

REFINITIV

# DELTA REPORT

## 10-Q

TCBS - TEXAS COMMUNITY BANCSHARE

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1395

■ CHANGES	817
■ DELETIONS	268
■ ADDITIONS	310

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **June 30, 2023** **September 30, 2023**

**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 No. 001-40610**

**Texas Community Bancshares, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

<b>Maryland</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>86-2760335</b> (I.R.S. Employer Identification No.)
<b>215 West Broad Street, Mineola, Texas</b> (Address of Principal Executive Offices)	<b>75773</b> (Zip Code)

**(903) 569-2602**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

<b>Common stock, \$0.01 par value per share</b> (Title of Each Class)	<b>TCBS</b> (Trading Symbol(s))	<b>The Nasdaq Stock Market LLC</b> (Name of Each Exchange on Which Registered)
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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 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 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

Non-accelerated filer

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

There were 3,291,806 3,208,881 shares, par value \$0.01 per share, of the Registrant's common stock outstanding as of August 8, 2023 November 7, 2023.

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**Texas Community Bancshares, Inc.**  
**Form 10-Q**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Texas Community Bancshares, Inc. and Subsidiaries**

Consolidated Statements of Financial Condition

June September 30, 2023 and December 31, 2022

(Amounts in thousands, except share and per share data)

	June 30, 2023 <i>(unaudited)</i>	December 31, 2022
<b>Assets</b>		
Cash and due from banks	\$ 5,450	\$ 6,897
Federal funds sold	4,600	2,030
Cash and cash equivalents	10,050	8,927
Interest bearing deposits in banks	5,116	2,055
Securities available for sale	95,832	107,153
Securities held to maturity (fair values of \$24,919 at June 30, 2023 and \$24,615 at December 31, 2022)	27,870	27,827
Loans receivable, net of allowance for credit losses of \$2,969 at June 30, 2023 and \$1,755 at December 31, 2022	268,726	251,274
Net investment in direct financing leases	36	64
Accrued interest receivable	1,446	1,327
Premises and equipment, net	9,459	6,299
Bank-owned life insurance	6,176	6,125
Restricted investments carried at cost	3,376	2,805
Core deposit intangible	331	397
Deferred income taxes	2,475	2,304
Financial derivative	536	—
Other assets	769	789
	<u>\$ 432,198</u>	<u>\$ 417,346</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Noninterest bearing	\$ 48,076	\$ 45,823
Interest bearing	254,488	250,254
Total deposits	302,564	296,077
Advances from Federal Home Loan Bank (FHLB)	71,856	62,494
Accrued expenses and other liabilities	3,328	2,905
Total liabilities	<u>377,748</u>	<u>361,476</u>
Shareholders' Equity		

Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par value, 19,000,000 shares authorized, 3,373,723 issued and 3,323,456 outstanding at June 30, 2023 and 3,296,843 issued and outstanding at December 31, 2022	34	33
Additional paid in capital	31,405	31,099
Retained earnings	32,048	34,083
Accumulated other comprehensive loss	(6,147)	(6,999)
Unearned Employee Stock Ownership Program (ESOP) shares, at cost	(2,280)	(2,346)
Treasury stock, at cost (50,267 shares at June 30, 2023)	(610)	—
Total shareholders' equity	54,450	55,870
	<u>\$ 432,198</u>	<u>\$ 417,346</u>
	September 30,	December 31,
	2023	2022
	(unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 5,284	\$ 6,897
Federal funds sold	7,139	2,030
Cash and cash equivalents	12,423	8,927
Interest bearing deposits in banks	9,071	2,055
Securities available for sale	92,474	107,153
Securities held to maturity (fair values of \$23,187 at September 30, 2023 and \$24,615 at December 31, 2022)	26,895	27,827
Loans receivable, net of allowance for credit losses of \$2,934 at September 30, 2023 and \$1,755 at December 31, 2022	268,914	251,274
Net investment in direct financing leases	36	64
Accrued interest receivable	1,440	1,327
Premises and equipment, net	10,442	6,299
Bank-owned life insurance	6,204	6,125
Foreclosed assets	162	—
Restricted investments carried at cost	3,871	2,805
Core deposit intangible	298	397
Deferred income taxes	2,759	2,304
Financial derivative	926	—
Other assets	795	789
	<u>\$ 436,710</u>	<u>\$ 417,346</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Noninterest bearing	\$ 44,155	\$ 45,823
Interest bearing	255,740	250,254
Total deposits	299,895	296,077
Advances from Federal Home Loan Bank (FHLB)	79,378	62,494
Accrued expenses and other liabilities	4,184	2,905
Total liabilities	383,457	361,476
<b>Shareholders' Equity</b>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par value, 19,000,000 shares authorized, 3,373,723 issued and 3,246,306 outstanding at September 30, 2023 and 3,296,843 issued and outstanding at December 31, 2022	34	33
Additional paid in capital	31,595	31,099
Retained earnings	32,407	34,083
Accumulated other comprehensive loss	(6,959)	(6,999)
Unearned Employee Stock Ownership Program (ESOP) shares, at cost	(2,248)	(2,346)
Treasury stock, at cost (127,417 shares at September 30, 2023)	(1,576)	—
Total shareholders' equity	53,253	55,870
	<u>\$ 436,710</u>	<u>\$ 417,346</u>

See Notes to Consolidated Financial Statements

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**Texas Community Bancshares, Inc. and Subsidiaries**

Consolidated Statements of Operations (Unaudited)

Three and Nine Months Ended September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>Interest Income</b>				
Loans, including fees	\$ 3,410	\$ 2,531	\$ 9,289	\$ 7,336
Debt securities				
Taxable	1,232	562	3,652	1,307
Non taxable	44	39	137	114
Dividends on restricted investments	44	9	105	20
Federal funds sold	60	41	130	80
Deposits with banks	74	15	202	34
Financial derivative	112	—	145	—
<b>Total interest income</b>	<b>4,976</b>	<b>3,197</b>	<b>13,660</b>	<b>8,891</b>
<b>Interest Expense</b>				
Deposits	1,443	300	3,676	908
Advances from FHLB	687	144	1,849	429
Other	2	3	7	8
<b>Total interest expense</b>	<b>2,132</b>	<b>447</b>	<b>5,532</b>	<b>1,345</b>
<b>Net Interest Income</b>	<b>2,844</b>	<b>2,750</b>	<b>8,128</b>	<b>7,546</b>
Provision for Credit Losses - loans	(10)	48	185	125
Provision for Credit Losses - off-balance sheet credit exposures	39	—	27	—
Provision for Credit Losses	29	48	212	125
<b>Net Interest Income After Provision for Credit Losses</b>	<b>2,815</b>	<b>2,702</b>	<b>7,916</b>	<b>7,421</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	182	166	513	496
Other service charges and fees	338	261	918	795
Net loss on securities transactions	—	—	(1,687)	(29)
Net gain on sale of foreclosed assets	36	42	36	42
Net appreciation on bank-owned life insurance	28	26	79	75
Other income	8	4	37	22
<b>Total noninterest income (loss)</b>	<b>592</b>	<b>499</b>	<b>(104)</b>	<b>1,401</b>
<b>Noninterest Expenses</b>				
Salaries and employee benefits	1,685	1,494	4,935	4,263
Occupancy and equipment expense	193	188	595	564
Data processing	244	225	686	619
Technology expense	123	98	347	293
Contract services	64	52	191	130
Director fees	102	96	299	287
Other expense	423	383	1,298	992
<b>Total noninterest expenses</b>	<b>2,834</b>	<b>2,536</b>	<b>8,351</b>	<b>7,148</b>
<b>Income (Loss) Before Income Taxes</b>	<b>573</b>	<b>665</b>	<b>(539)</b>	<b>1,674</b>
<b>Income Tax Expense (Benefit)</b>	<b>117</b>	<b>126</b>	<b>(138)</b>	<b>328</b>

Net Income (Loss)	\$ 456	\$ 539	\$ (401)	\$ 1,346
Earnings (loss) per share - basic	\$ 0.15	\$ 0.18	\$ (0.13)	\$ 0.45
Earnings (loss) per share - diluted	\$ 0.15	\$ 0.18	\$ (0.13)	\$ 0.45
Weighted-average shares outstanding - basic	3,055,489	3,029,465	3,083,629	3,017,817
Weighted-average shares outstanding - diluted	3,055,489	3,029,465	3,083,629	3,017,817

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**Texas Community Bancshares, Inc. and Subsidiaries**  
Consolidated Statements of **Operations Comprehensive Income (Loss)** (Unaudited)  
Three and **Six** Nine Months Ended **June 30, 2023** September 30, 2023 and 2022  
(Amounts in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
<b>Interest Income</b>				
Loans, including fees	\$ 3,099	\$ 2,431	\$ 5,879	\$ 4,805
Debt securities				
Taxable	1,216	410	2,420	745
Non taxable	44	37	93	75
Dividends on restricted investments	36	6	61	11
Federal funds sold	31	30	70	39
Deposits with banks	79	13	128	19
Financial derivative	33	—	33	—
<b>Total interest income</b>	<b>4,538</b>	<b>2,927</b>	<b>8,684</b>	<b>5,694</b>
<b>Interest Expense</b>				
Deposits	1,247	298	2,233	608
Advances from FHLB	636	141	1,162	285
Other	3	2	5	5
<b>Total interest expense</b>	<b>1,886</b>	<b>441</b>	<b>3,400</b>	<b>898</b>
<b>Net Interest Income</b>	<b>2,652</b>	<b>2,486</b>	<b>5,284</b>	<b>4,796</b>
Provision for Credit Losses - loans	112	37	195	77
Provision for Credit Losses - off-balance sheet credit exposures	(19)	—	(12)	—
<b>Provision for Credit Losses</b>	<b>93</b>	<b>37</b>	<b>183</b>	<b>77</b>
<b>Net Interest Income After Provision for Credit Losses</b>	<b>2,559</b>	<b>2,449</b>	<b>5,101</b>	<b>4,719</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	170	165	331	330
Other service charges and fees	301	278	580	534
Net loss on securities transactions	—	(29)	(1,687)	(29)
Net appreciation on bank-owned life insurance	26	24	51	49
Other income	14	11	29	18
<b>Total noninterest income (loss)</b>	<b>511</b>	<b>449</b>	<b>(696)</b>	<b>902</b>
<b>Noninterest Expenses</b>				
Salaries and employee benefits	1,683	1,406	3,250	2,769
Occupancy and equipment expense	205	184	402	376

Data processing	221	203	442	394
Technology expense	115	107	224	195
Contract services	65	43	127	78
Director fees	99	95	197	191
Other expense	491	330	875	609
Total noninterest expenses	2,879	2,368	5,517	4,612
Income (Loss) Before Income Taxes	191	530	(1,112)	1,009
Income Tax Expense (Benefit)	31	114	(255)	202
Net Income (Loss)	\$ 160	\$ 416	\$ (857)	\$ 807
Earnings (loss) per share - basic	\$ 0.05	\$ 0.14	\$ (0.28)	\$ 0.27
Earnings (loss) per share - diluted	\$ 0.05	\$ 0.14	\$ (0.28)	\$ 0.27
Weighted-average shares outstanding - basic	3,131,800	3,015,599	3,093,113	3,012,971
Weighted-average shares outstanding - diluted	3,131,800	3,015,599	3,093,113	3,012,971

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## Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

Three and Six Months Ended June 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net Income (Loss)	\$ 160	\$ 416	\$ (857)	\$ 807	\$ 456	\$ 539	\$ (401)	\$ 1,346
Other items of comprehensive (loss) income								
Other items of comprehensive loss								
Debt Securities								
Net changes in fair value of available for sale securities, before tax	(1,397)	(2,944)	(1,159)	(6,106)	(1,418)	(1,563)	(2,576)	(7,669)
Reclassification adjustment for realized loss on sale of investment securities included in net income (loss), before tax	—	29	1,687	29	—	—	1,687	29
Net changes in fair value of available for sale securities hedged, before tax	550	—	550	—	390	—	940	—
Total other items of comprehensive (loss) income, before tax	(847)	(2,915)	1,078	(6,077)	(1,028)	(1,563)	51	(7,640)
Income tax benefit (expense) related to other items of comprehensive (loss) income	179	612	(226)	1,276	216	328	(11)	1,604
Total other items of comprehensive (loss) income, after tax	(668)	(2,303)	852	(4,801)	(812)	(1,235)	40	(6,036)



Balance at September 30, 2023	\$	—	\$ 34	\$ 31,595	\$ 32,407	\$ (6,959)	\$ (2,248)	\$ (1,576)	\$ 53,253
Balance at July 1, 2022	\$	—	\$ 33	\$ 30,978	\$ 33,136	\$ (5,487)	\$ (2,411)	\$ —	\$ 56,249
Net income		—	—	—	539	—	—	—	539
Stock based compensation expense		—	—	21	—	—	—	—	21
Net changes in other comprehensive income (loss), net of tax		—	—	—	—	(1,235)	—	—	(1,235)
ESOP shares committed to be released, 3,258 shares		—	—	20	—	—	33	—	53
Balance at September 30, 2022	\$	—	\$ 33	\$ 31,019	\$ 33,675	\$ (6,722)	\$ (2,378)	\$ —	\$ 55,627

	Accumulated							
	Preferred	Common	Additional	Retained	Other	Unearned	Treasury	Total
Six Months Ended June 30, 2023 and 2022	Stock	Stock	Paid In Capital	Earnings	Comprehensive Loss	ESOP Shares	Stock	Shareholders' Equity
Balance at January 1, 2023	\$ —	\$ 33	\$ 31,099	\$ 34,083	\$ (6,999)	\$ (2,346)	\$ —	\$ 55,870
Cumulative change in accounting principle (adoption of ASC 326)	—	—	—	(1,010)	—	—	—	(1,010)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	33	31,099	33,073	(6,999)	(2,346)	—	54,860
Net loss	—	—	—	(857)	—	—	—	(857)
Stock based compensation expense	—	—	285	—	—	—	—	285
Issuance of restricted stock awards	—	1	—	—	—	—	—	1
Net changes in other comprehensive income (loss), net of tax expense of \$226	—	—	—	—	852	—	—	852
Cash dividend declared (\$0.02 per share in Q1 and \$0.03 per share in Q2)	—	—	—	(168)	—	—	—	(168)
ESOP shares committed to be released, 6,516 shares	—	—	21	—	—	66	—	87
Treasury stock purchased, 50,267 shares	—	—	—	—	—	—	(610)	(610)
Balance at June 30, 2023	\$ —	\$ 34	\$ 31,405	\$ 32,048	\$ (6,147)	\$ (2,280)	\$ (610)	\$ 54,450
Balance at January 1, 2022	\$ —	\$ 33	\$ 30,932	\$ 32,329	\$ (686)	\$ (2,476)	\$ —	\$ 60,132
Net income	—	—	—	807	—	—	—	807
Net changes in fair value of available for sale securities, net of tax benefit of \$1,276	—	—	—	—	(4,801)	—	—	(4,801)
ESOP shares committed to be released, 6,516 shares	—	—	46	—	—	65	—	111
Balance at June 30, 2022	\$ —	\$ 33	\$ 30,978	\$ 33,136	\$ (5,487)	\$ (2,411)	\$ —	\$ 56,249

	Accumulated							
	Preferred	Common	Additional	Retained	Other	Unearned	Treasury	Total
Nine Months Ended September 30, 2023 and 2022	Stock	Stock	Paid In Capital	Earnings	Comprehensive Loss	ESOP Shares	Stock	Shareholders' Equity
Balance at January 1, 2023	\$ —	\$ 33	\$ 31,099	\$ 34,083	\$ (6,999)	\$ (2,346)	\$ —	\$ 55,870
Cumulative change in accounting principle (adoption of ASC 326)	—	—	—	(1,010)	—	—	—	(1,010)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	33	31,099	33,073	(6,999)	(2,346)	—	54,860
Net loss	—	—	—	(401)	—	—	—	(401)
Stock based compensation expense	—	—	467	—	—	—	—	467
Issuance of restricted stock awards	—	1	—	—	—	—	—	1
Net changes in other comprehensive income (loss), net of tax	—	—	—	—	40	—	—	40
Cash dividends declared (\$0.02 per share in Q1 and \$0.03 per share in Q2 and Q3)	—	—	—	(265)	—	—	—	(265)
ESOP shares committed to be released, 9,774 shares	—	—	29	—	—	98	—	127
Treasury stock purchased, 127,417 shares	—	—	—	—	—	—	(1,576)	(1,576)

Balance at September 30, 2023	\$	—	\$	34	\$	31,595	\$	32,407	\$	(6,959)	\$	(2,248)	\$	(1,576)	\$	53,253
Balance at January 1, 2022	\$	—	\$	33	\$	30,932	\$	32,329	\$	(686)	\$	(2,476)	\$	—	\$	60,132
Net income		—		—		—		1,346		—		—		—		1,346
Stock based compensation expense		—		—		21		—		—		—		—		21
Net changes in other comprehensive income (loss), net of tax		—		—		—		—		(6,036)		—		—		(6,036)
ESOP shares committed to be released, 9,774 shares		—		—		66		—		—		98		—		164
Balance at September 30, 2022	\$	—	\$	33	\$	31,019	\$	33,675	\$	(6,722)	\$	(2,378)	\$	—	\$	55,627

See Notes to Consolidated Financial Statements

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## Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

Six Nine Months Ended **June 30, 2023** September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

	Six Months Ended	
	June 30,	
	2023	2022
<b>Operating Activities</b>		
Net (loss) income	\$ (857)	\$ 807
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses - loans	195	77
Provision for credit losses - off-balance sheet credit exposures	(12)	—
Net (accretion) amortization of securities	(6)	269
Depreciation and amortization	230	216
Net realized loss on sales of securities available for sale	1,687	29
Loss on sale of fixed assets	—	9
Appreciation on bank-owned life insurance	(51)	(49)
ESOP compensation expense for allocated shares	87	111
Stock-based compensation	285	—
Deferred income tax	(397)	44
Loss on fair value adjustment of fair value hedges	14	—
Net change in		
Accrued interest receivable	(119)	(54)
Other assets	20	(11)
Accrued expenses and other liabilities	423	152
<b>Net Cash from Operating Activities</b>	<b>1,499</b>	<b>1,600</b>
<b>Investing Activities</b>		
Net change in interest bearing deposits in banks	(3,061)	7,536
Activity in available for sale securities		
Purchases	(9,511)	(31,377)
Sales	17,027	10,822
Maturities, prepayments and calls	2,724	2,180

Activity in held to maturity securities		
Purchases	(2,139)	—
Maturities, prepayments and calls	2,025	3,552
Purchases of restricted investments	(571)	(7)
Loan originations and principal collections, net	(18,645)	(10,238)
Net decrease in net investment in direct financing leases	28	41
Purchases of premises and equipment	(3,324)	(208)
Net Cash used for Investing Activities	<u>(15,447)</u>	<u>(17,699)</u>
Financing Activities		
Net increase in deposits	6,487	13,652
Advances from FHLB and other borrowings	23,201	—
Payments on FHLB and other borrowings	(13,839)	(1,037)
Cash dividends declared and paid	(168)	—
Purchases of treasury stock	(610)	—
Net Cash from Financing Activities	<u>15,071</u>	<u>12,615</u>
Net Change in Cash and Cash Equivalents	<u>1,123</u>	<u>(3,484)</u>
Cash and Cash Equivalents at Beginning of Period	<u>8,927</u>	<u>21,915</u>
Cash and Cash Equivalents at End of Period	<u>\$ 10,050</u>	<u>\$ 18,431</u>
	Nine Months Ended	
	September 30,	
	<u>2023</u>	<u>2022</u>
Operating Activities		
Net (loss) income	\$ (401)	\$ 1,346
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses - loans	185	125
Provision for credit losses - off-balance sheet credit exposures	27	—
Net (accretion) amortization of securities	(32)	355
Depreciation and amortization	316	324
Net realized loss on sales of securities available for sale	1,687	29
Loss on sale of fixed assets	—	10
Gain on foreclosed assets	(36)	(42)
Appreciation on bank-owned life insurance	(79)	(75)
ESOP compensation expense for allocated shares	127	164
Stock-based compensation	467	21
Deferred income tax	(466)	(20)
Loss on fair value adjustment of fair value hedges	14	—
Net change in		
Accrued interest receivable	(113)	(134)
Other assets	(46)	(219)
Accrued expenses and other liabilities	1,320	663
Net Cash from Operating Activities	<u>2,970</u>	<u>2,547</u>
Investing Activities		
Net change in interest bearing deposits in banks	(7,016)	14,596
Activity in available for sale securities		
Purchases	(9,511)	(44,465)
Sales	17,027	10,822
Maturities, prepayments and calls	4,730	4,209
Activity in held to maturity securities		
Purchases	(2,139)	—
Maturities, prepayments and calls	2,960	4,732
Purchases of restricted investments	(1,066)	(65)
Loan originations and principal collections, net	(18,988)	(20,075)
Net decrease in net investment in direct financing leases	28	41
Proceeds from sales of OREO and foreclosed assets	—	243
Purchases of premises and equipment	<u>(4,360)</u>	<u>(344)</u>

Net Cash used for Investing Activities	(18,335)	(30,306)
Financing Activities		
Net increase in deposits	3,818	7,268
Advances from FHLB and other borrowings	33,201	9,000
Payments on FHLB and other borrowings	(16,317)	(1,556)
Cash dividends declared and paid	(265)	—
Purchases of treasury stock	(1,576)	—
Net Cash from Financing Activities	18,861	14,712
Net Change in Cash and Cash Equivalents	3,496	(13,047)
Cash and Cash Equivalents at Beginning of Period	8,927	21,915
Cash and Cash Equivalents at End of Period	\$ 12,423	\$ 8,868

See Notes to Consolidated Financial Statements

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

### Note 1 - Summary of Significant Accounting Policies

#### General

Texas Community Bancshares, Inc. (the "Company"), a Maryland corporation and registered bank holding company, was incorporated on March 5, 2021 and became the holding company for Mineola Community Bank, SSB (the "Bank") as part of a mutual to stock conversion completed on July 14, 2021. The Company's shares trade on the NASDAQ under the symbol TCBS. Voting rights in the Company are held and exercised exclusively by the shareholders of the Company.

