$ (1,099)	$ 423,618

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

	Preferred Stock		Common Stock		Additional Paid in	Retained	Accumulated Other Comprehensive	Treasury	
(Dollars in thousands)	**Series A**	**Series B**	**Voting**	**Non-Voting**	**Capital**	**Earnings**	**Income (Loss)**	**Stock**	**Total**
Balance, June 30, 2022	$ —	$ —	$ 13,543	$ —	$ 250,413	$ 40,393	$ (1,283)	$ (1,099)	$ 301,967
Net income	—	—	—	—	—	6,770	—	—	6,770
Share-based compensation	—	—	—	—	373	—	—	—	373
Stock options exercised	—	—	39	—	517	—	—	—	556
Preferred stock issued, private placement	69	—	—	—	66,204	—	—	—	66,273
Issuance of common stock to ESOP	—	—	14	—	295	—	—	—	309
Restricted stock grants	—	—	4	—	(4)	—	—	—	—

Other comprehensive income, net of tax	—	—	—	—	—	—	106	—	106
Balance, September 30, 2022	$ 69	$ —	$ 13,600	$ —	$ 317,798	$ 47,163	$ (1,177)	$ (1,099)	$ 376,354
Balance, June 30, 2023	$ 69	$ —	$ 13,688	$ —	$ 318,769	$ 65,889	$ (1,371)	$ (1,099)	$ 395,945
Net income	—	—	—	—	—	5,578	—	—	5,578
Share-based compensation	—	—	—	—	368	—	—	—	368
Stock options exercised	—	—	1	—	(1)	—	—	—	—
Restricted stock grants	—	—	2	—	(2)	—	—	—	—
Restricted stock forfeited or withheld to satisfy tax obligations	—	—	(12)	—	—	—	—	—	(12)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(364)	—	(364)
Preferred dividends declared - Series A, $17.06 per share	—	—	—	—	—	(1,184)	—	—	(1,184)
Balance, September 30, 2023	$ 69	$ —	$ 13,679	$ —	$ 319,134	$ 70,283	$ (1,735)	$ (1,099)	$ 400,331

The accompanying notes are an integral part of these consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
(Dollars in thousands)	**2023**	**2022**	**2024**	**2023**
Cash flows from operating activities:				
Net income	$ 23,712	$ 11,134	$ 10,367	$ 9,243
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses	5,220	10,250	1,560	1,200
Changes in deferred tax, net	(1,290)	(3,291)		
Share-based compensation expense	1,135	982	356	365
Gain on sale of investment securities available-for-sale	(461)	—	(157)	(97)
Gain on sale of SBA loans	(114)	(827)	(30)	—
Loss on sale of other real estate owned	—	350		
(Accretion) Amortization of premium on securities, net	(81)	265		
(Accretion) amortization of premium on securities, net			(228)	133
Accretion of gain on terminated cash flow hedges	(1,219)	(195)	(445)	(206)
Accretion of SBA Paycheck Protection Program Fees	(24)	(1,984)	—	(13)

Amortization of subordinated debt origination costs	154	—	51	51
Depreciation, amortization and accretion	42	(686)	(288)	222
Earnings on bank-owned life insurance	(1,542)	(815)	(582)	(475)
Net change in operating leases	428	141	78	180
Net change in derivative assets and liabilities	(378)	6	(486)	1
Changes in operating assets and liabilities:				
Accrued interest receivable and other assets	(5,496)	(6,592)	(3,670)	2,228
Accrued interest payable and other liabilities	1,458	6,876	2,901	(4,853)
Net cash provided by operating activities	21,544	15,614	9,427	7,979
Cash flows from investing activities:				
Net purchase of non-marketable equity securities	(1,181)	(19,609)	(54)	(133)
Investment securities available-for-sale activity:				
Purchases	(1,743,229)	(1,741,957)	(76,914)	(10,117)
Sales	13,129	—	5,300	3,880
Maturities, calls and principal paydowns	1,702,352	1,601,605	2,555	551
Proceeds from termination of derivative instruments	5,007	3,025		
Net originations on loans held for investment	(449,250)	(899,236)	(106,136)	(104,713)
Net additions to bank premises and equipment	(3,015)	(8,189)		
Proceeds from sales of foreclosed assets	—	1,326		
Net deletions (additions) to bank premises and equipment			753	(709)
Purchase of bank owned life insurance	(3,000)	(32,921)	—	(3,000)
Net cash used in investing activities	(479,187)	(1,095,956)	(174,496)	(114,241)
Cash flows from financing activities:				
Net increase in deposits	410,676	843,294	247,525	86,387
Net repayment of FHLB Advances	—	(50,000)		
Net proceeds from subordinated debt issuance	—	80,195		
Proceeds from line of credit - senior debt	5,000	29,875	5,000	—
Net proceeds from issuance of preferred stock - private placement	—	66,273		
Issuance of common stock to ESOP	—	856		
Proceeds from stock warrants exercised	47	—		
Forfeiture of restricted stock grants withheld to satisfy tax obligations	(12)	—	(15)	—
Proceeds from stock options exercised	—	672	171	—
Dividends paid on Series A preferred stock	(3,552)	—	(1,197)	(1,197)
Net cash provided by financing activities	412,159	971,165	251,484	85,190
Change in cash and cash equivalents	(45,484)	(109,177)	86,415	(21,072)
Cash and cash equivalents at beginning of period	332,014	327,025	411,845	332,014
Cash and cash equivalents at end of period	$ 286,530	$ 217,848	$ 498,260	$ 310,942

The accompanying notes are an integral part of these consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(unaudited)

(Dollars in thousands)	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	$ 85,510	$ 16,004	$ 41,664	$ 25,458
Cash paid for income taxes	$ 6,217	$ 5,250		
Supplemental Disclosure of Noncash Investing and Financing Activities:				
Right of use lease assets obtained in exchange for operating lease liabilities	$ 4,902	$ 19,142	$ —	$ 1,907
Adjustment to allowance for credit losses for adoption of ASC 326, net of tax	$ 3,160	$ —		

The accompanying notes are an integral part of these consolidated financial statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Third Coast Bancshares, Inc. ("Bancshares"), through its subsidiary, Third Coast Bank, SSB, a Texas state savings bank banking association (the "Bank"), and the Bank's subsidiary, Third Coast Commercial Capital, Inc. ("TCCC"), (collectively known as the "Company," "we," "us" or "our"), provide general consumer and commercial banking services through 16 17 branch offices located in the Greater Houston, Dallas-Fort Worth, and Austin-San Antonio markets. Branch locations include: Humble, Kingwood, Beaumont, Port Arthur, Houston-Galleria, Conroe, Pearland, Lake Jackson, Dallas, Fort Worth, Plano, Detroit, La Vernia, Nixon, Austin, Georgetown and San Antonio. The Bank is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, and investment and liquidity management activities. The Bank's primary deposit products are demand deposits, money market accounts and certificates of deposit; its primary lending products are commercial business and real estate, residential construction, real estate mortgage and consumer loans. TCCC engages in accounts receivable factoring activities. The Company is subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Presentation

The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, reporting practices prescribed by the banking industry, and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the years ended December 31, 2022 December 31, 2023 and 2021 2022 included in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2023 March 7, 2024. The December 31, 2022 December 31, 2023 consolidated balance sheet has been derived from the audited financial statements for the year ended December 31, 2022 December 31, 2023.

In the opinion of management, all adjustments that were recurring in nature and considered necessary have been included for fair presentation of the Company's financial position and results of operations. Operating results for the nine three months ended September 30, 2023 March 31, 2024 are not necessarily indicative of results that may be expected for the full year ending December 31, 2023 December 31, 2024. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are included in the financial statements include the allowance for credit losses, the valuation of goodwill and other intangible assets and the fair value of financial instruments.

The accompanying unaudited consolidated financial statements include the accounts of Bancshares, the Bank, and TCCC. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions that have initial maturities of less than 90 days when acquired by the Company and federal funds sold.

Investment Securities Available-For-Sale

Investment securities available-for-sale consist of bonds, notes, and debentures that are not classified as trading securities or held-to-maturity securities. Investment securities available-for-sale are held for indefinite periods of time and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, (loss), net of tax. Management determines the appropriate classification of investment securities at the time of purchase.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for credit losses ("ACL"). Interest on loans is recognized using the effective interest method and includes amortization of deferred loan origination fees and costs over the life of the loans.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

From time to time, the Company modifies its loan agreement with a borrower. The loan refinancing and restructuring guidance is considered for each loan modified to determine whether a modification results in a new loan or a continuation of an existing loan. In some cases, the loan may be considered restructured if the borrower is experiencing financial difficulties and the loan has been modified. Loan modifications to borrowers experiencing financial difficulty may be in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension or a combination thereof, among other things.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. 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 real estate portfolio are generally diverse in terms of type and geographic location primarily throughout the Greater Houston, Dallas, and Austin-San Antonio metropolitan areas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company's risk.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. Agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farmland, cattle, or equipment, and include personal guarantees.

The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk.

Allowance for Credit Losses

As further discussed below, we adopted Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," on January 1, 2023. Accounting Standards Codification ("ASC") Topic 326 ("ASC 326") replaced the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new current expected credit loss ("CECL") model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance sheet credit exposures based on historical experience, current conditions, and reasonable and supportable forecasts. In connection with the adoption of ASC 326, we revised certain accounting policies and implemented certain accounting policy elections. The revised accounting policies are described below.

Allowance For Credit Losses - Available-for-Sale Securities: For available-for-sale securities in an unrealized loss position, we first assess whether (i) we intend to sell or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Adjustments to the allowance are reported in our income statement as a component of provision for credit loss expense.

Management has made the accounting policy election to exclude accrued interest receivable on available-for-sale securities from the estimate of credit losses. Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met. Further information regarding our policies and methodology used to estimate the allowance for credit losses on available-for-sale securities is presented in Note 2 - Investment Securities Available-for-Sale.

Prior to the adoption of ASU 2016-13, declines in the fair value of available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2023, management considered, among other things, (i) the length of time and the extent to which the fair value had 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 fair value.

Allowance for Credit Losses - Loans: The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in our income statement as a component of provision for credit loss expense. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Further information regarding our policies and methodology used to estimate the allowance for credit losses on loans is presented in Note 3 - Loans and Allowance for Credit Losses.

Allowance For Credit Losses - Off-Balance Sheet Credit Exposures: The allowance for credit losses on off-balance sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of provision for credit loss expense. Further information regarding our policies and methodology used to estimate the allowance for credit losses on off-balance sheet credit exposures is presented in Note 10 - Financial Instruments with Off-Balance Sheet Risk.

Servicing Assets

Certain Small Business Administration ("SBA") loans are originated and intended for sale in the secondary market. They are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains or losses recognized upon the sale of loans are determined on a specific identification basis and are included in non-interest income. SBA loan transfers are accounted for as sales when control over the loan has been surrendered. Control over such loans is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company applies guidance issued by the Financial Accounting Standards Board (the "FASB") that clarifies the accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities, in which, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. To calculate the gain or loss on sale of loans, the Company's investment in the loan is allocated among the retained portion of the loan, the servicing retained, the interest-only strip and the sold portion of the loan, based on the relative fair value of each portion. The gain or loss on the sold portion of the loan is recognized based on the difference between the sale proceeds and the allocated investment. As a result of the relative fair value allocation, the carrying value of the retained portion is discounted, with the discount accreted to interest income over the life of the loan.

Servicing assets are amortized over an estimated life using a method that is in proportion to the estimated future servicing income. In the event future prepayments exceed management's estimates and future cash flows are inadequate to cover the servicing asset, additional amortization would be recognized. The portion of servicing fees in excess of the contracted servicing fees is reflected as interest-only strips receivable, which are classified as available for sale and are carried at fair value. At March 31, 2024 and December 31, 2023, the Company was servicing loans previously sold of approximately $5.2 million and $4.8 million, respectively. The related servicing assets receivable were not material to the consolidated financial statements at March 31, 2024 and December 31, 2023.

Premises and Equipment

Buildings, leasehold improvements, furniture and fixtures, and equipment are carried at cost, less accumulated depreciation, computed principally by the straight-line method based on the estimated useful lives of the related asset. Land is not depreciated. Major replacements and betterments are capitalized while maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in income as incurred. A small portion of the building's floor space is currently leased out to tenants and recognized in income when earned.

Operating Leases

The Company leases certain office space, stand-alone buildings, and equipment which are recognized as operating lease right-of-use assets and operating lease liabilities in the consolidated balance sheets. Lease liabilities represent the Company's liability to make lease payments under these leases on a discounted basis and are amortized on a straight-line basis over the lease term for each related lease agreement. Right-of-use assets represent the Company's right to use, or control the use of, leased assets for their lease term and are amortized over the lease term of the related lease agreement. The Company does not recognize short-term operating leases on the consolidated balance sheets. A short-term lease has a term of 12 months or less and does not have a purchase option that is likely to be exercised.

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and are initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for credit losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. Operating and holding expenses of such properties, net of related income, are included in loan operations and other real estate owned expense on the accompanying consolidated statements of income. Gains or losses on dispositions are reflected in income as incurred. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had no other real estate owned.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain employees. These bank-owned life insurance ("BOLI") policies are recorded in the accompanying consolidated balance sheets at their cash surrender values. Income from these policies and changes in the cash surrender values are reported in the accompanying consolidated statements of income.

Non-Marketable Securities

The Company has restricted non-marketable securities which represent investment in Federal Home Loan Bank ("FHLB") stock, Federal Reserve Bank ("FRB") stock and Texas Independent Bank ("TIB") stock. These investments are not readily marketable and are carried at cost, which approximates fair value. As a member of the FHLB, FRB and TIB systems, the Company is required to maintain minimum level of investments in stock, based on the level of borrowings and other factors. Both cash and stock dividends are reported as income.

Goodwill and Core Deposit Intangibles

Goodwill represents the excess of cost over fair value of net assets acquired in a business combination. Goodwill is not amortized and is evaluated for impairment at least annually and on an interim basis if an event triggering impairment may have occurred.

Core deposit intangibles are acquired customer relationships arising from bank acquisitions and are amortized on a straight-line basis over their estimated useful life of ten years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of assets may not be recoverable from future undiscounted cash flows.

Derivative Financial Instruments

Derivatives are recorded on our consolidated balance sheets as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of the derivatives and whether the derivatives qualify for hedge accounting. At inception of the derivative, we designate the derivative as one of two types based on our intention and belief as to the likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset or liability ("Fair Value Hedge"), and (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("Cash Flow Hedge").

For certain Fair Value Hedges, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in noninterest income or expense in our consolidated statements of income. Fair Value Hedge instruments offered by the Company which are included in noninterest income or expense include pass-through interest rate swap products to qualified commercial banking customers. Under this type of contract, the Company enters into an interest rate swap contract with a customer, while at the same time entering into an offsetting interest rate swap contract with a financial institution counterparty. Changes in the fair value of the underlying derivatives are designed to offset each other so they would not significantly impact the Company's operating results.

The Company also enters into Risk Participation Agreements ("RPAs") with other banks, primarily to share a portion of the risk of borrower default related to the interest rate swap on certain participated loans. Gains or losses on these types of derivatives are also included in noninterest income in our consolidated statements of income.

A one-way interest rate swap is another type of Fair Value Hedge instrument offered to our customers. Under this type of arrangement, the Company extends a conventional fixed-rate loan to the borrower and then subsequently hedges the interest rate risk of that loan by entering into a swap for its own balance sheet to convert the fixed-rate loan to a synthetic floating rate asset. These types of swaps lock in the Company's spread over its cost of funds for the life of the loan. The gain or loss on this type of derivative is included in interest income in our consolidated statements of income.

For a Cash Flow Hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Cash Flow Hedge instruments include pay-fixed interest rate swap agreements with a financial institution counterparty.

Net cash settlements on cash flow hedges are recorded in interest expense in the consolidated statements of income. Net cash settlements on one-way swap derivatives are recorded in interest income in the consolidated statements of income. Net cash settlements on pass-through interest rate swaps and RPAs are reported in noninterest income in the consolidated statements of income. Cash flows on hedges are classified in the cash flow statement the same as the items being hedged.

When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains and/or losses accumulated in other comprehensive income are amortized into earnings over the same period which the hedged transaction will affect earnings.

We formally document the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions, at the inception of the hedging relationship. This documentation includes linking Cash Flow Hedges to specific assets and liabilities on the consolidated balance sheets or to forecasted transactions.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Adjustments identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. Acquisition related costs are expensed as incurred.

Comprehensive Income

Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Other than net income, comprehensive income includes the net effect of changes in the fair value of securities available-for-sale and certain derivative instruments designated as cash flow hedges.

Revenues from Contracts with Customers

The Company's revenues from services such as deposit related fees, wire transfer fees, interchange fees on debit cards, ATM fees, and merchant fee income are presented within the service charges and fees category in the accompanying consolidated statements of income and are recognized as revenue as the Company satisfies its obligation to the customer.

Advertising and Marketing Expenses

Advertising and marketing expenses consist of the Company's advertising in its local market area and are expensed as incurred. Advertising and marketing expenses were $2.0 million and $1.3 million for the nine months ended September 30, 2023 and 2022, respectively, and $515,000 355,000 and $438,000 686,000 for the three months ended September 30, 2023 March 31, 2024 and 2022. 2023, respectively. The expenses are included within noninterest expense in the accompanying consolidated statements of income.

Income Taxes

The Company files a consolidated income tax return with its subsidiary. Federal income tax expense or benefit is allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Share-Based Compensation

Compensation expense for stock options is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options is estimated using the Black-Scholes option-pricing model.

Basic and Diluted Earnings Per Common Share

Earnings per common share is computed in accordance with ASC Topic 260, "Earnings Per Share." Basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share is computed by using the net earnings allocated to common stock plus dividends on dilutive convertible preferred stock, divided by the sum of 1) the weighted-average number of shares determined for the basic earnings per common share computation, 2) the dilutive effect of stock compensation using the treasury stock method, and 3) the dilutive effect of convertible preferred stock using the if-converted method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 16 – Earnings Per Common Share.

Reclassification

Certain amounts in prior period consolidated financial statements may have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, total assets or shareholders' equity.

Recently Adopted Accounting Standards: ASU 2016-13 - Current Expected Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. ASU 2016-13 is intended to replace the incurred loss model for loans and other financial assets with an expected loss model, which is known as the current expected credit loss, or CECL, model. The change is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. ASC 326 also made changes to the accounting for available-for-sale debt securities, specifically requiring credit losses for available-for-sale debt securities to be presented as an allowance rather than a write-down on available-for-sale debt securities.

The Company adopted ASC 326 using the modified retrospective method for financial instruments measured at amortized cost and off-balance sheet credit exposure which requires reporting periods beginning after January 1, 2023 to be presented under ASC 326 guidance while prior period amounts to continue to be reported in accordance with previously applicable inherent risk methodology. Effective January 1, 2023, the Company adopted the standard and recorded an increase in the allowance for credit losses of $4.0 million and a net after-tax adjustment to retained earnings of $3.2 million for the cumulative effect of adopting ASC 326 for its loan portfolio.

The following table illustrates the impact of ASC 326 on the allowance for credit losses by loan category at the January 1, 2023 adoption date:

	January 1, 2023		
(Dollars in thousands)	**Post-ASC 326 Adoption**	**Pre-ASC 326 Adoption**	**Impact of ASC 326 Adoption**
Real estate loans:			
Non-farm non-residential owner occupied	$ 5,097	$ 3,773	$ 1,324

Non-farm non-residential non-owner occupied	8,351	5,741	2,610
Residential	2,060	1,064	996
Construction, development & other	4,661	3,053	1,608
Farmland	94	82	12
Commercial & industrial	13,366	16,269	(2,903)
Consumer	10	6	4
Municipal and other	712	363	349
	$ 34,351	$ 30,351	$ 4,000

Recently Adopted Accounting Standards: ASU 2022-02 - Troubled Debt Restructurings and Vintage Disclosures

The Company adopted ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures" on January 1, 2023. The amendments in this update eliminate the accounting guidance for troubled debt restructurings ("TDRs") by creditors in Subtopic 310-40, "Receivables-Troubled Debt Restructurings by Creditors," while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan.

The amendments of this update also require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments-Credit Losses-Measured at Amortized Cost." Gross write-off information must be included in the vintage disclosures and include the amortized cost basis of the financing receivable by credit-quality indicator and the class of the financing receivable by year or origination. See Note 3 - Loans and Allowance for Credit Losses for the vintage disclosures.

Recently Issued Accounting Standards - Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 720), Improvements to Income Tax Disclosures." ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. The standard is not expected to have a significant impact on the Company's financial statements.

2. Investment Securities Available-for-Sale

Investment securities have been classified in the consolidated balance sheets according to management's intent. Management assesses securities in its investment portfolio for impairment on a quarterly basis or when events or circumstances suggest that the carrying amount of an investment may be impaired. In accordance with ASC 326, available-for-sale securities are evaluated as of each reporting date when the fair value is less than amortized cost, and credit losses are to be calculated individually using a discounted cash flow method through which management compares the present value of the expected cash flows with the amortized costs. An allowance for credit losses is established to reflect the credit loss component of the decline in fair value.

Factors management considers in assessing whether a discounted cash flow method evaluation is needed for a security whose fair value is less than amortized costs include: (1) management will assess whether it intends to sell, or if it is more likely than not it will be required to sell, the security before recovery of the amortized cost basis; (2) the length of time (duration) and the extent (severity) to which the market value has been less than costs; (3) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, such as changes in technology that impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; and (4) changes in the rating of the security by a rating agency.

September 30, 2023 and December 31, 2022

The carrying amount of securities and their approximate fair values as of September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023 are as follows:

(Dollars in thousands)	September 30, 2023					March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:									
Mortgage-backed securities and other agency obligations	$ 26,601	$ —	$ 1,487	$ —	$ 25,114				
U.S. Treasury bonds	100,055	—	258	—	99,797				
U.S government and agency securities						$ 19,234	$ 34	$ 92	$ 19,176
State and municipal securities						1,000	6	—	1,006
Mortgage-backed securities and collateralized mortgage obligations						125,637	1,327	917	126,047
Corporate bonds	83,751	68	7,695	—	76,124	105,663	647	6,248	100,062
	$ 210,407	$ 68	$ 9,440	$ —	$ 201,035	$ 251,534	$ 2,014	$ 7,257	$ 246,291

(Dollars in thousands)	December 31, 2022				December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-sale:								
State and municipal securities	$ 422	$ —	$ 5	$ 417				
Mortgage-backed securities and other agency obligations	23,522	238	879	22,881				
U.S. Treasury bonds	100,567	—	2,049	98,518				
U.S. government and agency securities					$ 4,017	$ —	$ 26	$ 3,991
Mortgage-backed securities and collateralized mortgage obligations					77,703	1,599	769	78,533

Corporate bonds	57,607	59	3,415	54,251	100,371	861	5,669	95,563
	$ 182,118	$ 297	$ 6,348	$ 176,067	$ 182,091	$ 2,460	$ 6,464	$ 178,087

Mortgage-backed securities are typically issued with stated principal amounts and are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as prepayment risk, are passed on to the certificate holder. Accordingly, the term of mortgage-backed securities approximates the term of the underlying mortgages and can vary

significantly due to prepayments. Therefore, schedules of maturities for mortgage-backed securities have been excluded from the below disclosure.

The amortized cost and estimated fair value of securities available-for-sale at September 30, 2023 March 31, 2024, by contractual maturity, are shown below.

