
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 Number: 001-41028

THIRD COAST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

20202 Highway 59 North, Suite 190

46-2135597

(I.R.S. Employer
Identification No.)

Humble, Texas

(Address of principal executive offices)

77338

(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of August 4, 2023, the registrant had 13,607,057 shares of common stock, par value \$1.00 per share, outstanding.

Table of Contents

		Page
PART I.	<u>FINANCIAL INFORMATION</u>	2
Item 1.	<u>Financial Statements (unaudited)</u>	2
	<u>Consolidated Balance Sheets</u>	2
	<u>Consolidated Statements of Income</u>	3
	<u>Consolidated Statements of Comprehensive Income</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	58
Item 4.	<u>Controls and Procedures</u>	58
PART II.	<u>OTHER INFORMATION</u>	60
Item 1.	<u>Legal Proceedings</u>	60
Item 1A.	<u>Risk Factors</u>	60
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
Item 3.	<u>Defaults Upon Senior Securities</u>	60
Item 4.	<u>Mine Safety Disclosures</u>	60
Item 5.	<u>Other Information</u>	60
Item 6.	<u>Exhibits</u>	61
	<u>Signatures</u>	62

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	June 30, 2023	December 31, 2022
<u>ASSETS</u>	(unaudited)	
Cash and cash equivalents:		
Cash and due from banks	\$ 244,813	\$ 329,864
Federal funds sold	23,206	2,150
Total cash and cash equivalents	268,019	332,014
Investment securities available-for-sale	194,467	176,067
Loans, net of allowance for credit losses of \$37,243 and \$30,351 at June 30, 2023 and December 31, 2022, respectively	3,297,034	3,077,200
Accrued interest receivable	19,579	18,340
Premises and equipment, net	28,720	28,662
Bank-owned life insurance	64,762	60,761
Non-marketable equity securities, at cost	20,687	14,618
Deferred tax asset, net	7,808	6,303
Fair value hedge assets	9,372	9,213
Right-of-use asset - operating leases	21,778	17,872
Core Deposit Intangible, net	1,050	1,131
Goodwill	18,034	18,034
Other assets	12,172	12,933
Total assets	\$ 3,963,482	\$ 3,773,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 529,474	\$ 486,114
Interest bearing	2,878,807	2,750,032
Total deposits	3,408,281	3,236,146
Accrued interest payable	3,522	2,545
Fair value hedge liabilities	9,177	9,221
Lease liability - operating leases	22,439	18,209
Other liabilities	12,792	14,024
Line of credit - Senior Debt	30,875	30,875
Note payable - Subordinated Debt, net	80,451	80,348
Total liabilities	3,567,537	3,391,368
Shareholders' equity:		
Preferred stock, \$1 par value; 1,000,000 shares authorized		
Series A Convertible Non-Cumulative Preferred Stock, \$1 par value; 69,400 shares authorized and outstanding at June 30, 2023 and December 31, 2022, respectively	69	69
Series B Convertible Perpetual Preferred Stock, \$1 par value; 69,400 shares authorized at June 30, 2023 and December 31, 2022, respectively	—	—
Common stock, \$1 par value; 50,000,000 shares authorized; 13,688,159 and 13,610,198 issued; and 13,609,697 and 13,531,736 outstanding at June 30, 2023 and December 31, 2022, respectively	13,688	13,610
Common stock - non-voting, \$1 par value; 3,500,000 and no shares authorized at June 30, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	318,769	318,033
Retained earnings	65,889	53,270
Accumulated other comprehensive loss	(1,371)	(2,103)
Treasury stock: at cost; 78,462 shares at June 30, 2023 and December 31, 2022, respectively	(1,099)	(1,099)
Total shareholders' equity	395,945	381,780
Total liabilities & shareholders' equity	\$ 3,963,482	\$ 3,773,148

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

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

(Dollars in thousands, except share and per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Interest income:				
Loans, including fees	\$ 59,295	\$ 31,164	\$ 113,206	\$ 57,846
Investment securities available-for-sale	2,029	894	3,577	1,170
Federal funds sold and other	1,389	451	3,309	677
Total interest income	62,713	32,509	120,092	59,693
Interest expense:				
Deposit accounts	24,936	3,443	47,028	5,287
FHLB advances and other borrowings	3,681	1,328	6,138	1,458
Total interest expense	28,617	4,771	53,166	6,745
Net interest income	34,096	27,738	66,926	52,948
Provision for credit losses				
	1,400	3,350	2,600	7,350
Net interest income after credit loss expense	32,696	24,388	64,326	45,598
Noninterest income:				
Service charges and fees	720	617	1,499	1,236
Gain on sale of investment securities available-for-sale	—	—	97	—
Gain on sale of SBA loans	—	98	—	98
Earnings on bank-owned life insurance	526	248	1,001	391
Derivative fees	247	123	246	829
Other	787	180	1,339	378
Total noninterest income	2,280	1,266	4,182	2,932
Noninterest expense:				
Salaries and employee benefits	15,033	13,994	28,745	27,318
Data processing and network expense	1,261	932	2,464	1,854
Occupancy and equipment expense	2,852	1,830	5,485	3,703
Legal and professional	1,547	2,001	3,477	3,747
Loan operations	302	282	267	560
Advertising and marketing	812	467	1,498	894
Telephone and communications	129	99	268	199
Software purchases and maintenance	455	201	807	399
Regulatory assessments	458	956	1,124	1,601
Loss on sale of other real estate owned	—	350	—	350
Other	986	1,661	1,744	2,329
Total noninterest expense	23,835	22,773	45,879	42,954
Net income before income tax expense	11,141	2,881	22,629	5,576
Income tax expense	2,250	604	4,495	1,212
Net income	8,891	2,277	18,134	4,364
Preferred stock dividends declared	1,184	—	2,355	—
Net income available to common shareholders	\$ 7,707	\$ 2,277	\$ 15,779	\$ 4,364
Earnings per common share:				
Basic earnings per share	\$ 0.57	\$ 0.17	\$ 1.16	\$ 0.33
Diluted earnings per share	\$ 0.53	\$ 0.16	\$ 1.08	\$ 0.32

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

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

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net Income	\$ 8,891	\$ 2,277	\$ 18,134	\$ 4,364
Other comprehensive income (loss):				
Unrealized loss on securities:				
Unrealized holding loss arising during the period	(1,969)	(2,695)	(3,311)	(3,285)
Income tax benefit	413	566	695	690
Other comprehensive loss on securities	(1,556)	(2,129)	(2,616)	(2,595)
Unrealized gain (loss) on derivatives:				
Unrealized holding loss arising during the period	(1,531)	—	—	—
Gain on termination of derivative instruments	5,007	—	5,007	—
Reclassification adjustment for accretion of gain on terminated cash flow hedges recorded in interest expense during the period	(563)	(52)	(769)	(103)
Income tax (expense) benefit	(612)	11	(890)	22
Other comprehensive income (loss) on derivatives	2,301	(41)	3,348	(81)
Total other comprehensive income (loss)	745	(2,170)	732	(2,676)
Total comprehensive income	<u>\$ 9,636</u>	<u>\$ 107</u>	<u>\$ 18,866</u>	<u>\$ 1,688</u>