The Company's primary source of revenue is providing loans and banking services to consumers and commercial customers in Mineola, Texas and the surrounding area and the Dallas Fort Worth Metroplex. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices of the banking industry.

Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

#### Interim Financial Statements

The interim unaudited consolidated financial statements as of June 30, 2023 September 30, 2023, and for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Such adjustments are the only adjustments contained in these unaudited consolidated financial statements. These unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission, and therefore certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been omitted. The results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2023, or any other period. Certain prior period data presented in the consolidated financial statements has been reclassified to conform with the current period presentation. The accompanying consolidated financial statements have been derived from and should be read in conjunction with the audited consolidated financial

statements and notes thereto of the Company for the year ended December 31, 2022. Reference is made to the accounting policies of the Company described in the Notes to Consolidated Financial Statements contained in Form 10-K for the year ended December 31, 2022.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include Mineola Community Bank, S.S.B. SSB and its wholly-owned subsidiary Mineola Financial Service Corporation, which is not actively being utilized. All significant intercompany transactions and balances have been eliminated in consolidation.

### Use of Estimates

In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

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### Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASC 326”), effective January 1, 2023. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. 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 not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company’s portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell.

The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet (“OBS”) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$1,025 which was recognized through an \$810 adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$2,780 as of January 1, 2023. In addition, the Company recorded a \$254 allowance on unfunded commitments which was recognized through a \$200 adjustment to retained earnings, net of tax.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (“PCD”) that were previously classified as purchased credit impaired (“PCI”) and accounted for under ASC 310-30. As of December 31, 2022, the Company did not hold any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2023.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed necessary.

#### Held to Maturity Securities

Beginning January 1, 2023, the Company evaluates all securities quarterly to determine if any securities in a loss

position require a provision for credit losses in accordance with ASC 326. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through net income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors.

In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and 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

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

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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 (loss). Changes in the allowance for credit losses are recorded as provision for or (reduction of) provision for credit losses.

Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. For the three and six nine months ended June 30, 2023 September 30, 2023, the Company determined no provision for credit losses on securities was necessary.

#### Allowance for Credit Losses

The Company uses the weighted average remaining maturity ("WARM") method to estimate expected losses for all of Company's loan pools. These pools are as follows: construction & land; farmland; 1-4 residential & multi-family real estate; commercial real estate; agriculture; commercial; and consumer and other. The loan portfolio pools were selected in order to generally align with the loan categories specified in the quarterly call reports required to be filed with the Federal Financial Institutions Examination Council. For each of these loan pools, the Company calculates an average annual loss rate and estimates future outstanding balances based on contractual maturities and estimated prepayments. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. Relevant data to support the Company's estimates of lifetime expected credit losses is maintained through internal and external information. The CECL model leverages the use of publicly available call report data, which allows the use of external information from peers to supplement the Company's own historical data. The loss rate is based on historical loss rates for the peer group and the Company. Due to internal loss rates being low, a blended historical loss rate of 75% peer group and 25% Company was used. The weighted average remaining life is determined based on contracted loan payments, expected prepayments and maturity dates. The allowance model uses data from the St. Louis Federal Reserve Economic Database for reasonable and supportable forecasts.

Management has determined that between years one and two represents a reasonable and supportable forecast period and reverts to a historical loss rate in years three or four depending on the loan type. Management leverages economic projections from the St. Louis Federal Reserve Economic Database (FRED) to inform its loss driver forecasts. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The following table illustrates the impact of the adoption of ASC 326:

	As Reported under ASC 326	Pre ASC 326 Adoption	Impact of ASC 326 Adoption
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 2,780	\$ 1,755	\$ 1,025
<b>Liabilities:</b>			
Allowance for credit losses on OBS credit exposures (included in other liabilities)	254	—	254

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended **June 30, 2023** **September 30, 2023** and 2022

(Amounts in thousands, except share and per share data)

The Company adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, effective January 1, 2023. The additional disclosures are included in Note 4 – Loans and Allowance for Credit Losses on a prospective basis and include loan modifications where the contractual payment terms of the borrower’s loan agreement were modified through a refinancing or restructuring. Modifications that do not impact the contractual payment terms, such as covenant waivers, insignificant payment deferrals, and any modifications made to loans carried at fair value are not included in the disclosures.

The Company uses various indicators to identify borrowers in financial difficulty. Consumer loan borrowers that are delinquent and commercial loan borrowers that are rated substandard or worse are the primary criteria used to identify borrowers who are experiencing financial difficulty.

If a borrower is current at the time of modification, the loan generally remains a performing loan as long as there is demonstrated performance prior to the modification, and payment in full under the modified terms is expected. Otherwise, the loan is placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, which is generally at least six consecutive months.

### Treasury Stock

Treasury stock is accounted for on the cost method and consists of **50,267** **127,417** shares at **June 30, 2023** **September 30, 2023**. The Company had no treasury shares at December 31, 2022.

### Derivatives

The Company adopted ASU 2022-01, *Derivatives and Hedging (Topic 815) – Fair Value Hedging – Portfolio Layer Method*, as of January 1, 2023. The adoption of this standard did not have a material effect on the Company’s **consolidated** operating results or financial condition as of December 31, 2022.

At the inception of a derivative contract, the Company designates the derivatives as one of the three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (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"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated or that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives not designated or that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents 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 fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended **June 30, 2023** **September 30, 2023** and 2022

(Amounts in thousands, except share and per share data)

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effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Company is a party settle monthly or semi-annually.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income (loss) or shareholders' equity.

### Note 2 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including allocated and committed to be released ESOP shares and restricted stock awards granted on August 31, 2022 and February 28, 2023, during the applicable period. Diluted earnings per share is computed using the weighted-average number of shares

determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share:

	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net Income (Loss)	\$ 160	\$ 416	\$ (857)	\$ 807	\$ 456	\$ 539	\$ (401)	\$ 1,346
Weighted average shares outstanding for basic earnings per share:								
Average shares outstanding	3,363,064	3,257,759	3,327,647	3,257,759	3,283,496	3,270,504	3,316,518	3,262,054
Less: average unearned ESOP shares	(231,264)	(242,160)	(234,534)	(244,788)	(228,007)	(241,039)	(232,889)	(244,237)
Weighted average shares outstanding for basic earnings per share	3,131,800	3,015,599	3,093,113	3,012,971	3,055,489	3,029,465	3,083,629	3,017,817
Additional dilutive shares	—	—	—	—	—	—	—	—
Weighted average shares outstanding for dilutive earnings per share	3,131,800	3,015,599	3,093,113	3,012,971	3,055,489	3,029,465	3,083,629	3,017,817
Basic and dilutive earnings (loss) per share	\$ 0.05	\$ 0.14	\$ (0.28)	\$ 0.27	\$ 0.15	\$ 0.18	\$ (0.13)	\$ 0.45

Restricted stock awards for 115,964 shares of common stock were not considered in computing diluted earnings per share for 2023, because they were antidilutive. Stock options for 289,932 270,386 shares of common stock were not considered in computing diluted earnings per share for 2023 because they were nonvested. Stock options for 19,546 shares of common stock have vested, however, were not considered in computing diluted earnings per share for 2023, because they were antidilutive.

Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

**Note 3 - Debt Securities**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

Available for Sale	June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Debt Securities:</b>				
Residential mortgage-backed	\$ 27,404	\$ —	\$ (1,571)	\$ 25,833
Collateralized mortgage obligations	54,675	3	(3,305)	51,373
State and municipal	16,333	—	(2,194)	14,139
Corporate bonds	5,750	—	(1,263)	4,487
<b>Total securities available for sale</b>	<b>\$ 104,162</b>	<b>\$ 3</b>	<b>\$ (8,333)</b>	<b>\$ 95,832</b>
<b>Held to Maturity</b>				
<b>Debt Securities:</b>				
Residential mortgage-backed	\$ 24,030	\$ —	\$ (2,898)	\$ 21,132
State and municipal	1,996	—	(50)	1,946
U.S. Government and agency	1,844	—	(3)	1,841
<b>Total securities held to maturity</b>	<b>\$ 27,870</b>	<b>\$ —</b>	<b>\$ (2,951)</b>	<b>\$ 24,919</b>

Available for Sale	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Debt Securities:</b>				
Residential mortgage-backed	\$ 26,825	\$ 2	\$ (1,838)	\$ 24,989
Collateralized mortgage obligations	53,345	1	(3,665)	49,681
State and municipal	16,303	—	(2,866)	13,437
Corporate bonds	5,750	—	(1,383)	4,367
<b>Total securities available for sale</b>	<b>\$ 102,223</b>	<b>\$ 3</b>	<b>\$ (9,752)</b>	<b>\$ 92,474</b>
<b>Held to Maturity</b>				
<b>Debt Securities:</b>				
Residential mortgage-backed	\$ 23,121	\$ —	\$ (3,575)	\$ 19,546
State and municipal	1,990	—	(132)	1,858
U.S. Government and agency	1,784	—	(1)	1,783
<b>Total securities held to maturity</b>	<b>\$ 26,895</b>	<b>\$ —</b>	<b>\$ (3,708)</b>	<b>\$ 23,187</b>

Available for Sale	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Debt Securities:</b>				
Residential mortgage-backed	\$ 25,573	\$ —	\$ (1,815)	\$ 23,758
Collateralized mortgage obligations	52,134	584	(2,474)	50,244

State and municipal	16,387	—	(2,606)	13,781
Corporate bonds	5,750	—	(935)	4,815
U.S. Government and agency	16,169	—	(1,614)	14,555
Total securities available for sale	<u>\$ 116,013</u>	<u>\$ 584</u>	<u>\$ (9,444)</u>	<u>\$ 107,153</u>

Held to Maturity				
Debt Securities:				
Residential mortgage-backed	\$ 25,817	\$ —	\$ (3,132)	\$ 22,685
State and municipal	2,010	—	(80)	1,930
Total securities held to maturity	<u>\$ 27,827</u>	<u>\$ —</u>	<u>\$ (3,212)</u>	<u>\$ 24,615</u>

During the six nine months ended June 30, 2023 September 30, 2023, the Company had sales of available for sale securities of \$17,027 with a loss of \$1,687. During the three months ended June 30, 2023, September 30, 2023 and 2022, the Company had no sales of available for sale securities or held to maturity securities. During the three and six nine months ended June 30, 2022 September 30, 2022, the Company had sales of available for sale securities of \$10,822 with a loss of \$29.

At June 30, 2023 September 30, 2023 and December 31, 2022, securities with a fair value of \$4,359 \$4,366 and \$3,162, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2023 September 30, 2023, follows:

	Available for Sale		Held to Maturity		Available for Sale		Held to Maturity	
	Estimated		Estimated		Estimated		Estimated	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year	\$ —	\$ —	\$ 395	\$ 394	\$ —	\$ —	\$ 395	\$ 393
Due from one to five years	3,175	2,894	365	365	3,167	2,844	365	360
Due in five to ten years	12,382	10,459	1,978	1,962	12,381	10,135	1,919	1,899
After ten years	6,526	5,273	1,102	1,066	6,505	4,825	1,095	989
Residential mortgage-backed	27,404	25,833	24,030	21,132	26,825	24,989	23,121	19,546
Collateralized mortgage obligations	54,675	51,373	—	—	53,345	49,681	—	—
Total	<u>\$ 104,162</u>	<u>\$ 95,832</u>	<u>\$ 27,870</u>	<u>\$ 24,919</u>	<u>\$ 102,223</u>	<u>\$ 92,474</u>	<u>\$ 26,895</u>	<u>\$ 23,187</u>

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

Category (number of securities)	June 30, 2023				September 30, 2023			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Gross		Gross		Gross		Gross	
	Fair Value	Unrealized Losses						

Residential mortgage-backed (11,78)	\$ 15,000	\$ (180)	\$ 31,965	\$ (4,289)				
Collateralized mortgage obligations (16,11)	32,434	(949)	17,178	(2,356)				
Residential mortgage-backed (5,83)					\$ 12,534	\$ (135)	\$ 29,825	\$ (5,278)
Collateralized mortgage obligations (11,16)					24,243	(647)	23,898	(3,018)
State and municipal (5,19)	2,052	(14)	14,032	(2,230)	2,009	(53)	13,287	(2,945)
Corporate bonds (1,11)	429	(71)	4,058	(1,192)				
Corporate bonds (0,12)					—	—	4,367	(1,383)
U.S. Government and agency (1,0)	1,841	(3)	—	—	1,783	(1)	—	—
Total	\$ 51,756	\$ (1,217)	\$ 67,233	\$ (10,067)	\$ 40,569	\$ (836)	\$ 71,377	\$ (12,624)

Category (number of securities)	December 31, 2022			
	Less than 12 months		12 months or longer	
	Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed (66,21)	\$ 16,889	\$ (1,253)	\$ 21,888	\$ (3,694)
Collateralized mortgage obligations (11,5)	22,133	(797)	8,790	(1,677)
State and municipal (15,9)	8,638	(1,267)	7,073	(1,419)
Corporate bonds (10,2)	3,963	(787)	852	(148)
U.S. Government and agency (1,13)	2,809	(181)	11,746	(1,433)
Total	\$ 54,432	\$ (4,285)	\$ 50,349	\$ (8,371)

At **June 30, 2023** **September 30, 2023**, the Company had investment securities with approximately **\$10,067** **\$12,624** in unrealized losses, which have been in continuous loss positions for more than twelve months. The Company's assessments indicated that the cause of the market depreciation was primarily the change in market interest rates and not the issuers' financial condition or downgrades by rating agencies. In addition, approximately **12.4%** **16.3%** of the principal balance from the Company's investment portfolio will mature and be repaid to the Company within five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six **Three and Nine Months Ended June 30, 2023** **September 30, 2023** and 2022

(Amounts in thousands, except share and per share data)

The following table summarizes bond ratings for the Company's held-to-maturity portfolio, based upon amortized cost, issued by state and political subdivisions and other securities as of **June 30, 2023** **September 30, 2023**:

	Residential mortgage-backed	State and municipal	U.S. Government and agency	Residential mortgage-backed	State and municipal	U.S. Government and agency
AAA	\$ 24,030	\$ 1,862	\$ 1,844	\$ 23,121	\$ 1,856	\$ 1,784
Baa2	—	134	—	—	134	—
	\$ 24,030	1,996	\$ 1,844	\$ 23,121	1,990	\$ 1,784

### Mortgage-backed securities and Collateralized Mortgage Obligations

The unrealized losses on the Company's investments in residential mortgage-backed securities and collateralized mortgage obligations were caused by market interest rate increases and decreases in prepayment speeds. Interest rates rose sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the unrealized losses' effect on the financial statements. The contractual cash flows of many of these investments are guaranteed by agencies of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and decreases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

#### **U.S. Government and agency**

The unrealized losses on the Company's investments in U.S. government and agency securities were caused by market interest rate increases. Interest rates rose sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the unrealized losses' effect on the financial statements. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

#### **Municipal Securities and Corporate Bonds**

The unrealized losses on the Company's investments in state and municipal securities and corporate bonds were caused by market interest rate increases. Interest rates rose sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the effect of the unrealized losses on the financial statements. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the

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## Texas Community Bancshares, Inc. and Subsidiaries

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(Amounts in thousands, except share and per share data)

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investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

#### **Other than temporary impairment**

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2022, no investment securities were other-than-temporarily impaired.