	September 30, 2023	
	Securities Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 102,919	$ 102,666
Due from one year to five years	4,333	4,256
Due from five to ten years	71,495	64,484
Over ten years	5,059	4,515
	183,806	175,921
Mortgage-backed securities and other agency obligations	26,601	25,114
	$ 210,407	$ 201,035

	March 31, 2024	
	Securities Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,946	$ 2,962
Due from one year to five years	10,368	10,483
Due from five to ten years	93,349	87,623
Over ten years	19,234	19,176
	125,897	120,244
Mortgage-backed securities and collateralized mortgage obligations	125,637	126,047
	$ 251,534	$ 246,291

The following table summarizes securities with unrealized losses at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

September 30, 2023	March 31, 2024

(Dollars in thousands)	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Total Unrealized Loss	Estimated Fair Value	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Total Unrealized Loss	Estimated Fair Value
Securities available-for-sale:								
Mortgage-backed securities and other agency obligations	$ 46	$ 1,441	$ 1,487	$ 25,114				
U.S. Treasury bonds	—	258	258	99,797				
U.S. government and agency securities					$ 92	$ —	$ 92	$ 8,903
Mortgage-backed securities and collateralized mortgage obligations					—	917	917	15,322
Corporate bonds	2,604	5,091	7,695	72,130	546	5,702	6,248	72,682
	$ 2,650	$ 6,790	$ 9,440	$ 197,041	$ 638	$ 6,619	$ 7,257	$ 96,907

	December 31, 2022				December 31, 2023			
(Dollars in thousands)	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Total Unrealized Loss	Estimated Fair Value	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Total Unrealized Loss	Estimated Fair Value
Securities available-for-sale:								
State and municipal securities	$ 5	$ —	$ 5	$ 417				
Mortgage-backed securities and other agency obligations	879	—	879	18,376				
U.S. Treasury bonds	2,049	—	2,049	98,518				
U.S. government and agency securities					$ 26	$ —	$ 26	$ 3,991
Mortgage-backed securities and collateralized mortgage obligations					—	769	769	16,001
Corporate bonds	3,415	—	3,415	50,413	128	5,541	5,669	64,143
	$ 6,348	$ —	$ 6,348	$ 167,724	$ 154	$ 6,310	$ 6,464	$ 84,135

There were 42 39 investments in an unrealized loss position at September 30, 2023 March 31, 2024, and 35 37 investments in an unrealized loss position at December 31, 2022 December 31, 2023. As of September 30, 2023 March 31, 2024, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available-for-sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. In addition, a portion of our investments are guaranteed by the U.S. Government, Treasury, or municipalities. Furthermore, 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. The unrealized losses are 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 securities approach their maturity date or repricing date or if market yields for such investments decline.

There were no securities pledged as collateral as of September 30, 2023 and December 31, 2022. 15

There were no securities pledged as collateral as of March 31, 2024 and December 31, 2023.

Proceeds from the sales of securities and their gross gains for the three months ended March 31, 2024 were $5.3 million and $157,000, respectively. For the three months ended March 31, 2023, proceeds from the sales of securities and their gross gains were $3.9 million and $97,000, respectively. No losses were recorded on the sales of securities for the three months ended March 31, 2024 and 2023.

3. Loans and Allowance for Credit Losses

Loans in the accompanying consolidated balance sheets consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Real estate loans:				
Non-farm non-residential owner occupied	$ 517,917	$ 493,791	$ 510,266	$ 520,822
Non-farm non-residential non-owner occupied	566,973	506,012	598,311	586,626
Residential	326,354	308,775	345,890	342,589
Construction, development & other	655,822	567,851	725,176	693,553
Farmland	30,646	22,820	29,706	30,396
Commercial & industrial	1,288,320	1,058,910	1,350,289	1,263,077
Consumer	2,665	3,872	2,382	2,555
Municipal and other	171,256	145,520	184,158	199,170
	3,559,953	3,107,551	3,746,178	3,638,788
Allowance for credit losses	(38,067)	(30,351)	(38,140)	(37,022)
Loans, net	$ 3,521,886	$ 3,077,200	$ 3,708,038	$ 3,601,766

Total loans are presented net of unaccreted discounts and net deferred fees totaling $11.7 13.1 million and $7.8 11.8 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Non-accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. As mentioned in Note 1, the accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due.

Non-accrual loans and accruing loans past due more than 90 days segregated by class of loans were as follows:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023

(Dollars in thousands)	Non-accrual	Accruing loans past due more than 90 days	Non-accrual	Accruing loans past due more than 90 days	Non-accrual	Accruing loans past due more than 90 days	Non-accrual	Accruing loans past due more than 90 days
Real estate loans:								
Non-farm non-residential owner occupied	$ 978	$ —	$ 1,699	$ 157	$ 2,369	$ 2,894	$ 1,211	$ —
Non-farm non-residential non-owner occupied	1,235	—	296	—	1,225	—	1,235	—
Residential	3,058	—	513	—	2,837	293	2,938	—
Construction, development & other	567	2,395	45	—	406	427	247	—
Commercial & industrial	8,125	47	8,390	361	11,293	—	11,018	670
Consumer	—	—	20	—				
	$ 13,963	$ 2,442	$ 10,963	$ 518	$ 18,130	$ 3,614	$ 16,649	$ 670

Of the non-accrual loans disclosed above, $4.9 million and $8.8 million did not have an allowance for credit loss at March 31, 2024 and December 31, 2023, respectively.

As of September 30, 2023March 31, 2024 and 2022,2023, the amount of income that would have been accrued for loans on non-accrual was approximately $575,000324,000 and $446,000339,000, respectively.

An age analysis of past due loans, segregated by class of loans, was as follows:

	September 30, 2023						March 31, 2024					
(Dollars in thousands)	30-59 days	60-89 days	Over 90 days	Total past due	Total current	Total loans	30-59 days	60-89 days	Over 90 days	Total past due	Total current	Total loans
Real estate loans:												
Non-farm non-residential owner occupied	26 $ 5	$ —	97 $ 8	1, 24 $ 3	51 6,6 $ 74	51 7,9 $ 17	$ 3,068	$ —	$ 5,263	$ 8,331	$ 501,935	$ 510,266

Non-farm non-residential non-owner occupied	2,949	—	1,235	4,184	562,789	566,973	—	—	1,225	1,225	597,086	598,311
Residential	—	—	3,058	3,058	323,296	326,354	461	—	3,130	3,591	342,299	345,890
Construction, development & other	136	—	2,962	3,098	652,724	655,822	3,445	—	833	4,278	720,898	725,176
Farmland	—	—	—	—	30,646	30,646	—	—	—	—	29,706	29,706
Commercial & industrial	7,237	502	8,172	15,911	1,272,409	1,288,320	1,738	6,280	11,293	19,311	1,330,978	1,350,289
Consumer	—	—	—	—	2,665	2,665	—	1	—	1	2,381	2,382
Municipal and other	110	—	—	110	171,146	171,256	73	41	—	114	184,044	184,158
	$ 10,697	$ 502	$ 16,405	$ 27,604	$ 3,532,349	$ 3,559,953	$ 8,785	$ 6,322	$ 21,744	$ 36,851	$ 3,709,327	$ 3,746,178

	December 31, 2022						**December 31, 2023**					
(Dollars in thousands)	**30-59 days**	**60-89 days**	**Over 90 days**	**Total past due**	**Total current**	**Total loans**	**30-59 days**	**60-89 days**	**Over 90 days**	**Total past due**	**Total current**	**Total loans**
Real estate loans:												

Non-farm non-residential owner occupied	$ 2,996	$ —	$ 1,856	$ 4,852	$ 488,939	$ 493,791	$ —	$ —	$ 1,211	$ 1,211	$ 519,611	$ 520,822
Non-farm non-residential non-owner occupied	132	—	296	428	505,584	506,012	—	212	1,235	1,447	585,179	586,626
Residential	2,356	—	513	2,869	305,906	308,775	312	495	2,938	3,745	338,844	342,589
Construction, development & other	130	—	45	175	567,676	567,851	428	177	247	852	692,701	693,553
Farmland	—	—	—	—	22,820	22,820	—	—	—	—	30,396	30,396
Commercial & industrial	791	613	8,751	10,155	1,048,755	1,058,910	4,467	659	11,688	16,814	1,246,263	1,263,077
Consumer	—	—	20	20	3,852	3,872	2	—	—	2	2,553	2,555
Municipal and other	162	—	—	162	145,358	145,520	88	—	—	88	199,082	199,170
	$ 6,567	$ 613	$ 11,481	$ 18,661	$ 3,088,890	$ 3,107,551	$ 5,297	$ 1,543	$ 17,319	$ 24,159	$ 3,614,629	$ 3,638,788

Restructured Loans and Loan Modifications

Pursuant to the adoption of ASU 2022-02 effective January 1, 2023, the Company prospectively discontinued the recognition and measurement of TDRs. This guidance eliminated TDR accounting for loans in which the borrower was experiencing financial difficulty and the creditor was granted a concession. A loan is now considered modified under ASU 2022-02 if the borrower is experiencing financial difficulties and the loan has been modified. Modifications may include interest rate reductions or below market interest rates, restructuring amortization schedules and other actions intended to minimize potential losses.

For the three months ended March 31, 2024, no loans were modified for borrowers experiencing financial difficulty.

The table below presents the amortized cost basis of loans at period end that were both experiencing financial difficulty and modified during the nine months year ended September 30, 2023 December 31, 2023, by class and type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented.

(Dollars in thousands)	September 30, 2023 Loan modifications Number of loans	Post-restructured recorded investment	Principal Forgiveness	Adjusted interest rate	Payment deferral	Combined rate and payment deferral	Total Class of Financing Receivable
Commercial & industrial	3	$ 6,970	$ —	$ —	$ 63	$ 63	0.54 %

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Notes to Unaudited Consolidated Financial Statements

September 30, 2023 and December 31, 2022

(Dollars in thousands)	December 31, 2023 Loan modifications Number of loans	Post-restructured recorded investment	Principal Forgiveness	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Commercial & industrial	3	$ 6,970	$ —	$ —	$ 63	$ 63

On an ongoing basis, the performance of modified loans for borrowers experiencing financial difficulty is monitored for subsequent payment default. Payment default is recognized when the borrower is 90 days or more past due. As of September 30, 2023 March 31, 2024 and December 31, 2023, there were no modified loans in the previous twelve-month period that were in default.

Impaired Loans 17

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Prior Notes to the adoption of ASC Topic 326 on January 1, 2023, loans were reported as impaired when, based on then current information Unaudited Consolidated Financial Statements

March 31, 2024 and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan was impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the fair value of collateral if repayment was expected solely from the collateral. The following tables present impaired loans by class of loans as of December 31, 2022 as determined under ASC 310 prior to adoption of ASC 326:December 31, 2023

(Dollars in thousands)	December 31, 2022 Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Real estate loans:						
Non-farm non-residential owner occupied	$ 1,694	$ 1,699	$ —	$ 1,699	$ —	$ 1,751
Non-farm non-residential non-owner occupied	5,497	5,496	—	5,496	—	5,563
Residential	516	513	—	513	—	524
Construction, development & other	40	40	—	40	—	51
Commercial & industrial	11,942	7,734	4,213	11,947	1,600	10,749
Consumer	19	20	—	20	—	21

	$ 19,708	$ 15,502	$ 4,213	$ 19,715	$ 1,600	$ 18,659

Interest payments received on impaired loans are recorded as interest income at December 31, 2022 unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. Interest income collected on impaired loans was approximately $278,000 for the nine months ended September 30, 2022.

Credit Quality Indicators

Credit Quality Indicators. From a credit risk standpoint, the Company classifies its loans in one of six categories: (i) pass, (ii) special mention, (iii) substandard, (iv) purchased credit impaired, (v) doubtful, or (vi) loss.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

(i) The Company has several pass credit grades that are assigned to loans based on varying levels of credits, ranging from credits that are secured by cash or marketable securities, to watch credits that have all the characteristics of an acceptable credit risk but warrant more than the normal level of supervision.

(ii) Special mention loans are loans that still show sufficient cash flow to service their debt but show a declining financial trend with potential cash flow shortages if trends continue. This category should be treated as a temporary grade. If cash flow deteriorates further to become negative, then a substandard grade should be given. If cash flow trends begin to improve then an upgrade back to pass would be justified. Nonfinancial reasons for rating a credit special mention include management problems, pending litigation, an ineffective loan agreement or other material structure weakness.

(iii) A substandard loan has material weakness in the primary repayment source such as insufficient cash flow from operations to service the debt. However, other weaknesses such as limited paying capacity of the obligor or the collateral pledged could justify a substandard grade. Substandard loans must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt.

(iv) Credits purchased from third parties are recorded at their estimated fair value at the acquisition date and are classified as PCI loans if the loans reflect credit deterioration since origination and it is probable at acquisition that the Company will be unable to collect all contractually required payments (see Note 1 – Nature of Operations and Summary of Significant Accounting Policies – Certain Acquired Loans).

(v) A loan classified as doubtful has all the weaknesses of a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, non-accrual status is required on doubtful loans.

(vi) Loans classified as loss are considered uncollectable uncollectible and of such little value that their continuance as banking assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. With loans classified as loss, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified as loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification may be appropriate. However, the Company does not maintain an asset on the balance sheet if realizing its value would require long-term litigation or other lengthy recovery efforts. Losses are to be recorded in the period an obligation becomes uncollectable. uncollectible.

The following tables summarize the Company's internal ratings of its loans: 18

	September 30, 2023				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Non-farm non-residential owner occupied	$ 509,652	$ 3,716	$ 4,549	$ —	$ 517,917
Non-farm non-residential non-owner occupied	556,155	4,467	6,351	—	566,973

Residential	322,431	—	3,923	—	326,354
Construction, development & other	653,747	1,508	567	—	655,822
Farmland	30,646	—	—	—	30,646
Commercial & industrial	1,254,201	18,098	16,021	—	1,288,320
Consumer	2,665	—	—	—	2,665
Municipal and other	171,256	—	—	—	171,256
	$ 3,500,753	$ 27,789	$ 31,411	$ —	$ 3,559,953

	December 31, 2022				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Non-farm non-residential owner occupied	$ 487,633	$ 1,885	$ 4,273	$ —	$ 493,791
Non-farm non-residential non-owner occupied	498,987	228	6,797	—	506,012
Residential	307,881	—	894	—	308,775
Construction, development & other	559,186	8,620	45	—	567,851
Farmland	22,820	—	—	—	22,820
Commercial & industrial	1,051,365	2,252	5,293	—	1,058,910
Consumer	3,852	—	20	—	3,872
Municipal and other	145,520	—	—	—	145,520
	$ 3,077,244	$ 12,985	$ 17,322	$ —	$ 3,107,551

The following tables summarize the Company's internal ratings of its loans:

	March 31, 2024				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Non-farm non-residential owner occupied	$ 486,894	$ 5,626	$ 17,746	$ —	$ 510,266
Non-farm non-residential non-owner occupied	597,086	—	1,225	—	598,311
Residential	342,227	533	3,130	—	345,890
Construction, development & other	723,633	710	833	—	725,176
Farmland	28,868	—	838	—	29,706
Commercial & industrial	1,286,360	42,175	19,932	1,822	1,350,289
Consumer	2,382	—	—	—	2,382

Municipal and other	169,741	—	14,417	—	184,158
	$ 3,637,191	$ 49,044	$ 58,121	$ 1,822	$ 3,746,178

	December 31, 2023				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Non-farm non-residential owner occupied	$ 510,811	$ 5,517	$ 4,494	$ —	$ 520,822
Non-farm non-residential non-owner occupied	580,981	4,409	1,236	—	586,626
Residential	338,619	538	3,432	—	342,589
Construction, development & other	692,098	1,208	247	—	693,553
Farmland	29,547	—	849	—	30,396
Commercial & industrial	1,213,303	35,672	13,780	322	1,263,077
Consumer	2,555	—	—	—	2,555
Municipal and other	199,170	—	—	—	199,170
	$ 3,567,084	$ 47,344	$ 24,038	$ 322	$ 3,638,788

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

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March 31, 2024 and December 31, 2023

The following tables summarize the Company's loans by risk grades, loan class and vintage, at September 30, 2023 March 31, 2024 and December 31, 2022. Gross charge-offs by origination year and loan class are also presented for the nine months ended September 30, 2023 and the year ended December 31,2022. December 31, 2023:

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior Years	Revolving Loans Amortized Cost Basis	Total	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior Years	Revolving Loans Amortized Cost Basis	Total
September 30, 2023:																
March 31, 2024:																
Real estate loans:																
Non-farm non-residential owner occupied																

Pass		1	1					5								
	3	8	3	7	3	4		0								
	8,	1,	0,	2,	5,	3,		9,								
	3	6	7	3	5	3		6								
	2	4	9	0	9	5	7,63	5								
	$ 9	$ 4	$ 3	$ 5	$ 3	$ 5	$ 3	$ 2	$ 15,846	$ 38,274	$ 174,863	$ 120,725	$ 62,342	$ 67,112	$ 7,732	$ 486,894
Special		2,						3,								
Mention	3	3	9					7								
	5	6	9					1								
	5	6	5	—	—	—	—	6	146	535	2,334	2,611	—	—	—	5,626
Substandard					2,			4,								
	1	5	9		2	6		5								
	6	1	9		0	6		4								
	8	5	0	—	9	7	—	9	—	1,847	1,721	4,453	5,654	2,809	1,262	17,746
Total Non-Farm		1	1					5								
non-residential	3	8	3	7	3	4		1								
owner-	8,	4,	2,	2,	7,	4,		7,								
occupied	8	5	7	3	8	0		9								
	5	2	7	0	0	2	7,63	1								
	$ 2	$ 5	$ 8	$ 5	$ 2	$ 2	$ 3	$ 7	$ 15,992	$ 40,656	$ 178,918	$ 127,789	$ 67,996	$ 69,921	$ 8,994	$ 510,266
Non-farm non-																
residential																
non-owner																
occupied																
Pass		1	2					5								
	7	7	1	2	1	3		5								
	1,	9,	7,	9,	8,	2,		6,								
	7	8	0	4	9	1		1								
	2	9	6	7	0	4	6,94	5								
	$ 5	$ 1	$ 8	$ 9	$ 2	$ 6	$ 4	$ 5	$ 16,866	$ 119,304	$ 176,301	$ 208,466	$ 25,559	$ 43,677	$ 6,913	$ 597,086
Special	4,							4,								
Mention	2			2				4								
	5			1				6								
	3	—	—	4	—	—	—	7								
Substandard					5,	1,		6,								
					1	1		3								
		8			1	4		5								
	—	8	—	—	6	7	—	1	—	—	78	—	—	1,147	—	1,225
Total Non-Farm		1	2					5								
non-residential	7	7	1	2	2	3		6								
non owner-	5,	9,	7,	9,	4,	3,		6,								
occupied	9	9	0	6	0	2		9								
	7	7	6	9	1	9	6,94	7								
	$ 8	$ 9	$ 8	$ 3	$ 8	$ 3	$ 4	$ 3	$ 16,866	$ 119,304	$ 176,379	$ 208,466	$ 25,559	$ 44,824	$ 6,913	$ 598,311
Residential																

Pass	$ 176,761	$ 113,609	$ 188,861	$ 20,850	$ 10,417	$ 9,385	$ 2,548	$ 322,431	$ 8,569	$ 94,842	$ 113,083	$ 84,643	$ 18,929	$ 16,455	$ 5,706	$ 342,227
Special Mention									—	93	—	—	440	—	—	533
Substandard	497	2,572	844	—	—	10	—	3,923	—	2,448	248	429	—	5	—	3,130
Total Residential	$ 877,258	$ 1116,181	$ 589,705	$ 020,850	$ 710,417	$ 59,395	$ 82,548	$ 4326,354	$ 8,569	$ 97,383	$ 113,331	$ 85,072	$ 19,369	$ 16,460	$ 5,706	$ 345,890
Construction, development & other																
Pass	$ 5131,415	$ 8128,088	$ 437,884	$ 2792	$ 191	$ 7547	$ 354,930	$ 7653,747	$ 37,964	$ 150,185	$ 92,754	$ 39,018	$ 777	$ 550	$ 402,385	$ 723,633
Special Mention	—	—	1,508	—	—	—	—	1,508	—	—	—	710	—	—	—	710
Substandard	564	—	—	—	—	3	—	567	—	658	173	—	—	2	—	833
Total Construction, development & other	$ 9131,979	$ 8128,088	$ 239,392	$ 2792	$ 191	$ 0550	$ 354,930	$ 2655,822	$ 37,964	$ 150,843	$ 92,927	$ 39,728	$ 777	$ 552	$ 402,385	$ 725,176
Farmland																
Pass	$ 110,401	$ 612,276	$ 62,106	$ 4784	$ 63,656	$ 6836	$ 587	$ 630,646	$ 110	$ 10,475	$ 11,197	$ 2,037	$ 93	$ 4,370	$ 586	$ 28,868
Substandard									—	—	838	—	—	—	—	838

Total Farmland	$ 10,401	$ 12,276	$ 2,106	$ 784	$ 3,656	$ 836	$ 587	$ 30,646	$ 110	$ 10,475	$ 12,035	$ 2,037	$ 93	$ 4,370	$ 586	$ 29,706
Commercial & industrial																
Pass	$ 188,870	$ 148,172	$ 83,656	$ 17,955	$ 15,746	$ 2,300	$ 797,502	$ 1,254,201	$ 35,536	$ 179,586	$ 83,504	$ 56,470	$ 12,984	$ 13,401	$ 904,879	$ 1,286,360
Special Mention	4,477	1,469	7,509	551	24	67	4,001	18,098	3,775	308	847	23,005	—	17	14,223	42,175
Substandard	483	2,613	5,509	1,285	1,704	42	4,385	16,021	—	6,744	4,432	2,209	1,193	1,291	4,063	19,932
Doubtful									—	—	1,500	—	—	322	—	1,822
Total Commercial & industrial	$ 193,830	$ 152,254	$ 96,674	$ 19,791	$ 17,474	$ 2,409	$ 805,888	$ 1,288,320	$ 39,311	$ 186,638	$ 90,283	$ 81,684	$ 14,177	$ 15,031	$ 923,165	$ 1,350,289
Current period gross charge-offs	$ —	$ —	$ —	$ (181)	$ (28)	$ (120)	$ —	$ (329)								
Consumer																
Pass	$ 1,015	$ 735	$ 170	$ 227	$ 139	$ 36	$ 343	$ 2,665	$ 23	$ 1,002	$ 598	$ 131	$ 150	$ 139	$ 339	$ 2,382
Total Consumer	$ 1,015	$ 735	$ 170	$ 227	$ 139	$ 36	$ 343	$ 2,665	$ 23	$ 1,002	$ 598	$ 131	$ 150	$ 139	$ 339	$ 2,382
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ (19)	$ —	$ (19)								
Municipal and other																

Pass	$ 64,748	$ 17,026	$ 34,481	$ 4,611	$ 1,355	$ 84	$ 48,951	$ 171,256	$ 4,022	$ 69,254	$ 33,236	$ 37,045	$ 3,103	$ 685	$ 22,396	$ 169,741
Substandard									—	—	—	—	—	—	14,417	14,417
Total Municipal and other	$ 64,748	$ 17,026	$ 34,481	$ 4,611	$ 1,355	$ 84	$ 48,951	$ 171,256	$ 4,022	$ 69,254	$ 33,236	$ 37,045	$ 3,103	$ 685	$ 36,813	$ 184,158
Current period gross charge-offs	$ —	$ —	$ (2)	$ (2)	$ —	$ —	$ —	$ (4)								
Total Loans	$ 594,061	$ 791,064	$ 612,374	$ 149,053	$ 94,952	$ 90,625	$ 1,227,824	$ 3,559,953	$ 122,857	$ 675,555	$ 697,707	$ 581,952	$ 131,224	$ 151,982	$ 1,384,901	$ 3,746,178
Total Charge-Offs	$ —	$ —	$ (2)	$ (183)	$ (28)	$ (139)	$ —	$ (352)								

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2022	2021	2020	2019	2018	Prior Years	Revolving Loans Amortized Cost Basis	Total
December 31, 2022:								
Real estate loans:								
Non-farm non-residential owner occupied								
Pass	$ 182,294	$ 125,782	$ 78,148	$ 43,076	$ 27,010	$ 27,060	$ 4,263	$ 487,633
Special Mention	—	1,885	—	—	—	—	—	1,885
Substandard	893	473	—	2,213	419	275	—	4,273
Total Non-Farm non-residential owner-occupied	$ 183,187	$ 128,140	$ 78,148	$ 45,289	$ 27,429	$ 27,335	$ 4,263	$ 493,791