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

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

(Dollars in thousands)	Preferred Stock				Common Stock		Additional		Accumulated		Treasury		Total
	Series A	Series B	Voting	Non-Voting			Paid in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Stock			
Balance, December 31, 2021	\$ —	\$ —	\$ 13,482	\$ —	\$ 249,202	\$ 36,029	\$ 1,393	\$ (1,099)	\$ 299,007				
Net income	—	—	—	—	—	—	4,364	—	—	—	—	4,364	
Share-based compensation	—	—	—	—	—	609	—	—	—	—	—	609	
Stock options exercised	—	—	8	—	—	108	—	—	—	—	—	116	
Issuance of common stock to ESOP	—	—	22	—	—	525	—	—	—	—	—	547	
Restricted stock grants	—	—	31	—	—	(31)	—	—	—	—	—	—	
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(2,676)	—	—	(2,676)	
Balance, June 30, 2022	\$ —	\$ —	\$ 13,543	\$ —	\$ 250,413	\$ 40,393	\$ (1,283)	\$ (1,099)	\$ 301,967				
Balance, December 31, 2022	\$ 69	\$ —	\$ 13,610	\$ —	\$ 318,033	\$ 53,270	\$ (2,103)	\$ (1,099)	\$ 381,780				
Adoption of ASC 326, allowance for credit losses adjustment, net of tax	—	—	—	—	—	—	(3,160)	—	—	—	—	(3,160)	
Net income	—	—	—	—	—	—	18,134	—	—	—	—	18,134	
Share-based compensation	—	—	—	—	—	767	—	—	—	—	—	767	
Warrants exercised	—	—	4	—	—	43	—	—	—	—	—	47	
Restricted stock grants	—	—	74	—	—	(74)	—	—	—	—	—	—	
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	732	—	—	732	
Preferred dividends declared - Series A, \$33.94 per share	—	—	—	—	—	—	(2,355)	—	—	—	—	(2,355)	
Balance, June 30, 2023	\$ 69	\$ —	\$ 13,688	\$ —	\$ 318,769	\$ 65,889	\$ (1,371)	\$ (1,099)	\$ 395,945				
(Dollars in thousands)	Preferred Stock				Common Stock		Additional		Accumulated		Treasury		Total
	Series A	Series B	Voting	Non-Voting			Paid in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Stock			
Balance, March 31, 2022	\$ —	\$ —	\$ 13,524	\$ —	\$ 249,775	\$ 38,116	\$ 887	\$ (1,099)	\$ 301,203				
Net income	—	—	—	—	—	—	2,277	—	—	—	—	2,277	
Share-based compensation	—	—	—	—	—	330	—	—	—	—	—	330	
Stock options exercised	—	—	5	—	—	57	—	—	—	—	—	62	
Issuance of common stock to ESOP	—	—	11	—	—	254	—	—	—	—	—	265	
Restricted stock grants	—	—	3	—	—	(3)	—	—	—	—	—	—	
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(2,170)	—	—	(2,170)	
Balance, June 30, 2022	\$ —	\$ —	\$ 13,543	\$ —	\$ 250,413	\$ 40,393	\$ (1,283)	\$ (1,099)	\$ 301,967				
Balance, March 31, 2023	\$ 69	\$ —	\$ 13,658	\$ —	\$ 318,350	\$ 58,182	\$ (2,116)	\$ (1,099)	\$ 387,044				
Net income	—	—	—	—	—	8,891	—	—	—	—	—	8,891	
Share-based compensation	—	—	—	—	—	402	—	—	—	—	—	402	
Warrants exercised	—	—	4	—	—	43	—	—	—	—	—	47	
Restricted stock grants	—	—	26	—	—	(26)	—	—	—	—	—	—	
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	745	—	—	745	
Preferred dividends declared - Series A, \$17.06 per share	—	—	—	—	—	—	(1,184)	—	—	—	—	(1,184)	
Balance, June 30, 2023	\$ 69	\$ —	\$ 13,688	\$ —	\$ 318,769	\$ 65,889	\$ (1,371)	\$ (1,099)	\$ 395,945				

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	For the Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 18,134	\$ 4,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,600	7,350
Changes in deferred tax asset, net	(860)	(2,344)
Share-based compensation expense	767	609
Gain on sale of investment securities available-for-sale	(97)	—
Gain on sale of SBA loans	—	(98)
Loss on sale of other real estate owned	—	350
(Accretion) Amortization of premium on securities, net	(77)	184
Accretion of gain on terminated cash flow hedges	(769)	(103)
Accretion of SBA Paycheck Protection Program Fees	(20)	(1,817)
Amortization of subordinated debt origination costs	103	—
Depreciation, amortization and accretion	296	(105)
Earnings on bank-owned life insurance	(1,001)	(391)
Net change in operating leases	324	2
Net change in fair value hedge assets and liabilities	(203)	20
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(477)	(4,242)
Accrued interest payable and other liabilities	(241)	1,261
Net cash provided by operating activities	18,479	5,040
Cash flows from investing activities:		
Increase in non-marketable equity securities	(6,069)	(7,687)
Investment securities available-for-sale activity:		
Purchases	(1,726,587)	(135,063)
Sales	3,880	—
Maturities, calls and principal paydowns	1,701,170	766
Proceeds from termination of derivative instruments	5,007	—
Net originations on loans held for investment	(224,866)	(677,354)
Net additions to bank premises and equipment	(1,822)	(4,951)
Proceeds from sales of foreclosed assets	—	1,326
Purchase of bank owned life insurance	(3,000)	(25,000)
Net cash used in investing activities	(252,287)	(847,963)
Cash flows from financing activities:		
Net increase in deposits	172,134	757,244
Net repayment of FHLB Advances	—	(32,000)
Net proceeds from subordinated debt issuance	—	80,319
Proceeds from line of credit - senior debt	—	29,875
Issuance of common stock to ESOP	—	547
Proceeds from stock warrants exercised	47	—
Proceeds from stock options exercised	—	116
Dividends paid on Series A preferred stock	(2,368)	—
Net cash provided by financing activities	169,813	836,101
Change in cash and cash equivalents))
Cash and cash equivalents at beginning of period	332,014	327,025
Cash and cash equivalents at end of period	\$ 268,019	\$ 320,203

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	For the Six Months Ended June 30,	
	2023	2022
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 52,189	\$ 5,101
Cash paid for income taxes	\$ 3,875	\$ 3,750
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Right of use lease assets obtained in exchange for operating lease liabilities	\$ 4,902	\$ 13,150
Adjustment to allowance for credit losses for adoption of ASC 326, net of tax	\$ 3,160	\$ —

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents

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

Investment Securities Available-For-Sale

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

Loans

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

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

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

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

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

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

Allowance for Credit Losses

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

Prior to the adoption of ASU 2016-13, declines in the fair value of available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2023, management considered, among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

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

Premises and Equipment

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

Operating Leases

The Company leases certain office space, stand-alone buildings, and equipment which are recognized as operating lease right-of-use assets and operating lease liabilities in the consolidated balance sheets. Lease liabilities represent the Company's liability to make lease payments under these leases on a discounted basis and are amortized on a straight-line basis over the lease term for each related lease agreement. Right-of-use assets represent the Company's right to use, or control the use of, leased assets for their lease term and are amortized over the lease term of the related lease agreement. See further discussion of Accounting Standards Update, or ASU 2016-02, Leases (Topic 842) below. The Company does not recognize short-term operating leases on the consolidated balance sheets. A short-term lease has a term of 12 months or less and does not have a purchase option that is likely to be exercised.