#### **Note 4 - Loans and Allowance for Credit Losses**

A summary of the balances of loans and leases follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Real estate:				
Real estate				
Construction and land	\$ 45,848	\$ 36,257	\$ 37,284	\$ 36,257
Farmland	8,806	7,558	8,973	7,558
1-4 Residential & multi-family	167,946	162,785		
Commercial real estate	35,108	33,678		
Total Real Estate	257,708	240,278		
1-4 Residential and multi-family			176,081	162,785
Commercial Real Estate			35,536	33,678
Total real estate			257,874	240,278
Agriculture	132	189	105	189
Commercial	7,545	7,031	7,135	7,031
Consumer and other	6,346	5,595	6,770	5,595
Subtotal	271,731	253,093	271,884	253,093
Less allowance for credit losses	(2,969)	(1,755)	(2,934)	(1,755)
Loans and leases, net	\$ 268,762	\$ 251,338	\$ 268,950	\$ 251,338

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Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The following tables set forth information regarding the activity in the allowance for credit losses for the three and six nine months ended June 30, 2023 September 30, 2023:

	June 30, 2023								September 30, 2023				
	Real Estate								Real Estate				
	1-4 Residential								1-4 Residential				
Allowance for credit losses:	Construction and Land	Farmland	& multi-family	Commercial real estate	Agriculture	Commercial	Consumer and other	Total	Construction and Land	Farmland	& multi-family	Commercial real estate	Agriculture
Three months ended													
Beginning balance, April 1, 2023	\$ 419	\$ 69	\$ 1,470	\$ 366	\$ 79	\$ 362	\$ 94	\$ 2,859					
Beginning balance, July 1, 2023									\$ 442	\$ 69	\$ 1,517	\$ 372	\$

Provision for credit losses	23	—	47	6	(78)	104	10	112	(82)	1	50	(2)	—
Loans charged-off	—	—	—	—	—	—	(3)	(3)	—	—	—	—	—
Recoveries	—	—	—	—	—	—	1	1	—	—	—	—	—
Balance, June 30, 2023	\$ 442	\$ 69	\$ 1,517	\$ 372	\$ 1	\$ 466	\$ 102	\$ 2,969					
Six months ended													
Balance, September 30, 2023									\$ 360	\$ 70	\$ 1,567	\$ 370	\$ —
Nine months ended													
Beginning balance prior to adoption of ASC 326	\$ 262	\$ 31	\$ 812	\$ 227	\$ 1	\$ 359	\$ 63	\$ 1,755	\$ 262	\$ 31	\$ 812	\$ 227	\$ —
Impact of adopting ASC 326 on January 1, 2023	92	28	677	133	2	61	32	1,025	92	28	677	133	—
Provision for credit losses	88	10	28	12	(2)	46	13	195	6	11	78	10	—
Loans charged-off	—	—	—	—	—	—	(9)	(9)	—	—	—	—	—
Recoveries	—	—	—	—	—	—	3	3	—	—	—	—	—
Balance, June 30, 2023	\$ 442	\$ 69	\$ 1,517	\$ 372	\$ 1	\$ 466	\$ 102	\$ 2,969					
Balance, September 30, 2023									\$ 360	\$ 70	\$ 1,567	\$ 370	\$ —
Balance, June 30, 2023 allocated to loans and leases individually evaluated	\$ 5	\$ 4	\$ 18	\$ 7	\$ —	\$ 384	\$ 5	\$ 423					
Balance, September 30, 2023 allocated to loans and leases individually evaluated									\$ —	\$ 4	\$ 21	\$ 7	\$ —

Balance, June 30, 2023 allocated to loans and leases collectively evaluated	\$	437	\$	65	\$	1,499	\$	365	\$	1	\$	82	\$	97	\$	2,546										
Balance, September 30, 2023 allocated to loans and leases collectively evaluated																\$	360	\$	66	\$	1,546	\$	363	\$		
Loans and leases receivable:																										
Balance, June 30, 2023 loans and leases individually evaluated	\$	364	\$	317	\$	1,356	\$	647	\$	—	\$	2,799	\$	37	\$	5,520										
Balance, June 30, 2023 loans and leases collectively evaluated		45,484		8,489		166,590		34,461		132		4,746		6,309		266,211										
Balance, June 30, 2023	\$	45,848	\$	8,806	\$	167,946	\$	35,108	\$	132	\$	7,545	\$	6,346	\$	\$271,731										
Balance, September 30, 2023 loans and leases individually evaluated																	\$	—	\$	310	\$	1,426	\$	516	\$	—
Balance, September 30, 2023 loans and leases collectively evaluated																		37,284		8,663		174,655		35,020		10
Balance, September 30, 2023	\$	37,284	\$	8,973	\$	176,081	\$	35,536	\$	—	\$	—	\$	—	\$	—										10

## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended **June 30, 2023** **September 30, 2023** and 2022

(Amounts in thousands, except share and per share data)

The following tables present the balances and activity in the allowance for loan and lease losses as of and for the three and **six** nine months ended **June 30, 2022** and the year ended **December 31, 2022**, **September 30, 2022** and the allowance for loan and lease losses and recorded investment in loans receivable based on portfolio segment by impairment method as of December 31, 2022. Allocation of a portion of the allowance to one type of loan does not preclude its availability to absorb losses in other categories.

	June 30, 2022					September 30, 2022				
	Real Estate	Agriculture	Commercial	Consumer and Other	Total	Real Estate	Agriculture	Commercial	Consumer and Other	Total
<i>Allowance for loan and lease losses:</i>										
Three months ended										
Beginning balance, April 1, 2022	\$ 1,182	\$ 1	\$ 363	\$ 64	\$ 1,610					
Balance, July 1, 2022						\$ 1,208	\$ 1	\$ 367	\$ 63	\$ 1,639
Charge-offs	—	—	—	(10)	(10)	—	—	—	(8)	(8)
Recoveries	—	—	—	2	2	—	—	—	7	7
Provision	26	—	4	7	37	53	—	—	(5)	48
Ending balance, June 30, 2022	<u>\$ 1,208</u>	<u>\$ 1</u>	<u>\$ 367</u>	<u>\$ 63</u>	<u>\$ 1,639</u>					
Balance, September 30, 2022						<u>\$ 1,261</u>	<u>\$ 1</u>	<u>\$ 367</u>	<u>\$ 57</u>	<u>\$ 1,686</u>
Six months ended										
Beginning balance, January 1, 2022	\$ 1,178	\$ 1	\$ 357	\$ 56	\$ 1,592					
Nine months ended										
Balance, January 1, 2022						\$ 1,178	\$ 1	\$ 357	\$ 56	\$ 1,592
Charge-offs	—	—	—	(36)	(36)	—	—	—	(44)	(44)
Recoveries	—	—	—	6	6	—	—	—	13	13
Provision	30	—	10	37	77	83	—	10	32	125

Balance, June 30, 2022	\$ 1,208	\$ 1	\$ 367	\$ 63	\$ 1,639					
Balance, September 30, 2022	\$ 1,261	\$ 1	\$ 367	\$ 57	\$ 1,686					
	December 31, 2022					December 31, 2022				
	Consumer					Consumer				
<i>Allowance for loan and lease losses:</i>	Real Estate	Agriculture	Commercial	and Other	Total	Real Estate	Agriculture	Commercial	and Other	Total
Balance, December 31, 2022 allocated to loans and leases individually evaluated for impairment	\$ —	\$ —	\$ 300	\$ —	\$ 300	\$ —	\$ —	\$ 300	\$ —	\$ 300
Balance, December 31, 2022 allocated to loans and leases collectively evaluated for impairment	\$ 1,332	\$ 1	\$ 59	\$ 63	\$ 1,455	\$ 1,332	\$ 1	\$ 59	\$ 63	\$ 1,455
<i>Loans and leases receivable:</i>										
Balance, December 31, 2022 loans and leases individually evaluated for impairment	\$ 945	\$ —	\$ 531	\$ —	\$ 1,476	\$ 945	\$ —	\$ 531	\$ —	\$ 1,476
Balance, December 31, 2022 loans and leases collectively evaluated for impairment	239,333	189	6,500	5,595	251,617	239,333	189	6,500	5,595	251,617
Balance, December 31, 2022	\$ 240,278	\$ 189	\$ 7,031	\$ 5,595	\$ 253,093	\$ 240,278	\$ 189	\$ 7,031	\$ 5,595	\$ 253,093

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## Texas Community Bancshares, Inc. and Subsidiaries

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Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of June 30, 2023 September 30, 2023:

	Nonaccrual	Nonaccrual with Reserve	Loans Past Due Over 90 Days Still Accruing	Nonaccrual without Allowance	Nonaccrual with Allowance	Loans Past Due Over 90 Days Still Accruing
Real estate						
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	159	—	—	154	—	—
1□4 Residential & multi-family	520	—	—	507	—	—
Commercial real estate	191	—	—	63	—	—
Agriculture	—	—	—	—	—	—
Commercial	6	367	—	5	353	80
Consumer and other	16	—	—	—	—	—
Total	\$ 892	\$ 367	\$ —	\$ 729	\$ 353	\$ 80

The following table sets forth information regarding the nonaccrual status within the loan and lease portfolio as of December 31, 2022:

	Nonaccrual
Real estate	
Construction and land	\$ —
Farmland	165
1□4 Residential & multi-family	548
Commercial real estate	70
Agriculture	—
Commercial	398
Consumer and other	—
Total	\$ 1,181

The Company did not recognize any interest income on nonaccrual loans during the periods ended June 30, 2023 September 30, 2023 or June 30, 2022 September 30, 2022.

## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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(Amounts in thousands, except share and per share data)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of June 30, 2023 September 30, 2023:

	Accounts Receivable and Inventory			Accounts Receivable and Inventory	
	Real Estate	Inventory	Other	Real Estate	Inventory
<b>Real estate</b>					
Farmland	\$ 159	\$ —	\$ —	\$ 154	\$ —
1-4 Residential & multi-family	675	—	—	659	—
Commercial real estate	191	—	—	63	—
<b>Commercial</b>	—	564	—	—	536
<b>Consumer and other</b>	—	—	16	—	—
<b>Total</b>	<b>\$ 1,025</b>	<b>\$ 564</b>	<b>\$ 16</b>	<b>\$ 876</b>	<b>\$ 536</b>

The Company had \$1,605 \$1,412 in collateral-dependent loans as of June 30, 2023 September 30, 2023.

The following table sets forth information regarding impaired loans as of December 31, 2022:

	Recorded	Unpaid	Related	Average
	Investment	Principal Balance	Allowance	Recorded Investment
<b>With no related allowance</b>				
<b>Real estate</b>				
Farmland	\$ 165	\$ 223	\$ —	\$ 179
1-4 Residential & multi-family	710	765	—	843
Commercial real estate	70	76	—	97
Commercial	142	145	—	90
Consumer and other	—	—	—	17
<b>With a related allowance</b>				
Commercial	389	417	300	425
<b>Total</b>				
<b>Real estate</b>				
Farmland	165	223	—	179
1-4 Residential & multi-family	710	765	—	843
Commercial real estate	70	76	—	670
Commercial	531	562	300	503
Consumer and other	—	—	—	17
	<b>\$ 1,476</b>	<b>\$ 1,626</b>	<b>\$ 300</b>	<b>\$ 2,212</b>

### Internal Risk Categories

A loan is considered collateral-dependent when based on current information and events; it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include

nonperforming loans (nonaccrual loans), loans performing but with deterioration that leads to doubt regarding collectability and also includes loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties.

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## Texas Community Bancshares, Inc. and Subsidiaries

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Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

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that leads to doubt regarding collectability and also includes loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties.

These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral-dependent loans, excluding loans secured by assisted living loans facilities which are evaluated using a market price valuation methodology, where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the allowance for credit losses is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the fair value of the underlying collateral less estimated costs to sell. The allowance for credit losses may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans and leases are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans and leases that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

The classifications of loans and leases reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits quarterly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each quarterly reporting period.

The 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).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is

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## Texas Community Bancshares, Inc. and Subsidiaries

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required to avert or minimize loss. Credits with this classification have often become collateral dependent and any shortage in collateral or other likely loss amount is recorded as a specific valuation allowance. Credits rated doubtful are generally also placed on nonaccrual.

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## Texas Community Bancshares, Inc. and Subsidiaries

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Three and Nine Months Ended September 30, 2023 and 2022

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Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is 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.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

The Company evaluates the loan risk grading system definitions and allowance for loan and lease loss methodology on an ongoing basis. No significant changes were made during the period ended [June 30, 2023](#) [September 30, 2023](#) or the year ended December 31, 2022.

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[Six](#) [Three and Nine](#) Months Ended [June 30, 2023](#) [September 30, 2023](#) and 2022

(Amounts in thousands, except share and per share data)

Based on the most recent analysis performed, the risk category of loans by class of loans as of **June 30, 2023** September 30, 2023 and gross chargeoffs for the **six** **nine** months then ended are as follows:

		Term Loans Amortized Cost Basis by Origination Year						
		2023	2022	2021	2020	2019	Prior	Total
<b>Construction and land</b>								
Risk rating								
Pass	\$	13,422	\$ 19,961	\$ 1,430	\$ 903	\$ 270	\$ 1,298	\$ 37,284
Special mention		—	—	—	—	—	—	—
Substandard		—	—	—	—	—	—	—
Doubtful		—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—
	\$	<u>13,422</u>	<u>\$ 19,961</u>	<u>\$ 1,430</u>	<u>\$ 903</u>	<u>\$ 270</u>	<u>\$ 1,298</u>	<u>\$ 37,284</u>
<b>Farmland</b>								
Risk rating								
Pass	\$	1,918	\$ 2,733	\$ 1,149	\$ 506	\$ 809	\$ 1,547	\$ 8,662
Special mention		—	—	—	—	—	—	—
Substandard		—	—	—	—	157	154	311
Doubtful		—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—
	\$	<u>1,918</u>	<u>\$ 2,733</u>	<u>\$ 1,149</u>	<u>\$ 506</u>	<u>\$ 966</u>	<u>\$ 1,701</u>	<u>\$ 8,973</u>
<b>1-4 Residential &amp; multi-family</b>								
Risk rating								
Pass	\$	30,237	\$ 28,083	\$ 35,255	\$ 45,424	\$ 10,044	\$ 25,613	\$ 174,656
Special mention		—	—	—	—	—	177	177
Substandard		—	—	—	—	366	882	1,248
Doubtful		—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—
	\$	<u>30,237</u>	<u>\$ 28,083</u>	<u>\$ 35,255</u>	<u>\$ 45,424</u>	<u>\$ 10,410</u>	<u>\$ 26,672</u>	<u>\$ 176,081</u>
<b>Commercial real estate</b>								
Risk rating								
Pass	\$	3,105	\$ 5,957	\$ 10,199	\$ 3,224	\$ 6,899	\$ 5,637	\$ 35,021
Special mention		—	452	—	—	—	—	452
Substandard		—	—	—	—	—	63	63
Doubtful		—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—
	\$	<u>3,105</u>	<u>\$ 6,409</u>	<u>\$ 10,199</u>	<u>\$ 3,224</u>	<u>\$ 6,899</u>	<u>\$ 5,700</u>	<u>\$ 35,536</u>
<b>Agriculture</b>								
Risk rating								
Pass	\$	22	\$ 11	\$ 72	\$ —	\$ —	\$ —	\$ 105
Special mention		—	—	—	—	—	—	—
Substandard		—	—	—	—	—	—	—
Doubtful		—	—	—	—	—	—	—
Loss		—	—	—	—	—	—	—
	\$	<u>22</u>	<u>\$ 11</u>	<u>\$ 72</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 105</u>
<b>Commercial</b>								
Risk rating								
Pass	\$	2,237	\$ 983	\$ 386	\$ 393	\$ 295	\$ 406	\$ 4,700

Special mention	410	230	95	—	—	187	922
Substandard	177	2	981	78	275	—	1,513
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 2,824</u>	<u>\$ 1,215</u>	<u>\$ 1,462</u>	<u>\$ 471</u>	<u>\$ 570</u>	<u>\$ 593</u>	<u>\$ 7,135</u>
Consumer and other							
Risk rating							
Pass	\$ 3,971	\$ 1,424	\$ 1,218	\$ 122	\$ —	\$ 11	\$ 6,746
Special mention	14	—	2	4	—	—	20
Substandard	4	—	—	—	—	—	4
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 3,989</u>	<u>\$ 1,424</u>	<u>\$ 1,220</u>	<u>\$ 126</u>	<u>\$ —</u>	<u>\$ 11</u>	<u>\$ 6,770</u>
Current period gross charge-offs	<u>\$ 7</u>	<u>\$ 25</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38</u>

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total
Construction and land							
Risk rating							
Pass	\$ 8,713	\$ 31,236	\$ 2,877	\$ 1,064	\$ 276	\$ 1,318	\$ 45,484
Special mention	—	364	—	—	—	—	364
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 8,713</u>	<u>\$ 31,600</u>	<u>\$ 2,877</u>	<u>\$ 1,064</u>	<u>\$ 276</u>	<u>\$ 1,318</u>	<u>\$ 45,848</u>
Farmland							
Risk rating							
Pass	\$ 1,588	\$ 2,755	\$ 1,182	\$ 510	\$ 867	\$ 1,587	\$ 8,489
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	158	159	317
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 1,588</u>	<u>\$ 2,755</u>	<u>\$ 1,182</u>	<u>\$ 510</u>	<u>\$ 1,025</u>	<u>\$ 1,746</u>	<u>\$ 8,806</u>
1-4 Residential & multi-family							
Risk rating							
Pass	\$ 17,074	\$ 28,322	\$ 37,145	\$ 45,977	\$ 10,405	\$ 27,666	\$ 166,589
Special mention	—	138	—	—	—	7	145
Substandard	—	—	—	—	286	926	1,212
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 17,074</u>	<u>\$ 28,460</u>	<u>\$ 37,145</u>	<u>\$ 45,977</u>	<u>\$ 10,691</u>	<u>\$ 28,599</u>	<u>\$ 167,946</u>
Commercial real estate							
Risk rating							
Pass	\$ 2,346	\$ 5,827	\$ 10,291	\$ 3,274	\$ 6,822	\$ 5,900	\$ 34,460
Special mention	—	456	—	—	—	—	456
Substandard	—	126	—	—	—	66	192
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 2,346</u>	<u>\$ 6,409</u>	<u>\$ 10,291</u>	<u>\$ 3,274</u>	<u>\$ 6,822</u>	<u>\$ 5,966</u>	<u>\$ 35,108</u>

Agriculture							
Risk rating							
Pass	\$ 23	\$ 32	\$ 77	\$ —	\$ —	\$ —	\$ 132
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 23</u>	<u>\$ 32</u>	<u>\$ 77</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 132</u>
Commercial							
Risk rating							
Pass	\$ 1,622	\$ 1,154	\$ 916	\$ 436	\$ 396	\$ 221	\$ 4,745
Special mention	667	230	101	5	—	200	1,203
Substandard	191	3	1,035	83	285	—	1,597
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 2,480</u>	<u>\$ 1,387</u>	<u>\$ 2,052</u>	<u>\$ 524</u>	<u>\$ 681</u>	<u>\$ 421</u>	<u>\$ 7,545</u>
Consumer and other							
Risk rating							
Pass	\$ 2,774	\$ 1,851	\$ 1,347	\$ 177	\$ 18	\$ 142	\$ 6,309
Special mention	3	13	—	—	—	—	16
Substandard	4	11	6	—	—	—	21
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 2,781</u>	<u>\$ 1,875</u>	<u>\$ 1,353</u>	<u>\$ 177</u>	<u>\$ 18</u>	<u>\$ 142</u>	<u>\$ 6,346</u>
Current period gross charge-offs	\$ 8	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 9

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The following tables set forth information regarding the internal classification of the loan and lease portfolio at December 31, 2022:

	December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
<b>Real estate</b>						
Construction and land	\$ 35,608	\$ 649	\$ —	\$ —	\$ —	\$ 36,257
Farmland	7,231	—	327	—	—	7,558
104 Residential & multi-family	160,472	9	2,304	—	—	162,785
Commercial real estate	33,482	—	196	—	—	33,678
Agriculture	189	—	—	—	—	189

Commercial	6,496	—	146	389	—	7,031
Consumer and other	5,562	—	33	—	—	5,595
<b>Total</b>	<b>\$ 249,040</b>	<b>\$ 658</b>	<b>\$ 3,006</b>	<b>\$ 389</b>	<b>\$ —</b>	<b>\$ 253,093</b>

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. The Company also evaluates credit quality based on the aging status of the loan, which is subsequently presented. The following table presents the amortized cost of performing and non-performing loans as of June 30, 2023 September 30, 2023:

	Term Loans Amortized Cost Basis by Origination Year							Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total	2023	2022	2021	2020	2019	Prior	Total
<b>Construction and land</b>														
Performing	\$ 8,713	\$31,600	\$ 2,877	\$ 1,064	\$ 276	\$ 1,318	\$ 45,848	\$13,422	\$19,961	\$ 1,430	\$ 903	\$ 270	\$ 1,298	\$ 37,284
Non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	<u>\$ 8,713</u>	<u>\$31,600</u>	<u>\$ 2,877</u>	<u>\$ 1,064</u>	<u>\$ 276</u>	<u>\$ 1,318</u>	<u>\$ 45,848</u>	<u>\$13,422</u>	<u>\$19,961</u>	<u>\$ 1,430</u>	<u>\$ 903</u>	<u>\$ 270</u>	<u>\$ 1,298</u>	<u>\$ 37,284</u>
<b>Farmland</b>														
Performing	\$ 1,588	\$ 2,755	\$ 1,182	\$ 510	\$ 1,025	\$ 1,587	\$ 8,647	\$ 1,918	\$ 2,733	\$ 1,149	\$ 506	\$ 966	\$ 1,547	\$ 8,819
Non-performing	—	—	—	—	—	159	159	—	—	—	—	—	154	154
	<u>\$ 1,588</u>	<u>\$ 2,755</u>	<u>\$ 1,182</u>	<u>\$ 510</u>	<u>\$ 1,025</u>	<u>\$ 1,746</u>	<u>\$ 8,806</u>	<u>\$ 1,918</u>	<u>\$ 2,733</u>	<u>\$ 1,149</u>	<u>\$ 506</u>	<u>\$ 966</u>	<u>\$ 1,701</u>	<u>\$ 8,973</u>
<b>1-4 Residential &amp; multi-family</b>														
Performing	\$17,074	\$28,460	\$37,145	\$45,977	\$10,506	\$28,109	\$167,271	\$30,237	\$28,083	\$35,255	\$45,424	\$10,229	\$26,194	\$175,422
Non-performing	—	—	—	—	185	490	675	—	—	—	—	181	478	659
	<u>\$17,074</u>	<u>\$28,460</u>	<u>\$37,145</u>	<u>\$45,977</u>	<u>\$10,691</u>	<u>\$28,599</u>	<u>\$167,946</u>	<u>\$30,237</u>	<u>\$28,083</u>	<u>\$35,255</u>	<u>\$45,424</u>	<u>\$10,410</u>	<u>\$26,672</u>	<u>\$176,081</u>
<b>Commercial real estate</b>														
Performing	\$ 2,346	\$ 6,283	\$10,291	\$ 3,274	\$ 6,822	\$ 5,900	\$ 34,916	\$ 3,105	\$ 6,409	\$10,199	\$ 3,224	\$ 6,899	\$ 5,637	\$ 35,473
Non-performing	—	126	—	—	—	66	192	—	—	—	—	—	63	63
	<u>\$ 2,346</u>	<u>\$ 6,409</u>	<u>\$10,291</u>	<u>\$ 3,274</u>	<u>\$ 6,822</u>	<u>\$ 5,966</u>	<u>\$ 35,108</u>	<u>\$ 3,105</u>	<u>\$ 6,409</u>	<u>\$10,199</u>	<u>\$ 3,224</u>	<u>\$ 6,899</u>	<u>\$ 5,700</u>	<u>\$ 35,536</u>
<b>Agriculture</b>														
Performing	\$ 23	\$ 32	\$ 77	\$ —	\$ —	\$ —	\$ 132	\$ 22	\$ 11	\$ 72	\$ —	\$ —	\$ —	\$ 105

Non-performing	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	\$ 23	\$ 32	\$ 77	\$ —	\$ —	\$ —	\$ 132	\$ 22	\$ 11	\$ 72	\$ —	\$ —	\$ —	\$ 105
Commercial														
Performing	\$ 2,289	\$ 1,387	\$ 2,046	\$ 441	\$ 396	\$ 421	\$ 6,980	\$ 2,647	\$ 1,215	\$ 1,456	\$ 393	\$ 295	\$ 593	\$ 6,599
Non-performing	191	—	6	83	285	—	565	177	—	6	78	275	—	536
	\$ 2,480	\$ 1,387	\$ 2,052	\$ 524	\$ 681	\$ 421	\$ 7,545	\$ 2,824	\$ 1,215	\$ 1,462	\$ 471	\$ 570	\$ 593	\$ 7,135
Consumer and other														
Performing	\$ 2,781	\$ 1,864	\$ 1,347	\$ 177	\$ 18	\$ 142	\$ 6,329	\$ 3,989	\$ 1,424	\$ 1,220	\$ 126	\$ —	\$ 11	\$ 6,770
Non-performing	—	11	6	—	—	—	17	—	—	—	—	—	—	—
	\$ 2,781	\$ 1,875	\$ 1,353	\$ 177	\$ 18	\$ 142	\$ 6,346	\$ 3,989	\$ 1,424	\$ 1,220	\$ 126	\$ —	\$ 11	\$ 6,770

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The following table sets forth information regarding the credit risk profile based on payment activity of the loan and lease portfolio at December 31, 2022:

	December 31, 2022		
	Performing	Non-performing	Total
Real estate			
Construction and land	\$ 36,257	\$ —	\$ 36,257
Farmland	7,393	165	7,558
1-4 Residential & multi-family	162,237	548	162,785
Commercial real estate	33,608	70	33,678
Agriculture	189	—	189
Commercial	6,633	398	7,031
Consumer and other	5,595	—	5,595
Total	\$ 251,912	\$ 1,181	\$ 253,093

The following is an aging analysis for loans as of June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023					September 30, 2023				
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Total Current Loans	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Total Current Loans
Real estate										

Construction and land	\$ 1,441	\$ 3	\$ —	\$ 1,444	\$ 44,404	\$ 45,848	\$ 25	\$ —	\$ —	\$ 25	\$ 37,259	\$ 37,284
Farmland	—	30	159	189	8,617	8,806	—	—	154	154	8,819	8,973
104 Residential & multi-family	—	454	145	599	167,347	167,946	264	127	140	531	175,550	176,081
Commercial real estate	—	—	126	126	34,982	35,108	1,271	—	—	1,271	34,265	35,536
Agriculture	—	—	—	—	132	132	—	—	—	—	105	105
Commercial	80	1,714	—	1,794	5,751	7,545	—	680	80	760	6,375	7,135
Consumer and other	16	15	11	42	6,304	6,346	21	—	—	21	6,749	6,770
<b>Total</b>	<b>\$ 1,537</b>	<b>\$ 2,216</b>	<b>\$ 441</b>	<b>\$ 4,194</b>	<b>\$ 267,537</b>	<b>\$ 271,731</b>	<b>\$ 1,581</b>	<b>\$ 807</b>	<b>\$ 374</b>	<b>\$ 2,762</b>	<b>\$ 269,122</b>	<b>\$ 271,884</b>

	December 31, 2022							
	90 Days					Total Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
	30-89 Days Past Due	and Greater	Total Past Due					
<b>Real estate</b>								
Construction and land	\$ 930	\$ —	\$ 930	\$ 35,327	\$ 36,257	\$ —		
Farmland	162	—	162	7,396	7,558	—		
104 Residential & multi-family	1,215	—	1,215	161,570	162,785	—		
Commercial real estate	126	—	126	33,552	33,678	—		
Agriculture	—	—	—	189	189	—		
Commercial	—	1	1	7,030	7,031	1		
Consumer and other	10	—	10	5,585	5,595	—		
<b>Total</b>	<b>\$ 2,443</b>	<b>\$ 1</b>	<b>\$ 2,444</b>	<b>\$ 250,649</b>	<b>\$ 253,093</b>	<b>\$ 1</b>		

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

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All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. No interest income was recognized for loans on nonaccrual status for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

The following table presents interest income recognized on loans that are collateral-dependent and individually reviewed for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
June 30,		June 30,		September 30,		September 30,	
2023	2022	2023	2022	2023	2022	2023	2022

Real estate									
1-4 Residential & multi-family	\$ 1	\$ 2	\$ 3	\$ 4	\$ 2	\$ 3	\$ 5	\$ 7	
Commercial real estate	—	—	—	13	—	—	—	13	
Commercial	1	—	3	—	3	—	6	—	
	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 11</u>	<u>\$ 20</u>	

During the three and six nine months ended June 30, 2023 September 30, 2023, there were no modifications of loans to borrowers in financial difficulty. During the three and six nine months ended June 30, 2022 September 30, 2022, there were no modifications resulting in troubled debt restructurings.

There have been no subsequently defaulted troubled debt restructurings. The Company has no commitments to loan additional funds to borrowers whose loans have been modified but may on occasion extend financing to these borrowers.

At June 30, 2023 September 30, 2023 and December 31, 2022, the Company had a recorded investment of \$343 \$331 and \$364, respectively, of troubled debt restructured loans. The Company has no current commitments to loan additional funds to the borrowers whose loans have been modified.

#### Note 5 - Off-Balance-Sheet Activities

The Company is a party to credit related 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At June 30, 2023 September 30, 2023 and December 31, 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount		Contract Amount	
	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Commitments to extend credit	<u>\$ 44,920</u>	<u>\$ 43,327</u>	<u>\$ 44,949</u>	<u>\$ 43,327</u>

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## Texas Community Bancshares, Inc. and Subsidiaries

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(Amounts in thousands, except share and per share data)

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

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## Texas Community Bancshares, Inc. and Subsidiaries

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require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

The Bank is party to an agreement with the Federal Reserve Bank of Boston that provides the Bank with a federal funds line of credit in an amount tied to securities on deposit with that bank. The Bank pays no fees for this line of credit and has not drawn upon it. The Bank is party to agreements with its correspondent banks that provide the Bank with lines for up to \$15,000 federal funds lines of credit to support overnight funding needs. The Bank pays no fees for these lines of credit and has not drawn upon them. One line renews annually and the other line is in effect until either party changes the terms of the agreement.

At [June 30, 2023](#) [September 30, 2023](#), the Company had no commitments to purchase securities.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the consolidated financial statements.

### Note 6 - Supplemental Cash Flow Information

Supplemental disclosure of cash flow information is as follows:

	June 30,		Nine Months Ended	
	2023	2022	2023	2022
Supplemental cash flow information:				
Loan originations to facilitate the sale of foreclosed assets			\$ —	\$ 8
Cash paid for				
Interest on deposits	\$ 2,058	\$ 630	\$ 3,526	\$ 924
Interest on FHLB advances	1,069	287	1,776	429
Other interest	5	5	7	8
Income taxes	120	110	120	190

### Note 7 - Minimum Regulatory Capital Requirements

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

The Bank has opted into the Community Bank Leverage Ratio (CBLR) framework, beginning with the Call Report filed for the first quarter of 2020. At [June 30, 2023](#) [September 30, 2023](#) and December 31, 2022, the Bank's CBLR ratio was [11.12%](#)

## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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(Amounts in thousands, except share and per share data)

11.16% and 12.31%, respectively, which exceeded all regulatory capital requirements under the CBLR framework, and the Bank was considered to be “well-capitalized.”

Under the CBLR framework, banks and their bank holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework. Qualifying

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## Texas Community Bancshares, Inc. and Subsidiaries

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community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable capital rules) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Accordingly, qualifying community banking organizations that exceed the 9% CBLR are considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; (iii) any other applicable capital or leverage requirements. Qualifying community banking organizations that elect to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements.

### Note 8 - Fair Value Measurements

Authoritative guidance 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.

Authoritative guidance 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, 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.

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## Texas Community Bancshares, Inc. and Subsidiaries

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(Amounts in thousands, except share and per share data)

- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or 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.

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## Texas Community Bancshares, Inc. and Subsidiaries

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(Amounts in thousands, except share and per share data)

- 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 assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. There were no changes in valuation techniques during either the **six** **nine** months ended **June 30, 2023** **September 30, 2023** or the year ended December 31, 2022.

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.

Available for Sale Securities – 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.

Derivative Instruments – As discussed in Note 10 “Derivatives” within this Item 1 of this Quarterly Report, the Company records derivative instruments at fair value on a recurring basis. The Company utilizes derivative instruments as part of the management of interest rate risk to modify the re-pricing characteristics of certain portions of the Company's interest-bearing assets and liabilities. The Company has contracted with a third-party vendor to provide valuations for derivatives using standard valuation techniques and therefore classifies such valuations as Level 2. Third-party valuations are validated by the Company using the Bloomberg Valuation Service's derivative pricing functions. No significant differences were identified during the validation as of June 30, 2023 September 30, 2023.

Collateral-dependent Loans – Collateral dependent loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

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

	June 30, 2023				September 30, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Financial assets</b>								
Available for sale securities								
Residential mortgage-backed	\$ —	\$ 25,833	\$ —	\$ 25,833	\$ —	\$ 24,989	\$ —	\$ 24,989
Collateralized mortgage obligations	—	51,373	—	51,373	—	49,681	—	49,681
State and municipal	—	14,139	—	14,139	—	13,437	—	13,437
Corporate bonds	—	4,487	—	4,487	—	4,367	—	4,367
Financial derivatives	—	536	—	536	—	926	—	926
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 96,368</b>	<b>\$ —</b>	<b>\$ 96,368</b>	<b>\$ —</b>	<b>\$ 93,400</b>	<b>\$ —</b>	<b>\$ 93,400</b>

	December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Financial assets</b>				
Available for sale securities				
Residential mortgage-backed	\$ —	\$ 23,758	\$ —	\$ 23,758
Collateralized mortgage obligations	—	50,244	—	50,244
State and municipal	—	13,781	—	13,781
Corporate bonds	—	4,815	—	4,815
U.S. Government and agency	—	14,555	—	14,555
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 107,153</b>	<b>\$ —</b>	<b>\$ 107,153</b>

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).

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

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

	June 30, 2023				September 30, 2023			
	Level 1	Level 2	Level 3	Total Fair	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value	Inputs	Inputs	Inputs	Value
<b>Financial assets</b>								
Collateral-dependent loans	\$ —	\$ —	\$ 67	\$ 67	\$ —	\$ —	\$ 53	\$ 53
	\$ —	\$ —	\$ 67	\$ 67	\$ —	\$ —	\$ 53	\$ 53

  

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
<b>Financial assets</b>				
Impaired loans	\$ —	\$ —	\$ 89	\$ 89
	\$ —	\$ —	\$ 89	\$ 89

During the six nine months ended June 30, 2023 September 30, 2023 and 2022, certain collateral-dependent loans were remeasured and reported at fair value through a specific allocation of the allowance for credit losses based upon the fair value of the underlying collateral. At June 30, 2023 September 30, 2023, collateral-dependent loans with a carrying value of \$367 \$353 were reduced by specific valuation allowance allocations totaling \$300 to a reported fair value of \$67 \$53. At December 31, 2022, impaired loans with a carrying value of \$389 were reduced by specific valuation allowance allocations totaling \$300 to a reported fair value of \$89. The fair value of impaired loans is determined based on collateral valuations utilizing Level 3 valuation inputs. There was no charge to the provision for credit losses - loans as a result of the valuation allowances for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Quantitative Information About Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company's Level 3 financial assets, the valuation techniques used to measure the fair value of those financial assets, the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value at	Principal Valuation	Significant	Range of	Fair Value at	Principal Valuation	Signific
	June 30, 2023	Technique	Unobservable	Significant Input	September 30, 2023	Technique	Unobsen
			Inputs	Values			Input
Collateral-dependent loans	\$ 67	Appraisal of collateral (1)	Appraisal adjustment	10-25 %	\$ 53	Appraisal of collateral (1)	Appraisal adj
	Fair Value at	Principal Valuation	Significant	Range of			
			Unobservable	Significant Input			

Instrument	December 31, 2022	Technique	Inputs	Values
Impaired loans	\$ 89	Appraisal of collateral (1)	Appraisal adjustment	10-25 %

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

	June 30, 2023					September 30, 2023				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
<b>Financial assets</b>										
Cash and cash equivalents	\$ 10,050	\$ —	\$ —	\$ 10,050	\$ 10,050	\$ 12,423	\$ —	\$ —	\$ 12,423	\$ 12,423
Interest bearing deposits in banks	5,116	—	—	5,116	5,116	9,071	—	—	9,071	9,071
Securities held to maturity	—	24,919	—	24,919	27,870	—	23,187	—	23,187	26,895
Loans, net	—	—	252,634	252,634	268,726	—	—	242,696	242,696	268,914
Net investment in direct financing leases	—	—	36	36	36	—	—	36	36	36
Accrued interest receivable	1,446	—	—	1,446	1,446	1,440	—	—	1,440	1,440
Restricted investments carried at cost	—	3,376	—	3,376	3,376	—	3,871	—	3,871	3,871
<b>Financial liabilities</b>										
Deposits	—	—	302,768	302,768	302,564	—	—	267,394	267,394	299,895

FHLB advances	—	—	69,682	69,682	71,856	—	—	78,393	78,393	79,378
Accrued interest payable	600	—	—	600	600	707	—	—	707	707

	December 31, 2022				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
<b>Financial assets</b>					
Cash and cash equivalents	\$ 8,927	\$ —	\$ —	\$ 8,927	\$ 8,927
Interest bearing deposits in banks	2,055	—	—	2,055	2,055
Securities held to maturity	—	24,615	—	24,615	27,827
Loans, net	—	—	251,794	251,794	251,274
Net investment in direct financing leases	—	—	64	64	64
Accrued interest receivable	1,327	—	—	1,327	1,327
Restricted investments carried at cost	—	2,805	—	2,805	2,805
Mortgage servicing rights	—	—	7	7	7
<b>Financial liabilities</b>					
Deposits	—	—	298,050	298,050	296,077
FHLB advances	—	—	60,825	60,825	62,494
Accrued interest payable	332	—	—	332	332

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents and interest bearing deposits in banks – The carrying value approximates their fair values.

Securities held to maturity – Fair values for investment securities are based on quoted market prices or whose value is determined using discounted cash flow methodologies.

Loans and net investment in direct financing leases – The fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms and credit quality.

Accrued interest receivable – The carrying value approximates its fair value.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

Restricted investments carried at cost – The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

Mortgage servicing rights – Fair values are estimated using discounted cash flows based on current market rates of interest.

Deposits – The fair values disclosed for demand deposits (for example, interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair

values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

FHLB advances – Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Accrued interest payable – The carrying value approximates the fair value.

#### Note 9 - Employee Stock Ownership Plan

In connection with the conversion to an entity owned by shareholders, the Company established an Employee Stock Ownership Plan for the exclusive benefit of eligible employees. The ESOP borrowed funds from the Company in an amount sufficient to purchase 260,621 shares (approximately 8.0% of the common stock issued in connection with the conversion). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Company and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, and then the remainder will be applied to principal. The loan is expected to be repaid over a period of up to 20 years.

Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation. Participants will vest in their accrued benefits determined by the years of service for vesting purposes. Vesting is accelerated upon retirement, death or disability of the participant, or a change in control of the Company or the Bank. Forfeitures will be reallocated to remaining participants. Benefits may be payable upon retirement, death, disability, separation of service, or termination of the ESOP.