Non-farm non-residential								
non-owner occupied								
Pass	$ 188,662	$ 197,972	$ 39,065	$ 21,051	$ 20,850	$ 21,410	$ 9,977	$ 498,987
Special Mention	—	—	228	—	—	—	—	228
Substandard	192	104	—	5,200	—	1,301	—	6,797
Total Non-Farm non-residential non owner-occupied	$ 188,854	$ 198,076	$ 39,293	$ 26,251	$ 20,850	$ 22,711	$ 9,977	$ 506,012
Residential								
Pass	$ 121,652	$ 130,924	$ 23,149	$ 13,534	$ 6,115	$ 8,950	$ 3,557	$ 307,881
Substandard	—	878	—	—	—	16	—	894
Total Residential	$ 121,652	$ 131,802	$ 23,149	$ 13,534	$ 6,115	$ 8,966	$ 3,557	$ 308,775
Construction,								
development & other								
Pass	$ 113,261	$ 110,572	$ 1,236	$ 291	$ 70	$ 629	$ 333,127	$ 559,186
Special Mention	—	8,620	—	—	—	—	—	8,620
Substandard	40	—	—	—	—	5	—	45
Total Construction, development & other	$ 113,301	$ 119,192	$ 1,236	$ 291	$ 70	$ 634	$ 333,127	$ 567,851
Farmland								
Pass	$ 12,671	$ 2,736	$ 1,233	$ 3,820	$ 1,216	$ 553	$ 591	$ 22,820
Total Farmland	$ 12,671	$ 2,736	$ 1,233	$ 3,820	$ 1,216	$ 553	$ 591	$ 22,820
Commercial & industrial								
Pass	$ 402,799	$ 177,599	$ 34,531	$ 20,509	$ 4,929	$ 1,394	$ 409,604	$ 1,051,365
Special Mention	1,329	700	132	—	—	91	—	2,252
Substandard	495	1,779	1,142	1,733	120	24	—	5,293
Total Commercial & industrial	$ 404,623	$ 180,078	$ 35,805	$ 22,242	$ 5,049	$ 1,509	$ 409,604	$ 1,058,910
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ (462)	$ (752)	$ (1,214)
Consumer								
Pass	$ 1,550	$ 1,224	$ 338	$ 199	$ 25	$ 93	$ 423	$ 3,852
Substandard	—	—	—	—	—	20	—	20
Total Consumer	$ 1,550	$ 1,224	$ 338	$ 199	$ 25	$ 113	$ 423	$ 3,872
Municipal and other								
Pass	$ 75,817	$ 25,703	$ 7,542	$ 2,841	$ 412	$ —	$ 33,205	$ 145,520
Total Municipal and other	$ 75,817	$ 25,703	$ 7,542	$ 2,841	$ 412	$ —	$ 33,205	$ 145,520
Current period gross charge-offs	$ —	$ (18)	$ —	$ —	$ —	$ —	$ —	$ (18)
Total Loans	$ 1,101,655	$ 786,951	$ 186,744	$ 114,467	$ 61,166	$ 61,821	$ 794,747	$ 3,107,551
Total Charge-Offs	$ —	$ (18)	$ —	$ —	$ —	$ (462)	$ (752)	$ (1,232)

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior Years	Cost Basis	Total
December 31, 2023:								
Real estate loans:								
Non-farm non-residential								
owner occupied								
Pass	$ 55,172	$ 179,776	$ 127,020	$ 70,984	$ 33,439	$ 37,433	$ 6,987	$ 510,811
Special Mention	535	2,350	2,632	—	—	—	—	5,517
Substandard	157	41	984	—	2,190	659	463	4,494

Total Non-Farm non-residential owner-occupied	$ 55,864	$ 182,167	$ 130,636	$ 70,984	$ 35,629	$ 38,092	$ 7,450	$ 520,822
Non-farm non-residential non-owner occupied								
Pass	$ 105,084	$ 180,054	$ 212,484	$ 26,559	$ 23,112	$ 25,486	$ 8,202	$ 580,981
Special Mention	4,197	—	—	212	—	—	—	4,409
Substandard	—	88	—	—	—	1,148	—	1,236
Total Non-Farm non-residential non owner-occupied	$ 109,281	$ 180,142	$ 212,484	$ 26,771	$ 23,112	$ 26,634	$ 8,202	$ 586,626
Residential								
Pass	$ 97,867	$ 112,138	$ 86,117	$ 19,178	$ 10,027	$ 7,275	$ 6,017	$ 338,619
Special Mention	94	—	—	444	—	—	—	538
Substandard	2,734	253	437	—	—	8	—	3,432
Total Residential	$ 100,695	$ 112,391	$ 86,554	$ 19,622	$ 10,027	$ 7,283	$ 6,017	$ 342,589
Construction, development & other								
Pass	$ 136,888	$ 110,486	$ 55,938	$ 785	$ 86	$ 529	$ 387,386	$ 692,098
Special Mention	—	—	1,208	—	—	—	—	1,208
Substandard	244	—	—	—	—	3	—	247
Total Construction, development & other	$ 137,132	$ 110,486	$ 57,146	$ 785	$ 86	$ 532	$ 387,386	$ 693,553
Farmland								
Pass	$ 11,030	$ 11,328	$ 2,070	$ 96	$ 3,619	$ 818	$ 586	$ 29,547
Substandard	—	849	—	—	—	—	—	849
Total Farmland	$ 11,030	$ 12,177	$ 2,070	$ 96	$ 3,619	$ 818	$ 586	$ 30,396
Commercial & industrial								
Pass	$ 221,392	$ 49,536	$ 79,690	$ 16,843	$ 14,576	$ 1,321	$ 829,945	$ 1,213,303
Special Mention	4,284	4,068	23,916	467	21	55	2,861	35,672
Substandard	483	3,783	4,461	1,276	1,377	82	2,318	13,780
Doubtful	—	—	—	—	322	—	—	322
Total Commercial & industrial	$ 226,159	$ 57,387	$ 108,067	$ 18,586	$ 16,296	$ 1,458	$ 835,124	$ 1,263,077
Consumer								
Pass	$ 1,061	$ 670	$ 147	$ 183	$ 121	$ 33	$ 340	$ 2,555
Total Consumer	$ 1,061	$ 670	$ 147	$ 183	$ 121	$ 33	$ 340	$ 2,555
Municipal and other								
Pass	$ 86,998	$ 15,406	$ 33,060	$ 3,812	$ 1,011	$ 14	$ 58,869	$ 199,170
Total Municipal and other	$ 86,998	$ 15,406	$ 33,060	$ 3,812	$ 1,011	$ 14	$ 58,869	$ 199,170
Total Loans	$ 728,220	$ 670,826	$ 630,164	$ 140,839	$ 89,901	$ 74,864	$ 1,303,974	$ 3,638,788

The following tables summarize the Company's gross charge-offs by origination year and loan class for the three months ended March 31, 2024 and the year ended December 31,2023.

(Dollars in thousands)	2024	2023	2022	2021	2020	Prior Years	Revolving Loans Amortized Cost Basis	Total
	Gross Charge-offs by Origination Year							
March 31, 2024:								
Commercial & industrial	$ —	$ —	$ (190)	$ —	$ —	$ (622)	$ —	$ (812)
Municipal and other	—	(12)	—	(15)	—	—	—	(27)
Total Charge-Offs	$ —	$ (12)	$ (190)	$ (15)	$ —	$ (622)	$ —	$ (839)

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior Years	Revolving Loans Amortized Cost Basis	Total
	Gross Charge-offs by Origination Year							
December 31, 2023:								
Commercial & industrial	$ —	$ —	$ —	$ (181)	$ (1,523)	$ (120)	$ —	$ (1,824)
Consumer	—	—	—	—	—	(19)	—	(19)
Municipal and other	(10)	(6)	(2)	(2)	—	—	—	(20)
Total Charge-Offs	$ (10)	$ (6)	$ (2)	$ (183)	$ (1,523)	$ (139)	$ —	$ (1,863)

Allowance for Credit Losses

The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless (i) management has a reasonable expectation that a loan to an individual borrower that is experiencing financial difficulty will be modified or (ii) such extension or renewal options are not unconditionally cancellable by us and, in such cases, the borrower is likely to meet applicable conditions and likely to request extension or renewal. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts, including U.S. Unemployment, GDP and Case-Shiller U.S National Home Price Index. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in

current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Credit loss expense related to loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management’s judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, we also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. For modeling purposes, we use loan call report codes to identify the pools of loans with similar risk characteristics. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

We have elected to use the discounted cash flow ("DCF") method for estimating accumulated credit losses for all loans except for consumer loans and leases. The DCF method allows for an effective incorporation of reasonable and supportable forecasts that can be applied in a consistent and objective manner. The method also aligns well with other calculations outside the accumulated credit loss estimations which mitigate model risk in other areas such as fair value or exit price notion calculations, interest rate risk calculations, profitability analysis, asset-liability management, and other forms of cash flow analysis. We have elected to use the weighted-average remaining maturity ("WARM") method for consumer loans and leases. The long-term average loss rate is calculated and applied on a quarterly basis for the remaining life of the pool. Adjustments for economic expectations are made in the qualitative portion of the calculation. The long-term average loss rate is derived using peer data derived from the call report.

There may be certain financial assets for which the expectation of credit loss is zero after evaluating historical loss information, making necessary adjustments for current conditions and reasonable and supportable forecasts, and considering any collateral or guarantee arrangements that are not free-standing contracts. A loan that is fully secured by cash or cash equivalents, such as certificates of deposit issued by the lending institution, would likely have zero credit loss expectations. Similarly, the guaranteed portion of a Small Business Administration (SBA) SBA loan or security purchased on the secondary market through the SBA's fiscal and transfer agent would likely have zero credit loss expectations because these financial assets are unconditionally guaranteed by the U.S. government. Currently, the Company deducts the SBA guaranteed portion of financial assets from the individual asset balance.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factors ("Q-Factor") and other qualitative adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor and other qualitative adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools, (iii) changes in the nature and volume of the loan pools and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of non-accrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit and (ix) other factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling

costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on a quarterly basis. The fair value of real estate collateral supporting collateral dependent loans is evaluated using a methodology that is consistent with the Uniform Standards of Professional Appraisal Practice. The fair value of collateral supporting collateral dependent construction loans is based on an "as is" valuation.

The following table presents details of the allowance for credit losses on loans by portfolio segment as of September 30, 2023. March 31, 2024 and December 31, 2023:

(Dollars in thousands)	Non-Farm Non-Residential Owner Occupied	Non-Farm Non-Residential Non-Owner Occupied	Residential	Construction, Development & Other	Farmland	Commercial & Industrial	Consumer	Municipal and Other	Total	Non-Farm Non-Residential Owner Occupied	Non-Farm Non-Residential Non-Owner Occupied	Residential	Construction, Development & Other	Farmland	Commercial & Industrial	Consumer	Municipal and Other	Total
March 31, 2024:																		
Modeled expected credit losses	$ 3,379	$ 7,124	$ 1,576	$ 2,540	$ 71	$ 6,048	$ 4	$ 477	$ 21,219	$ 2,409	$ 2,499	$ 1,502	$ 3,344	$ 156	$ 6,124	$ 8	$ 510	$ 16,552
Q-Factor and other qualitative adjustments	1,437	1,654	489	1,488	41	6,860	3	268	12,240	1,855	2,061	640	2,332	55	8,947	4	450	16,344
Specific allocations	38	635	—	155	—	3,780	—	—	4,608	31	651	—	—	—	4,562	—	—	5,244
	$ 4,854	$ 9,413	$ 2,065	$ 4,183	$ 112	$ 16,688	$ 7	$ 745	$ 38,067	$ 4,295	$ 5,211	$ 2,142	$ 5,676	$ 211	$ 19,633	$ 12	$ 960	$ 38,140
December 31, 2023:																		
Modeled expected credit losses										$ 2,324	$ 2,569	$ 1,474	$ 3,557	$ 166	$ 6,400	$ 8	$ 596	$ 17,094

Q-Factor and other qualitative adjustments	1,952	2,321	867	2,296	78	7,507	6	505	15,532
Specific allocations	35	651	—	—	—	3,710	—	—	4,396
	$ 4,311	$ 5,541	$ 2,341	$ 5,853	$ 244	$ 17,617	$ 14	$ 1,101	$ 37,022

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

March 31, 2024 and December 31, 2023

Management believes the allowance for credit losses is adequate to cover expected credit losses on loans at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

The following tables detail the activity in the allowance for credit losses by portfolio segment:

(Dollars in thousands)	For the Nine Months Ended September 30, 2023						For the Three Months Ended March 31, 2024				
	Beginning balance	CECL Adoption Adjustment	Provision for Credit Losses	Charge-offs	Recoveries	Ending balance	Beginning balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending balance
Real estate loans:											
Non-farm non-residential owner occupied	$ 3,773	$ 1,324	$ (243)	$ —	$ —	$ 4,854	$ 4,311	$ (16)	$ —	$ —	$ 4,295
Non-farm non-residential non-owner occupied	5,741	2,610	1,062	—	—	9,413	5,541	(330)	—	—	5,211

Residential	1,064	996	5	—	—	2,065	2,341	(199)	—	—	2,142
Construction, development & other	3,053	1,608	(478)	—	—	4,183	5,853	(177)	—	—	5,676
Farmland	82	12	18	—	—	112	244	(33)	—	—	211
Commercial & industrial	16,269	(2,903)	3,031	(329)	620	16,688	17,617	2,742	(812)	86	19,633
Consumer	6	4	16	(19)	—	7	14	(3)	—	1	12
Municipal and other	363	349	37	(4)	—	745	1,101	(124)	(27)	10	960
	$ 30,351	$ 4,000	$ 3,448	$ (352)	$ 620	$ 38,067	$ 37,022	$ 1,860	$ (839)	$ 97	$ 38,140

	For the Three Months Ended March 31, 2023					
(Dollars in thousands)	Beginning balance	CECL Adoption Adjustment	Provision for Credit Losses on Loans	Charge-offs	Recoveries	Ending balance
Real estate loans:						
Non-farm non-residential owner occupied	$ 3,773	$ 1,324	$ 179	$ —	$ —	$ 5,276
Non-farm non-residential non-owner occupied	5,741	2,610	37	—	—	8,388
Residential	1,064	996	11	—	—	2,071
Construction, development & other	3,053	1,608	636	—	—	5,297
Farmland	82	12	(1)	—	—	93
Commercial & industrial	16,269	(2,903)	739	(120)	505	14,490
Consumer	6	4	20	(21)	—	9
Municipal and other	363	349	(421)	—	—	291
	$ 30,351	$ 4,000	$ 1,200	$ (141)	$ 505	$ 35,915

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The following tables present the amortized cost basis of collateral dependent loans which have been assessed individually for credit losses:

	March 31, 2024			
(Dollars in thousands)	Real Estate	Business Assets	Other	Total
Real estate loans:				
Non-farm non-residential owner occupied	$ 1,417	$ —	$ —	$ 1,417
Non-farm non-residential non-owner occupied	1,372	—	—	1,372
Residential	2,837	—	—	2,837
Construction, development & other	406	—	—	406
Commercial & industrial	1,015	13,079	413	14,507
	$ 7,047	$ 13,079	$ 413	$ 20,539

	For the Nine Months Ended September 30, 2022				
(Dollars in thousands)	Beginning balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending balance
Real estate loans:					
Non-farm non-residential owner occupied	$ 3,456	$ 749	$ —	$ —	$ 4,205
Non-farm non-residential non-owner occupied	5,935	(252)	—	—	5,683
Residential	957	(39)	—	—	918
Construction, development & other	2,064	526	—	—	2,590
Farmland	45	36	—	—	81
Commercial & industrial	6,500	9,316	(461)	12	15,367
Consumer	6	(14)	—	13	5
Municipal and other	332	(72)	—	—	260
	$ 19,295	$ 10,250	$ (461)	$ 25	$ 29,109

	For the Three Months Ended September 30, 2023				
(Dollars in thousands)	Beginning balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending balance
Real estate loans:					
Non-farm non-residential owner occupied	$ 5,223	$ (369)	$ —	$ —	$ 4,854
Non-farm non-residential non-owner occupied	8,775	638	—	—	9,413
Residential	2,142	(77)	—	—	2,065
Construction, development & other	4,312	(129)	—	—	4,183
Farmland	97	15	—	—	112

Commercial & industrial	15,722	988	(28)	6	16,688
Consumer	10	(3)	—	—	7
Municipal and other	962	(215)	(2)	—	745
	$ 37,243	$ 848	$ (30)	$ 6	$ 38,067

	For the Three Months Ended September 30, 2022				
(Dollars in thousands)	Beginning balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending balance
Real estate loans:					
Non-farm non-residential owner occupied	$ 4,052	$ 153	$ —	$ —	$ 4,205
Non-farm non-residential non-owner occupied	5,286	397	—	—	5,683
Residential	827	91	—	—	918
Construction, development & other	2,263	327	—	—	2,590
Farmland	69	12	—	—	81
Commercial & industrial	13,854	1,970	(461)	4	15,367
Consumer	4	1	—	—	5
Municipal and other	311	(51)	—	—	260
	$ 26,666	$ 2,900	$ (461)	$ 4	$ 29,109

The following tables summarize the allocation of the allowance for credit losses, by portfolio segment, for loans evaluated both individually and collectively for expected credit losses:

	September 30, 2023		
	Period end amounts of ACL allocated to loans evaluated for credit losses:		
(Dollars in thousands)	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ 38	$ 4,816	$ 4,854
Non-farm non-residential non-owner occupied	635	8,778	9,413
Residential	—	2,065	2,065
Construction, development & other	155	4,028	4,183
Farmland	—	112	112
Commercial & industrial	3,780	12,908	16,688
Consumer	—	7	7
Municipal and other	—	745	745
	$ 4,608	$ 33,459	$ 38,067

	December 31, 2022		
	Period end amounts of ACL allocated to loans evaluated for credit losses:		
(Dollars in thousands)	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ —	$ 3,773	$ 3,773
Non-farm non-residential non-owner occupied	—	5,741	5,741

Residential	—	1,064	1,064
Construction, development & other	—	3,053	3,053
Farmland	—	82	82
Commercial & industrial	1,600	14,669	16,269
Consumer	—	6	6
Municipal and other	—	363	363
	$ 1,600	$ 28,751	$ 30,351

The Company's recorded investment in loans related to the balance in the allowance for credit losses on the basis of the Company's expected credit loss methodology is as follows:

	September 30, 2023		
	Loans evaluated for credit losses:		
(Dollars in thousands)	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	$ 810	$ 517,107	$ 517,917
Non-farm non-residential non-owner occupied	1,403	565,570	566,973
Residential	3,058	323,296	326,354
Construction, development & other	567	655,255	655,822
Farmland	—	30,646	30,646
Commercial & industrial	9,518	1,278,802	1,288,320
Consumer	—	2,665	2,665
Municipal and other	—	171,256	171,256
	$ 15,356	$ 3,544,597	$ 3,559,953

	December 31, 2022						
	Loans evaluated for credit losses:			December 31, 2023			
(Dollars in thousands)	Individually	Collectively	Total	Real Estate	Business Assets	Other	Total
Real estate loans:							
Non-farm non-residential owner occupied	$ 1,699	$ 492,092	$ 493,791	$ 1,054	$ —	$ —	$ 1,054
Non-farm non-residential non-owner occupied	5,496	500,516	506,012	1,393	—	—	1,393
Residential	513	308,262	308,775	2,940	—	—	2,940
Construction, development & other	40	567,811	567,851	247	—	—	247
Farmland	—	22,820	22,820				
Commercial & industrial	11,947	1,046,963	1,058,910	212	12,439	689	13,340
Consumer	20	3,852	3,872				
Municipal and other	—	145,520	145,520				
	$ 19,715	$ 3,087,836	$ 3,107,551	$ 5,846	$ 12,439	$ 689	$ 18,974

4. Premises and Equipment

Premises and equipment in the accompanying consolidated balance sheets consisted of the following:

(Dollars in thousands)	Estimated Useful Life	September 30, 2023	December 31, 2022	Estimated Useful Life	March 31, 2024	December 31, 2023
Building and building improvements	30 years or 3 - 10 years	$ 13,682	$ 13,605	30 years and 3 - 10 years	$ 13,732	$ 13,703
Land		3,894	3,894		3,894	3,894
Equipment	3 - 5 years	6,085	5,757	3 - 5 years	6,504	6,277
Leasehold improvements	3 - 10 years	12,245	9,761	3 - 10 years	12,287	11,678
Furniture and fixtures	3 - 5 years	4,578	4,170	3 - 5 years	5,194	4,666
Construction in process		1,615	1,964		157	2,303
		42,099	39,151		41,768	42,521
Accumulated depreciation		(13,089)	(10,489)		(14,924)	(13,967)
		$ 29,010	$ 28,662		$ 26,844	$ 28,554

Depreciation expense for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, amounted to approximately $2.7 957,000 million and $1.8 866,000 million, , respectively. Depreciation expense is included in occupancy and equipment expense in the accompanying consolidated statements of income.

5. Deposits

Deposits in the accompanying consolidated balance sheets consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Transaction accounts:				
Noninterest bearing demand accounts	$ 500,187	$ 486,114	$ 424,019	$ 459,553
Interest bearing demand accounts	2,517,556	2,498,325	3,084,876	2,842,668
Savings	25,637	35,677	40,635	24,998
Total transaction accounts	3,043,380	3,020,116	3,549,530	3,327,219
Time deposits	603,442	216,030	501,142	475,929
	$ 3,646,822	$ 3,236,146		
Total deposits			$ 4,050,672	$ 3,803,148

The aggregate amount of time deposits in denominations of $250,000 or more totaled approximately $481.1 309.8 million and $135.5 315.4 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

27 Scheduled maturities of time deposits at March 31, 2024 are as follows:

(Dollars in thousands)	Maturities by Year
2024 (nine months remaining)	$ 318,631
2025	145,015
2026	32,450
2027	1,135
2028	2,560
2029 and thereafter	1,351
	$ 501,142

Scheduled maturities of time deposits at September 30, 2023 are as follows:

(Dollars in thousands)		
2023 (three months remaining)	$	221,845
2024		302,581
2025		44,442
2026		31,497
2027		1,145
2028 and thereafter		1,932
	$	603,442

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the aggregate amount of demand deposit overdrafts that were reclassified as loans was approximately $248,000 150,000 and $31,000 101,000, respectively.

Deposits for related parties at September 30, 2023 and December 31, 2022, totaled approximately $18.8 million and $16.0 million, respectively.

6. Income Taxes

During the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, the Company recorded income tax provision expense of $5.9 2.6 million and $2.7 2.2 million, respectively, reflecting an effective tax rate of 20.0 19.9% and 19.6%, respectively. During the three months ended September 30, 2023 and 2022, the Company recorded income tax provision expense of $1.4 million and $1.5 million, respectively, reflecting an effective tax rate of 20.4% and 18.1 19.5%, respectively.

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the consolidated financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. GAAP also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

7. FHLB Advances and Other Borrowings

FHLB Advances

The FHLB allows the Company to borrow on a blanket floating lien status collateralized by FHLB stock and real estate loans. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, borrowing capacity available under this arrangement was $369.2 643.9 million and $719.1 565.1 million, respectively. The Company had no FHLB advances outstanding at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Letters of credit with the FHLB in the amount of $627.6 428.6 million were issued at September 30, 2023 March 31, 2024. The letters of credit are used to collateralize public fund deposit accounts in excess of FDIC insurance limits and have expirations ranging from October 2023 April 2024 through July 2025.

Line of Credit - Senior Debt

On September 10, 2022, The Company has a $30.9 55.0 million revolving line of credit facility matured and that was renewed and modified effective March 12, 2024, whereby the facility was increased to by $50.0 5.0 million with payment terms similar to the payment terms of the previous agreement. Prior to maturity, and the note bore interest at rate was decreased to *TheWall Street Journal* US Prime Rate, as such changes from time to time, less 0.625%, with a floor rate of 4.00 5.00% per annum. Interest was continues to be payable quarterly on the 10th day of March, June, September and December through maturity date of March 10, 2026. Upon renewal, All principal and unpaid interest is due at maturity. The note is secured by 100% of the note bears outstanding stock of the Bank and is senior in rights to the subordinated debt described below. Prior to the modification, the $50.0 million facility was due on September 10, 2024, and bore interest at *The Wall Street Journal* US Prime Rate, as such changes from time to time, plus 0.50%, with a floor rate of 5.00% per annum. Interest is payable quarterly on the 10th day of March, June, September At March 31, 2024 and December through maturity date of September 10, 2024. All principal and unpaid interest is due at maturity. The note is secured by 100% of the outstanding stock of the Bank and is senior in rights to the subordinated debt described below. At September 30, 2023 and December 31, 2022 December 31, 2023, the outstanding balance was $35.9 43.9 million and $30.9 38.9 million, respectively.

Note Payable - Subordinated Debt

On March 31, 2022, the Company entered into Subordinated Note Purchase Agreements (the “Note Purchase Agreements”) with certain qualified institutional buyers and institutional accredited investors (the “Purchasers”) pursuant to which the Company issued and sold $82.3 million in aggregate principal amount of its 5.500% Fixed-to-Floating Rate Subordinated Notes due 2032 (the “Notes”) in a

private placement transaction in reliance on exemptions from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), pursuant to Section 4(a)(2) of the Securities Act and Regulation D thereunder. The Notes were issued by the Company to the Purchasers at a price equal to 100% of their face amount. The Note Purchase Agreements contain certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes, and the Company intends to use the net proceeds from the offering for general corporate purposes.