Other Real Estate Owned

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

Bank-Owned Life Insurance

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

Non-Marketable Securities

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

Goodwill and Core Deposit Intangibles

Goodwill represents the excess of cost over fair value of net assets acquired in a business combination. Goodwill is not amortized and is evaluated for impairment at least annually as of December 31 and on an interim basis if an event triggering impairment may have occurred.

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

Derivative Financial Instruments

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

For a Fair Value Hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in noninterest income in our consolidated statements of income. Fair Value Hedge instruments offered by the Company include pass-through interest rate swap products to qualified commercial banking customers. Under this type of contract, the Company enters into an interest rate swap contract with a customer, while at the same time entering into an offsetting interest rate swap contract with a financial institution counterparty. Changes in the fair value of the underlying derivatives are designed to offset each other so they would not significantly impact the Company's operating results. The Company also enters into Risk Participation Agreements ("RPAs") with other banks, primarily to share a portion of the risk of borrower default related to the interest rate swap on certain participated loans. The instruments are not designated as accounting hedges and do not qualify for hedge accounting.

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

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest expense in the consolidated statements of income. Net cash settlements on derivatives that do not qualify for hedge accounting (pass-through interest rate swaps and RPAs) are reported in noninterest income in the consolidated statements of income. Cash flows on hedges are classified in the cash flow statement the same as the items being hedged.

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

Business Combinations

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

Comprehensive Income

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

Revenues from Contracts with Customers

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

Advertising and Marketing Expenses

Advertising and marketing expenses consist of the Company's advertising in its local market area and are expensed as incurred. Advertising and marketing expenses were \$1.5 million and \$894,000 for the six months ended June 30, 2023 and 2022, respectively, and \$812,000 and \$467,000 for the three months ended June 30, 2023 and 2022. The expenses are included within noninterest expense in the accompanying consolidated statements of income.

Income Taxes

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

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

Share-Based Compensation

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

Basic and Diluted Earnings Per Common Share

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

Reclassification

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

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

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

The Company adopted ASC 326 using the modified retrospective method for financial instruments measured at amortized cost and off-balance sheet credit exposure which requires reporting periods beginning after January 1, 2023 to be presented under ASC 326 guidance while prior period amounts to continue to be reported in accordance with previously applicable inherent risk methodology. Effective January 1, 2023, the Company adopted the standard and recorded an increase in the allowance for credit losses of \$4.0 million and a net after-tax adjustment to retained earnings of \$3.2 million for the cumulative effect of adopting ASC 326 for its loan portfolio. Management determined no allowance for credit losses was needed for off-balance sheet credit exposures or available-for-sale securities.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

(Dollars in thousands)	Post-ASC 326 Adoption	January 1, 2023 Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Real estate loans:			
Non-farm non-residential owner occupied	\$ 5,097	\$ 3,773	\$ 1,324
Non-farm non-residential non-owner occupied	8,351	5,741	2,610
Residential	2,060	1,064	996
Construction, development & other	4,661	3,053	1,608
Farmland	94	82	12
Commercial & industrial	13,366	16,269	(2,903)
Consumer	10	6	4
Municipal and other	712	363	349
	\$ 34,351	\$ 30,351	\$ 4,000

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

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

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

2. Investment Securities Available-for-Sale

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

(Dollars in thousands)	June 30, 2023					Allowance for Credit Losses	Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	—	1		
Securities available-for-sale:							
State and municipal securities	\$ 420	\$ —	\$ 1	\$ —	\$ 419		
Mortgage-backed securities and other agency obligations	22,407	—	1,094	—	21,313		
U.S. Treasury bonds	100,228	—	1,040	—	99,188		
Corporate bonds	80,774	148	7,375	—	73,547		
	<u>\$ 203,829</u>	<u>\$ 148</u>	<u>\$ 9,510</u>	<u>\$ —</u>	<u>\$ 194,467</u>		

(Dollars in thousands)	December 31, 2022					Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	—	5	
Securities Available-for-sale:						
State and municipal securities	\$ 422	\$ —	\$ 5	\$ —	\$ 417	
Mortgage-backed securities and other agency obligations	23,522	238	879	—	22,881	
U.S. Treasury bonds	100,567	—	2,049	—	98,518	
Corporate bonds	57,607	59	3,415	—	54,251	
	<u>\$ 182,118</u>	<u>\$ 297</u>	<u>\$ 6,348</u>	<u>\$ —</u>	<u>\$ 176,067</u>	

Mortgage-backed securities are typically issued with stated principal amounts and are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as prepayment risk, are passed on to the certificate holder. Accordingly, the term of mortgage-backed securities approximates the term of the underlying mortgages and can vary significantly due to prepayments. Therefore, schedules of maturities for mortgage-backed securities have been excluded from the below disclosure.

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

(Dollars in thousands)	June 30, 2023	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 100,648	\$ 99,607
Due from one year to five years	8,347	8,396
Due from five to ten years	67,366	60,537
Over ten years	5,061	4,614
	<u>181,422</u>	<u>173,154</u>
Mortgage-backed securities and other agency obligations	22,407	21,313
	<u>\$ 203,829</u>	<u>\$ 194,467</u>

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

(Dollars in thousands)	June 30, 2023						Estimated Fair Value	
	Less Than 12 Months in a Loss Position		Greater Than 12 Months in a Loss Position		Total Unrealized Loss			
	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position	Less Than 12 Months in a Loss Position	Greater Than 12 Months in a Loss Position		
Securities available-for-sale:								
State and municipal securities	\$ —	\$ 1	\$ 1	\$ 1	\$ 1	\$ 419		
Mortgage-backed securities and other agency obligations	104	990	1,094	21,313				
U.S. Treasury bonds	—	1,040	1,040	99,188				
Corporate bonds	3,601	3,774	7,375	63,772				
	<u>3,705</u>	<u>5,805</u>	<u>9,510</u>	<u>184,692</u>				
 December 31, 2022								
Securities available-for-sale:								
State and municipal securities	\$ 5	\$ —	\$ 5	\$ 417				
Mortgage-backed securities and other agency obligations	879	—	879	18,376				
U.S. Treasury bonds	2,049	—	2,049	98,518				
Corporate bonds	3,415	—	3,415	50,413				
	<u>6,348</u>	<u>—</u>	<u>6,348</u>	<u>167,724</u>				

There were 39 investments in an unrealized loss position at June 30, 2023, and 35 investments in an unrealized loss position at December 31, 2022. As of June 30, 2023, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available-for-sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

3. Loans and Allowance for Credit Losses

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

<u>(Dollars in thousands)</u>	June 30, 2023	December 31, 2022
Real estate loans:		
Non-farm non-residential owner occupied	\$ 513,934	\$ 493,791
Non-farm non-residential non-owner occupied	547,120	506,012
Residential	310,842	308,775
Construction, development & other	595,601	567,851
Farmland	24,219	22,820
Commercial & industrial	1,164,624	1,058,910
Consumer	2,891	3,872
Municipal and other	175,046	145,520
	3,334,277	3,107,551
Allowance for credit losses	(37,243)	(30,351)
Loans, net	\$ 3,297,034	\$ 3,077,200

Total loans are presented net of unaccrued discounts and net deferred fees totaling \$9.5 million and \$7.8 million at June 30, 2023 and December 31, 2022, respectively.