The debt of the ESOP is eliminated in consolidation. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports the compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per share computations. Dividends on unallocated ESOP shares, if any, are recorded as a reduction of debt and accrued interest. ESOP compensation was \$38,400 and \$87,127 for the three and six nine months ended June 30, 2023 September 30, 2023 and \$60,553 and \$111,164 for the three and six nine months ended June 30, 2022 September 30, 2022.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six Three and Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(Amounts in thousands, except share and per share data)

A summary of the ESOP shares as of June 30, 2023 September 30, 2023 and December 31, 2022 are as follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Shares allocated to participants	\$ 26,062	\$ 26,062	26,062	26,062
Shares committed to be released to participants	6,516	—	9,774	—
Shares distributed to retiring participant	(336)	(220)	(336)	(220)
Unreleased shares	228,043	234,559	224,785	234,559
Total	260,285	260,401	260,285	260,401
Fair value of unreleased shares	\$ 2,768	\$ 3,600	\$ 2,897	\$ 3,600

## Note 10 - Derivatives

The Company is exposed to economic risks arising from its business operations and uses derivatives primarily to manage risk associated with changing interest rates. The Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship (cash flow or fair value hedge).

Fair Value Hedges – Derivatives are designated as fair value hedges when they are used to manage exposure to changes in the fair value of certain financial assets and liabilities, referred to as the hedged items, which fluctuate in value as a result of movements in interest rates.

Available for Sale Securities – The Company has a swap agreement to hedge the interest rate risk on a portion of its fixed rate available for sale (AFS) securities. At **June 30, 2023** **September 30, 2023**, the aggregate notional amount of the related hedged items of the AFS securities totaled \$25 million and the fair value of the swaps associated with the derivative related to hedged items was an unrealized gain of **\$550, \$940**.

The Company applies hedge accounting in accordance with ASC 815, *Derivatives and Hedging*, and the fair value hedge and the underlying hedged item, attributable to the risk being hedged, are recorded at fair value with unrealized gains and losses being recorded within other interest income on the Company's Consolidated Statements of Operations. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transactions for the risk being hedged. If a hedging relationship ceases to qualify for hedge accounting, the relationship is discontinued and future changes in the fair value of the derivative instrument are recognized in current period earnings. For a discontinued or terminated fair value hedging relationship, all remaining basis adjustments to the carrying amount of the hedged item are amortized to interest income or expense over the remaining life of the hedged item consistent with the amortization of other discounts or premiums. Previous balances deferred in AOCI from discontinued or terminated cash flow hedges are reclassified to interest income or expense as the hedged transactions affect earnings or over the originally specified term of the hedging relationship. The Company's hedges continue to be highly effective and had no material impact on the Consolidated Statements of Operations.

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## Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Six **Three and Nine Months Ended** **June 30, 2023** **September 30, 2023** and 2022

(Amounts in thousands, except share and per share data)

The following table summarizes key elements of the Company's derivative instruments as of **June 30, 2023** **September 30, 2023**, segregated by derivatives that are considered accounting hedges and those that are not:

	June 30, 2023		September 30, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedges:				
Fair Value Hedges	\$ 25,000	\$ 536	\$ 25,000	\$ 926
Total	\$ 25,000	\$ 536	\$ 25,000	\$ 926

The following table summarizes the carrying value of the Company's hedged assets in fair value hedges and the associated cumulative basis adjustments included in those carrying values as of **June 30, 2023** **September 30, 2023**:

Line items on the Consolidated Statements of Financial Condition in which the hedged items is included:	Carrying Amount of Hedged Assets		Cumulative Amount of Basis Adjustments Included in the Carrying Amount of the Hedged Assets	
	Amount	Amount	Amount	Amount
Securities available for sale	\$ 43,170	\$ (550)	\$ 42,461	\$ (940)

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

### General

Management’s discussion and analysis of financial condition and results of operations is intended to assist in understanding Texas Community Bancshares, Inc.’s (“the Company”) consolidated financial condition at **June 30, 2023**, **September 30, 2023** and consolidated results of operations for the three and **six nine** months ended **June 30, 2023**, **September 30, 2023** and 2022. It should be read in conjunction with the unaudited consolidated financial statements and the related notes appearing in Part I, Item 1, of this Quarterly Report on Form 10-Q.

### Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” “will,” “would,” “should,” “could” or “may,” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to control costs and manage liquidity through a period of high inflation and rapidly rising interest rates;
- our ability to maintain our deposit base cost-effectively and access cost-effective funding;
- general economic conditions, either nationally or in our market areas, that are worse than expected;

- changes in yields on our assets resulting from changes in market interest rates;
- fluctuation in the demand for construction loans in our market area due to increased cost of building materials and their availability;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses;
- risks related to a high concentration of loans secured by real estate located in our market area;
- our ability to control costs when hiring employees in a highly competitive **environment; labor market;**
- our ability to control cost and expenses, particularly those associated with operating a publicly traded company;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;

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- competition among depository and other financial institutions and brokers;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of our investment securities and other financial instruments, including our mortgage servicing rights asset, or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, capital requirements and insurance premiums;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third-party providers to perform as expected;
- a failure or breach of our operational or security systems or infrastructure, including cyberattacks;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs in response to product demand or strategic plan implementation;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Except as required by applicable law or regulation, we do not undertake, and we specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

**Summary of Critical Accounting Policies; Critical Accounting Estimates**

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The Jumpstart Our Business Startups Act of 2012 (JOBS Act) contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we had the option to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. However, we have determined not to take advantage of the benefits of this extended transition period.

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The following represent our critical accounting policies:

**Allowance for Credit Losses.** Effective January 1, 2023, the Company adopted ASC 326, referred to as CECL. Upon adoption of CECL, the Company made a one-time cumulative-effect adjustment that decreased retained earnings by \$1.0 million. This adjustment was the result of a \$1.0 million increase in the allowance for loan losses from \$1.8 million at December 31, 2022 to \$2.8 million upon adoption of the new CECL methodology on January 1, 2023 and an increase of \$254,000 in the allowance for unfunded commitments. The adjustment was primarily a result of incorporating forward-looking estimated loss estimates and an allowance for off-balance sheet commitments (unfunded commitments). The allowance for credit losses applies to any financial asset carried at amortized cost, including unfunded commitments. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect collectability. The Company uses the weighted average remaining maturity (WARM) method to estimate future expected losses for all of the Company's loan pools. The allowance for credit losses on loans is a reserve for estimated probable credit losses on individually evaluated loans determined to be impaired as well as estimated probable credit losses inherent in the loan portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for credit losses. Loans are charged off when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for credit losses. A provision for credit losses, which is a charge against earnings, is recorded to bring the allowance for credit losses to a level that, in management's judgment, is adequate to absorb probable losses in the loan portfolio. Management's evaluation process used to determine the appropriateness of the allowance for credit losses is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated credit losses and therefore the appropriateness of the allowance for credit losses could change significantly.

The allocation methodology applied by the Company is designed to assess the appropriateness of the allowance for credit losses on loans and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical peer and Company loss rates, reasonable and supportable forecasts, and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions, reasonable and supportable forecasts, and other qualitative and quantitative factors which could affect potential credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allowance for credit losses on loans is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. Management believes the allowance for credit losses on loans was adequate at [June 30, 2023](#) [September 30, 2023](#) and December 31, 2022. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for credit losses. As a result of such reviews, we may have to adjust our allowance for credit losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for credit losses as the process is the responsibility of the Company and any increase or decrease in the allowance is the responsibility of management.

The allowance for credit losses on unfunded commitments is calculated using the same methodology as loans and considers the funding probability and the amount to be expected to be funded over the life of the commitment.

The Company assesses held to maturity (HTM) securities for credit losses and due to the HTM securities primarily being issued by government-sponsored entities or being highly rated municipals, management concluded that no credit loss should be recognized for these securities for the ~~six~~ ~~nine~~ months ended ~~June 30, 2023~~ ~~September 30, 2023~~.

The CECL standard also requires for credit losses on available for sale (AFS) securities to be recorded through an allowance for credit losses rather a write-down of the individual security. As of ~~June 30, 2023~~ ~~September 30, 2023~~, the Company ~~did not~~

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~~did not~~ have an allowance for credit losses on AFS securities based upon the decline in fair value being attributable to changes in market interest rates and not credit quality.

**Income Taxes.** The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the results of operations and reported earnings.

The Company files consolidated federal income tax returns with its subsidiaries. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. We may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the consolidated financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

**Comparison of Financial Condition at ~~June 30, 2023~~ ~~September 30, 2023~~ and December 31, 2022**

**Total Assets.** Total assets were ~~\$432.2 million~~ ~~\$436.7 million~~ at ~~June 30, 2023~~ ~~September 30, 2023~~, an increase of ~~\$14.9 million~~ ~~\$19.4 million~~, or ~~3.6%~~ ~~4.6%~~, from \$417.3 million at December 31, 2022. The increase was due primarily to increases in net loans and leases of ~~\$17.5 million~~ ~~\$17.6 million~~, or 7.0%, from \$251.3 million at December 31, 2022 to ~~\$268.8 million~~ ~~\$268.9 million~~ at ~~June 30, 2023~~ ~~September 30, 2023~~, an increase of ~~\$3.2 million~~ ~~\$4.1 million~~, or ~~50.8%~~ ~~65.1%~~, in net premises and equipment, and increases in cash, fed funds sold and interest bearing deposits in banks totaling ~~\$4.1 million~~ ~~\$10.5 million~~, or ~~37.3%~~ ~~95.5%~~, to ~~\$15.1 million~~ ~~\$21.5 million~~ at ~~June 30, 2023~~ ~~September 30, 2023~~ from \$11.0 million at December 31, 2022, partially offset by a decrease in securities of ~~\$11.3 million~~ ~~\$15.6 million~~, or ~~8.4%~~ ~~11.6%~~, from \$135.0 million at December 31, 2022 to ~~\$123.7 million~~ ~~\$119.4 million~~ at ~~June 30, 2023~~ ~~September 30, 2023~~. The ~~\$3.2 million~~ ~~\$4.1 million~~, or ~~50.8%~~ ~~65.1%~~, increase in net premises and equipment was primarily due to the purchase of two buildings adjacent to the Bank's main office in Mineola, the purchase of a building that had recently been a bank branch in Tyler and the construction of the new branch building in Lindale at the current location, which should be completed in 2024.

**Cash and Cash Equivalents.** Cash and cash equivalents increased ~~\$1.1 million~~ ~~\$3.5 million~~, or ~~12.4%~~ ~~39.3%~~, to ~~\$10.0 million~~ ~~\$12.4 million~~ (which includes fed funds sold of ~~\$4.6 million~~ ~~\$7.1 million~~) at ~~June 30, 2023~~ ~~September 30, 2023~~ from \$8.9 million (which includes fed funds sold of \$2.0 million) at December 31, 2022. This increase was primarily the result of a decrease in securities of ~~\$11.3 million~~ ~~\$15.6 million~~ resulting primarily from the sale of a group of securities in January 2023 as part of an investment repricing strategy, an increase in deposits of ~~\$6.5 million~~ ~~\$3.8 million~~, or ~~2.2%~~ ~~1.3%~~, and an increase in FHLB advances of ~~\$9.4 million~~ ~~\$16.9 million~~, or ~~15.0%~~ ~~27.0%~~, partially offset primarily by an increase in loans of ~~\$17.5 million~~ ~~\$17.6 million~~, an increase in net premises and equipment of ~~\$3.2 million~~ ~~\$4.1 million~~, dividends paid of ~~\$168,000~~ ~~\$265,000~~, stock repurchases of ~~\$610,000~~ ~~\$1.6 million~~ and an increase in interest bearing deposits in banks of ~~\$3.0 million~~ ~~\$7.0 million~~.

**Interest Bearing Deposits in Banks.** Interest bearing deposits in banks were \$5.1 million \$9.1 million at June 30, 2023 September 30, 2023, compared to \$2.1 million at December 31, 2022, an increase of \$3.0 million \$7.0 million, or 142.9% 333.3%. The increase was primarily the result of the purchase of \$5.0 million in Qwickrate Certificates of Deposit (CDs), partially offset by and an increase of \$2 million in excess cash needed for loan funding and property purchases, being moved to a higher yielding interest bearing account. The Bank utilizes the Qwickrate listing service, which is a resource where banks can purchase and sell Certificates of Deposit (CDs) with other banks, to invest excess funds easily in CDs at a competitive rate. At June 30, 2023 September 30, 2023, there was \$5.0 million in short-term (3-6 months) Qwickrate CDs with other banks.

**Securities Available for Sale.** Securities available for sale decreased by \$11.4 million, or 10.6%, to \$95.8 million at June 30, 2023 from \$107.2 million at December 31, 2022. The decrease in securities resulted primarily from

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**Securities Available for Sale.** Securities available for sale decreased by \$14.7 million, or 13.7%, to \$92.5 million at September 30, 2023 from \$107.2 million at December 31, 2022. The decrease in securities resulted primarily from the sale of a group of securities as part of an investment repricing strategy adopted in January 2023 to take advantage of then current market interest rate spreads. Sixteen securities were sold totaling \$17.0 million at a loss of \$1.7 million in order to reprice the portfolio by purchasing investments yielding higher returns, including purchases of \$9.5 million during the period. We During 2023, we had purchases of securities of \$9.5 million and received paydowns of \$2.9 million and a decrease in net \$4.7 million. Net unrealized losses increased on the available for sale portfolio of \$418,000, by \$703,000, or 6.0% 10.0%, to \$6.6 million \$7.7 million, net of tax, from \$7.0 million, net of tax, due primarily to increases in unrealized losses from rising market interest rates being partially offset by the realized loss of \$1.3 million, net of tax, related to the sale of securities being removed from the total, partially offset by increased unrealized losses from rising rates, total. Gross unrealized losses on the AFS portfolio consisting of 84 securities decreased increased from \$8.9 million, or 7.6% of the portfolio's amortized cost of \$116.0 million at December 31, 2022, to \$8.3 million \$9.7 million, or 8.0% 9.4% of the amortized cost of \$104.2 million \$102.2 million at June 30, 2023 September 30, 2023. These unrealized losses are due to increases in market interest rates. The total net unrealized losses as reflected reflected in the other comprehensive losses (AOCI) was further reduced by \$434,000 \$743,000 to \$6.1 million \$7.0 million at June 30, 2023 September 30, 2023 from purchases of derivatives hedged against a portion of the AFS portfolio. This was a left total reduction in other comprehensive losses of \$852,000, or 12.2%, from flat at \$7.0 million at on September 30, 2023 and December 31, 2022 to \$6.1 million at June 30, 2023.

**Securities Held to Maturity.** Securities held to maturity increased decreased by \$43,000, \$932,000, or 0.2% 3.3%, to \$27.9 million \$26.9 million at June 30, 2023 September 30, 2023 from \$27.8 million at December 31, 2022. This increase decrease is due primarily to the purchase of one security of \$2.1 million as part of the repricing strategy, partially being offset by paydowns of \$2.0 million \$3.0 million. The HTM portfolio had 70 securities with gross unrealized losses of \$3.0 million \$3.7 million, or 10.8% 13.7%, of the amortized cost of \$27.9 million \$26.9 million at June 30, 2023 September 30, 2023 compared to \$3.2 million, or 11.5%, of the amortized cost of \$27.8 million at December 31, 2022. These unrealized losses are due to increases in market interest rates.

**Loans and Leases Receivable, Net.** Net loans and leases receivable increased \$17.5 million \$17.6 million, or 7.0%, to \$268.8 million \$268.9 million at June 30, 2023 September 30, 2023 from \$251.3 million at December 31, 2022. Loans secured by residential real estate, multifamily and farmland comprise \$176.8 million \$185.1 million, or 65.0% 68.1%, of total loans and commercial real estate loans total \$35.5 million, or 13.1%, of total loans at June 30, 2023 September 30, 2023. During the six nine months ended June 30, 2023 September 30, 2023, loan originations totaled \$52.4 million \$86.5 million of which \$11.1 million \$15.5 million were renewals, or refinancings of existing loans with Mineola Community Bank (including interim construction loans converting to a permanent loan), resulting in originations of new loans of \$41.3 million \$71.0 million. Originations consisted primarily of \$17.0 million \$23.2 million in one-to-four family residential mortgage loans, \$22.2 million a \$7.7 million multifamily loan, construction loans of \$37.8 million (when fully funded upon completion), \$5.1 million in commercial real estate loans, \$3.6 million in consumer loans, \$4.2 million in commercial and industrial loans, \$1.4 million in land & development loans, \$1.9 million in farmland loans and \$1.4 million in municipal loans. Originated construction loans included \$18.6 million in commercial construction and \$19.3 million in residential construction loans, (upon completion), including 21 19 speculative construction home loans of \$5.9 million and nine quadplex properties of \$5.8 million, \$2.5 million in commercial real estate loans, \$2.5 million in consumer loans, \$2.7 million in commercial and industrial loans, \$2.7 million in land & development loans, and \$1.6 million in farmland loans. During the six nine months ended June 30, 2023 September 30, 2023, there were \$7.3 million \$61.1 million in loan principal payments and \$25.9 million \$50.7 million in loan payoffs. During

the six nine months ended June 30, 2023 September 30, 2023, construction loans (when fully funded upon completion) increased by \$9.2 million \$4.3 million, or 17.0% 8.0%, to \$63.2 million \$58.3 million at June 30, 2023 September 30, 2023 from \$54.0 million at December 31, 2022. The total construction loan portfolio consisting of 108 93 loans had funded balances of \$39.7 million \$31.6 million at June 30, 2023 September 30, 2023 compared to 98 loans at December 31, 2022 with funded balances of \$30.7 million. Construction loans continue to be a large segment of our loan portfolio.

**Deposits.** Deposits increased \$6.5 million \$3.8 million, or 2.2% 1.3%, to \$302.6 million \$299.9 million at June 30, 2023 September 30, 2023 from \$296.1 million at December 31, 2022. Core deposits (defined as all deposits other than certificates of deposit) decreased \$13.4 million \$20.0 million, or 6.5% 9.7%, to \$193.3 million \$186.7 million at June 30, 2023 September 30, 2023 from \$206.7 million at December 31, 2022. Retail certificates of deposit increased \$20.0 million \$23.7 million, or 25.9% 30.7%, to \$97.3 million \$101.0 million at June 30, 2023 September 30, 2023 from \$77.3 million at December 31, 2022. At June 30, 2023 September 30, 2023, there were \$12.0 million in brokered deposits. The decrease in core deposits and increase in CDs is primarily the result of the Bank offering a special CD with a higher rate in an effort to retain deposits resulting in customers moving funds within the Bank to the higher yielding account. We have also increased the rates rate on money market accounts as part of the retention effort during this time of rising market interest rates and a competitive deposit market. As a result, our cost of deposits increased 64 92 basis points, or 60.4% 86.8%, to 1.70% 1.98% at June 30, 2023 September 30, 2023 compared to 1.06% at December 31, 2022. At June 30, 2023 September 30, 2023, there were 152 154 accounts with balances in excess of the \$250,000 FDIC insurance limit with a total of \$63.9 million \$63.0 million, or 21.1% 21.0% of deposits. The amount that was over \$250,000

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\$250,000 was \$25.9 million \$24.5 million, or 8.6% 8.2%, that was potentially uninsured, including certificates of deposit of \$6.9 million \$7.4 million and \$19.0 million \$17.1 million in checking, MMDA and savings accounts.

**Advances from Federal Home Loan Bank.** Advances from Federal Home Loan Bank increased by \$9.4 million \$16.9 million, or 15.0% 27.0%, to \$71.9 million \$79.4 million at June 30, 2023 September 30, 2023 from \$62.5 million at December 31, 2022 due to additional advances of \$11.0 million \$19.0 million, offset by scheduled monthly principal payments on amortizing advances of \$1.6 million \$2.1 million. The advances were purchased to help fund loan growth and real estate purchases.