The Notes were issued under an Indenture, dated as of March 31, 2022 (the “Indenture”), by and between the Company and UMB Bank, N.A., as trustee. The Notes will mature on April 1, 2032. From and including March 31, 2022, to, but excluding, April 1, 2027 or the date of early redemption, the Company will pay interest on the Notes semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2022, at a fixed interest rate of 5.500% per annum. From and including April 1, 2027, to, but excluding, the maturity date or the date of early redemption (the “Floating Rate Period”), the Company will pay interest on the Notes at a floating interest rate. The floating interest rate will be reset quarterly, and the interest rate for any Floating Rate Period shall be equal to the then-current Three-Month Term Secured Overnight Financing Rate (“SOFR”) plus 315 basis points for each quarterly interest period during the Floating Rate Period. Interest payable on the Notes during the Floating Rate Period will be paid quarterly in arrears on January 1, April 1, July 1 and October 1, of each year, commencing on July 1, 2027. Notwithstanding the foregoing, in the event that Three-Month Term SOFR is less than zero, then Three-Month Term SOFR rate shall be deemed to be zero.

On March 31, 2022, in connection with the issuance and sale of the Notes, the Company entered into Registration Rights Agreements with the Purchasers. Under the terms of the Registration Rights Agreements, the Company agreed to take certain actions to provide for the exchange of the Notes for subordinated notes that are registered under the Securities Act and have substantially the same terms as the Notes. The exchange offer under the Registration Rights Agreement was completed on July 19, 2022.

The Company may, at its option, redeem the Notes (i) in whole or in part beginning with the interest payment date on April 1, 2027, and on any interest payment date thereafter, or (ii) in whole, but not in part, upon the occurrence of a “Tier 2 Capital Event,” a “Tax Event,” or “Investment Company Event”. The redemption price for any redemption is 100% of the principal amount of the Notes, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. Any redemption of the Notes will be subject to the receipt of the approval of the Board of Governors of the Federal Reserve System (the “Federal Reserve”) to the extent then required under applicable laws or regulations, including capital adequacy rules or regulations.

There is no right of acceleration of maturity of the Notes in the case of default in the payment of principal of, or interest on, the Notes or in the performance of any other obligation of the Company under the Notes or the Indenture. The Indenture provides that holders of the Notes may accelerate payment of indebtedness only upon the Company’s bankruptcy, insolvency, reorganization, receivership or other similar proceedings.

The Notes are general unsecured, subordinated obligations of the Company and rank junior to all of its existing and future Senior Indebtedness (as defined in the Indenture), including all of its general creditors. The Notes will be equal in right of payment with any of the Company’s existing and future subordinated indebtedness, and will be senior to the Company’s obligations relating to any junior subordinated debt securities. In addition, the Notes are effectively subordinated to all secured indebtedness of the Company, including without limitation, the Bank’s liabilities to depositors in connection with deposits in the Bank, to the extent of the value of the collateral securing such indebtedness.

In connection with the above offering, the Company incurred approximately $2.1 million in debt issuance costs which will be amortized to interest expense on a straight-line basis over the ten-year life of the note. At September 30, 2023March 31, 2024 and December 31, 2023, the Company had $82.3 million in outstanding principal and

$1.8 million in unamortized debt issuance costs. At December 31, 2022, the Company had $82.3 million in outstanding principal and $1.9 1.7 million in unamortized debt issuance costs.

Federal Reserve Borrower-in-Custody (BID) (BIC) Loan Pledge Arrangement

During June 2023, the Federal Reserve Bank approved the Company to begin pledging, on a blanket floating lien status, its commercial and industrial loans under a Borrower-in-Custody ("BIC") arrangement. The arrangement provides the Company with the ability to secure collateralized contingency funding from the Discount Window of the Federal Reserve Bank of Dallas. As of September 30, 2023 March 31, 2024 and December 31, 2023, total borrowing capacity under this arrangement was $1.3 billion and $1.2 billion. billion, respectively. The Company had no advances outstanding under these lines as of September 30, 2023 March 31, 2024 or December 31, 2023.

Federal Funds Lines of Credit

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had federal funds lines of credit with commercial banks that provide for availability to borrow up to an aggregate of $33.0 million and $36.5 million, respectively. million. The Company had no advances outstanding under these lines at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Contractual Maturities of Borrowings

Contractual maturities of borrowings at September 30, 2023 were as follows:

(Dollars in thousands)	Senior Debt Borrowings	Subordinated Debt Borrowings
2023 (three months remaining)	$ —	$ —
2024	35,875	—
2025	—	—
2026	—	—
2027	—	—
2028 and thereafter	—	80,502
	$ 35,875	$ 80,502

8. Stock Options and Warrants

2013 Stock Option Plan

In 2008 upon shareholder approval, the Bank adopted the 2008 Stock Option Plan. In 2013 upon formation of Third Coast Bancshares, Inc., the Company adopted the 2013 Stock Option Plan (the "2013 Plan"). All outstanding options from the 2008 Stock Option Plan were grandfathered into the 2013 Plan. The 2013 Plan permits the grant of stock options for up to 500,000 shares of common stock from time to time during the term of the plan, subject to adjustment upon changes in capitalization. Under the 2013 Plan, the Bank may grant either incentive stock options or nonqualified stock options to eligible directors, executive officers, key employees and non-employee shareholders of the Bank. At September 30, 2023 March 31, 2024, there were no shares remaining available for grant for future awards as all outstanding options under the 2013 Plan were grandfathered into the 2019 Omnibus Incentive Plan (see 2019 Omnibus Incentive Plan). Awards outstanding under the 2013 Plan remain in full force and effect, according to their respective terms.

2019 Omnibus Incentive Plan

On May 29, 2019, the Company's shareholders approved the Third Coast Bancshares, Inc. 2019 Omnibus Incentive Plan (the "2019 Plan"), which was previously approved by the Company's board of directors. Under the 2019 Plan, the Company may issue stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses, other stock-based awards, cash awards, and dividend equivalents. On May 20, 2021, the Company's shareholders approved an amendment to the 2019 Plan such that the maximum number of shares reserved for issuance under the 2019 Plan was increased by an additional 500,000 shares. The maximum aggregate number of shares of common stock that may be issued under the 2019 Plan is equal to the sum of (i) 800,000 shares of common stock,

(ii) the total number of shares remaining available for new awards under the 2013 Plan as of May 29, 2019, which was 152,750 shares of common stock, and (iii) any shares subject to outstanding stock options issued under the 2013 Plan to the extent that (A) any such award is forfeited or otherwise terminates or is cancelled without the delivery of shares of common stock, or (B) shares of common stock are withheld from any such award to satisfy any tax or withholding obligation, in which case the shares of common stock covered by such forfeited, terminated or cancelled award or which are equal to the number of shares of common stock withheld, will become available for issuance under the 2019 Plan. At September 30, 2023 March 31, 2024, there were 68,313 84,189 shares remaining available for grant for future awards under the 2019 Plan.

2017 Non-Employee Director Stock Option Plan

In December 2017, the Bank adopted the 2017 Non-Employee Director Stock Option Plan (the "Director Plan"). The Director Plan originally authorized the grant of stock options for up to 100,000 shares of common stock to non-employee directors of the Company pursuant to the terms of the Director Plan. During July 2018, the Company's board of directors approved the grant of stock options for 50,000 additional shares of common stock under the Director Plan, such that the Director Plan permitted the grant of stock options for up to 150,000 shares of common stock. On January 1, 2021, the Director Plan was amended and subsequently approved by the Company's board of directors such that the aggregate number of shares of common stock to be issued pursuant to options shall not exceed 187,000 shares. Options are generally granted with an exercise price equal to the market price of the Company's stock at the date of the grant. Option awards generally vest based on five years of continuous service and have 10-year contractual terms for non-controlling participants as defined by the Director Plan. Other grant terms can vary for controlling participants as defined by the Director Plan. At September 30, 2023 March 31, 2024, there were 8,000 13,806 shares remaining available for grant for future awards under the Director Plan.

2020 Heritage Stock Option Plan

On January 1, 2020, the Company acquired a stock option plan which originated under Heritage Bancorp, Inc. as part of a merger of the two companies. The options granted to employees must be exercised within 10 years from the date of grant and vesting schedules are determined on an individual basis. At merger date, 109,908 outstanding options became fully vested and were converted to options to

purchase 97,821 shares of the Company's common stock at an exchange ratio of 0.89, which was equal to the acquisition exchange rate for common shares. At September 30, 2023 March 31, 2024, there no shares were3,331 shares remaining available for grant for future awards.

Stock Options

During the nine three months ended September 30, 2023 March 31, 2024, the Company granted stock options under the 2019 Plan to certain directors, executive officers and other key employees of the Company. These stock options vest ratably over five years and have a 10-year contractual term. Options granted during the nine three months ended September 30, 2023 March 31, 2024 were granted with an exercise price ranging from $13.95 19.50 to $20.17 19.59. Options granted during the nine three months ended September 30, 2022 March 31, 2023 were granted with an exercise price ranging from $18.20 18.06 to $25.76 18.99.

The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions used for the options granted in the nine three months ended September 30, 2023 March 31, 2024: risk-free interest rate ranging from 3.42 3.84% to 4.26 3.95%, dividend yield of 0.00%; estimated volatility ranging from 17.81 23.42% to 21.75 23.49%; and expected lives of options of 7.5 years. The following assumptions were used for options granted in the nine three months ended September 30, 2022 March 31, 2023: risk-free interest rate ranging from 1.45 3.42% to 3.34 4.14%, dividend yield of 0.00%; estimated volatility ranging from 10.00 17.81% to 38.00 17.89%; and expected lives of options of 7.5 years. Expected volatilities are based on historical volatilities of the Company's common stock and similar peer group averages.

For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, the Company recognized share-based compensation expense of $335,000 124,000 and $518,000 142,000, respectively, associated with stock options. As of September 30, 2023 March 31, 2024, there was approximately $1.6 1.4 million of unrecognized compensation costs related to non-vested stock options that is expected to be recognized over the remaining vesting periods. Forfeitures are recognized as they occur.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

March 31, 2024 and December 31, 2023

A summary of stock option activity for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 is presented below:

(Dollars in thousands, except share and per share data)	September 30, 2023 Shares Underlying Options	September 30, 2023 Weighted Average Exercise Price	September 30, 2022 Shares Underlying Options	September 30, 2022 Weighted Average Exercise Price	March 31, 2024 Shares Underlying Options	March 31, 2024 Weighted Average Exercise Price	March 31, 2023 Shares Underlying Options	March 31, 2023 Weighted Average Exercise Price
Outstanding at beginning of period	1,203,928	$ 18.05	1,220,428	$ 17.83	1,126,023	$ 17.72	1,203,928	$ 18.05
Granted during the period	33,500	17.51	109,000	22.00	10,000	19.55	13,000	18.45
Forfeited during the period	(90,731)	20.98	(83,617)	21.15	(44,231)	16.14	(51,600)	21.64
Exercised during the period	(674)	15.17	(47,333)	14.38	(16,797)	11.27	—	—
Outstanding at the end of period	1,146,023	$ 17.80	1,198,478	$ 18.12	1,074,995	$ 17.90	1,165,328	$ 17.89
Options exercisable at end of period	668,453	$ 16.17	497,808	$ 15.12	654,855	$ 16.55	585,538	$ 15.61
Weighted-average grant date fair value of options granted during the period		$ 5.45		$ 7.06		$ 7.19		$ 5.95

A summary of weighted average remaining life is presented below:

(Dollars in thousands, except share and per share data)	September 30, 2023			September 30, 2022			March 31, 2024			March 31, 2023		
Exercise Price	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable

$10.00 - $12.99	146,553	1.20	146,553	146,553	2.21	146,553
$13.00 - $16.99	436,620	5.69	345,750	439,175	6.74	273,105
$17.00 - $26.99	562,850	7.90	176,150	612,750	8.91	78,150
$10.00 - $12.99	117,050	0.79	117,050	146,553	1.71	146,553
$13.00 - $16.99	415,195	5.39	351,355	432,375	6.19	341,985
$17.00 - $26.99	542,750	7.59	186,450	586,400	8.42	97,000
	1,146,023	6.20	668,453	1,198,478	7.29	497,808
	1,074,995	6.00	654,855	1,165,328	6.75	585,538

Shares issued in connection with stock compensation awards are issued from available authorized shares.

The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options were $1.3 2.8 million and $1.3 2.5 million, respectively, at September 30, 2023 March 31, 2024. The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options was were $1.3 798,000 million and $1.2 million, respectively, each, at September 30, 2022 March 31, 2023.

The intrinsic value of stock options exercised during the nine three months ended September 30, 2023 and 2022 March 31, 2024 was approximately $1,000 146,000. There were no and $236,000, respectively.

stock options exercised during the three months ended March 31, 2023.

A summary of the activity in the Company's nonvested shares is as follows:

(Dollars in thousands, except share and per share data)	September 30, 2023		September 30, 2022		March 31, 2024		March 31, 2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1,	676,270	$ 3.82	858,670	$ 3.15	447,970	$ 3.94	676,270	$ 3.82
Granted during the period	33,500	5.45	109,000	7.06	10,000	7.19	13,000	5.95
Vested during the period	(160,700)	3.24	(189,300)	3.01	(31,230)	3.22	(65,080)	2.59
Forfeited during the period	(71,500)	3.60	(77,700)	3.53	(6,600)	3.05	(44,400)	3.46

Nonvested at end of period	477,570	$ 3.91	700,670	$ 3.75	420,140	$ 4.08	579,790	$ 3.81

Warrants

The Company had fully vested stock warrants issued in connection with the organization of the Company during 2013, which were exercisable over a ten-year period to purchase one share of common stock for each warrant held. As of September 30, 2023 December 31, 2023, all stock warrants issued in connection with the organization of the Company were exercised prior to their expiration date of July 1, 2023.

In connection with the preferred stock private placement on September 30, 2022, the Company issued warrants to purchase an aggregate of 175,000 shares of the Company's common stock (or, at the election of the warrant holder in accordance with the terms of the warrant agreement, Series B Convertible Perpetual Preferred Stock, par value $1.00 per share, or non-voting common stock, par value $1.00 per share, of the Company) (the “Preferred Warrants”) to certain investors. The Preferred Warrants have an exercise price of $22.50 per share, are fully vested, and are exercisable over a seven-year period that expires on September 30, 2029. The fair value of the warrants

was approximately $380,000 on grant date and is included in additional paid in capital. The weighted average remaining contractual life of these outstanding Preferred Warrants was 6.01 5.5 years as of September 30, 2023 March 31, 2024.

A summary of the Company's stock warrant activity is presented below:

(Dollars in thousands, except share and per share data)	September 30, 2023		September 30, 2022		March 31, 2024		March 31, 2023	
	Shares Underlying Warrants	Weighted Average Exercise Price	Shares Underlying Warrants	Weighted Average Exercise Price	Shares Underlying Warrants	Weighted Average Exercise Price	Shares Underlying Warrants	Weighted Average Exercise Price
Outstanding at beginning of period	179,285	$ 22.23	4,285	$ 11.00	175,000	$ 22.50	179,285	$ 22.23
Granted during the period	—	—	175,000	22.50	—	—	—	—
Exercised during the period	(4,285)	11.00	—	—	—	—	—	—
Expired or forfeited during the period	—	—	—	—	—	—	—	—
Outstanding at end of period	175,000	$ 22.50	179,285	$ 22.23	175,000	$ 22.50	179,285	$ 22.23
Exercisable at end of period	175,000	$ 22.50	179,285	$ 22.23	175,000	$ 22.50	179,285	$ 22.23

Restricted Stock Awards

The Company granted restricted stock awards (“RSAs”) to certain directors, executive officers and employees of the Company. Restricted stock is common stock with certain restrictions that relate to trading and the possibility of forfeiture. Holders of restricted stock have full voting rights. Generally, the awards vest ratably over a two-to-four year period but vesting periods may vary. The RSAs have a 10 year contractual term.

A summary of the activity for non-vested RSAs for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 is presented below:

	September 30, 2023	September 30, 2022

(Dollars in thousands, except share and per share data)	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Nonvested at beginning of period	76,094	$	22.35	49,750	$	24.00
Granted during the period	75,956		16.18	44,514		22.86
Vested during the period	(9,584)		22.76	—		—
Forfeited during the period	(11,807)		20.28	(9,500)		24.67
Nonvested at the end of period	130,659	$	18.84	84,764	$	23.33

	March 31, 2024			March 31, 2023		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Nonvested at beginning of period	110,224	$	17.44	76,094	$	22.35
Granted during the period	32,153		19.81	47,762		15.84
Vested during the period	(22,697)		17.85	(6,536)		24.70
Forfeited during the period	—		—	—		—
Nonvested at the end of period	119,680	$	18.66	117,320	$	19.57

Compensation expense for RSAs is recorded over the vesting period and is determined based on the number of restricted shares granted and the market price of our common stock at issue date. The Company recognized share-based compensation expense associated with RSAs of approximately $800,000 232,000 and $464,000 223,000 during the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. As of September 30, 2023 March 31, 2024, there was approximately $1.6 1.7 million of unrecognized compensation costs related to non-vested RSAs that is expected to be recognized over the remaining vesting periods.

9. Leases

Operating Leases

The Company leases certain office space, stand-alone buildings and equipment which are recognized as operating lease right-of-use ("ROU") assets and operating lease liabilities and are included in other assets and other liabilities in the consolidated balance sheets. Lease liabilities represent the Company's liability to make lease payments under these leases, on a discounted basis. For leases with renewal options available, the Company evaluates each lease to determine if exercise of the renewal option is reasonably certain. As of September 30, 2023 March 31, 2024, the Company's operating lease ROU asset and operating lease liability totaled $21.2 20.7 million and $22.0 21.6 million, respectively.

In order to calculate its ROU assets and lease liabilities, ASC Topic 842 requires the Company to use the rate of interest implicit in the lease when readily determinable. If the rate implicit in the lease is not readily determinable, the Company is required to use its incremental borrowing rate, which is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. The Company was unable to determine the implicit interest rate in any of the leases and therefore used its incremental borrowing rate.

As of September 30, 2023 March 31, 2024, the weighted-average discount rate for the Company's operating leases was 4.50 4.63%. The Company's lease terms range from less than five months one year to one hundred forty-four months. The weighted-average remaining term of the leases was 8.93 8.43 years.

Lease costs for each of the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows:

(Dollars in thousands)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Operating lease cost	$ 1,119	$ 754	$ 3,162	$ 1,893	$ 1,170	$ 982
Short-term lease cost	28	145	131	467	10	62
Total lease cost	$ 1,147	$ 899	$ 3,293	$ 2,360	$ 1,180	$ 1,044

A schedule of the Company's lease liabilities by contractual maturity for operating leases with initial or remaining terms in excess of one year for each year through 2028 2029 and thereafter is presented below:

(Dollars in thousands)	September 30, 2023	March 31, 2024
2023 (three months remaining)	$ 755	
2024	3,186	
2024 (nine months remaining)		$ 2,371
2025	3,234	3,250
2026	3,304	3,324
2027	3,353	3,360
2028 and thereafter	15,020	
2028		3,169
2029 and thereafter		11,716
Total undiscounted lease liability	28,852	27,190
Less: Discount on cash flows	(4,756)	(4,475)
Lease signed, but not yet commenced	(2,138)	
Leases signed, but not yet commenced		(1,068)
Total operating lease liability	$ 21,958	$ 21,647

10. Financial Instruments with Off-Balance Sheet Risk

The Company is a 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 include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

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

The following financial instruments were outstanding whose contract amounts represent credit risk:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 1,362,211	$ 1,148,012	$ 1,421,293	$ 1,352,147
Standby letters of credit	18,044	21,728	25,702	26,850

Total	$ 1,380,255	$ 1,169,740	$ 1,446,995	$ 1,378,997

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 may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in the table above, less those obligations which the Company has the unconditional right to cancel. No allowance is recognized if the issuer has an unconditional right to cancel the obligation. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment.

At September 30, 2023 March 31, 2024 and December 31, 2023, the allowance for credit losses related to off-balance sheet exposures was $1.8 2.1 million. million and $2.4 million, respectively.

11. Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

GAAP requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- *Level 1 Inputs* – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* – Inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2

investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, cor bonds and mortgage-backed securities.

- *Level 3 Inputs* – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

Investment Securities Available-for-sale. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and the bond's terms and conditions, among other things.

Loans Held for Sale. Loans held for sale are reported at aggregate cost which has been deemed to be the equivalent of fair value using Level 3 inputs.

Loans Evaluated Individually for Expected Credit Losses. Individually evaluated loans are reported at the estimated fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data or independent appraisals using Level 3 inputs.

Derivative Instruments. The estimated fair value of interest rate derivative positions are obtained from a pricing service that provides the swaps' unwind value using Level 2 inputs.

There were no transfers between levels during the nine three month period ended September 30, 2023 March 31, 2024 or during the year ended December 31, 2022 December 31, 2023.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Fair Value Measurements Using				Fair Value Measurements Using			
(Dollars in thousands)	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
At September 30, 2023:								
At March 31, 2024:								
Securities available-for-sale:								
U.S government and agency securities					$ —	$ 19,176	$ —	$ 19,176
State and municipal securities	$ —	$ —	$ —	$ —	—	1,006	—	1,006
Mortgage-backed securities and other agency obligations	—	25,114	—	25,114				
U.S. Treasury bonds	—	99,797	—	99,797				

Mortgage-backed securities and collateralized mortgage obligations					—	126,047	—	126,047
Corporate bonds	—	76,124	—	76,124	—	100,062	—	100,062
Total investment securities available-for-sale	$ —	$ 201,035	$ —	$ 201,035	$ —	$ 246,291	$ —	$ 246,291
Derivative assets:								
Cash flow hedges					$ —	$ 2,595	$ —	$ 2,595
Pass-through interest rate swaps	$ —	$ 10,517	$ —	$ 10,517	—	8,203	—	8,203
Risk participation agreements					—	14	—	14
Pay-fixed interest rate swaps	—	372	—	372	—	203	—	203
Total derivative assets	$ —	$ 10,889	$ —	$ 10,889	$ —	$ 11,015	$ —	$ 11,015
Derivative liabilities:								
Pass-through interest rate swaps	$ —	$ 10,517	$ —	$ 10,517	$ —	$ 8,203	$ —	$ 8,203
Risk participation agreements	—	2	—	2	—	2	—	2
Pay-fixed interest rate swaps	—	—	—	—	—	48	—	48
Total derivative liabilities	$ —	$ 10,519	$ —	$ 10,519	$ —	$ 8,253	$ —	$ 8,253

	Fair Value Measurements Using							
(Dollars in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value				
At December 31, 2022:								
At December 31, 2023:								
Securities available-for-sale:								
State and municipal securities	$ —	$ 417	$ —	$ 417				
Mortgage-backed securities and other agency obligations	—	22,881	—	22,881				
U.S. Treasury bonds	—	98,518	—	98,518				
U.S. government and agency securities					$ —	$ 3,991	$ —	$ 3,991
Mortgage-backed securities and collateralized mortgage obligations					—	78,533	—	78,533
Corporate bonds	—	54,251	—	54,251	—	95,563	—	95,563
Total investment securities available-for-sale	$ —	$ 176,067	$ —	$ 176,067	$ —	$ 178,087	$ —	$ 178,087
Derivative assets:								
Interest rate swaps	$ —	$ 9,213	$ —	$ 9,213				
Pass-through interest rate swaps					$ —	$ 8,774	$ —	$ 8,774
Risk participation agreements					—	6	—	6
Pay-fixed interest rate swaps					—	48	—	48
Total derivative assets	$ —	$ 9,213	$ —	$ 9,213	$ —	$ 8,828	$ —	$ 8,828
Derivative liabilities:								
Cash flow hedges					$ —	$ 1,541	$ —	$ 1,541
Interest rate swaps	$ —	$ 9,213	$ —	$ 9,213	—	8,774	—	8,774

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Risk participation agreements	—	8	—	8	—	20	—	20
Pay-fixed interest rate swaps					—	352	—	352
Total derivative liabilities	$ —	$ 9,221	$ —	$ 9,221	$ —	$ 10,687	$ —	$ 10,687

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

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THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

March 31, 2024 and December 31, 2023

Loans Evaluated Individually for Expected Credit Losses. At September 30, 2023 March 31, 2024, collateral dependent loans with carrying values of $15.4 15.6 million were reduced by specific valuation allowances totaling $4.6 5.2 million resulting in a net fair value of $10.8 10.4 million based on Level 3 inputs. The At December 31, 2023, collateral on these loans primarily consists of commercial real estate, equipment and accounts receivables. At December 31, 2022, impaired dependent loans with carrying values of $19.7 10.1 million were reduced by specific valuation allowances totaling $1.6 4.4 million resulting in a net fair value of $$518.1.7 million based on Level 3 inputs.