Non-accrual and Past Due Loans

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

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

<u>(Dollars in thousands)</u>	Non-accrual	June 30, 2023	Non-accrual	December 31, 2022
		Accruing loans past due more than 90 days		Accruing loans past due more than 90 days
Real estate loans:				
Non-farm non-residential owner occupied	\$ 832	\$ —	\$ 1,699	\$ 157
Non-farm non-residential non-owner occupied	1,417	—	296	—
Residential	494	—	513	—
Construction, development & other	36	—	45	—
Commercial & industrial	7,189	—	8,390	361
Consumer	—	—	20	—
	\$ 9,968	\$ —	\$ 10,963	\$ 518

As of June 30, 2023 and 2022, the amount of income that would have been accrued for loans on non-accrual was approximately \$332,000 and \$524,000, respectively.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

<u>(Dollars in thousands)</u>	June 30, 2023			Total past due			Total current		Total loans	
	30-59 days	60-89 days	Over 90 days							
Real estate loans:										
Non-farm non-residential owner occupied	\$ —	\$ 261	\$ 832	\$ 1,093	\$ 512,841	\$ 513,934				
Non-farm non-residential non-owner occupied	—	—	1,417	1,417	545,703	547,120				
Residential	—	—	494	494	310,348	310,842				
Construction, development & other	—	—	36	36	595,565	595,601				
Farmland	—	—	—	—	24,219	24,219				
Commercial & industrial	1,966	386	7,189	9,541	1,155,083	1,164,624				
Consumer	—	—	—	—	2,891	2,891				
Municipal and other	—	—	—	—	175,046	175,046				
	<u>\$ 1,966</u>	<u>\$ 647</u>	<u>\$ 9,968</u>	<u>\$ 12,581</u>	<u>\$ 3,321,696</u>	<u>\$ 3,334,277</u>				
<u>(Dollars in thousands)</u>	December 31, 2022			Over 90 days	Total past due	Total current	Total loans			
	30-59 days	60-89 days	Over 90 days							
Real estate loans:										
Non-farm non-residential owner occupied	\$ 2,996	\$ —	\$ 1,856	\$ 4,852	\$ 488,939	\$ 493,791				
Non-farm non-residential non-owner occupied	132	—	296	428	505,584	506,012				
Residential	2,356	—	513	2,869	305,906	308,775				
Construction, development & other	130	—	45	175	567,676	567,851				
Farmland	—	—	—	—	22,820	22,820				
Commercial & industrial	791	613	8,751	10,155	1,048,755	1,058,910				
Consumer	—	—	20	20	3,852	3,872				
Municipal and other	162	—	—	162	145,358	145,520				
	<u>\$ 6,567</u>	<u>\$ 613</u>	<u>\$ 11,481</u>	<u>\$ 18,661</u>	<u>\$ 3,088,890</u>	<u>\$ 3,107,551</u>				

Restructured Loans

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

The Company had no modifications of loans to borrowers who were experiencing financial difficulty during the three or six months ended June 30, 2023.

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

Impaired Loans

Prior to the adoption of ASC Topic 326 on January 1, 2023, loans were reported as impaired when, based on then current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan was impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the fair value of collateral if repayment was expected solely from the collateral.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

The following tables present impaired loans by class of loans as of December 31, 2022 as determined under ASC 310 prior to adoption of ASC 326:

<u>(Dollars in thousands)</u>	<u>December 31, 2022</u>						<u>Average recorded investment during year</u>
	<u>Unpaid contractual principal balance</u>	<u>Recorded investment with no allowance</u>	<u>Recorded investment with allowance</u>	<u>Total recorded investment</u>	<u>Related allowance</u>		
Real estate loans:							
Non-farm non-residential owner occupied	\$ 1,694	\$ 1,699	\$ —	\$ 1,699	\$ —	\$ 1,751	
Non-farm non-residential non-owner occupied	5,497	5,496	—	5,496	—	5,563	
Residential	516	513	—	513	—	524	
Construction, development & other	40	40	—	40	—	51	
Farmland	—	—	—	—	—	—	
Commercial & industrial	11,942	7,734	4,213	11,947	1,600	10,749	
Consumer	19	20	—	20	—	21	
	<u>\$ 19,708</u>	<u>\$ 15,502</u>	<u>\$ 4,213</u>	<u>\$ 19,715</u>	<u>\$ 1,600</u>	<u>\$ 18,659</u>	

Interest payments received on impaired loans are recorded as interest income at December 31, 2022 unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. Interest income collected on impaired loans was approximately \$210,000 for the six months ended June 30, 2022.

Credit Quality Indicators

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

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

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

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

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

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

(v) A loan classified as doubtful has all the weaknesses of a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, non-accrual status is required on doubtful loans.

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

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

<u>(Dollars in thousands)</u>	June 30, 2023					<u>Total</u>
	Pass	Special Mention	Substandard	Doubtful		
Real estate loans:						
Non-farm non-residential owner occupied	\$ 508,043	\$ 1,527	\$ 4,364	\$ —	\$ 513,934	
Non-farm non-residential non-owner occupied	540,344	217	6,559	—	547,120	
Residential	309,678	—	1,164	—	310,842	
Construction, development & other	591,873	3,692	36	—	595,601	
Farmland	24,219	—	—	—	24,219	
Commercial & industrial	1,132,107	23,526	8,936	55	1,164,624	
Consumer	2,890	—	1	—	2,891	
Municipal and other	175,046	—	—	—	175,046	
	<u>\$ 3,284,200</u>	<u>\$ 28,962</u>	<u>\$ 21,060</u>	<u>\$ 55</u>	<u>\$ 3,334,277</u>	