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**Total Shareholders' Equity.** Total shareholders' equity decreased \$1.4 million \$2.6 million, or 2.5% 4.7%, to \$54.5 million \$53.3 million at June 30, 2023 September 30, 2023 from \$55.9 million at December 31, 2022. This decrease was primarily due to a net loss for the six nine months ended June 30, 2023 September 30, 2023 of \$857,000 \$401,000 resulting primarily from the loss on the sale of securities of \$1.3 million, net of tax, and a one-time CECL adjustment (increase in the allowance for credit losses) of \$1.0 million, net of tax, for the cumulative effect of a change in accounting principle used to estimate credit losses that was effective on January 1, 2023. The CECL cumulative effect adjustment flowed directly through capital instead of being charged as a provision expense for credit losses through the consolidated statement of operations. These decreases were The Company also repurchased 127,417 shares of its common stock for a decrease of \$1.6 million and paid quarterly dividends totaling \$265,000, partially offset by increases in equity including a net reduction of \$852,000, or 12.2%, in the accumulated other comprehensive loss from \$7.0 million at December 31, 2022 to \$6.1 million at June 30, 2023; a net decrease in the unrealized losses on AFS securities of \$418,000 primarily due to removing unrealized losses associated with the sale of securities partially offset by increases in the unrealized losses due to rising rates; and a net increase of \$434,000 from the change in the fair value of cash flow hedges on \$25.0 million of the securities in the AFS portfolio. An an increase in equity of \$285,000 came \$467,000 from stock plan vesting of the 2022 Equity Plan for the

six months ended June 30, 2023, and an increase of \$87,000 \$127,000 with the commitment to release 6,516 9,774 additional ESOP shares to participants. In participants for the six nine months ended June 30, 2023, the Company paid quarterly dividends totaling \$168,000 and repurchased 50,267 shares of TCBS stock at a cost of \$610,000. September 30, 2023.

At June 30, 2023 September 30, 2023, Mineola Community Bank opted to use the community bank leverage ratio framework (Tier 1 capital to average assets) for regulatory capital purposes, as permitted by the CARES Act. At June 30, 2023 September 30, 2023, a community bank leverage ratio of at least 9.0% is required to be considered "well capitalized" under regulatory requirements. At June 30, 2023 September 30, 2023, Mineola Community Bank was well capitalized and had a ratio of 11.12% 11.16%.

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**Average Balance Sheets**

The following table sets forth average balances, average yields and costs, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Nonaccrual loans are only included in the computation of average balances. Average yields for loans include loan fees of \$143,000 \$242,000 and \$103,000 \$90,000 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. We have not recorded deferred loan fees, as we have determined them to be immaterial.

	For the Three Months Ended June 30,						For the Three Months Ended September 30,					
	2023			2022			2023			2022		
	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate
	(Dollars in thousands)						(Dollars in thousands)					
<b>Interest-earning assets:</b>												
Loans (excluding PPP loans)	\$ 266,539	\$ 3,099	4.65 %	\$ 229,891	\$ 2,431	4.23 %	\$ 272,172	\$ 3,410	5.01 %	\$ 235,403	\$ 2,531	4.30 %
Allowance for credit losses	(2,860)			(1,624)			(2,953)			(1,640)		
PPP loans	—	—	— %	8	—	— %	—	—	— %	6	—	— %
Securities	126,272	1,260	3.99 %	100,288	447	1.78 %	122,259	1,276	4.17 %	102,671	601	2.34 %
Restricted stock	3,000	36	4.80 %	2,040	6	1.18 %	3,266	44	5.39 %	2,044	9	1.76 %
Interest bearing deposits in banks	7,507	79	4.21 %	5,547	13	0.94 %	5,602	74	5.28 %	3,158	15	1.90 %
Federal funds sold	2,446	31	5.07 %	14,872	30	0.81 %	4,599	60	5.22 %	7,856	41	2.09 %
Financial derivative	536	33	6.16 %	—	—	— %	707	112	15.84 %	—	—	— %
Total interest earning assets	403,440	4,538	4.50 %	351,022	2,927	3.34 %	405,652	4,976	4.91 %	349,498	3,197	3.66 %

Noninterest earning assets	23,032		21,900		25,728		21,626					
Total assets	<u>\$ 426,472</u>		<u>\$ 372,922</u>		<u>\$ 431,380</u>		<u>\$ 371,124</u>					
<b>Interest-bearing liabilities:</b>												
Interest bearing demand deposits	\$ 60,728	56	0.37 %	\$ 77,063	64	0.33 %	\$ 56,176	52	0.37 %	\$ 75,856	70	0.37 %
Regular savings and other deposits	55,616	43	0.31 %	81,222	72	0.35 %	52,878	40	0.30 %	81,271	71	0.35 %
Money market deposits	30,935	228	2.95 %	11,999	9	0.30 %	33,489	296	3.54 %	12,165	11	0.36 %
Certificates of deposit	<u>106,529</u>	<u>920</u>	3.45 %	<u>69,819</u>	<u>153</u>	0.88 %	<u>111,071</u>	<u>1,055</u>	3.80 %	<u>67,060</u>	<u>148</u>	0.88 %
Total interest bearing deposits	253,808	1,247	1.97 %	240,103	298	0.50 %	253,614	1,443	2.28 %	236,352	300	0.51 %
Advances from FHLB	70,177	636	3.63 %	26,718	141	2.11 %	76,435	687	3.60 %	27,342	144	2.11 %
Other liabilities	<u>528</u>	<u>3</u>	2.27 %	<u>510</u>	<u>2</u>	1.57 %	<u>619</u>	<u>2</u>	1.29 %	<u>508</u>	<u>3</u>	2.36 %
Total interest bearing liabilities	324,513	1,886	2.32 %	267,331	441	0.66 %	330,668	2,132	2.58 %	264,202	447	0.68 %
Noninterest bearing demand deposits	55,434			58,102			53,789			59,315		
Other noninterest bearing liabilities	<u>4,706</u>			<u>3,661</u>			<u>5,070</u>			<u>4,318</u>		
Total liabilities	384,653			329,094			389,527			327,835		
Total shareholders' equity	<u>41,819</u>			<u>43,828</u>			<u>41,853</u>			<u>43,289</u>		
Total liabilities and shareholders' equity	<u>\$ 426,472</u>			<u>\$ 372,922</u>			<u>\$ 431,380</u>			<u>\$ 371,124</u>		
Net interest income		<u>\$ 2,652</u>			<u>\$ 2,486</u>			<u>\$ 2,844</u>			<u>\$ 2,750</u>	
Net interest rate spread (1)			2.17 %			2.68 %			2.33 %			2.98 %
Net interest earning assets (2)	<u>\$ 78,927</u>			<u>\$ 83,691</u>			<u>\$ 74,984</u>			<u>\$ 85,296</u>		
Net interest margin (3)			2.63 %			2.83 %			2.80 %			3.15 %

Average interest earning assets to interest bearing liabilities	124.32 %	131.31 %	122.68 %	132.28 %
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- (1) Net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average rate of interest bearing liabilities.
- (2) Net interest earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by average total interest earning assets.

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**Comparison of the Operating Results for the Three Months Ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022**

**Net Income.** The Company had a net income of \$160,000 \$456,000 for the three months ended June 30, 2023 September 30, 2023, compared to net income of \$416,000 \$539,000 for the three months ended June 30, 2022 September 30, 2022, a decrease of \$256,000, \$83,000, or 61.5% 15.4%. The decrease was primarily due to an increase in noninterest expense of \$298,000, or 11.8%, an increase in interest expense of \$1.7 million, or 377.0%, and a decrease in net interest income of \$166,000, 65 basis points, or 6.7% 21.8%, primarily due to a 50 basis point, or 18.7%, decrease in net interest rate spread primarily due to the rapid increase in market interest rates between periods and the inability to reprice interest earning assets at the same speed as interest bearing liabilities. Additionally, there was a \$56,000 increase in provision for credit losses primarily due to an increase in the balance of the average loan portfolio of \$36.6 million, or 15.9%, a \$511,000, or 21.6%, increase in noninterest expense only being partially offset by a \$62,000, or 13.8%, increase in noninterest income and a decrease in income tax expense of \$83,000 spread.

**Interest Income.** Interest income increased \$1.6 million \$1.8 million, or 55.0% 56.3%, to \$4.5 million \$5.0 million for the three months ended June 30, 2023 September 30, 2023 from \$2.9 million \$3.2 million for the three months ended June 30, 2022 September 30, 2022. This was primarily the result of increased interest income on securities and loans due to increased yields and an increase in the average balance of loans and securities. Average interest earning assets increased by \$52.4 million \$56.2 million, or 14.9% 16.1%, from \$351.0 million \$349.5 million for the three months ended June 30, 2022 September 30, 2022 to \$403.4 million \$405.7 million at June 30, 2023 September 30, 2023, and an increase in the yield on interest earning assets of 116 125 basis points, or 34.9% 34.1%, from 3.34% 3.66% for the three months ended June 30, 2022 September 30, 2022 to 4.50% 4.91% for the three months ended June 30, 2023 September 30, 2023.

Interest income on loans increased \$668,000, \$879,000, or 27.5% 34.7%, to \$3.1 million \$3.4 million for the three months ended June 30, 2023 September 30, 2023 from \$2.4 million \$2.5 million for the three months ended June 30, 2022 September 30, 2022. This increase resulted primarily from an increase in average loans of \$36.6 million \$36.8 million, or 15.9% 15.6%, from \$229.9 million \$235.4 million for the three months ended June 30, 2022 September 30, 2022 to \$266.5 million \$272.2 million for the three months ended June 30, 2023 September 30, 2023, with an increase in loan yield of 42 71 basis points, or 10.0% 16.5%, to 4.65% 5.01% for the three months ended June 30, 2023 September 30, 2023 from 4.23% 4.30% for the three months ended June 30, 2022 September 30, 2022. The increase in loan yield was due primarily to increased market interest rates, rates and increased loan fees primarily on loans other than residential.

Interest income on securities increased \$813,000, \$675,000, or 181.9% 112.3%, from \$447,000 \$601,000 for the three months ended June 30, 2022 September 30, 2022 to \$1.3 million for the three months ended June 30, 2023 September 30, 2023. This increase resulted from an increase in the average balance of securities of \$26.0 million \$19.6 million, or 25.9% 19.1%, from \$100.3 million \$102.7 million for the three months ended June 30, 2022 September 30, 2022 to \$126.3 million \$122.3 million for the three months ended June 30, 2023 September 30, 2023 and an increase of 221 183 basis points, or 123.9% 78.3%, in average yield from 1.78% 2.34% for the three months ended June 30, 2022 September 30, 2022 to 3.99% 4.17% for the three months ended June 30, 2023 September 30, 2023. The rate increase is reflective of

market rate increases and the diversification of the securities portfolio to include higher yielding commercial mortgage-backed securities, subordinated bank debt and other bonds with interest rates that are not tied to conventional residential mortgage loan rates. In January 2023, the Company sold 16 securities totaling \$17.0 million at a loss of \$1.7 million as part of a repricing strategy to increase interest income. A portion of these funds have been reinvested into these higher yielding securities accounting for part of the difference in the 221 183 basis point yield increase between June 30, 2022 September 30, 2022 and June 30, 2023 September 30, 2023. The Federal Reserve increased rates 450 500 basis points, or 900% 1,000%, between March 30, 2022 March 31, 2022 and March 30, 2023 September 30, 2023.

Interest income from on interest bearing deposits in banks increased \$66,000 \$59,000, or 507.7% 393.3%, from \$13,000 \$15,000 for the three months ended June 30, 2022 September 30, 2022 to \$79,000 \$74,000 for the three months ended June 30, 2023 September 30, 2023. This increase resulted primarily from an increase in average yield of 327 338 basis points, or 349.0% 178.1%, from 0.94% 1.90% for the three months ended June 30, 2022 September 30, 2022 to 4.21% 5.28% for the three months ended June 30, 2023 September 30, 2023 and an increase in average interest bearing deposits of \$2.0 million \$2.4 million, or 35.3% 77.4% from \$5.5 million \$3.2 million for the three months ended June 30, 2022 September 30, 2022 to \$7.5 million \$5.6 million for the three months ended June 30, 2023 September 30, 2023. There was also an increase of \$1,000 \$19,000 in fed funds interest income for the three months ended June 30, 2023 September 30, 2023 primarily from an increase of 426 313 basis points, or 528.3% 150.0%, in average yield on fed funds sold from 0.81% 2.09% for the three months ended June 30, 2022 September 30, 2022 to 5.07% 5.22% for the three months ended June 30, 2023 September 30, 2023, partially offset by a \$12.4 million \$3.3 million, or 84.1% 41.5%, decrease in average fed funds sold from \$14.9 million \$7.9 million for the three months ended June 30, 2022 September 30, 2022 to \$2.4 million \$4.6 million for the three months ended June 30, 2023 September 30, 2023. The increases increase in yields on deposits in banks and fed funds is reflective of the sharp increase in market interest rates.

Interest income Dividends from the fair value hedge restricted investments increased \$33,000 \$35,000, or 388.9%, from \$9,000 for the six three months ended June 30, 2023. The Company entered into an interest rate swap agreement in September 30, 2022 to \$44,000 for the six three months ended June 30, 2023 September 30, 2023. This increase primarily resulted from a \$35,000, or 500.0%, increase in dividends from FHLB stock from \$7,000 for the three months ended September 30, 2022 to convert a portion of its \$42,000 for the three months ended September 30, 2023. During the three months ended September 30, 2023 we were required to purchase \$348,000 in FHLB stock to fully secure advance obligations obtained during the period.

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Interest income from the fair value hedge was \$112,000 for the three months ended September 30, 2023. The Company entered into an interest rate swap agreement in the nine months ended September 30, 2023 to convert a portion of its interest rate exposure from fixed rates to floating rates to help manage the interest rate risk position. Refer to additional detail regarding the fair value hedge in Note 10 – Derivatives. Derivatives of the accompanying unaudited consolidated financial statements.

**Interest Expense.** Total interest expense increased \$1.5 million \$1.7 million, or 330.8% 377.0%, to \$1.9 million \$2.1 million for the three months ended June 30, 2023 September 30, 2023 from \$441,000 \$447,000 for the three months ended June 30, 2022 September 30, 2022 primarily due to an increase in the average cost of interest-bearing liabilities of 166 190 basis points, or 252.3% 281.1%, from 0.66% 0.68% for the three months ended June 30, 2022 September 30, 2022 to 2.32% 2.58% for the three months ended June 30, 2023 September 30, 2023, primarily due to an increase in deposit and funding costs. Interest expense on deposit accounts increased \$949,000 \$1.1 million, or 318.5% 381.0%, to \$1.2 million \$1.4 million for the three months ended June 30, 2023 September 30, 2023 from \$298,000 \$300,000 for the three months ended June 30, 2022 September 30, 2022, due to an increase in the average deposit cost of 147 177 basis points, or 295.9% 348.3%, from 0.50% 0.51% for the three months ended June 30, 2022 September 30, 2022 to 1.97% 2.28% for the three months ended June 30, 2023 September 30, 2023 and an increase in average interest-bearing deposits of \$13.7 million \$17.2 million, or 5.7% 7.2% from \$240.1 million \$236.4 million for the three months ended June 30, 2022 September 30, 2022 to \$253.8 million \$253.6 million for the three months ended June 30, 2023 September 30, 2023, with the increase being in higher yielding certificates of deposit and money market deposits, offset by a decrease in lower cost interest-bearing transaction and savings accounts. Part of the migration to higher yielding accounts results from a deposit retention strategy of offering a special higher interest rate CD and higher money market rates implemented during the quarter ended December 31, 2022. The speed of the market rate increases created a competitive deposit market quickly, especially after the four consecutive 75 basis point raises from June 2022 to November 2022.

Interest expense on Federal Home Loan Bank advances increased \$495,000, \$543,000, or 351.1% 377.1%, to \$636,000 \$687,000 for the three months ended June 30, 2023 September 30, 2023 from \$141,000 \$144,000 for the three months ended June 30, 2022 September 30, 2022. This increase was due primarily to the increase in the average balance of Federal Home Loan Bank advances of \$43.5 million \$49.1 million, or 162.7% 179.6%, to \$70.2 million \$76.4 million for the three months ended June 30, 2023 September 30, 2023 from \$26.7 million \$27.3 million for the three months ended June 30, 2022 September 30, 2022 and an increase in average yield of 151 149 basis points, or 71.7% 70.7%, from 2.11% for the three months ended June 30, 2022 September 30, 2022 to 3.63% 3.60% for the three months ended June 30, 2023 September 30, 2023. The increase in average advances was primarily to fund loan growth, growth and securities purchases related to repricing strategy. At June 30, 2023 September 30, 2023, we have lengthened our short-term advances as they have matured and are holding onto any excess liquidity in interest bearing accounts, accounts and fed funds. The Company believes this to be prudent given the uncertainty in the market, including consumer behavior and interest rates, and management concerns about regulatory response and public perceptions in light of recent large regional bank failures.

**Net Interest Income.** Net interest income increased \$166,000, \$94,000, or 6.7% 3.4%, to \$2.7 million \$2.8 million for the three months ended June 30, 2023 September 30, 2023 from \$2.5 million \$2.7 million for the three months ended June 30, 2022 September 30, 2022 due primarily to the increase in interest-earning assets of \$52.4 million \$56.2 million, or 14.9% 16.1%, to \$403.4 million \$405.7 million at June 30, 2023 September 30, 2023 from \$351.0 million \$349.5 million at June 30, 2022 September 30, 2022, partially offset by a decrease in net interest rate spread of 50 65 basis points, or 18.7% 21.8%, from 2.68% 2.98% for the three months ended June 30, 2022 September 30, 2022 to 2.18% 2.33% for the three months ended June 30, 2023 September 30, 2023. Net interest margin had a 20 35 basis point, or 11.1%, decrease to 2.63% 2.80% for the three months ended June 30, 2023 September 30, 2023 from 2.83% 3.15% for the three months ended June 30, 2022 September 30, 2022. The decrease in net interest rate spread was primarily due to the rapid increase in rates between periods and the inability to reprice interest earning assets at the same speed as interest bearing liabilities with the average yield on interest earning assets increasing by 116 125 basis points, or 34.9% 34.1%, compared to the average increase on interest bearing liabilities increasing by 166 190 basis points, or 252.3% 281.1%.

**Provision for Credit Losses.** Based on management's analysis of the adequacy of the allowance for credit losses, the provision for credit losses was \$93,000 \$29,000 for the three months ended June 30, 2023 September 30, 2023, compared to \$37,000 \$48,000 for the three months ended June 30, 2022 September 30, 2022, an increase a decrease of \$56,000, \$19,000, or 151.4% 39.6%, primarily due to an increase the conversion to the CECL methodology in average loans 2023 and leases of \$36.6 million, of 15.9% and changes in loan volume in various loan types within the adoption of the new credit loss methodology, ASC 326, loan portfolio. See the CECL section discussion in the accompanying consolidated financial statements for further explanation of the Bank's transition to the new methodology.