Non-financial assets measured at fair value on a non-recurring basis may include certain foreclosed assets which, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for credit losses and certain foreclosed assets which, subsequent to their initial recognition, are remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. The Company did not have any foreclosed assets for fair value measurement as of September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023.

For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market rates for similar assets and liabilities. Financial instrument assets with variable rates and financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value.

The carrying value and the estimated fair value of the Company's contractual off-balance sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

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THIRD COAST BANCSHARES, INC. AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

September 30, 2023 and December 31, 2022

The estimated fair values and carrying values of all financial instruments under current authoritative guidance, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value are as follows:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023

(Dollars in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:								
Level 2 inputs								
Cash and cash equivalents	$ 286,530	$ 286,530	$ 332,014	$ 332,014	$ 498,260	$ 498,260	$ 411,845	$ 411,845
Investment securities available-for-sale	201,035	201,035	176,067	176,067	246,291	246,291	178,087	178,087
Non-marketable securities	15,799	15,799	14,618	14,618	16,095	16,095	16,041	16,041
Accrued interest receivable	22,821	22,821	18,340	18,340	25,769	25,769	23,120	23,120
Bank-owned life insurance	65,303	65,303	60,761	60,761	66,443	66,443	65,861	65,861
Derivative assets	10,889	10,889	9,213	9,213	11,015	11,015	8,828	8,828
	$ 602,377	$ 602,377	$ 611,013	$ 611,013	$ 863,873	$ 863,873	$ 703,782	$ 703,782
Level 3 inputs								
Loans, net	$ 3,521,886	$ 3,393,088	$ 3,077,200	$ 2,920,213	$ 3,708,038	$ 3,631,387	$ 3,601,766	$ 3,532,270
Financial liabilities:								
Level 2 inputs								
Deposits	$ 3,646,822	$ 3,670,186	$ 3,236,146	$ 3,238,857	$ 4,050,672	$ 4,070,158	$ 3,803,148	$ 3,821,744
Accrued interest payable	4,318	4,318	2,545	2,545	3,927	3,927	4,794	4,794
Note payable and line of credit	116,377	116,377	111,223	111,223	124,480	124,480	119,428	119,428
Derivative liabilities	10,519	10,519	9,221	9,221	8,253	8,253	10,687	10,687
	$ 3,778,036	$ 3,801,400	$ 3,359,135	$ 3,361,846	$ 4,187,332	$ 4,206,818	$ 3,938,057	$ 3,956,653

12. Significant Group Concentrations of Credit Risk

The Company's principal business activities are with customers primarily located within Texas. Such customers are normally also depositors of the Company. In addition, the Company employs a national wholesale deposit strategy to attract and maintain large, relatively low-cost stable deposits through a number of core, fiduciary and institutional deposit programs.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The contractual amounts of credit related financial instruments such as commitments to extend credit and credit card arrangements represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had federal funds sold aggregating approximately $144.4 130.4 million and $2.1 114.9 million, respectively, which represents concentrations of credit risk. The Company also maintains deposit balances with other financial institutions that exceed FDIC coverage and also represent credit risk. These balances were approximately $69.4 209.6 million and $279.1 262.1 million, respectively, at September

30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

13. Employee Benefit Plans

In 2009, the Company adopted the Third Coast Bank, SSB 401(k) Plan (the "Plan") covering substantially all employees. Employees may elect to defer a percentage of their compensation subject to certain limits based on federal tax laws. The Company may make a discretionary match of employees' contributions based on a percentage of salary contributed by participants.

Effective July 1, 2022, the Company amended the Third Coast Bank, SSB 401(k) Plan and merged that plan into the Third Coast Bank, SSB Employee Stock Ownership Plan (the "Merged Plan"). In connection with this amendment and plan merger, on July 1, 2022, the Company registered an aggregate of 400,000 shares of the Company's common stock, par value $1.00 per share, for issuance to the Merged Plan in connection with elections by participants to allocate a portion of their plan account balances (up to the limits prescribed under the Merged Plan) to the Company stock fund investment option. The number of shares held by the ESOP immediately prior to the plan merger was 149,461 shares. Under the Merged Plan, discretionary contributions made by the Company will be invested at the direction of the plan participant, in accordance with participant plan elections.

For each of the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, Company contributions to the Merged Plan were approximately $1.1 million, and for the three months ended September 30, 2023 and 2022 Company contributions were approximately $401,000 388,000 and $330,000 332,000, respectively. Administrative expense related to the ESOP and the Merged Plan for the same nine month periods totaled approximately

$43,000 and $50,000, respectively, and for the same three month periods totaled approximately $9,000 19,000 and $26,000 25,000, respectively. The costs were included in salaries and employee benefits in the accompanying consolidated statements of income.

14. Related Party Transactions

During the normal course of business, the Company may enter into transactions with significant stockholders, directors and principal officers and their affiliates (collectively referred to herein as "related parties"). It is the Company's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the aggregate amounts of loans to related parties were approximately $1.2 million and $1.5 1.4 million, respectively. During the nine three months ended September 30, 2023 March 31, 2024, there were no loan originations to related parties totaled $375,000 and repayments from related party loans totaled $672,000 200,000. Related party unfunded commitments at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were approximately $587,000 315,000 and $587,000 402,000, respectively. Deposits account balances for related parties at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, totaled approximately $18.8 19.9 million and $16.0 19.6 million, respectively.

15. Shareholders' Equity and Regulatory Matters

<u>Amendment to Certificate of Formation</u>

On May 25, 2023, the shareholders of the Company approved the amendment and restatement (the "Amendment") of Article VI of the Company's first amended and restated certificate of formation to authorize a new class of non-voting common stock, par value $1.00 per share. Under the terms of the Amendment, the Company is authorized to issue 54,500,000 shares of capital stock, consisting of 50,000,000 shares of common stock, par value $1.00 per share, 3,500,000 shares of non-voting common stock, par value $1.00 per share, and 1,000,000 shares of preferred stock, par value $1.00 per share. The shares of capital stock may be issued as authorized by the board of directors of the Company without the approval of its shareholders, except as otherwise provided by governing law, rule or regulation or as set forth in the certificate of formation, as amended. The Amendment became effective upon the filing of the Certificate of Amendment to the Certificate of Formation of the Company with the Secretary of State of the State of Texas on May 25, 2023.

<u>Preferred Stock</u>

On September 30, 2022, the Company adopted resolutions creating Series A Convertible Non-Cumulative Preferred Stock ("Series A Preferred Stock") and Series B Convertible Perpetual Preferred Stock, with 69,400 shares authorized for each series.

Preferred Stock - Private Placement

On September 30, 2022, the Company completed a private placement of (i) 69,400 shares of Series A Preferred Stock, with a liquidation preference of $1,000 per share, and (ii) the Preferred Warrants at an exercise price equal to $22.50 per share, for aggregate gross proceeds of $69.4 million before deducting placement fees and offering expenses. Aggregate net proceeds were $66.2 million after deducting placement fees and offering expenses of $3.2 million.

The securities sold in the private placement were sold only to accredited investors and were issued without registration under the Securities Act, in reliance upon the exemption provided under Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder as securities offered and sold only to accredited investors (as defined in Rule 501(a) of Regulation D under the Securities Act) in a transaction not involving any public offering. Officers and directors of the Company purchased $2.7 million of the Series A Preferred Stock.

Regulatory Matters

On March 13, 2024, the Bank completed its conversion from a Texas state savings bank to a Texas banking association. As a result of the conversion, the Texas Department of Banking is the Bank's primary state regulator and the Federal Reserve is the Bank's primary federal regulator. The Federal Reserve continues to be the Company's primary federal regulator. The Bank remains as a member of the Federal Reserve System.

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I capital, and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2023 March 31, 2024 and December 31, 2023, the Company and Bank and, as of December 31, 2022, the Bank meet all capital adequacy requirements to which it is subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown below, the Bank's capital ratios exceed the regulatory definition of

well capitalized as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

There are no conditions or events since September 30, 2023 March 31, 2024 that management believes have changed the Bank's category.

A comparison of actual capital amounts and ratios to required capital amounts and ratios for the Company and Bank are presented in the following table. The Company began reporting ratios beginning March 31, 2023 in accordance with the regulatory framework. Capital levels required to be well capitalized are based upon prompt corrective action regulations, as amended, to reflect the changes under the Basel III Capital Rules. regulations.

	Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective

(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Action Provisions Amount	Ratio
THIRD COAST BANCSHARES, INC.						
(Consolidated)						
As of September 30, 2023:						
Total capital (to risk weighted assets)	$ 503,365	12.72 %	≥ $ 415,502	≥ 10.50 %	N/A	N/A
Tier I capital (to risk weighted assets)	$ 383,024	9.68 %	≥ $ 336,358	≥ 8.50 %	N/A	N/A
Tier I capital (to average assets)	$ 383,024	9.79 %	≥ $ 156,448	≥ 4.00 %	N/A	N/A
Common equity tier 1 (to risk weighted assets)	$ 316,799	8.01 %	≥ $ 277,001	≥ 7.00 %	N/A	N/A
THIRD COAST BANK, SSB						
As of September 30, 2023:						
Total capital (to risk weighted assets)	$ 532,757	13.49 %	≥ $ 414,823	≥ 10.50 %	≥ $ 395,070	≥ 10.00 %
Tier I capital (to risk weighted assets)	$ 492,918	12.48 %	≥ $ 335,809	≥ 8.50 %	≥ $ 316,056	≥ 8.00 %
Tier I capital (to average assets)	$ 492,918	12.62 %	≥ $ 156,224	≥ 4.00 %	≥ $ 195,280	≥ 5.00 %
Common equity tier 1 (to risk weighted assets)	$ 492,918	12.48 %	≥ $ 276,549	≥ 7.00 %	≥ $ 256,795	≥ 6.50 %
As of December 31, 2022:						
Total capital (to risk weighted assets)	$ 496,222	13.79 %	≥ $ 377,782	≥ 10.50 %	≥ $ 359,793	≥ 10.00 %
Tier I capital (to risk weighted assets)	$ 465,871	12.95 %	≥ $ 305,824	≥ 8.50 %	≥ $ 287,834	≥ 8.00 %
Tier I capital (to average assets)	$ 465,871	13.11 %	≥ $ 142,188	≥ 4.00 %	≥ $ 177,734	≥ 5.00 %
Common equity tier 1 (to risk weighted assets)	$ 465,871	12.95 %	≥ $ 251,855	≥ 7.00 %	≥ $ 233,865	≥ 6.50 %

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
THIRD COAST BANCSHARES, INC. (Consolidated)						
As of March 31, 2024:						
Total capital (to risk weighted assets)	$ 522,641	12.41 %	≥ $ 442,055	≥ 10.50 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	$ 401,785	9.54 %	≥ $ 357,854	≥ 8.50 %	N/A	N/A
Tier 1 capital (to average assets)	$ 401,785	9.15 %	≥ $ 175,671	≥ 4.00 %	N/A	N/A
Common equity tier 1 (to risk weighted assets)	$ 335,560	7.97 %	≥ $ 294,703	≥ 7.00 %	N/A	N/A
As of December 31, 2023:						
Total capital (to risk weighted assets)	$ 512,024	12.66 %	≥ $ 424,563	≥ 10.50 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	$ 392,037	9.70 %	≥ $ 343,694	≥ 8.50 %	N/A	N/A
Tier 1 capital (to average assets)	$ 392,037	9.23 %	≥ $ 169,917	≥ 4.00 %	N/A	N/A
Common equity tier 1 (to risk weighted assets)	$ 325,812	8.06 %	≥ $ 283,042	≥ 7.00 %	N/A	N/A
THIRD COAST BANK						
As of March 31, 2024:						
Total capital (to risk weighted assets)	$ 558,084	13.28 %	≥ $ 441,314	≥ 10.50 %	≥ $ 420,299	≥ 10.00 %
Tier 1 capital (to risk weighted assets)	$ 517,833	12.32 %	≥ $ 357,254	≥ 8.50 %	≥ $ 336,239	≥ 8.00 %
Tier 1 capital (to average assets)	$ 517,833	11.81 %	≥ $ 175,396	≥ 4.00 %	≥ $ 219,245	≥ 5.00 %
Common equity tier 1 (to risk weighted assets)	$ 517,833	12.32 %	≥ $ 294,209	≥ 7.00 %	≥ $ 273,194	≥ 6.50 %
As of December 31, 2023:						
Total capital (to risk weighted assets)	$ 544,624	13.49 %	≥ $ 423,829	≥ 10.50 %	≥ $ 403,647	≥ 10.00 %
Tier 1 capital (to risk weighted assets)	$ 505,190	12.52 %	≥ $ 343,100	≥ 8.50 %	≥ $ 322,918	≥ 8.00 %
Tier 1 capital (to average assets)	$ 505,190	11.91 %	≥ $ 169,649	≥ 4.00 %	≥ $ 212,062	≥ 5.00 %
Common equity tier 1 (to risk weighted assets)	$ 505,190	12.52 %	≥ $ 282,553	≥ 7.00 %	≥ $ 262,371	≥ 6.50 %

16. Earnings Per Common Share

Basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share is computed by using the net earnings allocated to common stock plus dividends on dilutive convertible preferred stock, divided by the sum of 1) the weighted-average number of shares determined for the basic earnings per common share computation, 2) the dilutive effect of stock compensation using the treasury stock method, and 3) the dilutive effect of convertible preferred stock using the if-converted method. For the three months ended September 30, 2023, the dilutive effects of convertible preferred stock were excluded from diluted earnings per share due to their anti-dilutive effects on the computation.

The following table presents a reconciliation of net income available to common shareholders and the number of shares used in the calculation of basic and diluted earnings per common share shown on the consolidated statements of income. income:

(Dollars in thousands, except share and per share data)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Net income	$ 5,578	$ 6,770	$ 23,712	$ 11,134	$ 10,367	$ 9,243
Less dividends declared, Series A Preferred Stock	1,184	—	3,539	—	1,171	1,171
Net income available to common shareholders	$ 4,394	$ 6,770	$ 20,173	$ 11,134	$ 9,196	$ 8,072
Weighted-average shares outstanding for basic earnings per common share	13,608,718	13,490,680	13,576,949	13,443,862	13,606,256	13,532,545
Dilutive effect of stock compensation and other dilutive securities	264,469	188,282	3,295,086	308,694	3,329,747	3,269,270
Weighted-average shares outstanding for diluted earnings per common share	13,873,187	13,678,962	16,872,035	13,752,556	16,936,003	16,801,815
Basic earnings per share	$ 0.32	$ 0.50	$ 1.49	$ 0.83	$ 0.68	$ 0.60
Diluted earnings per share	$ 0.32	$ 0.49	$ 1.41	$ 0.81	$ 0.61	$ 0.55

17. Derivative Financial Instruments

Cash Flow Hedges

As part of its hedging strategy, the Company entered into two five-year pay-fixed interest rate swap agreements during December 2023. The instruments have notional amounts of $100 million each with pay-fixed interest rates of 3.718% and 3.473%, respectively. The instruments are designated as cash flow hedges, and changes in fair value are recognized in other comprehensive income. The facilities are scheduled to mature on December 6, 2028 and December 21, 2028, respectively.

During March 2023 and as part of our hedging strategy, the Company entered into a five-year pay-fixed interest rate swap agreement with a notional amount of $200 million. The facility, which was scheduled to mature on March 31, 2028, was discontinued on May 26, 2023, May 26, 2023, and a gain of $5.0 million was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract.

During July 2022, the Company entered into a five-year pay-fixed interest rate swap agreement with a notional amount of $200 million on its floating rate deposits. The facility, which was designated as a cash flow hedge, was discontinued on August 24, 2022, and a gain on the terminated hedge of $3.0 million was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract, or July 9, 2027.

On February 18, 2021, a $100.0 million pay-fixed interest rate swap facility designated as a cash flow hedge was discontinued and a gain on the terminated hedge of $945,000 was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract, or September 4, 2025.

For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, approximately $1.2 445,000 million and $195,000 206,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense on discontinued hedges. For the three months ended September 30, 2023 and 2022, approximately $450,000 and $92,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense.

Fair Value Hedges

The Company offers certain interest rate swap products directly to its qualified commercial banking customers. These financial instruments are not designated as hedging instruments. The interest rate swap derivative positions relate to transactions in which the Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers to effectively convert a variable rate loan to a fixed rate. In connection with each swap, the Company agrees to pay interest on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount.

Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts are designed to offset each other and would not significantly impact the Company's operating results except in certain situations where there is a significant deterioration in the customer's credit worthiness or that of the counterparties. At September 30, 2023 March 31, 2024, no such deterioration was determined by management.

The Company also offers one-way interest rate swap products to its customers. Under this type of arrangement, the Company extends a conventional fixed-rate loan to the borrower and then subsequently hedges the interest rate risk of that loan by entering into a swap for its own balance sheet to convert the fixed-rate loan to a synthetic floating rate asset. These types of swaps lock in the Company's spread over its cost of funds for the life of the loan.

For some of its loan participation facilities, the Company enters into Risk Participation Agreements ("RPAs") RPAs with other banks in order to hedge or share a portion of the risk of borrower default related to the interest rate swap on a participated loan.

All derivatives are carried at fair value in either other derivative assets or other derivative liabilities in the accompanying consolidated balance sheets. At September 30, 2023 March 31, 2024, the Company's derivative assets and liabilities totaled $10.9 11.0 million and $10.5 8.3 million, respectively. The following tables provide the outstanding notional balances and fair values of outstanding derivative positions at September 30, 2023 March 31, 2024 and December 31, 2022. December 31, 2023:

(Dollars in thousands)	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value	Pay Rate (1)	Receive Rate (1)	Remaining Term (2)	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value	Pay Rate (1)	Receive Rate (1)	Remaining Term (2)

September 30, 2023:												
March 31, 2024:												
Cash flow hedges:												
Pay-fixed interest rate swaps							$ 200,000	$ 2,595	$ —	3.60%	USD Fed Funds-H.15	4.7
Total cash flow hedges							200,000	2,595	—			
Fair value hedges:												
Risk participation agreements purchased	$ 9,363	$ —	$ —	—	4.87%	1.4	$ 13,488	$ 14	$ —	—	5.83%	2.3
Risk participation agreements sold	42,994	—	2	—	5.21%	3.9	53,437	—	2	—	5.06%	3.6
Commercial loan one-way interest rate swaps	31,503	372	—	7.12%	—	2.9	33,543	203	48	7.02%	—	2.9
Commercial loan pass-through interest rate swaps:												
Loan customer counterparty	166,077	—	10,517	—	5.27%	4.1	200,716	530	7,673	—	5.78%	3.3
Financial institution counterparty	166,077	10,517	—	5.27%	—	4.1	200,716	7,673	530	5.78%	—	3.3
Total fair value hedges	416,014	10,889	10,519				501,900	8,420	8,253			
Total derivatives	$ 416,014	$ 10,889	$ 10,519				$ 701,900	$ 11,015	$ 8,253			

(Dollars in thousands)	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value	Pay Rate (1)	Receive Rate (1)	Remaining Term (2)
December 31, 2022:						
Fair value hedges:						
Risk participation agreements purchased	10,621	—	—	—	4.87	2.2
Risk participation agreements sold	29,360	—	8	—	5.54	4.2
Commercial loan one-way interest rate swaps	—	—	—	—	—	—
Commercial loan pass-through interest rate swaps:						
Loan customer counterparty	147,560	—	9,213	—	4.77%	4.5
Financial institution counterparty	147,560	9,213	—	4.77%	—	4.5
Total fair value hedges	335,101	9,213	9,221			
Total derivatives	$ 335,101	$ 9,213	$ 9,221			

(Dollars in thousands)	Outstanding	Asset	Liability	Pay	Receive	Remaining

	Notional Balance	Derivative Fair Value	Derivative Fair Value	Rate (1)	Rate (1)	Term (2)
December 31, 2023:						
Cash flow hedges:						
Pay-fixed interest rate swap	$ 200,000	$ —	$ 1,541	3.60%	USD Fed Funds-H.15	5.0
Total cash flow hedges	200,000	—	1,541			
Fair value hedges:						
Risk participation agreements purchased	13,935	—	20	—	5.80%	2.5
Risk participation agreements sold	54,383	6	—	—	5.06%	3.9
Commercial loan one-way interest rate swaps	32,477	48	352	7.02%	—	3.1
Commercial loan pass-through interest rate swaps:						
Loan customer counterparty	216,766	2,327	6,447	—	5.86%	3.7
Financial institution counterparty	216,766	6,447	2,327	5.86%	—	3.7
Total fair value hedges	534,327	8,828	9,146			
Total derivatives	$ 734,327	$ 8,828	$ 10,687			

(1) Weighted average rate.

(2) Weighted average life (in years).

18. Goodwill and Core Deposit Intangible, Net

In 2020, the Company recorded goodwill and core deposit intangible of $18.0 million and $1.6 million, respectively, relating to the Heritage Bancorp, Inc. acquisition.

Amortization expense of the core deposit intangible (“CDI”) was approximately $121,000 for each of the nine months ended September 30, 2023 and 2022, and was approximately $40,000 for each of the three months ended September 30, 2023 March 31, 2024 and 2022. 2023. The remaining weighted average life is 6.3 5.8 years at September 30, 2023 March 31, 2024.

Scheduled amortization of CDI at September 30, 2023 March 31, 2024 are as follows:

(Dollars in thousands)	CDI Amortization	CDI Amortization
2023 (three months remaining)	$ 40	
2024	162	
2024 (nine months remaining)		$ 121
2025	162	162
2026	162	162
2027	162	162
2028 and thereafter	321	
2028		162
2029		160
	$ 1,009	$ 929

19. Contingencies

Litigation

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

42 20. Subsequent Events

On April 10, 2024, the Company terminated $200 million in notional cash flow hedge facilities for a realized gain of $5.4 million. The gain will be accreted from other comprehensive income, net of deferred taxes, into interest expense through the maturity date of the contracts.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in this Quarterly Report on Form 10-Q (this "Form 10-Q") and in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 filed with the Securities and Exchange Commission (the "SEC") on March 15, 2023 March 7, 2024. Unless we state otherwise or the context otherwise requires, references in this Form 10-Q to "we," "our," "us," and the "Company" refer to Third Coast Bancshares, Inc., a Texas corporation, and its consolidated subsidiaries, references in this Form 10-Q to the "Bank" refer to Third Coast Bank, SSB, a Texas state savings bank banking association and our wholly owned bank subsidiary, and references in this Form 10-Q to "TCCC" refer to Third Coast Commercial Capital, Inc., a Texas corporation and wholly owned subsidiary of the Bank.

The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Cautionary Note Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Risk Factors" included in our Annual Report on Form 10-K filed with the SEC on March 15, 2023 March 7, 2024 and in Item 1A of this Form 10-Q. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Overview

We are a bank holding company with headquarters in Humble, Texas that operates through our wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiary, TCCC. We focus on providing commercial banking solutions to small and medium-sized businesses and professionals with operations in our markets. Our market expertise, coupled with a deep understanding of our customers' needs, allows us to deliver tailored financial products and services. We currently operate sixteen seventeen branches, with eight branches in the Greater Houston market, three branches in the Dallas-Fort Worth market, four five branches in the Austin-San Antonio market, and one branch in Detroit, Texas. As of September 30, 2023 March 31, 2024, we had, on a consolidated basis, total assets of $4.22 billion $4.66 billion, total loans of $3.56 billion $3.75 billion, total deposits of $3.65 billion $4.05 billion and total shareholders' equity of $400.3 million $423.6 million.

As a bank holding company that operates through one segment, community banking, we generate most of our revenue from interest on loans, and customer service and loan fees. We incur interest expense on deposits and other borrowed funds, as well as noninterest expense, such as salaries and employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest-earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between interest income on interest-earning assets, such as loans and interest-bearing time deposits in other banks, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest spread is the difference between average rates earned on interest-earning assets and average rates paid on interest-bearing liabilities.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as in the volume and types of interest-earning assets, interest-bearing liabilities and noninterest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target markets and throughout the state of Texas.

Conversion to State Bank

On October 26, 2023 March 13, 2024, the Bank was notified that the Federal Reserve Bank of Dallas granted approval of our application to convert completed its conversion from a Texas state savings bank to a state bank under Texas banking association. As a result of the name of Third Coast Bank. The approval is subject to our obtaining necessary approval from conversion, the Texas Department of Banking is the Bank's primary state regulator and clearance from the Texas Department Federal Reserve is the Bank's primary federal regulator. The Federal Reserve continues to be the Company's primary federal regulator. The Bank remains as a member of Savings and Mortgage Lending. the Federal Reserve System.