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

<u>(Dollars in thousands)</u> <u>June 30, 2023:</u>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total		
	2023	2022	2021	2020	2019	Prior Years				
Real estate loans:										
Non-farm non-residential owner occupied										
Pass	\$ 26,975	\$ 181,050	\$ 133,944	\$ 76,082	\$ 36,426	\$ 46,367	\$ 7,199	\$ 508,043		
Special Mention	355	175	997	—	—	—	—	1,527		
Substandard	—	522	999	—	2,170	673	—	4,364		
Total Non-Farm non-residential owner-occupied	<u>\$ 27,330</u>	<u>\$ 181,747</u>	<u>\$ 135,940</u>	<u>\$ 76,082</u>	<u>\$ 38,596</u>	<u>\$ 47,040</u>	<u>\$ 7,199</u>	<u>\$ 513,934</u>		
Non-farm non-residential non-owner occupied										
Pass	\$ 48,562	\$ 188,966	\$ 208,142	\$ 32,316	\$ 19,693	\$ 37,411	\$ 5,254	\$ 540,344		
Special Mention	—	—	—	217	—	—	—	217		
Substandard	—	269	—	—	5,142	1,148	—	6,559		
Total Non-Farm non-residential non-owner occupied	<u>\$ 48,562</u>	<u>\$ 189,235</u>	<u>\$ 208,142</u>	<u>\$ 32,533</u>	<u>\$ 24,835</u>	<u>\$ 38,559</u>	<u>\$ 5,254</u>	<u>\$ 547,120</u>		
Residential										
Pass	\$ 56,705	\$ 114,911	\$ 90,550	\$ 21,554	\$ 10,591	\$ 11,520	\$ 3,847	\$ 309,678		
Substandard	299	—	854	—	—	11	—	1,164		
Total Residential	<u>\$ 57,004</u>	<u>\$ 114,911</u>	<u>\$ 91,404</u>	<u>\$ 21,554</u>	<u>\$ 10,591</u>	<u>\$ 11,531</u>	<u>\$ 3,847</u>	<u>\$ 310,842</u>		
Construction, development & other										
Pass	\$ 68,149	\$ 124,401	\$ 33,873	\$ 799	\$ 96	\$ 577	\$ 363,978	\$ 591,873		
Special Mention	—	—	3,692	—	—	—	—	3,692		
Substandard	32	—	—	—	—	4	—	36		
Total Construction, development & other	<u>\$ 68,181</u>	<u>\$ 124,401</u>	<u>\$ 37,565</u>	<u>\$ 799</u>	<u>\$ 96</u>	<u>\$ 581</u>	<u>\$ 363,978</u>	<u>\$ 595,601</u>		
Farmland										
Pass	\$ 3,722	\$ 12,427	\$ 2,141	\$ 802	\$ 3,681	\$ 853	\$ 593	\$ 24,219		
Total Farmland	<u>\$ 3,722</u>	<u>\$ 12,427</u>	<u>\$ 2,141</u>	<u>\$ 802</u>	<u>\$ 3,681</u>	<u>\$ 853</u>	<u>\$ 593</u>	<u>\$ 24,219</u>		
Commercial & industrial										
Pass	\$ 140,534	\$ 127,335	\$ 88,473	\$ 19,129	\$ 16,859	\$ 3,661	\$ 736,116	\$ 1,132,107		
Special Mention	217	1,871	13,396	—	28	83	7,931	23,526		
Substandard	270	911	2,277	1,280	1,709	18	2,471	8,936		
Doubtful	—	—	—	—	55	—	—	55		
Total Commercial & industrial	<u>\$ 141,021</u>	<u>\$ 130,117</u>	<u>\$ 104,146</u>	<u>\$ 20,409</u>	<u>\$ 18,651</u>	<u>\$ 3,762</u>	<u>\$ 746,518</u>	<u>\$ 1,164,624</u>		
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (181)</u>	<u>\$ —</u>	<u>\$ (120)</u>	<u>\$ —</u>	<u>\$ (301)</u>			
Consumer										
Pass	\$ 976	\$ 917	\$ 207	\$ 257	\$ 154	\$ 40	\$ 339	\$ 2,890		
Substandard	—	1	—	—	—	—	—	1		
Total Consumer	<u>\$ 976</u>	<u>\$ 918</u>	<u>\$ 207</u>	<u>\$ 257</u>	<u>\$ 154</u>	<u>\$ 40</u>	<u>\$ 339</u>	<u>\$ 2,891</u>		
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (19)</u>	<u>\$ —</u>	<u>\$ (19)</u>			
Municipal and other										
Pass	\$ 57,992	\$ 51,273	\$ 33,102	\$ 5,673	\$ 1,774	\$ 187	\$ 25,045	\$ 175,046		
Total Municipal and other	<u>\$ 57,992</u>	<u>\$ 51,273</u>	<u>\$ 33,102</u>	<u>\$ 5,673</u>	<u>\$ 1,774</u>	<u>\$ 187</u>	<u>\$ 25,045</u>	<u>\$ 175,046</u>		
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>		

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

(Dollars in thousands) <u>December 31, 2022:</u>	2022	Term Loans Amortized Cost Basis by Origination Year					Prior Years	Revolving Loans Amortized Cost Basis	Total	
		2021	2020	2019	2018					
Real estate loans:										
Non-farm non-residential owner occupied										
Pass	\$ 182,294	\$ 125,782	\$ 78,148	\$ 43,076	\$ 27,010	\$ 27,060	\$ 4,263	\$ 487,633		
Special Mention	—	1,885	—	—	—	—	—	—	1,885	
Substandard	893	473	—	2,213	419	275	—	—	4,273	
Total Non-Farm non-residential owner-occupied	<u>\$ 183,187</u>	<u>\$ 128,140</u>	<u>\$ 78,148</u>	<u>\$ 45,289</u>	<u>\$ 27,429</u>	<u>\$ 27,335</u>	<u>\$ 4,263</u>	<u>\$ 493,791</u>		
Non-farm non-residential non-owner occupied										
Pass	\$ 188,662	\$ 197,972	\$ 39,065	\$ 21,051	\$ 20,850	\$ 21,410	\$ 9,977	\$ 498,987		
Special Mention	—	—	228	—	—	—	—	—	228	
Substandard	192	104	—	5,200	—	1,301	—	—	6,797	
Total Non-Farm non-residential non owner-occupied	<u>\$ 188,854</u>	<u>\$ 198,076</u>	<u>\$ 39,293</u>	<u>\$ 26,251</u>	<u>\$ 20,850</u>	<u>\$ 22,711</u>	<u>\$ 9,977</u>	<u>\$ 506,012</u>		
Residential										
Pass	\$ 121,652	\$ 130,924	\$ 23,149	\$ 13,534	\$ 6,115	\$ 8,950	\$ 3,557	\$ 307,881		
Substandard	—	878	—	—	—	16	—	—	894	
Total Residential	<u>\$ 121,652</u>	<u>\$ 131,802</u>	<u>\$ 23,149</u>	<u>\$ 13,534</u>	<u>\$ 6,115</u>	<u>\$ 8,966</u>	<u>\$ 3,557</u>	<u>\$ 308,775</u>		
Construction, development & other										
Pass	\$ 113,261	\$ 110,572	\$ 1,236	\$ 291	\$ 70	\$ 629	\$ 333,127	\$ 559,186		
Special Mention	—	8,620	—	—	—	—	—	—	8,620	
Substandard	40	—	—	—	—	5	—	—	45	
Total Construction, development & other	<u>\$ 113,301</u>	<u>\$ 119,192</u>	<u>\$ 1,236</u>	<u>\$ 291</u>	<u>\$ 70</u>	<u>\$ 634</u>	<u>\$ 333,127</u>	<u>\$ 567,851</u>		
Farmland										
Pass	\$ 12,671	\$ 2,736	\$ 1,233	\$ 3,820	\$ 1,216	\$ 553	\$ 591	\$ 22,820		
Total Farmland	<u>\$ 12,671</u>	<u>\$ 2,736</u>	<u>\$ 1,233</u>	<u>\$ 3,820</u>	<u>\$ 1,216</u>	<u>\$ 553</u>	<u>\$ 591</u>	<u>\$ 22,820</u>		
Commercial & industrial										
Pass	\$ 402,799	\$ 177,599	\$ 34,531	\$ 20,509	\$ 4,929	\$ 1,394	\$ 409,604	\$ 1,051,365		
Special Mention	1,329	700	132	—	—	91	—	—	2,252	
Substandard	495	1,779	1,142	1,733	120	24	—	—	5,293	
Total Commercial & industrial	<u>\$ 404,623</u>	<u>\$ 180,078</u>	<u>\$ 35,805</u>	<u>\$ 22,242</u>	<u>\$ 5,049</u>	<u>\$ 1,509</u>	<u>\$ 409,604</u>	<u>\$ 1,058,910</u>		
Current period gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (462)</u>	<u>\$ (752)</u>	<u>\$ (1,214)</u>		
Consumer										
Pass	\$ 1,550	\$ 1,224	\$ 338	\$ 199	\$ 25	\$ 93	\$ 423	\$ 3,852		
Substandard	—	—	—	—	—	20	—	—	20	
Total Consumer	<u>\$ 1,550</u>	<u>\$ 1,224</u>	<u>\$ 338</u>	<u>\$ 199</u>	<u>\$ 25</u>	<u>\$ 113</u>	<u>\$ 423</u>	<u>\$ 3,872</u>		
Municipal and other										
Pass	\$ 75,817	\$ 25,703	\$ 7,542	\$ 2,841	\$ 412	\$ —	\$ 33,205	\$ 145,520		
Total Municipal and other	<u>\$ 75,817</u>	<u>\$ 25,703</u>	<u>\$ 7,542</u>	<u>\$ 2,841</u>	<u>\$ 412</u>	<u>\$ —</u>	<u>\$ 33,205</u>	<u>\$ 145,520</u>		
Current period gross charge-offs	<u>\$ —</u>	<u>\$ (18)</u>	<u>\$ —</u>	<u>\$ (18)</u>						
Allowance for Credit Losses										