**Noninterest Income.** Noninterest income increased \$62,000, \$93,000, or 13.8% 18.6%, to \$511,000 \$592,000 for the three months ended June 30, 2023 September 30, 2023 from \$449,000 \$499,000 for the three months ended June 30, 2022 September 30, 2022, due primarily to an increase in loan fee income from the wholesale lending program of \$39,000, or 924.0% \$81,000 to \$43,000 \$84,000 for the three months ended June 30, 2023 September 30, 2023 from \$4,000 \$3,000 for the three months ended June 30, 2022 September 30, 2022, rental income of \$6,000 \$5,000 on the newly acquired buildings

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located adjacent to the current Bank premises that were purchased in January of 2023 for future expansion, a \$29,000 loss on the sale of securities occurred in the three months ended June 30, 2022 with no losses in the three months ended June 30, 2023 and a \$7,000 \$16,000 increase in service charges on deposit accounts, partially offset by a decrease of \$15,000 in other

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service charges and fees from 274,000 for the three months ended June 30, 2022 to \$259,000 for the three months ended June 30, 2023 due primarily to a decrease in ATM fees of \$13,000, accounts.

**Noninterest Expense.** Noninterest expense increased \$511,000, \$298,000, or 21.6% 11.8%, to \$2.9 million \$2.8 million for the three months ended June 30, 2023 September 30, 2023 from \$2.4 million \$2.5 million for the three months ended June 30, 2022 September 30, 2022 primarily due to increases in salaries and employee benefits, data processing, technology, contract services, and other expenses.

Salary and employee benefit expenses increased by \$277,000, \$191,000, or 19.7% 12.8%, to \$1.7 million for the three months ended June 30, 2023 September 30, 2023 from \$1.4 million \$1.5 million for the three months ended June 30, 2022 September 30, 2022, due primarily to compensation expenses due to normal salary and benefits increases and a one-time expense related to hiring a new Bank president in March 2023 and an increase of \$182,000 \$161,000 for stock options and restricted stock awards granted under the 2022 Equity Plan, which was approved by shareholders and effective on August 31, 2022. The Equity Plan was not in existence during the three months ended June 30, 2022. Occupancy expenses Data processing increased 21,000, \$19,000, or 11.4% 8.4% due primarily to due to cost increases in depreciation, property taxes and utilities, from providers. Technology expenses increased \$8,000, \$25,000, or 7.5% 25.5%, to \$115,000 \$123,000 for the three months ended June 30, 2023 September 30, 2023 from \$107,000 \$98,000 for the three months ended June 30, 2022 and data processing expenses increased \$18,000, or 8.9%, to \$221,000 for the three months ended June 30, 2023 from \$203,000 for the three months ended June 30, 2022 primarily due to cost increases from the providers. September 30, 2022. Other expenses increased \$161,000, \$40,000, or 48.8% 10.4%, primarily due to an increase of \$19,000 in audit and accounting expenses, a \$35,000 increase \$12,000 in insurance expenses due to normal rate increases and the addition of new properties, a \$57,000 increase in other operating expenses primarily due to a one time fee associated with hiring, an increase in FDIC assessment expenses of \$23,000 \$22,000 primarily due to an overall increase in the FDIC assessment rate, an \$8,000 increase in marketing expense and an \$8,000 increase of \$13,000 in investment expense, office supply expense primarily related to opening the loan production office in Canton and the new branch in Tyler. Contract services increased \$22,000, \$12,000, or 51.2% 23.1%, to \$65,000 \$64,000 for the three months ended June 30, 2023 September 30, 2023 from \$43,000 \$52,000 for the three months ended June 30, 2022 September 30, 2022. These increases are reflective of the price increases in all types of services that the Company incurred in 2022, 2023, primarily as a result of general wage and inflationary pressures.

**Income Tax Expense.** Income tax expense decreased by \$83,000, \$9,000, or 72.8% 7.1%, to \$31,000 \$117,000 for the three months ended June 30, 2023 September 30, 2023 from \$114,000 \$126,000 for the three months ended June 30, 2022 September 30, 2022, due to the decrease in net income before taxes of \$339,000 \$92,000 from \$530,000 \$665,000 for the three months ended June 30, 2022 September 30, 2022 to \$191,000 \$573,000 for the three months ended June 30, 2023 September 30, 2023. The effective tax rate was 16.23% 20.42% and 21.51% 18.95% for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. The decrease/increase in effective tax rate was primarily due to nontaxable/taxable income increasing at a faster rate than taxable income, nontaxable income and the effect of a temporary tax difference becoming permanent during the three months ended September 30, 2023.

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**Average Balance Sheets**

The following table sets forth average balances, average yields and costs, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Non-accrual loans are only included in the computation of average balances. Average yields for loans (excluding PPP loans) include loan fees of \$214,000 \$456,000 and \$215,000 \$304,000 for the six/nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. We have not recorded deferred loan fees, as we have determined them to be immaterial.

For the Six Months Ended June 30,		For the Nine Months Ended September 30,	
2023	2022	2023	2022

	Average			Average			Average			Average		
	Outstanding			Outstanding			Outstanding			Outstanding		
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate
	(Dollars in thousands)						(Dollars in thousands)					
<b>Interest-earning assets:</b>												
Loans (excluding PPP loans)	\$ 261,675	\$ 5,879	4.49 %	\$ 226,911	\$ 4,805	4.24 %	\$ 265,212	\$ 9,289	4.67 %	\$ 229,773	\$ 7,336	4.26 %
Allowance for loan and lease losses	(2,316)	—	—	(1,609)	—	—	(2,531)	—	—	(1,619)	—	—
PPP loans	1	—	— %	10	—	— %	—	—	— %	8	—	— %
Securities	126,525	2,513	3.97 %	97,246	820	1.69 %	125,088	3,789	4.04 %	99,074	1,421	1.91 %
Restricted stock	2,825	61	4.32 %	2,039	11	1.08 %	2,974	105	4.71 %	2,041	20	1.31 %
Interest-bearing deposits in banks	6,115	128	4.19 %	7,080	19	0.54 %	5,942	202	4.53 %	5,758	34	0.79 %
Federal funds sold	2,923	70	4.79 %	16,737	39	0.47 %	3,488	130	4.97 %	13,744	80	0.78 %
Financial derivative	536	33	6.16 %	—	—	— %	622	145	31.08 %	—	—	— %
Total interest-earning assets	398,284	8,684	4.36 %	348,414	5,694	3.27 %	400,795	13,660	4.54 %	348,779	8,891	3.40 %
Noninterest-earning assets	22,416			21,438			23,504			21,501		
Total assets	\$ 420,700			\$ 369,852			\$ 424,299			\$ 370,280		
<b>Interest-bearing liabilities:</b>												
Interest-bearing demand deposits	\$ 62,409	114	0.37 %	\$ 75,611	126	0.33 %	\$ 60,309	166	0.37 %	\$ 75,694	195	0.34 %
Regular savings and other deposits	59,326	93	0.31 %	80,192	143	0.36 %	57,153	133	0.31 %	80,556	214	0.35 %
Money market deposits	29,631	398	2.69 %	11,703	17	0.29 %	30,931	695	3.00 %	11,858	28	0.31 %
Certificates of deposit	101,817	1,628	3.20 %	70,737	322	0.91 %	104,935	2,682	3.41 %	69,498	471	0.90 %
Total interest-bearing deposits	253,183	2,233	1.76 %	238,243	608	0.51 %	253,328	3,676	1.93 %	237,606	908	0.51 %
Advances from the Federal Home Loan Bank	65,078	1,162	3.57 %	26,976	285	2.11 %	68,905	1,849	3.58 %	27,099	429	2.11 %
Other liabilities	575	5	1.74 %	468	5	2.14 %	599	7	1.56 %	457	8	2.33 %

Total interest-bearing liabilities	318,836	3,400	2.13 %	265,687	898	0.68 %	322,832	5,532	2.28 %	265,162	1,345	0.68 %
Noninterest-bearing demand deposits	55,674			55,703			55,039			56,920		
Other noninterest-bearing liabilities	3,954			3,455			4,321			3,770		
Total liabilities	378,464			324,845			382,192			325,852		
Total shareholders' equity	42,236			45,007			42,107			44,428		
Total liabilities and shareholders' equity	\$ 420,700			\$ 369,852			\$ 424,299			\$ 370,280		
Net interest income		\$ 5,284			\$ 4,796			\$ 8,128			\$ 7,546	
Net interest rate spread (1)			2.23 %			2.59 %			2.26 %			2.72 %
Net interest-earning assets (2)	\$ 79,448			\$ 82,727			\$ 77,963			\$ 83,617		
Net interest margin (3)			2.65 %			2.75 %			2.70 %			2.88 %
Average interest-earning assets to interest-bearing liabilities			124.92 %			131.14 %			124.15 %			131.53 %

(1) Net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average rate of interest bearing liabilities.

(2) Net interest earning assets represent total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average total interest earning assets.

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#### Comparison of the Operating Results for the Six Nine Months Ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022

**Net Income.** The Company had a net loss of \$857,000 \$401,000 for the six nine months ended June 30, 2023 September 30, 2023, compared to net income of \$807,000 \$1.3 million for the six nine months ended June 30, 2022 September 30, 2022, a decrease of \$1.7 million, or

206.2% 130.8%. The net loss was primarily due to a \$1.6 million \$1.5 million, or 177.2% 107.4%, decrease in noninterest income resulting primarily from the sale of securities at a net loss of \$1.7 million. Additionally, there was a \$906,000 \$1.2 million increase in noninterest expense and a \$106,000 \$87,000 increase in provision for credit losses, partially offset by a \$489,000 \$581,000 increase in net interest income and a decrease in income tax expense of \$457,000 \$466,000.

**Interest Income.** Interest income increased \$3.0 million \$4.8 million, or 52.5% 53.9%, from \$5.7 million \$8.9 million for the six nine months ended June 30, 2022 September 30, 2022 to \$8.7 million \$13.7 million for the six nine months ended June 30, 2023 September 30, 2023. This was primarily the result of increased interest income on securities and loans due to increased yields and an increase in the average balance of loans and securities. Average interest earning assets increased by \$49.9 million \$52.0 million, or 14.3% 14.9%, from \$348.4 million \$348.8 million for the six nine months ended June 30, 2022 September 30, 2022 to \$398.3 million \$400.8 million at June 30, 2023 September 30, 2023, and an increase in the yield on interest earning assets of 109 increased 114 basis points, or 33.4% 33.5%, from 3.27% 3.40% for the six nine months ended June 30, 2022 September 30, 2022 to 4.36% 4.54% for the six nine months ended June 30, 2023 September 30, 2023.

Interest income on loans increased \$1.1 million \$2.0 million, or 22.9% 27.4%, to \$5.9 million \$9.3 million for the six nine months ended June 30, 2023 September 30, 2023 from \$4.8 million \$7.3 million for the six nine months ended June 30, 2022 September 30, 2022. This increase resulted primarily from an increase in average loans of \$34.8 million \$35.4 million, or 15.3% 15.4%, from \$226.9 million \$229.8 million for the six nine months ended June 30, 2022 September 30, 2022 to \$261.7 million \$265.2 million for the six nine months ended June 30, 2023 September 30, 2023, with and an increase in loan yield of 25 41 basis points, or 6.0% 9.7%, to 4.49% 4.67% for the six nine months ended June 30, 2023 September 30, 2023 from 4.24% 4.26% for the six nine months ended June 30, 2022 September 30, 2022. The increase in loan yield was due primarily to increased market interest rates.

Interest income on securities increased \$1.7 million \$2.4 million, or 206.5% 171.4%, from \$820,000 \$1.4 million for the six nine months ended June 30, 2022 September 30, 2022 to \$2.5 million \$3.8 million for the six nine months ended June 30, 2023 September 30, 2023. This increase resulted primarily from an increase in the average balance of securities of \$29.3 million \$26.0 million, or 30.1% 26.3%, from \$97.2 million \$99.1 million for the six nine months ended June 30, 2022 September 30, 2022 to \$126.5 million \$125.1 million for the six nine months ended June 30, 2023 September 30, 2023 and an increase of 228 213 basis points, or 135.0% 111.2%, in average yield from 1.69% 1.91% for the six nine months ended June 30, 2022 September 30, 2022 to 3.97% 4.04% for the six nine months ended June 30, 2023 September 30, 2023. The rate increase is reflective of market rate increases and the diversification of the securities portfolio to include higher yielding commercial mortgage-backed securities, subordinated bank debt and other bonds with interest rates that are not tied to conventional residential mortgage loan rates. In January 2023, the Company sold 16 securities totaling \$17.0 million at a loss of \$1.7 million as part of a repricing strategy to increase interest income. A portion of these funds have been reinvested into these higher yielding securities accounting for part of the difference in the 221 213 basis point yield increase between June 30, 2022 September 30, 2022 and June 30, 2023 September 30, 2023. The Federal Reserve increased rates 450 500 basis points, or 900% 1,000.0%, between March 30, 2022 March 31, 2022 and March 30, 2023 September 30, 2023.

Interest income from interest bearing deposits in banks increased \$109,000 \$168,000, or 573.7% 494.1%, from \$19,000 \$34,000 for the six nine months ended June 30, 2022 September 30, 2022 to \$128,000 \$202,000 for the six nine months ended June 30, 2023. This increase September 30, 2023, resulting primarily resulted from the purchase of certificates of deposits (CDs) through Qwickrate at competitive rates. The increase in average yield of 365 374 basis points, or 675.3% 473.4%, from 0.54% 0.79% for the six nine months ended June 30, 2022 September 30, 2022 to 4.19% 4.53% for the six nine months ended June 30, 2023, was partially offset by a decrease September 30, 2023 and an increase in average interest bearing deposits of \$1.0 million, \$184,000, or 13.6% 3.2% from \$7.1 million \$5.7 million for the six nine months ended June 30, 2022 September 30, 2022 to \$6.1 million \$5.9 million for the six nine months ended June 30, 2023 September 30, 2023. There was also an increase of \$31,000 \$50,000 in fed funds interest income for the six nine months ended June 30, 2023 September 30, 2023 primarily from an increase of 432 419 basis points, or 919.1% 540.3%, in average yield on fed funds sold from 0.47% 0.78% for the six nine months ended June 30, 2022 September 30, 2022 to 4.79% 4.97% for the six nine months ended June 30, 2023 September 30, 2023, partially offset by a \$13.8 million \$10.2 million, or 82.5% 74.5%, decrease in average fed funds sold from \$16.7 million \$13.7 million for the six nine months ended June 30, 2022 September 30, 2022 to \$2.9 million \$3.5 million for the six nine months ended June 30, 2023 September 30, 2023. The increases fed funds were used to fund asset growth. The increase in yields on deposits in banks and fed funds is reflective of the sharp increase in market interest rates.

Dividends from restricted investments increased \$50,000 \$85,000, or 454.5% 425.0%, from \$11,000 \$20,000 for the six nine months ended June 30, 2022 September 30, 2022 to \$61,000 \$105,000 for the six nine months ended June 30, 2023 September 30, 2023. This increase primarily partially resulted from a \$52,000, an \$88,000, or 742.9% 628.6%, increase in dividends on FHLB stock from \$7,000 \$14,000 for the six nine months ending June 30, 2022 ended September 30, 2022 to \$59,000 \$102,000 for the six nine months ending June 30, 2023 ended September 30, 2023. During the six nine months ending June 30, 2023 ended September 30, 2023 we were required to purchase \$459,000

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required to purchase \$807,000 in FHLB stock to fully secure advance obligations obtained during the period. This brought the FHLB stock balance at June 30, 2023 September 30, 2023 to \$2.9 million \$3.3 million compared to \$2.0 million \$2.5 million at June 30, 2022 September 30, 2022.

Interest income from the fair value hedge increased \$33,000 was \$145,000 for the six nine months ended June 30, 2023 September 30, 2023. The Company entered into an interest rate swap agreement in the six nine months ended June 30, 2023 September 30, 2023 to convert a portion of its interest rate exposure from fixed rates to floating rates to help manage the interest rate risk position. Refer to additional detail regarding the fair value hedge in Note 10 – Derivatives. Derivatives of the accompanying consolidated financial statements.

**Interest Expense.** Total interest expense increased \$2.5 million \$4.2 million, or 278.4% 323.1%, to \$3.4 million \$5.5 million for the six nine months ended June 30, 2023 September 30, 2023 from \$898,000 \$1.3 million for the six nine months ended June 30, 2022 September 30, 2022 due to an increase in the average cost of interest-bearing liabilities of 145 161 basis points, or 213.6% 237.8%, from 0.68% for the six nine months ended June 30, 2022 September 30, 2022 to 2.13% 2.28% for the six nine months ended June 30, 2023 September 30, 2023, primarily due to an increase in deposit and funding costs. Interest expense on deposit accounts increased \$1.6 million \$2.8 million, or 267.3% 311.1%, to \$2.2 million \$3.7 million for the six nine months ended June 30, 2023 September 30, 2023 from \$609,000 \$908,000 for the six nine months ended June 30, 2022 September 30, 2022, due to an increase in the average deposit cost of 125 142 basis points, or 245.9% 279.7%, from 0.51% for the six nine months ended June 30, 2022 September 30, 2022 to 1.76% 1.93% for the six nine months ended June 30, 2023 September 30, 2023 and an increase in average interest-bearing deposits of \$14.9 million \$15.7 million, or 6.3% 6.6%, from \$238.2 million \$237.6 million for the six nine months ended June 30, 2022 September 30, 2022 to \$253.2 million \$253.3 million for the six nine months ended June 30, 2023 September 30, 2023, with the increase being in higher yielding certificates of deposit and money market deposits, offset by a decrease in lower cost interest-bearing transaction and savings accounts. Part of the migration to higher yielding accounts resulted from a deposit retention strategy of offering a special higher interest rate CD and higher money market rates implemented during the quarter ended December 31, 2022. As rates have continued to rise, the Bank has continued to be competitive on deposit rates.

Interest expense on Federal Home Loan Bank advances increased \$877,000, \$1.4 million, or 307.7% 331.0%, to \$1.2 million \$1.8 million for the six nine months ended June 30, 2023 September 30, 2023 from \$285,000 \$429,000 for the six nine months ended June 30, 2022 September 30, 2022. This increase was due primarily to the increase in the average balance of Federal Home Loan Bank advances of \$38.1 million \$41.8 million, or 141.2% 154.3%, to \$65.1 million \$68.9 million for the six nine months ended June 30, 2023 September 30, 2023 from \$27.0 million \$27.1 million for the six nine months ended June 30, 2022 September 30, 2022 and an increase in average yield of 146 147 basis points, or 69.2% 69.5%, from 2.11% for the six nine months ended June 30, 2022 September 30, 2022 to 3.57% 3.58% for the six nine months ended June 30, 2023 September 30, 2023. The increase in average advances was primarily to fund an investment strategy initiated in 2022 and to fund loans. loan growth. At June 30, 2023 September 30, 2023, we have lengthened our short-term advances as they have matured and are holding onto any excess liquidity in interest bearing accounts. The Company believes this to be prudent given the uncertainty in the market, including consumer behavior and interest rates, and management concerns about regulatory response and public perceptions in light of recent large regional bank failures.

**Net Interest Income.** Net interest income increased \$500,000, \$582,000, or 10.2% 7.7%, to \$5.3 million \$8.1 million for the six nine months ended June 30, 2023 September 30, 2023 from \$4.8 million \$7.5 million for the six nine months ended June 30, 2022 September 30, 2022 due primarily to the an increase in interest-earning assets of \$49.9 million \$52.0 million, or 14.3% 14.9%, to \$98.3 million \$400.8 million at June 30, 2023 September 30, 2023 from \$348.4 million \$348.8 million at June 30, 2022 September 30, 2022, partially offset by a decrease in net interest rate spread of 36 46 basis points, or 14.0% 17.1%, from 2.59% 2.72% for the six nine months ended June 30, 2022 September 30, 2022 to 2.23% 2.26% for the six nine months ended June 30, 2023 September 30, 2023. Net interest margin had a 10 an 18 basis point decrease to 2.65% 2.70% for the six nine months ended June 30, 2023 September 30, 2023 from 2.75% 2.88% for the six nine months ended June 30, 2022 September 30, 2022.