Results of Operations

Our results of operations depend substantially on net interest income and noninterest income. Other factors contributing to our results of operations include our level of our noninterest expenses, such as salaries and employee benefits, occupancy and equipment and other miscellaneous operating expenses. See the analysis of the material fluctuations in the related discussions that follow.

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,				For the Three Months Ended March 31,			
(Dollars in thousands)	2023	2022	Increase (Decrease)		2023	2022	Increase (Decrease)		2024	2023	Increase (Decrease)	
Interest income	$ 69,385	$ 43,102	$ 26,283	61.0 %	$ 189,477	$ 102,795	$ 86,682	84.3 %	$ 78,876	$ 57,379	$ 21,497	37.5 %
Interest expense	34,117	11,747	22,370	190.4 %	87,283	18,492	68,791	372.0 %	40,797	24,549	16,248	66.2 %
Net interest income	35,268	31,355	3,913	12.5 %	102,194	84,303	17,891	21.2 %	38,079	32,830	5,249	16.0 %
Provision for credit losses	2,620	2,900	(280)	(9.7)%	5,220	10,250	(5,030)	(49.1)%	1,560	1,200	360	30.0 %
Noninterest income	1,866	2,538	(672)	(26.5)%	6,048	5,470	578	10.6 %	2,343	1,902	441	23.2 %
Noninterest expense	27,505	22,728	4,777	21.0 %	73,384	65,682	7,702	11.7 %	25,914	22,044	3,870	17.6 %
Income before income taxes	7,009	8,265	(1,256)	(15.2)%	29,638	13,841	15,797	114.1 %	12,948	11,488	1,460	12.7 %
Income tax expense	1,431	1,495	(64)	(4.3)%	5,926	2,707	3,219	118.9 %	2,581	2,245	336	15.0 %

Net income	$ 5,578	$ 6,770	$ (1,192)	(17.6)%	$ 23,712	$ 11,134	$ 12,578	113.0%	$ 10,367	$ 9,243	$ 1,124	12.2%

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest-earning assets and interest-bearing liabilities, respectively. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact our net interest income. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Nine Three months ended September 30, 2023 March 31, 2024 vs. Nine Three months ended September 30, 2022 March 31, 2023

Net interest income increased $17.9 million $5.2 million, or 21.2% 16.0%, during the nine three months ended September 30, 2023 March 31, 2024, compared to the nine three months ended September 30, 2022 March 31, 2023, primarily due to increased interest income from loan growth and increased yields on loans offset by an increase in interest expense resulting from deposit growth and increased rates paid on interest-bearing deposits and FHLB advances along with interest related to the subordinated notes issued in March 2022. deposits. Average loans increased from $2.58 billion $3.17 billion for the nine three months ended September 30, 2022 March 31, 2023 to $3.29 billion $3.67 billion for the nine three months ended September 30, 2023 March 31, 2024, with the growth well diversified in real estate loans and commercial loans. The yield on loans for the nine three months ended September 30, 2023 March 31, 2024 was 7.26% 7.75% compared to 5.10% 6.90% for the nine three months ended September 30, 2022 March 31, 2023, primarily a result of the increases in the Prime Rate over the past twelve months. Interest expense related to interest bearing deposit accounts was $77.4 million $38.7 million and $15.0 million $22.1 million for nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Average interest bearing deposits increased from $2.60 billion for the three months ended March 31, 2023 to $3.35 billion for the three months ended March 31, 2024. The average rate paid on interest-bearing deposits increased from 0.88% 3.45% for the nine three months ended September 30, 2022 March 31, 2023 to 3.91% 4.65% for the nine three months ended September 30, 2023 March 31, 2024. Interest expense related to borrowings was $9.9 million for For the nine three months ended September 30, 2023 compared to $3.5 million for the nine months ended September 30, 2022. The increase was primarily due to the subordinated note offering on March 31, 2022, $5.0 million increase in senior debt in the third quarter of 2023, and increases in FHLB advances and rates paid on the advances. For the nine months ended September 30, 2023 March 31, 2024, net interest margin and net interest spread were 3.77% 3.60% and 2.91% 2.73%, respectively, compared to 3.85% 3.79% and 3.66% 3.01%, respectively, for the nine three months ended September 30, 2022 March 31, 2023.

The following table presents an analysis of net interest income and net interest spread for the periods indicated, including average outstanding balances for each major category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average rate earned or paid on such assets or liabilities, respectively. The table also sets forth the net interest margin on average total interest-earning assets for the same periods.

	For the Nine Months Ended September 30,						For the Three Months Ended March 31,					
	2023			2022			2024			2023		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate
Assets												
Interest-earnings assets:												

Investment securities	$ 195,234	$ 5,567	3.81 %	$ 115,705	$ 2,537	2.93 %	$ 202,277	$ 3,093	6.15 %	$ 178,197	$ 1,548	3.52 %
Loans, gross	3,287,053	178,586	7.26 %	2,577,324	98,344	5.10 %	3,665,378	70,671	7.75 %	3,170,828	53,911	6.90 %
Federal funds sold and other interest-earning assets	142,224	5,324	5.00 %	236,552	1,914	1.08 %						
Federal funds sold and other interest earning assets							383,929	5,112	5.36 %	167,694	1,920	4.64 %
Total interest-earning assets	3,624,511	189,477	6.99 %	2,929,581	102,795	4.69 %	4,251,584	78,876	7.46 %	3,516,719	57,379	6.62 %
Less allowance for credit losses	(36,236)			(24,265)			(37,278)			(34,879)		
Total interest-earning assets, net of allowance	3,588,275			2,905,316			4,214,306			3,481,840		
Noninterest-earning assets	186,443			169,473			193,070			182,869		
Total assets	$ 3,774,718			$ 3,074,789			$ 4,407,376			$ 3,664,709		
Liabilities and Shareholders' Equity												
Interest-bearing liabilities:												
Interest-bearing deposits	$ 2,645,127	$ 77,373	3.91 %	$ 2,279,048	$ 15,014	0.88 %	$ 3,346,847	$ 38,698	4.65 %	$ 2,595,750	$ 22,092	3.45 %
Note payable and line of credit	111,777	5,592	6.69 %	65,898	2,848	5.78 %	120,884	2,099	6.98 %	111,250	1,814	6.61 %
FHLB advances	106,353	4,318	5.43 %	52,202	630	1.61 %	—	—	—	52,803	643	4.94 %
Total interest-bearing liabilities	2,863,257	87,283	4.08 %	2,397,148	18,492	1.03 %	3,467,731	40,797	4.73 %	2,759,803	24,549	3.61 %
Noninterest-bearing deposits	473,834			351,002			457,054			477,706		
Other liabilities	44,025			22,361			61,945			42,406		
Total liabilities	3,381,116			2,770,511			3,986,730			3,279,915		
Shareholders' equity	393,602			304,278			420,646			384,794		
Total liabilities and shareholders' equity	$ 3,774,718			$ 3,074,789								

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Total liabilities and shareholders' equity			$ 4,407,376	$ 3,664,709
Net interest income	$ 102,194	$ 84,303	$ 38,079	$ 32,830
Net interest spread(1)	2.91 %	3.66 %	2.73 %	3.01 %
Net interest margin(2)	3.77 %	3.85 %	3.60 %	3.79 %

(1) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

(2) Net interest margin is equal to net interest income divided by average interest-earning assets.

(3) Interest earned/paid includes accretion of deferred loan fees, premiums and discounts. Interest income on loans includes loan fees and discount accretion of $10.9 million $3.5 million and $11.6 million $3.1 for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Nine Months Ended September 30, 2023 compared to 2022		
	Increase (Decrease) Due to Changes In		Total Increase (Decrease)
(Dollars in thousands)	Volume	Rate	
Interest-earning assets:			
Investment securities	$ 1,744	$ 1,286	$ 3,030
Loans, gross	27,081	53,161	80,242
Federal funds sold and other interest-earning assets	(763)	4,173	3,410
Total increase in interest income	$ 28,062	$ 58,620	$ 86,682
Interest-bearing liabilities:			
Interest-bearing deposits	$ 2,412	$ 59,947	$ 62,359
Note payable and line of credit	1,983	761	2,744
FHLB advances	654	3,034	3,688
Total increase in interest expense	$ 5,049	$ 63,742	$ 68,791
Increase (decrease) in net interest income	$ 23,013	$ (5,122)	$ 17,891

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Three months ended September 30, 2023 vs. Three months ended September 30, 2022

Net interest income increased $3.9 million, or 12.5%, during the three months ended September 30, 2023, compared to the three months ended September 30, 2022, primarily due to increased interest income from loan growth and increased yields on loans offset by an increase in interest expense resulting from increased rates paid on interest-bearing deposits and FHLB advances. Average loans increased from $2.87 billion for the three months ended September 30, 2022 to $3.42 billion for the three months ended September 30, 2023, with the growth well diversified in real estate loans and commercial loans. The yield on loans for the three months ended September 30, 2023 was 7.57% compared to 5.59% for the three months ended September 30, 2022, primarily a result of the increases in the Prime Rate over the past twelve months. Interest expense related to interest bearing deposit accounts was $30.3 million and $9.7 million for three months ended September 30, 2023 and 2022, respectively. The average rate paid on interest-bearing deposits increased from 1.58% for the three months ended September 30, 2022 to 4.37% for the three months ended September 30, 2023. Interest expense related to borrowings was $3.8 million for the three months ended September 30, 2023 compared to $2.0 million for the three months ended September 30, 2022, primarily due to the increase in FHLB advances and the rates paid on advances during the three months ended September 30, 2023. For the three months ended September 30, 2023, net interest margin and net interest spread were 3.71% and 2.79%, respectively, compared to 3.77% and 3.40%, respectively, for the three months ended September 30, 2022.

The following table presents an analysis of net interest income and net interest spread for the periods indicated, including average outstanding balances for each major category of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average rate earned or paid on such assets or liabilities, respectively. The table also sets forth the net interest margin on average total interest-earning assets for the same periods.

	For the Three Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid(3)	Average Yield/ Rate
Assets						
Interest-earnings assets:						
Investment securities	$ 198,305	$ 1,990	3.98 %	$ 180,701	$ 1,367	3.00 %
Loans, gross	3,424,738	65,380	7.57 %	2,874,857	40,498	5.59 %
Federal funds sold and other interest earning assets	146,965	2,015	5.44 %	243,471	1,237	2.02 %
Total interest-earning assets	3,770,008	69,385	7.30 %	3,299,029	43,102	5.18 %
Less allowance for credit losses	(37,421)			(27,504)		
Total interest-earning assets, net of allowance	3,732,587			3,271,525		
Noninterest-earning assets	190,670			184,514		
Total assets	$ 3,923,257			$ 3,456,039		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 2,756,305	$ 30,345	4.37 %	$ 2,446,443	$ 9,727	1.58 %
Note payable and line of credit	112,765	1,919	6.75 %	111,213	1,617	5.77 %
FHLB advances	129,585	1,853	5.67 %	60,176	403	2.66 %
Total interest-bearing liabilities	2,998,655	34,117	4.51 %	2,617,832	11,747	1.78 %
Noninterest-bearing deposits	473,282			498,408		
Other liabilities	49,271			31,707		
Total liabilities	3,521,208			3,147,947		
Shareholders' equity	402,049			308,092		
Total liabilities and shareholders' equity	$ 3,923,257			$ 3,456,039		
Net interest income		$ 35,268			$ 31,355	
Net interest spread(1)			2.79 %			3.40 %
Net interest margin(2)			3.71 %			3.77 %

	For the Three Months Ended March 31, 2024 compared to 2023		
	Increase (Decrease) Due to Changes In		Total Increase
(Dollars in thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Investment securities	$ 224	$ 1,321	$ 1,545
Loans, gross	8,929	7,831	16,760
Federal funds sold and other interest-earning assets	2,512	680	3,192
Total increase in interest income	$ 11,665	$ 9,832	$ 21,497
Interest-bearing liabilities:			
Interest-bearing deposits	$ 6,630	$ 9,976	$ 16,606
Note payable and line of credit	174	111	285
FHLB advances	(643)	—	(643)

Total increase in interest expense	$ 6,161	$ 10,087	$ 16,248
Increase (decrease) in net interest income	$ 5,504	$ (255)	$ 5,249

(1)
Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

(2) Net interest margin is equal to net interest income divided by average interest-earning assets.
(3) Interest earned/paid includes accretion of deferred loan fees, premiums and discounts. Interest income on loans includes loan fees and discount accretion of $4.1 million and $4.0 million for the three mont ended September 30, 2023 and 2022, respectively.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended September 30, 2023 compared to 2022		
	Increase (Decrease) Due to Changes In		Total Increase
(Dollars in thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Investment securities	$ 133	$ 490	$ 623
Loans, gross	7,746	17,136	24,882
Federal funds sold and other interest-earning assets	(490)	1,268	778
Total increase in interest income	$ 7,389	$ 18,894	$ 26,283
Interest-bearing liabilities:			
Interest-bearing deposits	$ 1,232	$ 19,386	$ 20,618
Note payable and line of credit	23	279	302
FHLB advances	465	985	1,450
Total increase in interest expense	$ 1,720	$ 20,650	$ 22,370
Increase (decrease) in net interest income	$ 5,669	$ (1,756)	$ 3,913

Provision for Credit Losses

Provision for credit losses is determined by management as the amount to be added to the allowance for credit losses accounts for various types of financial instruments, including loans, securities and off-balance sheet credit exposures, to bring the allowances to a level which, in management's best estimate, is necessary to absorb expected credit losses over the lives of the respective financial instruments. Prior to the January 1, 2023 adoption of ASC 326, the provision for credit losses was an expense we used to maintain an allowance for credit losses for loans at a level which was deemed appropriate by management to absorb inherent losses on existing loans.

The provision for credit losses for the nine three months ended September 30, 2023 March 31, 2024 was $5.2 million $1.6 million compared to $10.3 million for the nine months ended September 30, 2022. The provision for credit losses $1.2 million for the three months ended September 30, 2023 was $2.6 million compared to $2.9 million for the three months ended September 30, 2022 March 31, 2023. The provisions for each period related primarily to provisioning for new loans and commitments booked during the periods. No provision for credit losses for securities was recorded for the three months ended March 31, 2024 or nine months ended September 30, 2023 2023.

As of March 31, 2024, the allowance for credit losses for loans totaled $38.1 million, or 1.02% of total loans, compared to $37.0 million, or 1.02% of total loans, as of December 31, 2023. At March 31, 2024, the allowance for credit losses for unfunded loan commitments was $2.1 million compared to $2.4 million at December 31, 2023. No allowance for credit losses for securities was recorded as of March 31, 2024 or December 31, 2023.

See the sections captioned “Allowance for Credit Losses” and “Securities” elsewhere in this discussion for additional information regarding the provision for credit losses related to loans, off-balance sheet credit exposures and securities.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and other fees, on deposit accounts, earnings from bank-owned life insurance derivative fees, and our investment in the Small Business Investment Company, income, gains from the sale of SBA loans and advisory fee income. securities, and derivative fees.

The following table presents, for the periods indicated, the major categories of noninterest income:

(Dollars in thousands)	For the Three Months Ended September 30, 2023	2022	Increase (Decrease)		For the Nine Months Ended September 30, 2023	2022	Increase (Decrease)		For the Three Months Ended March 31, 2024	2023	Increase (Decrease)	
Noninterest Income:												
Service charges and fees	$ 884	$ 772	$ 112	14.5 %	$ 2,383	$ 2,008	$ 375	18.7 %	$ 1,505	$ 779	$ 726	93.2 %
Earnings on bank-owned life insurance									582	475	107	22.5 %
Gain on sale of investment securities available-for-sale	364	—	364	100.0 %	461	—	461	100.0 %	157	97	60	61.9 %
Gain on sale of SBA loans	114	729	(615)	(84.4)%	114	827	(713)	(86.2)%	30	—	30	100.0 %
Earnings on bank-owned life insurance	541	424	117	27.6 %	1,542	815	727	89.2 %				
Derivative fees	159	313	(154)	(49.2)%	405	1,142	(737)	(64.5)%	66	(1)	67	6700.0 %
Other	(196)	300	(496)	(165.3)%	1,143	678	465	68.6 %	3	552	(549)	(99.5)%
Total noninterest income	$ 1,866	$ 2,538	$ (672)	(26.5)%	$ 6,048	$ 5,470	$ 578	10.6 %	$ 2,343	$ 1,902	$ 441	23.2 %

Nine Three months ended September 30, 2023 March 31, 2024 vs. Nine Three months ended September 30, 2022 March 31, 2023

The increase in noninterest income of $578,000 for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was primarily due to increases in earnings on bank-owned life insurance, service charges and fees, Small Business Investment Company income, and advisory fee income offset by decreases in derivative fee income and gains on the sale of

SBA loans. In addition, the Company recognized $461,000 in gains on the sales of investment securities during the nine months ended September 30, 2023.

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

The decrease in noninterest income of $672,000 $441,000 for the three months ended September 30, 2023 March 31, 2024, compared to the three months ended September 30, 2022 March 31, 2023, was primarily due to decreases in gains on sale of SBA loans, Small Business Investment Company income, increased service charges and derivative fee income offset by an increase in other fees and increased earnings on bank-owned life insurance, and gains recorded on the sale of investment securities. offset by a decrease in advisory fee income.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of our facilities and our furniture, fixtures and office equipment, legal and professional fees, data processing and network expenses, regulatory fees, including Federal Deposit Insurance Corporation (“FDIC”) assessments, marketing expenses, and loan operations and repossessed asset related expenses.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,				For the Three Months Ended March 31,			
(Dollars in thousands)	2023	2022	Increase (Decrease)		2023	2022	Increase (Decrease)		2024	2023	Increase (Decrease)	
Noninterest Expense:												
Salaries and employee benefits	$ 17,353	$ 14,719	$ 2,634	17.9 %	$ 46,098	$ 42,037	$ 4,061	9.7 %	$ 16,502	$ 13,712	$ 2,790	20.3 %
Net occupancy and equipment expenses	2,925	2,232	693	31.0 %	8,410	5,935	2,475	41.7 %	3,045	2,633	412	15.6 %
Other:												
Legal and professional fees	2,001	1,353	648	47.9 %	5,478	5,100	378	7.4 %	1,385	1,930	(545)	(28.2)%
Data processing and network expenses	1,284	1,256	28	2.2 %	3,748	3,110	638	20.5 %	1,418	1,203	215	17.9 %
Regulatory assessments									980	666	314	47.1 %

Advertising and marketing	515	438	77	17.6%	2,013	1,332	681	51.1%	355	686	(331)	(48.3)%
Regulatory assessments	532	1,000	(468)	(46.8)%	1,656	2,601	(945)	(36.3)%				
Software purchases and maintenance	729	318	411	129.2%	1,536	717	819	114.2%	817	352	465	132.1%
Loan operations	272	284	(12)	(4.2)%	539	844	(305)	(36.1)%	226	(35)	261	745.7%
Telephone and communications	117	122	(5)	(4.1)%	385	321	64	19.9%	134	139	(5)	(3.6)%
Loss on sale of other real estate owned	—	—	—	—	—	350	(350)	(100.0)%				
Other	1,777	1,006	771	76.6%	3,521	3,335	186	5.6%	1,052	758	294	38.8%
Total noninterest expense	$ 27,505	$ 22,728	$ 4,777	21.0%	$ 73,384	$ 65,682	$ 7,702	11.7%	$ 25,914	$ 22,044	$ 3,870	17.6%

Nine Three months ended September 30, 2023 March 31, 2024 vs. Nine Three months ended September 30, 2022 March 31, 2023

The increase in noninterest expense of $7.7 million $3.9 million for the nine three months ended September 30, 2023 March 31, 2024, compared to the nine three months ended September 30, 2022 March 31, 2023, was primarily due to increases in salaries and employee benefits expense expenses, investment in new technology and net occupancy software, increase in regulatory assessments, increase in data processing expenses related to growth and equipment expenses. new products, increased expenses related to new offices and increased other expenses such as franchise taxes, fraud losses, and deposit related fees.

Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $46.1 million $16.5 million for the nine three months ended September 30, 2023 March 31, 2024, an increase of $4.1 million $2.8 million, or 9.7% 20.3%, compared to $42.0 million $13.7 million for the same period in 2022. 2023. The increase was primarily due to our continued investment in additional personnel, our employees with annual wage increases and severance costs related to workforce reductions merit awards and a decrease in the third quarter of 2023. For the nine months ended September 30, 2023, the average number of employees was 371 compared to an average number of employees of 348 for the nine months ended September 30, 2022. deferred salary expense resulting from a decrease in new loan volume.

Net occupancy and equipment expenses were $8.4 million $3.0 million and $5.9 million for the nine months ended September 30, 2023 and 2022, respectively. This category includes building, leasehold, furniture, fixtures and equipment depreciation and software amortization totaling $3.7 million and $2.6 million for the nine months ended September 30, 2023 and 2022, respectively. The increase was also due to costs associated with branches that opened in the second and fourth quarter of 2022 and additional lease space at several of our locations.

Three months ended September 30, 2023 vs. Three months ended September 30, 2022

The increase in noninterest expense of $4.8 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022, was primarily due to increases in salaries March 31, 2024 and employee benefits expense, net occupancy and equipment expenses, legal and professional fees, and other noninterest expenses.

Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $17.4 million for the three months ended September 30, 2023, an increase of $2.6 million, or 17.9%, compared to $14.7 million for the same period in 2022. The increase was due to our investment in additional personnel, annual wage increases, and severance costs related to workforce reductions in the third quarter of 2023. For the three months ended September 30, 2023, the average number of employees was 373 compared to an average number of employees of 361 for the three months ended September 30, 2022.

Net occupancy and equipment expenses were $2.9 million and $2.2 million for the three months ended September 30, 2023 and 2022, 2023, respectively. This category includes building, leasehold, furniture, fixtures and equipment depreciation and software amortization totaling $1.3 million and $948,000 $1.1 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The increase was also due to costs associated with branches that opened in the second and fourth quarter of 2022 and additional lease space at several of our locations. locations and increased computer software amortization.

Legal and professional fees were $2.0 million $1.4 million and $1.4 million $1.9 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The year over year decrease was primarily due to decreased legal fees from the first quarter of 2023 for corporate business.

Regulatory assessment fees increased from $666,000 for the three months ended March 31, 2023 to $980,000 for the three months ended March 31, 2024. The increase was primarily due to increased audit our growth in total assets from $3.86 billion at March 31, 2023 to $4.66 billion at March 31, 2024 and accounting fees related a change in our quarterly assessment rate.

The Company's software-related expenditures, including software purchases and maintenance, amounted to $817,000 and $352,000 for the Company's growth three months ended March 31, 2024, and increased legal fees related 2023, respectively. The increase in these expenses is attributed to corporate business, loan collections our continued investment towards adopting new and new products. advanced technology and software aimed at achieving greater efficiency in lending and deposit processes and management of risk.

Other noninterest expenses were $1.8 million $1.1 million and $1.0 million $758,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The Company incurred $400,000 in ACH and check fraud losses in the third quarter of 2023. In addition, the Company incurred additional expenses related to insurance costs, employee award program costs, franchise taxes, deposit related fees, and board of director related expenses.

Income Tax Expense

The amount of income tax expense we incur is impacted by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense and effective tax rates for the periods shown below were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Three Months Ended March 31,**	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**	**2024**	**2023**
Income tax expense	$ 1,431	$ 1,495	$ 5,926	$ 2,707	$ 2,581	$ 2,245
Effective tax rate	20.4 %	18.1 %	20.0 %	19.6 %	19.9 %	19.5 %

Financial Condition

Total assets were $4.22 billion $4.66 billion as of September 30, 2023 March 31, 2024 compared to $3.77 billion $4.40 billion as of December 31, 2022 December 31, 2023. The increase in total assets of $442.6 million $264.3 million was primarily due to organic loan growth, and the purchase of investment securities, and BOLI the increase in cash and cash equivalents during the nine three months ended September 30, 2023 March 31, 2024. The increases were funded primarily by the growth in total deposits and additional advance on the increase in senior debt, and a decrease in cash and cash equivalents. Company's line of credit.

Loan Portfolio

Our primary source of income is derived through interest earned on loans to small-to medium-sized businesses, commercial companies, professionals and individuals located in our primary market areas. A substantial portion of our loan portfolio consists of commercial and industrial loans and real estate loans secured by commercial real estate properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our earning assets.