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

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

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

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

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

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

methodology that is consistent with the Uniform Standards of Professional Appraisal Practice. The fair value of collateral supporting collateral dependent construction loans is based on an "as is" valuation.

The following table presents details of the allowance for credit losses on loans by portfolio segment as of June 30, 2023.

<u>(Dollars in thousands)</u>	Non-Farm Non- Residential Owner Occupied	Non-Farm Non- Residential Non- Owner Occupied		Construction				Commercial & Industrial		Municipal and Other		Total
	Residential	, Developmen t & Other	Residential	Farmland	Commercial & Industrial	Consumer	Municipal and Other	Total				
Modeled expected credit losses	\$ 3,514	\$ 6,993	\$ 1,579	\$ 2,795	\$ 53	\$ 6,105	\$ 5	\$ 615	\$ 21,659			
Q-Factor and other qualitative adjustments	1,692	1,782	563	1,517	44	6,051	5	347	12,001			
Specific allocations	17	—	—	—	—	3,566	—	—	3,583			
	<u>\$ 5,223</u>	<u>\$ 8,775</u>	<u>\$ 2,142</u>	<u>\$ 4,312</u>	<u>\$ 97</u>	<u>\$ 15,722</u>	<u>\$ 10</u>	<u>\$ 962</u>	<u>\$ 37,243</u>			

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

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

<u>(Dollars in thousands)</u>	For the Six Months Ended June 30, 2023						Ending balance	
	Beginning balance		CECL Adoption Adjustment		Provision for Credit Losses			
	Charge-offs	Recoveries	Charge-offs	Recoveries	Charge-offs	Recoveries		
Real estate loans:								
Non-farm non-residential owner occupied	\$ 3,773	\$ 1,324	\$ 126	\$ —	\$ —	\$ —	\$ 5,223	
Non-farm non-residential non-owner occupied	5,741	2,610	424	—	—	—	8,775	
Residential	1,064	996	82	—	—	—	2,142	
Construction, development & other	3,053	1,608	(349)	—	—	—	4,312	
Farmland	82	12	3	—	—	—	97	
Commercial & industrial	16,269	(2,903)	2,043	(301)	614	—	15,722	
Consumer	6	4	19	(19)	—	—	10	
Municipal and other	363	349	252	(2)	—	—	962	
	<u>\$ 30,351</u>	<u>\$ 4,000</u>	<u>\$ 2,600</u>	<u>\$ (322)</u>	<u>\$ 614</u>	<u>\$ —</u>	<u>\$ 37,243</u>	

<u>(Dollars in thousands)</u>	For the Six Months Ended June 30, 2022						Ending balance	
	Beginning balance		Provision for Credit Losses		Charge-offs			
	Recoveries	Ending balance	Recoveries	Ending balance	Recoveries	Ending balance		
Real estate loans:								
Non-farm non-residential owner occupied	\$ 3,456	\$ 596	\$ —	\$ —	\$ —	\$ —	\$ 4,052	
Non-farm non-residential non-owner occupied	5,935	(649)	—	—	—	—	5,286	
Residential	957	(130)	—	—	—	—	827	
Construction, development & other	2,064	199	—	—	—	—	2,263	
Farmland	45	24	—	—	—	—	69	
Commercial & industrial	6,500	7,346	—	8	—	—	13,854	
Consumer	6	(15)	—	—	13	—	4	
Municipal and other	332	(21)	—	—	—	—	311	
	<u>\$ 19,295</u>	<u>\$ 7,350</u>	<u>\$ —</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 26,666</u>		

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

<u>(Dollars in thousands)</u>	Beginning balance	For the Three Months Ended June 30, 2023				Ending balance
		Provision for Credit Losses	Charge-offs	Recoveries		
Real estate loans:						
Non-farm non-residential owner occupied	\$ 5,276	\$ (53)	\$ —	\$ —	\$ 5,223	
Non-farm non-residential non-owner occupied	8,388	387	—	—	8,775	
Residential	2,071	71	—	—	2,142	
Construction, development & other	5,297	(985)	—	—	4,312	
Farmland	93	4	—	—	97	
Commercial & industrial	14,490	1,304	(181)	109	15,722	
Consumer	9	(1)	2	—	10	
Municipal and other	291	673	(2)	—	962	
	<u>\$ 35,915</u>	<u>\$ 1,400</u>	<u>\$ (181)</u>	<u>\$ 109</u>	<u>\$ 37,243</u>	

<u>(Dollars in thousands)</u>	Beginning balance	For the Three Months Ended June 30, 2022				Ending balance
		Provision for Credit Losses	Charge-offs	Recoveries		
Real estate loans:						
Non-farm non-residential owner occupied	\$ 4,087	\$ (35)	\$ —	\$ —	\$ 4,052	
Non-farm non-residential non-owner occupied	5,613	(327)	—	—	5,286	
Residential	766	61	—	—	827	
Construction, development & other	2,324	(61)	—	—	2,263	
Farmland	44	25	—	—	69	
Commercial & industrial	10,173	3,677	—	4	13,854	
Consumer	5	(1)	—	—	4	
Municipal and other	300	11	—	—	311	
	<u>\$ 23,312</u>	<u>\$ 3,350</u>	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 26,666</u>	

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

<u>(Dollars in thousands)</u>	June 30, 2023				Total
	Individually	Collectively			
Real estate loans:					
Non-farm non-residential owner occupied	\$ 17	\$ 5,206	\$ 5,223	\$ 5,223	
Non-farm non-residential non-owner occupied	—	8,775	8,775	8,775	
Residential	—	2,142	2,142	2,142	
Construction, development & other	—	4,312	4,312	4,312	
Farmland	—	97	97	97	
Commercial & industrial	3,566	12,156	15,722	15,722	
Consumer	—	10	10	10	
Municipal and other	—	962	962	962	
	<u>\$ 3,583</u>	<u>\$ 33,660</u>	<u>\$ 37,243</u>	<u>\$ 37,243</u>	

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

December 31, 2022
Period end amounts of ACL allocated to loans
evaluated for credit losses:

<u>(Dollars in thousands)</u>	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	\$ —	\$ 3,773	\$ 3,773
Non-farm non-residential non-owner occupied	—	5,741	5,741
Residential	—	1,064	1,064
Construction, development & other	—	3,053	3,053
Farmland	—	82	82
Commercial & industrial	1,600	14,669	16,269
Consumer	—	6	6
Municipal and other	—	363	363
	<u>\$ 1,600</u>	<u>\$ 28,751</u>	<u>\$ 30,351</u>