**Provision for Credit Losses.** Based on management's analysis of the adequacy of the allowance for credit losses, the provision for credit losses was \$183,000 \$212,000 for the six nine months ended June 30, 2023 September 30, 2023, compared to \$77,000 \$125,000 for the six nine months ended June 30, 2022 September 30, 2022, an increase of \$106,000, \$87,000, or 137.7% 69.6%, primarily due to an increase in

loans and leases and the adoption of ASC 326.326 on January 1, 2023. See the CECL section discussion in the accompanying consolidated financial statements for further explanation of the Bank's transition to the new methodology.

**Noninterest Income.** Noninterest income decreased \$1.6 million \$1.5 million, or 177.2% 107.4%, to a loss of \$696,000 \$104,000 for the six nine months ended June 30, 2023 September 30, 2023 from income of \$902,000 \$1.4 million for the six nine months ended June 30, 2022 September 30, 2022, due primarily to a \$1.7 million loss on the sale of securities during the six nine months ended June 30, 2023 September 30, 2023. This was partially offset by two income items that were not new to the Bank in the quarter nine months ended June 30, 2022 September 30, 2023. There was

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additional loan fee income from the wholesale lending program of \$68,000 \$152,000 for the nine months ended September 30, 2023 and compared to only \$7,000 for the nine months ended September 30, 2022, when the program first started, and rental income of \$14,000 \$18,000 on space that was already leased in the two newly acquired buildings located adjacent to the current Bank premises that were purchased in January of 2023 for future expansion.

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**Noninterest Expense.** Noninterest expense increased \$900,000 \$1.2 million, or 19.6% 16.9%, to \$5.5 million \$8.3 million for the six nine months ended June 30, 2023 September 30, 2023 from \$4.6 million \$7.1 million primarily due to increases in salaries and employee benefits, data processing, technology, contract services, and other expenses.

Salary and employee benefit expenses increased by \$482,000 \$672,000, or 17.4% 15.8%, to \$3.3 million \$4.9 million for the six nine months ended June 30, 2023 September 30, 2023 from \$2.8 million \$4.3 million for the six nine months ended June 30, 2022 September 30, 2022, due to normal salary and benefits increases and an increase in compensation expense of \$285,000 \$446,000 for restricted stock awards and stock options awarded granted under the 2022 Equity Plan, which was approved by shareholders on August 31, 2022. The Equity Plan was not in existence had just recently been adopted during the six nine months ended June 30, 2022 September 30, 2022. Technology expenses increased \$29,000 \$54,000, or 14.9% 18.4%, to \$224,000 \$347,000 for the six nine months ended June 30, 2023 September 30, 2023 from \$293,000 for the nine months ended September 30, 2022 primarily due to higher costs. Data processing costs also increased \$67,000, or 10.8%, to \$686,000 for the nine months ended September 30, 2023 from \$619,000 for the nine months ended September 30, 2022. Contract services increased \$61,000, or 46.9%, to \$191,000 for the nine months ended September 30, 2023 from \$130,000 for the nine months ended September 30, 2022. Other expenses increased \$266,000 \$306,000, or 43.7% 30.8%, primarily due to an increase in FDIC assessment expenses of \$72,000 \$48,000 primarily due to an overall increase in the FDIC assessment rate, \$22,000 in audit and accounting expenses, a \$67,000 increase \$79,000 in insurance expenses, \$39,000 in investment expenses, \$13,000 in marketing expense and \$58,000 \$54,000 in other operating expenses primarily due to a one-time one-time fee associated with hiring. Data processing costs also increased \$48,000, or 12.2%, to \$442,000 for the six months ended June 30, 2023 from \$394,000 for the six months ended June 30, 2022. Contract services increased \$49,000, or 62.8%, to \$127,000 for the six months ended June 30, 2023 from \$78,000 for the six months ended June 30, 2022. Both of these increases increases are reflective of the price increases in all types of services that the Company incurred in 2022, 2023, primarily as a result of general wage, inflationary pressures and fees correlated with asset size of the Company.

**Income Tax Expense.** Income tax expense decreased by \$457,000 \$466,000, or 226.2% 142.1%, to an income tax benefit of \$255,000 \$138,000 for the six nine months ended June 30, 2023 September 30, 2023 from an income tax expense of \$202,000 \$328,000 for the

six nine months ended June 30, 2022 September 30, 2022, due to the net loss at June 30, 2023 September 30, 2023. The effective tax rate was 22.93% 25.60% and 20.02% 19.59% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The increase in effective tax rate was primarily due to taxable income increasing at a faster rate than nontaxable income.

### Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. The Federal Reserve Bank of Boston provides the Bank with a federal funds line of credit. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from maturities of securities. We are also able to borrow from the Federal Home Loan Bank of Dallas. At June 30, 2023 September 30, 2023, we had outstanding advances of \$71.9 million \$79.4 million from the Federal Home Loan Bank of Dallas. At June 30, 2023 September 30, 2023, we had unused borrowing capacity of \$78.2 million \$75.3 million with the Federal Home Loan Bank of Dallas. In addition, at June 30, 2023 September 30, 2023, we had a \$10.0 million line of credit with Texas Independent Bankers Bank and a \$5.0 million line of credit with First Horizon Bank. At June 30, 2023 September 30, 2023, there was no outstanding balance under any of these facilities.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. For additional information, see the consolidated statements of cash flows for the six nine months ended June 30, 2023 September 30, 2023 and 2022 included as part of the consolidated financial statements included in this report.

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We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

Texas Community Bancshares, Inc. is a separate legal entity from Mineola Community Bank, and must provide for its own liquidity to pay its operating expenses and other financial obligations. Its primary source of income is dividends received from Mineola Community Bank. The amount of dividends that Mineola Community Bank may

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declare and pay to Texas Community Bancshares, Inc. is governed by applicable banking laws and regulations. At June 30, 2023 September 30, 2023, Texas Community Bancshares, Inc. (on a stand-alone, unconsolidated basis) had liquid assets of \$12.4 million \$11.0 million.

Liquidity management and asset quality continue to be high priorities. With continued volatility in the market, recent banking sector events and market interest rate increases, liquidity management and analysis is a key factor in daily asset and liability management and strategic planning. We are monitoring deposit runoff and threats of deposit runoff daily. We have been able to maintain our deposit base through this cycle with some new product offerings and competitive interest rates, which has increased our funding costs. We run stress tests

monthly with a severe scenario of 35% CD runoff and 20% other quarterly in multiple scenarios, which include deposit runoff combined with the inability to access our available lines of credit, credit and a reduction in the availability of FHLB advances. The scenarios indicate that we are able to maintain our operational liquidity with a designated buffer with our liquidity resources available. We are closely monitoring our assets, liabilities, capital and investment portfolio unrealized losses for possible issues and opportunities related to the current economic and market conditions.

We have contacted some of our large depositors and had discussions with them regarding how to have FDIC coverage to the fullest legal extent, which is over \$250,000 for many depositors depending on the type of account ownership. At June 30, 2023 September 30, 2023, there were 152 154 accounts with balances in excess of \$250,000 with a total of \$63.9 million \$63.0 million, or 21.1% 21.0% of deposits. The amount that was over \$250,000 was \$25.9 million \$24.5 million, or 8.6% 8.2%, that was potentially uninsured, including certificates of deposit of \$6.9 million \$7.4 million and \$19.0 million \$17.1 million in checking, MMDA and savings accounts. We have also been communicating with our depositors in general to help ease any fears concerns they may have in light of recent regional bank failures.

At June 30, 2023 September 30, 2023, the weighted average life (WAL) of our securities portfolio is 5.6 5.2 years. The gross unrealized losses on the AFS securities is \$8.3 million \$9.8 million, or 8.0% 9.5% of the \$104.2 million \$102.2 million AFS portfolio, portfolio and 16.1% of capital. Unrealized losses on the HTM securities is \$3.0 million were \$3.7 million, or 10.7% 13.7% of the \$27.9 million \$26.9 million HTM portfolio, portfolio and 6.1% of capital. The total gross unrealized losses are \$11.3 million \$13.5 million, or 8.6% 10.4% of the \$132.0 million \$129.1 million securities portfolio and 22.4% of capital, which includes \$63.4 million \$61.7 million, or 48.0% 47.7%, that are agency issued and guaranteed by the U.S. government. These losses are the result of market interest rate increases and we continue to monitor the portfolio for credit and other risks. The gross unrealized losses on the AFS portfolio is 13.7% of capital and the total gross unrealized loss is 18.6% of capital. The net unrealized loss on AFS securities and derivative combined, and the corresponding other comprehensive loss, was \$6.6 million \$7.0 million, or 10.9% 11.5% of capital. Over the next 24 months from June 30, 2023 September 30, 2023, we expect to realize \$7.7 million, \$21.8 million, and 12.8 million \$44.4 million in cash flow from the securities portfolio with \$3.5 million in 2023, \$21.7 million in 2024 and 2025, respectively, with \$17.2 million 19.1 million in 2025. We should receive \$19.6 million of that being over the next 12 months. See the Securities section of the management discussion and analysis for more information.

At June 30, 2023 September 30, 2023, the Bank entered into interest rate swap agreements with a total notional amount of \$25 million to hedge the risk of changes in the fair value of fixed rate AFS securities for changes in the SOFR benchmark rate. At June 30, 2023 September 30, 2023, the derivatives were highly effective and offset the unrealized loss on AFS securities by \$434,000 \$743,000 bringing the net other comprehensive loss from \$6.6 million \$7.7 million to \$6.1 million \$7.0 million.

Our asset quality remains strong. We are being optimistically cautious with our lending and strategic decisions, staying focused on long-term goals and taking advantage of opportunities while being diligent about recognizing and mitigating risk. With the CECL implementation, our allowance for credit losses increased to 1.09% 1.08% due to the change in methodology. This adds a deeper level of coverage for any losses we may experience. The Bank has raised in-house mortgage rates while continuing to offer secondary market options to moderate loan funding. Mortgage funding and we are starting to see a decrease in mortgage demand has remained surprisingly strong due primarily to relatively low housing inventory levels, higher market interest rates. We are monitoring housing supply and demand, primarily in our Mineola and Lindale markets where home sales and new home construction has have been active, for

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indicators of a significant change in the local housing markets. The decrease in mortgage demand is offset by increases in commercial real estate lending.

We are currently utilizing listed CDs (Qwickrate) with terms of 3-6 months with full FDIC insurance in order to keep funds liquid while also earning a higher return than holding balances in fed funds. We are not currently utilizing the Bank Term Funding Program.

The following are the various liquidity sources we had available at June 30, 2023 September 30, 2023 that we could use as needed:

- FHLB borrowing capacity of \$78.2 million \$75.3 million
- \$15 million in credit lines with 2 correspondent banks

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- Federal Reserve discount window
- Qwickrate CD Program
- Brokered deposits
- The ability to sell securities. We have run an analysis of securities that could be sold with minimal losses to provide liquidity.
- The ability to sell a group of loans in the secondary market on an as needed basis
- The ability to sell some of our BOLI assets

At **June 30, 2023** **September 30, 2023**, Mineola Community Bank exceeded all of its regulatory capital requirements, and was categorized as well-capitalized at that date. Management is not aware of any conditions or events since the most recent notification of well-capitalized status that would change our category.

### Management of Market Risk

Our most significant form of market risk is interest rate risk. As a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Risk Management and Interest Rate Risk Management Officer is responsible for evaluating the interest rate risk inherent in our assets and liabilities, determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a **monthly quarterly** basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- maintaining capital levels that exceed the thresholds for well-capitalized status under federal regulations;
- maintaining a high level of liquidity;
- growing our volume of core deposit accounts;
- managing our investment securities portfolio so as to reduce the average maturity and effective life of the portfolio;
- managing our borrowings from the Federal Home Loan Bank of **Dallas by using amortizing advances to as to reduce the average maturities of the borrowings; and Dallas;**
- continuing to diversify our loan portfolio by adding more **commercial-related commercial** loans, which typically have shorter maturities and/or balloon payments and additional fee income;

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- expanding our wholesale lending program to be able to meet customer loan needs while managing the weighted average life and interest rate risk in the loan **portfolio, portfolio; and**
- **Derivatives.**

By following these strategies, we believe that we are better positioned to react to increases and decreases in market interest rates.

We have not engaged in hedging activities, such as engaging in futures or options. We do not anticipate entering into similar transactions in the future.

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**Net Interest Income.** We analyze our sensitivity to changes in interest rates through a net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 400 basis point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below.

The tables below set forth the calculation of the estimated changes in our monthly net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

At June 30, 2023						
At September 30, 2023			At September 30, 2023			
Change in Interest Rates (basis points) <sup>(1)</sup>	Net Interest Income Year		Net Interest Income Year		Year 1 Change from Level	
	1 Forecast	Level	1 Forecast	Level		
(Dollars in thousands)	(Dollars in thousands)		(Dollars in thousands)			
400	\$	12,519	(3.79)%	\$	8,944	(2.77)%
300		12,671	(2.63)%		9,073	(1.37)%
200		12,815	(1.52)%		9,157	(0.46)%
100		12,975	(0.30)%		9,197	(0.02)%
Level		13,013	—		9,199	—
(100)		12,840	(1.33)%		8,855	(3.74)%
(200)		12,660	(2.71)%		9,003	(2.13)%
(300)		12,493	(4.00)%		9,019	(1.96)%
(400)		12,402	(4.69)%		9,187	(0.13)%

(1) Assumes an immediate uniform change in interest rates at all maturities.

The table above indicates that at **June 30, 2023** **September 30, 2023**, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a **1.52%** **0.46%** decrease in net interest income, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a **2.71%** **2.13%** decrease in net interest income.

**Net Economic Value.** We also compute amounts by which the net present value of our assets and liabilities (net economic value of equity or “EVE”) would change in the event of a range of assumed changes in market interest rates. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by **200 and 400** basis point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve.

The table below sets forth the calculation of the estimated changes in our EVE that would result from the designated immediate changes in the United States Treasury yield curve.

At June 30, 2023										
At September 30, 2023					At September 30, 2023					
Change in Interest Rates (basis points) (1)	EVE as a Percentage of Present Value of Assets (3)				EVE as a Percentage of Present Value of Assets (3)					
	Estimated	Estimated Increase (Decrease) in EVE		EVE Ratio (4)	Increase (Decrease)	Estimated	Estimated Increase (Decrease) in EVE		EVE Ratio (4)	Increase (Decrease)
		Amount	Percent				Amount	Percent		
(Dollars in thousands)										
400	\$ 51,382	\$ (9,087)	(15.03)%	13.99 %	(60)	\$ 30,902	\$ (9,455)	(23.43)%	8.67 %	(131)
300	53,928	(6,541)	(10.82)%	14.24 %	(35)	33,473	(6,884)	(17.06)%	9.12 %	(86)
200	56,402	(4,067)	(6.73)%	14.45 %	(14)	36,003	(4,354)	(10.79)%	9.51 %	(47)
100	58,746	(1,723)	(2.85)%	14.60 %	1	38,371	(1,986)	(4.92)%	9.81 %	(17)
Level	60,469	—	— %	14.59 %	—	40,357	—	— %	9.98 %	—
(100)	60,881	412	0.68 %	14.30 %	(29)	41,561	1,204	2.98 %	9.92 %	(6)
(200)	60,559	90	0.15 %	13.86 %	(73)	41,217	860	2.13 %	9.51 %	(47)
(300)	59,401	(1,068)	(1.77)%	13.27 %	(132)	38,311	(2,046)	(5.07)%	8.54 %	(144)
(400)	57,766	(2,703)	(4.47)%	12.61 %	(198)	31,833	(8,524)	(21.12)%	6.87 %	(311)

- (1) Assumes an immediate uniform change in interest rates at all maturities.
- (2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
- (3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
- (4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at **June 30, 2023** **September 30, 2023**, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a **6.73%** **10.79%** decrease in EVE, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a **0.15%** **2.13%** increase in EVE.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The net interest income and net economic value tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates, and actual results may differ.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, mortgage servicing rights, deposits and borrowings.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

See “Management of Market Risk” in Item 2 above.

#### Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of **June 30, 2023** **September 30, 2023**. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of **June 30, 2023** **September 30, 2023**.

During the quarter ended **June 30, 2023** **September 30, 2023**, there were no changes in the Company's internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We are not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceedings occurring in the ordinary course of business. At **June 30, 2023** **September 30, 2023**, we were not involved in any legal proceedings the outcome of which we believe would be material to our consolidated financial condition or results of operations.

### Item 1A. Risk Factors

Not applicable, as the Company is a "smaller reporting company."

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

**None.** On May 16, 2023, the Company announced a program to repurchase up to 164,842 shares of the Company's outstanding common stock, or approximately 5% of the shares then outstanding. The program has no stated expiration date.

The following table summarizes the Company's repurchases of its outstanding shares of common stock during the quarter ended September 30, 2023.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
July 1, 2023 - July 31, 2023	26,950	\$ 12.46	26,950	87,625
August 1, 2023 - August 31, 2023	28,200	12.53	28,200	59,425
September 1, 2023 - September 30, 2023	22,000	12.59	22,000	37,425
Total	<u>77,150</u>	<u>\$ 12.52</u>	<u>77,150</u>	

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Articles of Incorporation of Texas Community Bancshares, Inc. (1)</a>
3.2	<a href="#">Amended and Restated Bylaws of Texas Community Bancshares, Inc. (2)</a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	The following materials for the quarter ended <b>June 30, 2023</b> <b>September 30, 2023</b> , formatted in iXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-254053), as filed on March 9, 2021.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (Commission File No. 001-40610), as filed on January 26, 2022.

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**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.

**TEXAS COMMUNITY BANCSHARES, INC.**

Date: August 10, 2023 November 8, 2023

/s/ James H Herlocker, III  
James H. Herlocker, III  
Chairman, President and Chief Executive Officer

Date: August 10, 2023 November 8, 2023

/s/ Julie Sharff  
Julie Sharff, CPA  
Chief Financial Officer

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**Exhibit 31.1**

**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James H. Herlocker, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Texas Community 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 made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 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 that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2023 November 8, 2023

/s/ James H Herlocker, III

James H. Herlocker, III

Chairman, President and Chief Executive Officer

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**Exhibit 31.2**

**Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Julie Sharff, certify that:

- 1. I have reviewed this Quarterly Report on Form 10-Q of Texas Community 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 made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 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 that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2023 November 8, 2023

/S/ Julie Sharff

Julie Sharff, CPA

Chief Financial Officer

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**Exhibit 32.1**

**Certification of Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, James H. Herlocker, III, Chairman, President, and Chief Executive Officer of Texas Community Bancshares, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that I have reviewed the Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023 (the "Report") and that, to the best of my knowledge:

1. The Report fully complies with the requirements of Sections 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: August 10, 2023 November 8, 2023

/S/ James H Herlocker, III

James H. Herlocker, III

Chairman, President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**Exhibit 32.2**

**Certification of Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Julie Sharff, Chief Financial Officer of Texas Community Bancshares, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that I have reviewed the Quarterly Report on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023** (the "Report") and that, to the best of my knowledge:

1. The Report fully complies with the requirements of Sections 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: **August 10, 2023** **November 8, 2023**

*/s/ Julie Sharff* \_\_\_\_\_

Julie Sharff, CPA

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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