As of September 30, 2023 March 31, 2024, total loans were $3.56 billion $3.75 billion, an increase of $452.4 million $107.4 million, or 14.6% 3.0%, compared to $3.11 billion $3.64 billion as of December 31, 2022 December 31, 2023. The increase in loans was well diversified in real estate loans and commercial loans. Total loans as a percentage of deposits were 97.6% 92.5% and 96.0% 95.7% as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Total loans as a percentage of assets were 84.4% 80.4% and 82.4% 82.8% as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

(Dollars in thousands)	September 30, 2023 Amount	September 30, 2023 Percent	December 31, 2022 Amount	December 31, 2022 Percent	As of March 31, 2024 Amount	As of March 31, 2024 Percent	As of December 31, 2023 Amount	As of December 31, 2023 Percent
Real estate:								
Commercial real estate:								
Non-farm non-residential owner occupied	$ 517,917	14.5%	$ 493,791	15.9%	$ 510,266	13.6%	$ 520,822	14.3%
Non-farm non-residential non-owner occupied	566,973	15.9%	506,012	16.3%	598,311	16.0%	586,626	16.1%
Residential	326,354	9.2%	308,775	9.9%	345,890	9.2%	342,589	9.4%
Construction, development and other	655,822	18.4%	567,851	18.3%	725,176	19.4%	693,553	19.1%
Farmland	30,646	0.9%	22,820	0.7%	29,706	0.8%	30,396	0.8%
Commercial and industrial	1,288,320	36.2%	1,058,910	34.1%	1,350,289	36.0%	1,263,077	34.7%
Consumer	2,665	0.1%	3,872	0.1%	2,382	0.1%	2,555	0.1%
Municipal and other	171,256	4.8%	145,520	4.7%	184,158	4.9%	199,170	5.5%
Total loans	$ 3,559,953	100.0%	$ 3,107,551	100.0%	$ 3,746,178	100.0%	$ 3,638,788	100.0%

Commercial Real Estate Loans. Commercial real estate loans are underwritten primarily based on cash flows of the borrower and, secondarily, the value of the underlying collateral. These loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the portfolio are located primarily throughout our markets and are generally diverse in terms of type. This diversity helps reduce the exposure to adverse economic events that affect any single industry.

Owner-occupied commercial real estate loans are a key component of our lending strategy to owner-operated businesses, representing a large percentage of our total commercial real estate loans. Owner-occupied commercial real estate loans increased $24.1 million decreased $10.6 million, or 4.9% 2.0%, to $517.9 million $510.3 million as of September 30, 2023 March 31, 2024 from $493.8 million $520.8 million as of December 31, 2022 December 31, 2023.

Non-owner-occupied commercial real estate loans are loans for income producing properties and are generally for retail strip centers, office buildings, self-storage facilities, and multi and single tenant office warehouses, all within our markets. Non-owner-occupied commercial real estate loans increased $61.0 million $11.7 million, or 12.0% 2.0%, to $567.0 million $598.3 million as of September 30, 2023 March 31, 2024 from $506.0 million $586.6 million as of December 31, 2022 December 31, 2023.

The increases in commercial real estate loans were due to the addition of lenders and increased productivity in response to market demand.

Residential Real Estate Loans. Residential real estate loans consist of 1-4 family residential loans and multi-family residential loans. Our 1-4 family residential loan portfolio is predominately comprised of loans secured by 1-4 family homes, which are investor owned. While we do have some owner-occupied 1-4 family residential loans, we have not historically pursued this product line; however, we do offer limited mortgage products through our mortgage department. Our multi-family residential loan portfolio is comprised of loans secured by properties deemed multi-family, which includes apartment buildings. Our current multifamily loans are to operators who we believe are seasoned and successful and possess quality alternative repayment sources. Residential real estate loans increased $17.6 million $3.3 million, or 5.7% 1.0%, to $326.4 million $345.9 million as of September 30, 2023 March 31, 2024 from $308.8 million $342.6 million as of December 31, 2022 December 31, 2023.

Construction, Development and Other Loans. Construction and development loans are comprised of loans used to fund construction, land acquisition and land development. The properties securing the portfolio are primarily in the Greater Houston and Dallas markets and are generally diverse in terms of type. During 2021, we expanded our construction and development portfolio through the formation of our builder finance group, which provides traditional homebuilder lines secured by lots and single-family homes, and land acquisition and development loans. This group also finances bond anticipation notes and lines of credit to large national institutional tier-one funds that invest equity in various real estate assets. Construction, development and other loans increased $88.0 million $31.6 million, or 15.5%

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4.6%, to $655.8 million $725.2 million as of September 30, 2023 March 31, 2024 from $567.9 million $693.6 million as of December 31, 2022 December 31, 2023 due primarily to the additional productivity from the builder finance group.

Commercial and Industrial Loans. Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are primarily made based on the borrower's ability to service the debt from income. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and generally include personal guarantees. Our commercial and industrial loan portfolio consists of loans principally to retail trade, service, and manufacturing firms located in our market areas.

In addition, the commercial and industrial loan category includes factored receivables. TCCC provides working capital solutions for small- to medium-sized businesses throughout the United States. TCCC provides working capital financing through the purchase of accounts receivables. Our factored receivables portfolio consists primarily of customers in the transportation, energy services and service industries. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, outstanding factored receivables were $34.0 million $31.0 million and $28.0 million $26.5 million, respectively.

Commercial and industrial loans increased $229.4 million $87.2 million, or 21.7% 6.9%, to $1.29 billion $1.35 billion as of September 30, 2023 March 31, 2024 from $1.06 billion $1.26 billion as of December 31, 2022 December 31, 2023. The increase was primarily a result of increased productivity of existing lenders in response to market demand.

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Other Loan Categories. Other categories of loans included in our loan portfolio include municipal loans, farmland loans, consumer loans, agricultural loans made to farmers and ranchers relating to their operations and lease financing. None of these categories of loans represents a material portion of our total loan portfolio.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of the date indicated are summarized in the following tables:

	As of September 30, 2023					**As of March 31, 2024**				
(Dollars in thousands)	**One Year or Less**	**One Through Five Years**	**Five Years Through Fifteen Years**	**After Fifteen Years**	**Total**	**One Year or Less**	**One Through Five Years**	**Five Years Through Fifteen Years**	**After Fifteen Years**	**Total**
Real estate:										

Commercial real estate:										
Non-farm non-residential owner occupied	$ 23,597	$ 202,997	$ 213,121	$ 78,202	$ 517,917	$ 33,339	$ 215,396	$ 189,379	$ 72,152	$ 510,266
Non-farm non-residential non-owner occupied	36,786	380,433	118,817	30,937	566,973	46,996	406,195	114,854	30,266	598,311
Residential	35,510	80,323	76,289	134,232	326,354	152,699	85,970	56,803	50,418	345,890
Construction, development and other	109,432	510,470	13,980	21,940	655,822	131,341	567,236	15,965	10,634	725,176
Farmland	2,435	22,334	5,330	547	30,646	4,904	18,358	5,233	1,211	29,706
Commercial and industrial	734,080	467,521	81,940	4,779	1,288,320	778,486	489,374	77,749	4,680	1,350,289
Consumer	554	1,765	346	—	2,665	458	1,626	298	—	2,382
Municipal and other	74,802	96,390	64	—	171,256	109,512	74,646	—	—	184,158
Total loans	$ 1,017,196	$ 1,762,233	$ 509,887	$ 270,637	$ 3,559,953	$ 1,257,735	$ 1,858,801	$ 460,281	$ 169,361	$ 3,746,178
Amounts with fixed rates	$ 127,443	$ 596,875	$ 45,777	$ 110,445	$ 880,540	$ 284,182	$ 526,477	$ 26,543	$ 9,425	$ 846,627
Amounts with floating rates	$ 889,753	$ 1,165,358	$ 464,110	$ 160,192	$ 2,679,413	$ 973,553	$ 1,332,324	$ 433,738	$ 159,936	$ 2,899,551

Nonperforming Assets

Nonperforming assets include nonaccrual loans, loans that are accruing over 90 days past due, restructured loans - accruing, and foreclosed assets. Effective January 1, 2023, the Company adopted the provisions of ASU 2022-02, which discontinued the recognition and measurement guidance previously required on troubled debt restructurings. Therefore, restructure loans included in nonperforming assets as of September 30, 2023 March 31, 2024 exclude any loan modifications that are performing but would have previously required disclosure as troubled debt restructurings. Generally, loans are placed on nonaccrual status when they become more than 90 days past due and/or collection of principal or interest is in doubt.

The following table presents information regarding nonperforming assets at the dates indicated:

(Dollars in thousands)	As of September 30, 2023		As of December 31, 2022		As of March 31, 2024		As of December 31, 2023	
Nonaccrual loans	$	13,963	$	10,963	$	18,130	$	16,649
Loans > 90 days and still accruing		2,442		518		3,614		670
Restructured loan—accruing		—		780		—		—
Total nonperforming loans	$	16,405	$	12,261	$	21,744	$	17,319
Other real estate owned and repossessed assets		—		—		—		—
Total nonperforming assets	$	16,405	$	12,261	$	21,744	$	17,319
Ratio of nonaccrual loans to total loans		0.39 %		0.35 %		0.48 %		0.46 %
Ratio of nonperforming loans to total loans		0.46 %		0.39 %		0.58 %		0.48 %
Ratio of nonperforming loans to total assets		0.39 %		0.32 %		0.47 %		0.39 %
Ratio of nonperforming assets to total assets		0.39 %		0.32 %		0.47 %		0.39 %
Ratio of nonperforming loans to total loans plus OREO		0.46 %		0.39 %		0.58 %		0.48 %
Ratio of allowance for credit losses to nonaccrual loans		272.63 %		276.85 %		210.37 %		222.37 %

We had $16.4 million $21.7 million in nonperforming assets as of September 30, 2023 March 31, 2024 compared to $12.3 million $17.3 million as of December 31, 2022 December 31, 2023. Included in nonperforming assets, nonperforming loans were $16.4 million $21.7 million and $12.3 million $17.3 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The increase in non-performing loans was primarily due to the placement result of three commercial and industrial loans and a $2.3 million commercial real estate loan being placed on nonaccrual totaling $3.0 million. The increase was partially offset by nonaccrual loan charge-offs of $549,000 and a $2.0 million nonaccrual loan that is paydowns of $629,000 during the quarter. The increase in loans over 90 days and still accruing was primarily the result of a $2.9 million commercial real estate loan that matured and still accruing. Both was pending renewal at the end of these loans are well secured, and no losses are anticipated. In October 2023, the $2.0 million loan was renewed and is current. The remaining loans placed on nonaccrual this quarter consist of two relationships totaling $2.0 million, and minimal losses are expected as these loans are worked out. The remaining loans that are over 90 days past due at quarter end are well secured and in the process of renewal.

quarter.

The following table summarizes our nonaccrual loans by category as of the dates indicated:

(Dollars in thousands)	As of September 30, 2023		As of December 31, 2022		As of March 31, 2024		As of December 31, 2023	
Nonaccrual loans by category:								
Real estate:								
Commercial real estate:								
Non-farm non-residential owner occupied	$	978	$	1,699	$	2,369	$	1,211
Non-farm non-residential non-owner occupied		1,235		296		1,225		1,235
Residential		3,058		513		2,837		2,938
Construction, development and other		567		45		406		247
Commercial and industrial		8,125		8,390		11,293		11,018
Consumer		—		20				
Total nonaccrual loans	$	13,963	$	10,963	$	18,130	$	16,649

Risk Gradings

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for credit losses, management assigns and tracks risk gradings as indicated below that are used as credit quality indicators.

The following table summarizes the internal ratings of our loans as of the dates indicated:

	September 30, 2023					As of March 31, 2024				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:										
Commercial real estate:										
Non-farm non-residential owner occupied	$ 509,652	$ 3,716	$ 4,549	$ —	$ 517,917	$ 486,894	$ 5,626	$ 17,746	$ —	$ 510,266
Non-farm non-residential non-owner occupied	556,155	4,467	6,351	—	566,973	597,086	—	1,225	—	598,311
Residential	322,431	—	3,923	—	326,354	342,227	533	3,130	—	345,890
Construction, development and other	653,747	1,508	567	—	655,822	723,633	710	833	—	725,176
Farmland	30,646	—	—	—	30,646	28,868	—	838	—	29,706
Commercial and industrial	1,254,201	18,098	16,021	—	1,288,320	1,286,360	42,175	19,932	1,822	1,350,289
Consumer	2,665	—	—	—	2,665	2,382	—	—	—	2,382
Municipal and other	171,256	—	—	—	171,256	169,741	—	14,417	—	184,158
Gross loans	$ 3,500,753	$ 27,789	$ 31,411	$ —	$ 3,559,953	$ 3,637,191	$ 49,044	$ 58,121	$ 1,822	$ 3,746,178

	December 31, 2022				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Commercial real estate:					
Non-farm non-residential owner occupied	$ 487,633	$ 1,885	$ 4,273	$ —	$ 493,791
Non-farm non-residential non-owner occupied	498,987	228	6,797	—	506,012
Residential	307,881	—	894	—	308,775
Construction, development and other	559,186	8,620	45	—	567,851
Farmland	22,820	—	—	—	22,820
Commercial and industrial	1,051,365	2,252	5,293	—	1,058,910
Consumer	3,852	—	20	—	3,872
Municipal and other	145,520	—	—	—	145,520
Gross loans	$ 3,077,244	$ 12,985	$ 17,322	$ —	$ 3,107,551

(Dollars in thousands)	As of December 31, 2023 Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Commercial real estate:					
Non-farm non-residential owner occupied	$ 510,811	$ 5,517	$ 4,494	$ —	$ 520,822
Non-farm non-residential non-owner occupied	580,981	4,409	1,236	—	586,626
Residential	338,619	538	3,432	—	342,589
Construction, development and other	692,098	1,208	247	—	693,553
Farmland	29,547	—	849	—	30,396
Commercial and industrial	1,213,303	35,672	13,780	322	1,263,077
Consumer	2,555	—	—	—	2,555
Municipal and other	199,170	—	—	—	199,170
Gross loans	$ 3,567,084	$ 47,344	$ 24,038	$ 322	$ 3,638,788

Allowance for Credit Losses

In accordance with ASC 326 which the Company adopted January 1, 2023, the allowance for credit losses on loans is estimated and recognized upon origination of the loan based on current expected credit losses. The amount of the allowance for credit losses represents management's best estimate of current expected credit losses on the Company's loans considering available information, from internal and external sources, relevant to assessing the exposure to credit loss over the contractual term of the loan. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance for credit losses is dependent upon a variety of factors beyond our control, including the performance of our loan portfolios, the economy, changes in interest rates

and the view of the regulatory authorities toward classification of assets. On January 1, 2023, we recorded an increase of $4.0 million to the allowance for credit losses for the cumulative effect of adopting ASC 326 for our loan portfolio. For additional information on adoption of ASC 326, see "—Critical Accounting Policies—Allowance for Credit Losses" below and Note 1 – Nature of Operations and Summary of Significant Accounting Policies and Note 3 – Loans and Allowance for Credit Losses in the notes to our consolidated financial statements included elsewhere in this Form 10-Q.

Prior to the adoption of ASC 326, we maintained an allowance for credit losses that represented management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for credit losses was not an indicator that charge-offs in future periods would necessarily occur in those amounts. In determining the allowance for credit losses, we estimated losses on specific loans, or groups of loans, where the probable loss could be identified and reasonably determined. The balance of the allowance for credit losses was based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature and volume of our loan portfolio, overall portfolio quality, industry or borrower concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates, among other factors.

As of September 30, 2023 March 31, 2024, the allowance for credit losses for loans totaled $38.1 million, or 1.02% of total loans. As of December 31, 2023, the allowance for credit losses totaled $38.1 million $37.0 million, or 1.07% of total loans. As of December 31, 2022, the allowance for credit losses totaled $30.4 million, or 0.98% 1.02% of total loans. The increase in our allowance for credit losses is was primarily due to $4.0 million from the impact of ASC 326 adoption and the $3.4 million $1.9 million provision for credit losses on loans recorded for the nine three months ended September 30, 2023. March 31, 2024 partially offset by $742,000 of net charge-offs.

The following table presents, as of and for the periods indicated, an analysis of the allowance for credit losses and other related data:

(Dollars in thousands)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Allowance for credit losses at beginning of period	$ 37,243	$ 26,666	$ 30,351	$ 19,295	$ 37,022	$ 30,351
Impact of ASC 326 adoption	—	—	4,000	—	—	4,000
Provision for credit losses on loans	848	2,900	3,448	10,250	1,860	1,200
Charge-offs:						
Commercial and Industrial	(28)	(461)	(329)	(461)		
Commercial and industrial					(812)	(120)
Consumer	—	—	(19)	—	—	(21)
Municipal and other	(2)	—	(4)	—	(27)	—
Total charge-offs	(30)	(461)	(352)	(461)	(839)	(141)
Recoveries:						
Commercial and industrial	6	4	620	12	86	505
Consumer	—	—	—	13	1	—
Municipal and other					10	—
Total recoveries	6	4	620	25	97	505
Net (charge-offs) recoveries	(24)	(457)	268	(436)	(742)	364
Allowance for credit losses at end of period	$ 38,067	$ 29,109	$ 38,067	$ 29,109	$ 38,140	$ 35,915
Ratio of net (charge-offs) recoveries to average loans(1)	(0.00)%	(0.06)%	0.01%	(0.02)%	(0.08)%	0.05%

(1) Interim periods annualized.

During the three and nine months ended September 30, 2023 March 31, 2024, the Company recorded net charge-offs of $24,000 and net recoveries of $268,000, respectively. $742,000. During the three and nine months ended September 30, 2022 March 31, 2023, net charge-offs recoveries were $457,000 and $436,000, respectively. $364,000.

The allowance for credit losses by loan category as of the dates indicated was as follows:

(Dollars in thousands)	September 30, 2023 Amount	September 30, 2023 % Loans in Each Category	December 31, 2022 Amount	December 31, 2022 % Loans in Each Category
Real estate:				
Commercial real estate:				
Non-farm non-residential owner occupied	$ 4,854	14.5%	$ 3,773	15.9%
Non-farm non-residential non-owner occupied	9,413	15.9%	5,741	16.3%
Residential	2,065	9.2%	1,064	9.9%
Construction, development and other	4,183	18.4%	3,053	18.3%

Farmland	112	0.9 %	82	0.7 %
Commercial and industrial	16,688	36.2 %	16,269	34.1 %
Consumer	7	0.1 %	6	0.1 %
Municipal and other	745	4.8 %	363	4.7 %
	$ 38,067	100.0 %	$ 30,351	100.00 %

	As of March 31, 2024		As of December 31, 2023	
(Dollars in thousands)	Amount	% Loans in Each Category	Amount	% Loans in Each Category
Real estate:				
Commercial real estate:				
Non-farm non-residential owner occupied	$ 4,295	13.6 %	$ 4,311	14.3 %
Non-farm non-residential non-owner occupied	5,211	16.0 %	5,541	16.1 %
Residential	2,142	9.2 %	2,341	9.4 %
Construction, development and other	5,676	19.4 %	5,853	19.1 %
Farmland	211	0.8 %	244	0.8 %
Commercial and industrial	19,633	36.0 %	17,617	34.7 %
Consumer	12	0.1 %	14	0.1 %
Municipal and other	960	4.9 %	1,101	5.5 %
	$ 38,140	100.0 %	$ 37,022	100.00 %

Securities

Our investment portfolio consists of state and municipal securities, mortgage-backed securities, U. S. treasury bonds and corporate bonds classified as available-for-sale. The carrying value of such securities is adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income (loss) in shareholders' equity.

Management assesses securities in its investment portfolio for impairment on a quarterly basis or when events or circumstances suggest that the carrying amount of an investment may be impaired. In accordance with ASC 326, available-for-sale securities are evaluated as of each reporting date when the fair value is less than amortized cost, and credit losses are to be calculated individually using a discounted cash flow method through which management compares the present value of the expected cash flows with the amortized costs. An allowance for credit losses is established to reflect the credit loss component of the decline in fair value.

Factors management considers in assessing whether a discounted cash flow method evaluation is needed for a security whose fair value is less than amortized costs include: (1) management will assess whether it intends to sell, or if it is more likely than not it will be required to sell, the security before recovery of the amortized cost basis; (2) the length of time (duration) and the extent (severity) to which the market value has been less than costs; (3) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, such as changes in technology that impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; and (4) changes in the rating of the security by a rating agency. Based on management's analysis, an allowance for credit losses for the security portfolio was not deemed to be needed as of September 30, 2023 March 31, 2024.

The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

	September 30, 2023					As of March 31, 2024			
(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Allowance for Credit Losses	Estimated Fair Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value

Investment securities available-for-sale:									
Mortgage-backed securities and other agency obligations	$ 26,601	$ —	$ 1,487	$ —	$ 25,114				
U.S. Treasury bonds	100,055	—	258	—	99,797				
U.S. government and agency securities						$ 19,234	$ 34	$ 92	$ 19,176
State and municipal securities						1,000	6	—	1,006
Mortgage-backed securities and collateralized mortgage obligations						125,637	1,327	917	126,047
Corporate bonds	83,751	68	7,695	—	76,124	105,663	647	6,248	100,062
	$ 210,407	$ 68	$ 9,440	$ —	$ 201,035	$ 251,534	$ 2,014	$ 7,257	$ 246,291

	December 31, 2022				As of December 31, 2023			
(Dollars in thousands)	**Amortized Cost**	**Unrealized Gain**	**Unrealized Loss**	**Estimated Fair Value**	**Amortized Cost**	**Unrealized Gain**	**Unrealized Loss**	**Estimated Fair Value**
Investment securities available-for-sale:								
State and municipal securities	$ 422	$ —	$ 5	$ 417				
Mortgage-backed securities	23,522	238	879	22,881				
U.S. Treasury bonds	100,567	—	2,049	98,518				
U.S. government and agency securities					$ 4,017	$ —	$ 26	$ 3,991
Mortgage-backed securities and collateralized mortgage obligations					77,703	1,599	769	78,533
Corporate bonds	57,607	59	3,415	54,251	100,371	861	5,669	95,563
	$ 182,118	$ 297	$ 6,348	$ 176,067	$ 182,091	$ 2,460	$ 6,464	$ 178,087

As of September 30, 2023 March 31, 2024, the carrying amount of the security portfolio was $201.0 million $246.3 million compared to $176.1 million $178.1 million as of December 31, 2022 December 31, 2023, an increase of $25.0 million $68.2 million, or 14.2% 38.3%. The increase relates primarily to net purchases of $30.1 million $71.6 million in corporate bonds, agencies, and municipal securities offset by paydowns of $1.9 million $2.4 million in mortgage-backed securities during the nine three months ended September 30, 2023 March 31, 2024. Investment securities represented 4.8% 5.3% and 4.7% 4.1% of total assets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The mortgage-backed securities held include Fannie Mae, Freddie Mac, and Ginnie Mae securities. We do not hold any preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A or second lien elements in our investment portfolio. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures. The contractual maturities of the mortgage-backed securities held range from 2026 to 2053 2054 and are not a reliable indicator of the expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The terms of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and, consequently, the average life of the security is typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of the security. Therefore, schedules of maturities for mortgage-backed securities have been excluded from this disclosure.

The amortized cost and estimated fair value of securities available-for-sale at September 30, 2023 March 31, 2024, by contractual maturity, are shown below:

	September 30, 2023		As of March 31, 2024	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 102,919	$ 102,666	$ 2,946	$ 2,962
Due from one year to five years	4,333	4,256	10,368	10,483
Due from five years to ten years	71,495	64,484	93,349	87,623
Over ten years	5,059	4,515	19,234	19,176
	183,806	175,921	125,897	120,244
Mortgage-backed securities and other agency obligations	26,601	25,114	125,637	126,047
	$ 210,407	$ 201,035	$ 251,534	$ 246,291

The weighted average life of our investment portfolio was 2.70 7.15 years and 3.11 7.47 years as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Deposits

Total deposits as of September 30, 2023 March 31, 2024 were $3.65 billion $4.05 billion, an increase of $410.7 million $247.5 million, or 12.7% 6.5%, compared to $3.24 billion $3.80 billion as of December 31, 2022 December 31, 2023. The increase was primarily due to growth in our national wholesale deposits through our core, fiduciary and

institutional deposit programs, continued growth in our primary market areas, and the increase in commercial lending relationships for which we also seek deposit balances.