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

June 30, 2023
Loans evaluated for credit losses:

<u>(Dollars in thousands)</u>	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	\$ 832	\$ 513,102	\$ 513,934
Non-farm non-residential non-owner occupied	6,559	540,561	547,120
Residential	494	310,348	310,842
Construction, development & other	36	595,565	595,601
Farmland	—	24,219	24,219
Commercial & industrial	10,444	1,154,180	1,164,624
Consumer	—	2,891	2,891
Municipal and other	—	175,046	175,046
	<u>\$ 18,365</u>	<u>\$ 3,315,912</u>	<u>\$ 3,334,277</u>

December 31, 2022
Loans evaluated for credit losses:

<u>(Dollars in thousands)</u>	Individually	Collectively	Total
Real estate loans:			
Non-farm non-residential owner occupied	\$ 1,699	\$ 492,092	\$ 493,791
Non-farm non-residential non-owner occupied	5,496	500,516	506,012
Residential	513	308,262	308,775
Construction, development & other	40	567,811	567,851
Farmland	—	22,820	22,820
Commercial & industrial	11,947	1,046,963	1,058,910
Consumer	20	3,852	3,872
Municipal and other	—	145,520	145,520
	<u>\$ 19,715</u>	<u>\$ 3,087,836</u>	<u>\$ 3,107,551</u>

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

4. Premises and Equipment

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

<u>(Dollars in thousands)</u>	<u>Estimated Useful Life</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Building and building improvements	30 years or 3 - 10 years	\$ 13,653	\$ 13,605
Land		3,894	3,894
Equipment	3 - 5 years	5,971	5,757
Leasehold improvements	3 - 10 years	11,510	9,761
Furniture and fixtures	3 - 5 years	4,344	4,170
Construction in process		1,533	1,964
		40,905	39,151
Accumulated depreciation		(12,185)	(10,489)
		\$ 28,720	\$ 28,662

Depreciation expense for the six months ended June 30, 2023 and 2022, amounted to approximately \$1.8 million and \$1.1 million, respectively. Depreciation expense is included in occupancy and equipment expense in the accompanying consolidated statements of income.

5. Deposits

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

<u>(Dollars in thousands)</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Transaction accounts:		
Noninterest bearing demand accounts	\$ 529,474	\$ 486,114
Interest bearing demand accounts	2,351,717	2,498,325
Savings	26,459	35,677
Total transaction accounts	2,907,650	3,020,116
Time deposits	500,631	216,030
	\$ 3,408,281	\$ 3,236,146

The aggregate amount of time deposits in denominations of \$250,000 or more totaled approximately \$406.3 million and \$135.5 million as of June 30, 2023 and December 31, 2022, respectively.

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

<u>(Dollars in thousands)</u>	<u>June 30, 2023</u>
2023 (six months remaining)	\$ 257,998
2024	197,283
2025	42,104
2026	1,658
2027	1,016
2028 and thereafter	572
	\$ 500,631

At June 30, 2023 and December 31, 2022, the aggregate amount of demand deposit overdrafts that were reclassified as loans was approximately \$64,000 and \$31,000, respectively.

Deposits for related parties at June 30, 2023 and December 31, 2022, totaled approximately \$19.0 million and \$16.0 million, respectively.

6. Income Taxes

During the six months ended June 30, 2023 and 2022, the Company recorded income tax provision expense of \$4.5 million and \$1.2 million, respectively, reflecting an effective tax rate of 19.9% and 21.7%, respectively. During the three months ended June 30, 2023 and 2022, the Company recorded income tax provision expense of \$2.3 million and \$604,000, respectively.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

7. FHLB Advances and Other Borrowings

FHLB Advances

The FHLB allows the Company to borrow on a blanket floating lien status collateralized by FHLB stock and real estate loans. As of June 30, 2023 and December 31, 2022, borrowing capacity available under this arrangement was \$425.7 million and \$719.1 million, respectively. The Company had no FHLB advances outstanding at June 30, 2023 and December 31, 2022. Letters of credit with the FHLB in the amount of \$542.7 million were issued at June 30, 2023. The letters of credit are used to collateralize public fund deposit accounts in excess of FDIC insurance limits and have expirations ranging from July 2023 through July 2025.

Line of Credit - Senior Debt

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

Note Payable - Subordinated Debt

On March 31, 2022, the Company entered into Subordinated Note Purchase Agreements (the "Note Purchase Agreements") with certain qualified institutional buyers and institutional accredited investors (the "Purchasers") pursuant to which the Company issued and sold \$82.3 million in aggregate principal amount of its 5.500% Fixed-to-Floating Rate Subordinated Notes due 2032 (the "Notes") in a private placement transaction in reliance on exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(a)(2) of the Securities Act and Regulation D thereunder. The Notes were issued by the Company to the Purchasers at a price equal to 100% of their face amount. The Note Purchase Agreements contain certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes, and the Company intends to use the net proceeds from the offering for general corporate purposes.

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

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

The Company may, at its option, redeem the Notes (i) in whole or in part beginning with the interest payment date on April 1, 2027, and on any interest payment date thereafter, or (ii) in whole, but not in part, upon the occurrence of a "Tier 2 Capital Event," a "Tax Event,"

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

or "Investment Company Event". The redemption price for any redemption is 100% of the principal amount of the Notes, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. Any redemption of the Notes will be subject to the receipt of the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve") to the extent then required under applicable laws or regulations, including capital adequacy rules or regulations.

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

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

In connection with the above offering, the Company incurred approximately \$2.1 million in debt issuance costs which will be amortized to interest expense on a straight-line basis over the ten-year life of the note. At June 30, 2023, the Company had \$82.3 million in outstanding principal and \$1.8 million in unamortized debt issuance costs.

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

During June 2023, the Federal Reserve Bank approved the Company to begin pledging, on a blanket floating lien status, its commercial and industrial loans under a Borrower-in-Custody ("BIC") arrangement. The arrangement provides the Company with the ability to secure collateralized contingency funding from the Discount Window of the Federal Reserve Bank of Dallas. As of June 30, 2023, total borrowing capacity under this arrangement was \$1.2 billion. There were no advances outstanding at June 30, 2023.

Federal Funds Lines of Credit

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

Contractual Maturities of Borrowings

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

(Dollars in thousands)	Senior Debt Borrowings	Subordinated Debt Borrowings
2023 (six months remaining)	\$ —	\$ —
2024	30,875	—
2025	—	—
2026	—	—
2027	—	—
2028 and thereafter	—	80,451
	<u>\$ 30,875</u>	<u>\$ 80,451</u>

8. Stock Options and Warrants

2013 Stock Option Plan

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

2019 Omnibus Incentive Plan

On May 29, 2019, the Company's shareholders approved the Third Coast Bancshares, Inc. 2019 Omnibus Incentive Plan (the "2019 Plan"), which was previously approved by the Company's board of directors. Under the 2019 Plan, the Company may issue stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses, other stock-based awards, cash awards, and dividend equivalents. On May 20, 2021, the Company's shareholders approved an amendment to the 2019 Plan such that the maximum number of shares reserved for issuance under the 2019 Plan was increased by an additional 500,000 shares. The maximum aggregate number of shares of common stock that may be issued under the 2019 Plan is equal to the sum of (i) 800,000 shares of common stock, (ii) the total number of shares remaining available for new awards under the 2013 Plan as of May 29, 2019, which was 152,750 shares of common stock, and (iii) any shares subject to outstanding stock options issued under the 2013 Plan to the extent that (A) any such award is forfeited or otherwise terminates or is cancelled without the delivery of shares of common stock, or (B) shares of common stock are withheld from any such award to satisfy any tax or withholding obligation, in which case the shares of common stock covered by such forfeited, terminated or cancelled award or which are equal to the number of shares of common stock withheld, will become available for issuance under the 2019 Plan. At June 30, 2023, there were 46,353 shares remaining available for grant for future awards under the 2019 Plan.