Noninterest-bearing deposits as of September 30, 2023 March 31, 2024 were $500.2 million $424.0 million, an increase a decrease of $14.1 million $35.5 million, or 2.9% 7.7%, compared to $486.1 million $459.6 million as of December 31, 2022 December 31, 2023. Total interest-bearing account balances as of September 30, 2023 March 31, 2024 were $3.15 billion $3.63 billion, an increase of $396.6 million $283.1 million, or 14.4% 8.5%, from $2.75 billion $3.34 billion as of December 31, 2022 December 31, 2023.

The components of deposits as of the dates shown below were as follows:

	As of September 30, 2023		As of December 31, 2022		As of March 31, 2024		As of December 31, 2023	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Interest-bearing demand deposits	$ 2,517,556	80.0 %	$ 2,498,325	90.8 %	$ 3,084,876	85.0 %	$ 2,842,668	85.0 %
Savings	25,637	0.8 %	35,677	1.3 %	40,635	1.1 %	24,998	0.7 %
Time deposits $100,000 and over	589,830	18.8 %	202,074	7.4 %	484,325	13.4 %	459,688	13.8 %
Time deposits less than $100,000	13,612	0.4 %	13,956	0.5 %	16,817	0.5 %	16,241	0.5 %
Total interest-bearing deposits	$ 3,146,635	86.3 %	$ 2,750,032	85.0 %	$ 3,626,653	89.5 %	$ 3,343,595	87.9 %

Noninterest-bearing demand deposits	$ 500,187	13.7 %	$ 486,114	15.0 %	$ 424,019	10.5 %	$ 459,553	12.1 %
Total deposits	$ 3,646,822	100.0 %	$ 3,236,146	100.0 %	$ 4,050,672	100.0 %	$ 3,803,148	100.00 %

The following table sets forth the Company's estimated uninsured time deposits by time remaining until maturity as of the dates indicated:

(Dollars in thousands)	As of September 30, 2023	As of March 31, 2024
Three months or less	$ 201,150	$ 70,710
Over three months through six months	89,618	57,459
Over six months through twelve months	99,677	106,674
Over twelve months	85,889	69,172
	$ 476,334	$ 304,015

The following table presents the average balances and average rates paid on deposits for the periods indicated:

	Nine Months Ended September 30, 2023		Year Ended December 31, 2022		Three Months Ended March 31, 2024		Year Ended December 31, 2023	
(Dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	$ 473,834	—	$ 313,972	—	$ 457,054	—	$ 473,558	—
Interest-bearing demand deposits	2,228,730	3.94 %	2,103,071	1.36 %	2,808,759	4.65 %	2,332,972	4.14 %
Savings	30,793	0.49 %	36,166	0.29 %	42,086	2.58 %	29,282	0.51 %
Time deposits	385,604	4.04 %	237,842	0.82 %	496,002	4.85 %	423,351	4.30 %
Total interest-bearing deposits	2,645,127	3.91 %	2,377,079	1.29 %	3,346,847	4.65 %	2,785,605	4.13 %
Total deposits	$ 3,118,961	3.32 %	$ 2,691,051	1.14 %	$ 3,803,901	4.09 %	$ 3,259,163	3.53 %

The ratio of average noninterest-bearing deposits to average total deposits for the ninethree months ended September 30, 2023March 31, 2024 was 15.2%12.0% and for the year ended December 31, 2022December 31, 2023 was 11.7%14.5%.

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Borrowings

We have the ability to utilize advances from the FHLB and other borrowings to supplement deposits used to fund our lending and investment activities.

(Dollars in thousands)	As of September 30, 2023	As of December 31, 2022	As of March 31, 2024	As of December 31, 2023
FHLB advances	$ —	$ —	$ —	$ —
Line of Credit - Senior Debt	35,875	30,875	43,875	38,875
Note Payable - Subordinated Debt	80,502	80,348	80,605	80,553
Total borrowings	$ 116,377	$ 111,223	$ 124,480	$ 119,428

Federal Home Loan Bank (FHLB) Advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by FHLB stocks and real estate loans. As of September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, borrowing capacity available under this arrangement was $369.2 million$643.9 million and $719.1 million$565.1 million, respectively. We had no FHLB advances outstanding at September 30, 2023 and December 31, 2022March 31, 2024 or during the three months ended March 31, 2024. We had no FHLB advances outstanding at December 31, 2023. Our cost of FHLB advances was 5.43% for the nine months ended September 30, 2023 and 2.70% for the year ended December 31, 2022December 31, 2023. In addition, letters of credit with the FHLB in the amount of $627.6 million$428.6 million and $290.3 million$463.1 million were outstanding at September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, respectively. The letters of credit are used to collateralize public fund deposit accounts in excess of FDIC insurance limits and have expirations ranging from October 2023April 2024 through July 2025.

Line of Credit - Senior Debt. On September 10, 2022, The Company has a $30.9 million$55.0 million revolving line of credit facility maturedthat was modified effective March 12, 2024, whereby the facility was increased by $5.0 million and was renewed and increased to $50.0 million with payment terms similar to the payment terms of the previous agreement. Prior to maturity, the note bore interest atrate was decreased to *TheWall Street Journal* US Prime Rate, as such changes from time to time, with a floor rate of 4.00% per annum. Interest was payable quarterly on the 10th day of March, June, September and December through maturity date. Upon renewal, the note bears interest at *TheWall Street Journal* US Prime Rate, as such changes from time to time, plus 0.50%less 0.625%, with a floor rate of 5.00% per annum. Interest iscontinues to be payable quarterly on the

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10th day of March, June, September and December through maturity date of September 10, 2024March 10, 2026. All principal and unpaid interest is due at maturity. The note is secured by 100% of the outstanding stock of the Bank and is senior in rights to the subordinated debt described below. Prior to the modification, the $50.0 million facility was due on September 10, 2024, and bore interest at *TheWall Street Journal* US Prime Rate, as such changes from time to time, plus 0.50%, with a floor rate of 5.00% per annum. At September 30, 2023March 31, 2024 and December 31, 2023, the outstanding balance was $35.9 million.$43.9 million and $38.9 million, respectively.

Note Payable - Subordinated Debt. On March 31, 2022, the Company issued and sold $82.3 million in aggregate principal amount of the Notes. As of September 30, 2023March 31, 2024 and December 31, 2023, the outstanding balance was $82.3 million$80.6 million, net of $1.8 million$1.7 million in unamortized debt issuance costs. For additional information on our Note Payable - Subordinated Debt, see Note 7 – FHLB Advances and Other Borrowings in the accompanying notes to the consolidated financial statements included elsewhere in this Form 10-Q.

Our cost of our senior debt and note payable was 6.69%6.98% and 5.78%6.61% for the ninethree months ended September 30, 2023March 31, 2024 and 2022, 2023, respectively.

Federal Reserve Borrower-in-Custody (BID)(BIC) Loan Pledge Arrangement. In June 2023, the Federal Reserve Bank approved the Company to begin pledging, on a blanket floating lien status, its commercial and industrial loans under a Borrower-in-Custody (“BIC”) arrangement. The arrangement provides the Company with the ability to secure collateralized contingency funding from the Discount Window of the Federal Reserve Bank of Dallas. As of September 30, 2023At March 31, 2024 and December 31, 2023, total borrowing capacity under this arrangement was $1.3 billion and $1.2 billion., respectively. There were no advances outstanding at September 30, 2023March 31, 2024 or December 31, 2023.

Federal Funds Lines of Credit. At September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, the Company had federal funds lines of credit with commercial banks that provide for availability to borrow up to an aggregate of $33.0 million and $36.5 million, respectively.. The Company had no advances outstanding under these lines at September 30, 2023 and December 31, 2022March 31, 2024 or December 31, 2023.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events.

For the ninethree months ended September 30, 2023March 31, 2024 and for the year ended December 31, 2023, liquidity needs were primarily met by core deposits, loan maturities, amortizing loan portfolios, brokered deposits, and borrowings. For the year ended December 31, 2022, liquidity needs were primarily met by core deposits, loan maturities, amortizing loan portfolios, borrowings and proceeds from issuance of stock.

At September 30, 2023March 31, 2024, the Company had borrowing capacity available under FHLB advances of $369.2 million$643.9 million, line of credit - senior debt of $14.1 million$11.1 million, the Federal Reserve Bank of Dallas Discount Window of $1.3 billion, and federal funds lines of credit of $36.5 million. At December 31, 2023, the Company had borrowing capacity under FHLB advances of $565.1 million, line of credit - senior debt of $11.1 million, the Federal Reserve Bank of Dallas Discount Window of $1.2 billion, and federal funds lines of credit of $33.0 million. At December 31, 2022, the Company had borrowing capacity under FHLB advances of $719.1 million, line of credit - senior debt of $19.1 million, and federal funds lines of credit of $36.5 million.

The following table illustrates, during the periods presented, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods indicated. Average assets were $3.77 billion $4.41 billion for the nine three months ended September 30, 2023 March 31, 2024 and $3.20 billion $3.90 billion for the year ended December 31, 2022 December 31, 2023.

	For the Nine Months Ended September 30, 2023	For the Year Ended December 31, 2022	For the Three Months Ended March 31, 2024	For the Year Ended December 31, 2023
Sources of Funds:				
Deposits:				
Noninterest-bearing	12.5 %	9.8 %	10.4 %	12.2 %
Interest-bearing	70.1 %	74.3 %	75.9 %	71.5 %
FHLB advances	2.8 %	2.5 %	—	2.0 %
Note payable and line of credit	3.0 %	2.4 %	2.7 %	2.9 %
Other liabilities	1.2 %	0.9 %	1.4 %	1.2 %
Shareholders' equity	10.4 %	10.1 %	9.6 %	10.2 %
Total	100.0 %	100.0 %	100.0 %	100.0 %
Uses of Funds:				
Loans, net	86.1 %	83.4 %	82.3 %	85.5 %
Securities	5.2 %	3.9 %	4.6 %	5.0 %
Federal funds sold and other interest-earning assets	3.8 %	7.0 %	8.7 %	4.7 %
Other noninterest-earning assets	4.9 %	5.7 %	4.4 %	4.8 %
Total	100.0 %	100.0 %	100.0 %	100.0 %
Average noninterest-bearing deposits to average deposits	15.2 %	11.7 %	12.0 %	14.5 %
Average total loans to average deposits	105.4 %	100.1 %	96.4 %	103.3 %

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future.

As of September 30, 2023 March 31, 2024, we had $1.36 billion $1.42 billion in outstanding commitments to extend credit and $18.0 million $25.7 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2022 December 31, 2023, we had $1.15 billion $1.35 billion in outstanding commitments to extend credit and $21.7 million $26.9 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had no exposure to future cash requirements associated with known uncertainties or capital expenditure of a material nature. As of September 30, 2023 March 31, 2024, we had cash and cash equivalents of $286.5 million $498.3 million, compared to $332.0 million $411.8 million as of December 31, 2022 December 31, 2023.

Capital Resources

Total shareholders' equity increased to $400.3 million $423.6 million as of September 30, 2023 March 31, 2024, compared to $381.8 million $412.0 million as of December 31, 2022 December 31, 2023, an increase of $18.6 million $11.6 million, or 4.9% 2.8%. This increase was primarily the result of the $23.7 million $10.4 million in net income and $1.9 million of other comprehensive income for the nine three months ended September 30, 2023 March 31, 2024 offset by the $3.2 million, net of tax, allowance for credit loss adjustment from the adoption of ASC 326 and $3.5 million $1.2 million of dividends declared on the Series A Preferred Stock.

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. We are required to comply with certain risk-based capital adequacy guidelines issued by the Federal Reserve and the FDIC.

As of each of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Bank was in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized" for purposes of the FDIC's prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

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The following table presents the regulatory capital ratios for the Company and the Bank as of the dates indicated. indicated:

	Actual		Minimum Capital Requirement	Minimum Capital Requirement with Capital Buffer	Minimum To Be Well Capitalized	Actual		Minimum Capital	Minimum Capital Requirement with	Minimum To Be
	September 30, 2023	December 31, 2022				March 31, 2024	December 31, 2023	Requirement	Capital Buffer	Well Capitalized
Third Coast Bancshares, Inc.										
Tier 1 leverage capital (to average assets)	9.79%	N/A	4.00%	4.00%	N/A	9.15%	9.23%	4.00%	4.00%	N/A
Common equity tier 1 capital (to risk weighted assets)	8.01%	N/A	4.50%	7.00%	N/A	7.97%	8.06%	4.50%	7.00%	N/A
Tier 1 capital (to risk weighted assets)	9.68%	N/A	6.00%	8.50%	N/A	9.54%	9.70%	6.00%	8.50%	N/A
Total capital (to risk weighted assets)	12.72%	N/A	8.00%	10.50%	N/A	12.41%	12.66%	8.00%	10.50%	N/A
Third Coast Bank, SSB										
Third Coast Bank										
Tier 1 leverage capital (to average assets)	12.62%	13.11%	4.00%	4.00%	5.00%	11.81%	11.91%	4.00%	4.00%	5.00%
Common equity tier 1 capital (to risk weighted assets)	12.48%	12.95%	4.50%	7.00%	6.50%	12.32%	12.52%	4.50%	7.00%	6.50%
Tier 1 capital (to risk weighted assets)	12.48%	12.95%	6.00%	8.50%	8.00%	12.32%	12.52%	6.00%	8.50%	8.00%
Total capital (to risk weighted assets)	13.49%	13.79%	8.00%	10.50%	10.00%	13.28%	13.49%	8.00%	10.50%	10.00%

Use of Derivatives to Manage Interest Rate and Other Risks

In the ordinary course of business, we enter into derivative transactions to manage various risks and to accommodate the business requirements of our customers.

Cash Flow Hedges

As part of its hedging strategy, the Company entered into two five-year pay-fixed interest rate swap agreements during December 2023. The instruments have notional amounts of $100 million each with pay-fixed interest rates of 3.718% and 3.473%, respectively. The instruments are designated as cash flow hedges, and changes in fair value are recognized in other comprehensive income. The facilities are scheduled to mature on December 6, 2028 and December 21, 2028, respectively.

During March 2023 and as part of our hedging strategy, we entered into a five-year pay-fixed interest rate swap agreement with a notional amount of $200 million. The facility, which was scheduled to mature on March 31, 2028, was discontinued on May 26 2023, and a gain of $5.0 million was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract.

During July 2022, we entered into a five-year pay-fixed interest rate swap agreement with a notional amount of $200 million on its floating rate deposits. The facility, which was designated as a cash flow hedge, was discontinued on August 24, 2022, and a gain on the terminated hedge of $3.0 million was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract, or July 9, 2027.

On February 18, 2021, a $100.0 million pay-fixed interest rate swap facility designated as a cash flow hedge was discontinued and a gain on the terminated hedge of $945,000 was recognized by the Company. The gain is being accreted from other comprehensive income, (loss), net of deferred taxes, into interest expense through the maturity date of the contract, or September 4, 2025.

For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, approximately $1.2 million $445,000 and $195,000, $206,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense on discontinued hedges. For the three months ended September 30, 2023 and 2022, approximately $450,000 and $92,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense.

Fair Value Hedges

We also offer certain interest rate swap products directly to our qualified commercial banking customers. These financial instruments are not designated as hedging instruments. The interest rate swap derivative positions relate to transactions in which we enter into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers to effectively convert a variable rate loan to a fixed rate. In connection with each swap, we agree to pay interest on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount.

Because we act as an intermediary for our customer, changes in the fair value of the underlying derivative contracts are designed to offset each other and would not significantly impact our operating results except in certain situations where there is a significant deterioration in the customer's credit worthiness or that of the counterparties. At September 30, 2023 March 31, 2024, no such deterioration was determined by management.

We also offer one-way interest rate swap products to our customers. Under this type of arrangement, we extend a conventional fixed-rate loan to the borrower and then subsequently hedge the interest rate risk of that loan by entering into a swap for our own balance sheet to convert the fixed-rate loan to a synthetic floating rate asset. These types of swaps lock in our spread over our cost of funds for the life of the loan.

For some of our loan participation facilities, we enter into RPAs with other banks in order to hedge or share a portion of the risk of borrower default related to the interest rate swap on a participated loan.

All derivatives are carried at fair value in either other assets or other liabilities in the accompanying consolidated balance sheets. At September 30, 2023 March 31, 2024, the Company's derivative assets and liabilities totaled $10.9 million $11.0 million and $10.5 million $8.3 million, respectively.

For additional information regarding derivatives, see Note 17 – Derivative Financial Instruments, in the notes to our consolidated financial statements included elsewhere in this Form 10-Q.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a decrease in current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Bank's Asset Liability and Investment Committee, in accordance with policies approved by the Bank’s board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio.

The average life of our non-maturity deposit accounts are updated annually and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model’s simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a monthly basis, we run simulation models including a static balance sheet. The models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously and ramped rate changes over a 12-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. In addition to the monthly reports, we also run various scenarios based on market trends and management analysis needs. These special reports include stress test reports, reports to test the deposit decay rates and growth reports based on budget. Our internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 25.0% for a 200 basis point shift and 35.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

	As of September 30, 2023		**As of December 31, 2022**		**As of March 31, 2024**		**As of December 31, 2023**	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+ 300	(1.01)%	(6.70)%	9.99%	11.90%	1.32%	(7.93)%	(0.35)%	(5.91)%
+ 200	(0.65)%	(4.07)%	6.64%	8.27%	0.98%	(4.67)%	(0.23)%	(3.39)%
+ 100	(0.30)%	(1.77)%	3.31%	4.31%	0.62%	(1.96)%	(0.09)%	(1.35)%
Base	—	—	—	—	—	—	—	—
–100	0.24%	0.91%	(3.32)%	(2.46)%	(0.77)%	0.85%	0.05%	0.35%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results

due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Critical Accounting Policies

Our financial reporting and accounting policies conform to GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Our accounting policies are integral to understanding our results of operations. Our accounting policies are described in greater detail in Note 1 – Nature of Operations and Summary of Significant Accounting Policies, in the notes to our consolidated financial statements included elsewhere in this Form 10-Q. We believe that of our accounting policies, the following may involve a higher degree of judgment and complexity:

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

The provision for credit losses related to loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the

ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management's assessment of overall portfolio quality. The Company maintains the allowance at an amount the Company believes is sufficient to provide for estimated current expected credit losses in the Company's loan portfolio at each balance sheet date, and fluctuations in the provision for credit losses may result from management's assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on the Company's allowance, and therefore the Company's financial position, liquidity or results of operations.

Transfers of Financial Assets. Management accounts for the transfers of financial assets as sales when control over the assets has been surrendered. Control is surrendered when the assets have been isolated, a transferee obtains the right to pledge or exchange the transferred assets and there is no agreement to repurchase the assets before their maturity. Management believes the loan participations sold subject to this guidance met the condition to be treated as a sale.

Goodwill and Core Deposit Intangibles. Goodwill represents the excess of cost over fair value of net assets acquired in a business combination. Goodwill is not amortized and is evaluated for impairment at least annually and on an interim basis if an event triggering impairment may have occurred.

Core deposit intangibles are acquired customer relationships arising from bank acquisitions and are amortized on a straight-line basis over their estimated useful life. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of assets may not be recoverable from future undiscounted cash flows.

Emerging Growth Company

The Company qualifies as an “emerging growth company” under the Jumpstart Our Business Startups Act. As an emerging growth company, the Company has taken advantage of reduced reporting and other requirements that are otherwise generally applicable to public companies. Emerging growth companies are:

- exempt from the requirement to obtain an attestation and report from the Company’s auditors on management’s assessment of internal control over fin reporting under the Sarbanes-Oxley Act of 2002;
- permitted to have an extended transition period for adopting any new or revised accounting standards that may be issued by the Financial Accounting Star Board FASB or by the SEC;
- permitted to provide less extensive disclosure about the Company’s executive compensation arrangements; and

- not required to give shareholders nonbinding advisory votes on executive compensation or golden parachute arrangements.

The Company will lose its emerging growth company status upon the earliest of : (i) the last day of the fiscal year in which the Company has $1.235 billion or more in annual revenues; (ii) the date on which the Company becomes a “large accelerated filer” (the fiscal year end on which the total market value of the Company's common equity securities held by non-affiliates is $700 million or more as of June 30); (iii) the date on which the Company issues more than $1.0 billion of non-convertible debt over a three-year period; or (iv) December 31, 2026, which is the end of the fiscal year in which the fifth anniversary of the Company's initial public offering occurs.

Recently Issued Accounting Pronouncements

See Note 1 – Nature of Operations and Summary of Significant Accounting Policies, in the notes to our consolidated financial statements included elsewhere in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Part I—Item 2.—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Market Risk”.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), were effective as of the end of the period covered by this Form 10-Q.

Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings. We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially and adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors.

In evaluating an investment in any of our securities, investors should consider carefully, among other things, information under the heading "Cautionary Note Regarding Forward-Looking Statements" in this Form 10-Q and such other risk factors as we may disclose in other reports and statements filed with the SEC. Other than as set forth below, there There have been no material changes in the risk factors disclosed by the Company in its Annual Report on Form 10-K filed with the SEC on March 15, 2023.

Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system.

The recent high-profile bank failures involving Silicon Valley Bank, Signature Bank and First Republic Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks like the Bank. These market developments have negatively impacted customer confidence in the safety and soundness of regional banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Bank's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly.

Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company's expenses and affect the Company's operations.

The Company and the Bank anticipate increased regulatory scrutiny and new regulations directed towards banks of similar size to the Bank, designed to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition and the level of uninsured deposits. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community. The Bank's level of uninsured customer deposits as a percentage of non-brokered deposits was 32.5% at September 30, 2023 and 36.7% at December 31, 2022 March 7, 2024.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

The following table sets forth information regarding our repurchases of our common stock during the three months ended September 30, 2023 March 31, 2024:

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2023 - July 31, 2023	—	—	—	—
August 1, 2023 - August 31, 2023	389	$ 20.17	—	—
September 1, 2023 - September 30, 2023	244	$ 19.15	—	—

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2024 - January 31, 2024	—	—	—	—
February 1, 2024 - February 29, 2024	355	$ 19.50	—	—
March 1, 2024 - March 31, 2024	372	$ 19.82	—	—

(a) Represents shares of our common stock transferred to us in order to satisfy tax withholding obligations incurred upon the vesting of restricted stock awards.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the three months ended September 30, 2023 March 31, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Description
3.1	First Amended and Restated Certificate of Formation of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on October 15, 2021).
3.2	First Amended and Restated Bylaws of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the SEC on October 15, 2021).
3.3	Certificate of Designation, Preferences and Rights of Series A Convertible Non-Cumulative Preferred Stock of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 6, 2022).
3.4	Certificate of Designation, Preferences and Rights of Series B Convertible Perpetual Preferred Stock of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed with the SEC on October 6, 2022).
3.5	Certificate of Amendment to Certificate of Formation of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 26, 2023).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed with the SEC on October 15, 2021).
4.2	Indenture, dated as of March 31, 2022, by and between Third Coast Bancshares, Inc. and UMB Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the SEC on April 1, 2022).
4.3	Form of 5.500% Fixed-to-Floating Rate Subordinated Note due 2032 (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed with the SEC on April 1, 2022).
4.4	Form of Warrant Agreement (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 6, 2022).
10.1†	Amendment to Employment Agreement, dated as of March 15, 2024, by and between Third Coast Bank and R. John McWhorter (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 15, 2024).
10.2	Renewal, Extension and Modification of Loan, effective March 12, 2024, by and among Third Coast Bancshares, Inc. and American National Bank & Trust (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2024).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation With Embedded Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document Documents
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Indicates a management contract or compensatory plan.

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Third Coast Bancshares, Inc.
Date: November 7, 2023 May 7, 2024	By: /s/ Bart O. Caraway
	Bart O. Caraway
	Chairman, President and Chief Executive Officer
Date: November 7, 2023 May 7, 2024	By: /s/ R. John McWhorter
	R. John McWhorter
	Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bart O. Caraway, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Third Coast Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements mad light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial conditior results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure tha material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's interna control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's audit and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adve affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financia reporting.

Date: November 7, 2023 May 7, 2024

By: /s/ Bart O. Caraway

Bart O. Caraway

Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO

RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,

AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, R. John McWhorter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Third Coast Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements mad light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial conditior results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure tha material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's interna control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's audit and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adve affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financia reporting.

Date: November 7, 2023 May 7, 2024

By: /s/ R. John McWhorter

R. John McWhorter

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Third Coast Bancshares, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bart O. Caraway, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023 May 7, 2024

By: /s/ Bart O. Caraway

Bart O. Caraway

Chairman, President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Third Coast Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. John McWhorter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023 May 7, 2024

By: /s/ R. John McWhorter

R. John McWhorter
Chief Financial Officer

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