2017 Non-Employee Director Stock Option Plan

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

2020 Heritage Stock Option Plan

On January 1, 2020, the Company acquired a stock option plan which originated under Heritage Bancorp, Inc. as part of a merger of the two companies. The options granted to employees must be exercised within 10 years from the date of grant and vesting schedules are determined on an individual basis. At merger date, 109,908 outstanding options became fully vested and were converted to options to purchase 97,821 shares of the Company's common stock at an exchange ratio of 0.89, which was equal to the acquisition exchange rate for common shares. At June 30, 2023, there were no shares remaining available for grant for future awards.

Stock Options

During the six months ended June 30, 2023, the Company granted stock options under the 2019 Plan to certain directors, executive officers and other key employees of the Company. These stock options vest ratably over five years and have a 10-year contractual term. Options granted during the six months ended June 30, 2023 were granted with an exercise price ranging from \$13.95 to \$18.99. Options granted during the six months ended June 30, 2022 were granted with an exercise price ranging from \$23.03 to \$25.76.

The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions used for the options granted in the six months ended June 30, 2023: risk-free interest rate ranging from 3.42% to 4.14%, dividend yield of 0.00%; estimated volatility ranging from 17.81% to 20.08%; and expected lives of options of 7.5 years. The following assumptions were used for options granted in the six months ended June 30, 2022: risk-free interest rate ranging from 1.45% to 3.03%, dividend yield of 0.00%; estimated volatility ranging from 10.00% to 38.00%; and expected lives of options of 7.5 years. Expected volatilities are based on historical volatilities of the Company's common stock and similar peer group averages.

For the six months ended June 30, 2023 and 2022, the Company recognized share-based compensation expense of \$255,000 and \$279,000, respectively, associated with stock options. As of June 30, 2023, there was approximately \$1.7 million of unrecognized compensation costs related to non-vested stock options that is expected to be recognized over the remaining vesting periods. Forfeitures are recognized as they occur.

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

A summary of stock option activity for the six months ended June 30, 2023 and 2022 is presented below:

<u>(Dollars in thousands, except share and per share data)</u>	June 30, 2023		June 30, 2022	
	Shares Underlying Options	Weighted Average Exercise Price	Shares Underlying Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,203,928	\$ 18.05	1,220,428	\$ 17.83
Granted during the period	22,500	16.77	54,000	24.26
Forfeited during the period	(64,600)	21.57	(37,500)	24.00
Exercised during the period	—	—	(7,950)	14.63
Outstanding at the end of period	1,161,828	\$ 17.83	1,228,978	\$ 17.95
Options exercisable at end of period	654,758	\$ 16.06	530,958	\$ 14.98
Weighted-average grant date fair value of options granted during the period		\$ 5.43		\$ 8.44

A summary of weighted average remaining life is presented below:

<u>(Dollars in thousands, except share and per share data)</u>	June 30, 2023			June 30, 2022		
	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable	Options Outstanding	Weighted Average Remaining Life (years)	Options Exercisable
Exercise Price						
\$10.00 - \$12.99	146,553	1.46	146,553	159,053	2.45	159,053
\$13.00 - \$16.99	440,275	5.99	344,905	492,175	6.98	296,555
\$17.00 - \$26.99	575,000	8.23	163,300	577,750	9.07	75,350
	1,161,828	6.52	654,758	1,228,978	7.38	530,958

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

The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options were \$843,000 and \$829,000, respectively, at June 30, 2023. The total intrinsic value of outstanding in-the-money stock options and outstanding in-the-money exercisable stock options was \$5.3 million and \$3.7 million, respectively, at June 30, 2022.

There were no stock options exercised during the six months ended June 30, 2023. The intrinsic value of stock options exercised during the six months ended June 30, 2022 was \$70,000.

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

<u>(Dollars in thousands, except share and per share data)</u>	June 30, 2023		June 30, 2022	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1,	676,270	\$ 3.82	858,670	\$ 3.15
Granted during the period	22,500	5.43	54,000	8.44
Vested during the period	(140,900)	3.05	(177,150)	2.96
Forfeited during the period	(50,800)	3.43	(37,500)	3.76
Nonvested at end of period	507,070	\$ 3.89	698,020	\$ 3.57

Warrants

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

In connection with the preferred stock private placement on September 30, 2022, the Company issued warrants to purchase an aggregate of 175,000 shares of the Company's common stock (or, at the election of the warrant holder in accordance with the terms of the warrant agreement, Series B Convertible Perpetual Preferred Stock, par value \$1.00 per share, or non-voting common stock, par value \$1.00 per share, of the Company) (the "Preferred Warrants") to certain investors. The Preferred Warrants have an exercise price of \$22.50 per

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

share, are fully vested, and are exercisable over a seven-year period that expires on September 30, 2029. The fair value of the warrants was approximately \$380,000 on grant date and is included in additional paid in capital. The weighted average remaining contractual life of these outstanding Preferred Warrants was 6.26 years as of June 30, 2023.

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

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

Restricted Stock Awards

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

A summary of the activity for non-vested RSAs for the six months ended June 30, 2023 and 2022 is presented below:

<u>(Dollars in thousands, except share and per share data)</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>		
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at beginning of period	76,094	\$ 22.35	49,750	\$ 24.00
Granted during the period	73,676	16.07	30,632	24.81
Vested during the period	(6,536)	24.70	—	—
Forfeited during the period	—	—	—	—
Nonvested at the end of period	<u>143,234</u>	<u>\$ 19.01</u>	<u>80,382</u>	<u>\$ 24.31</u>

Compensation expense for restricted stock awards is recorded over the vesting period and is determined based on the number of restricted shares granted and the market price of our common stock at issue date. The Company recognized share-based compensation expense associated with RSAs of approximately \$512,000 and \$330,000 during the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, there was approximately \$2.1 million of unrecognized compensation costs related to non-vested RSAs that is expected to be recognized over the remaining vesting periods.

9. Leases

Operating Leases

The Company leases certain office space, stand-alone buildings and equipment which are recognized as operating lease right-of-use ("ROU") assets and operating lease liabilities and are included in other assets and other liabilities in the consolidated balance sheets. Lease liabilities represent the Company's liability to make lease payments under these leases, on a discounted basis. For leases with renewal options available, the Company evaluates each lease to determine if exercise of the renewal option is reasonably certain. As of June 30, 2023, the Company's operating lease ROU asset and operating lease liability totaled \$21.8 million and \$22.4 million, respectively.

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

As of June 30, 2023, the weighted-average discount rate for the Company's operating leases was 4.50%. The Company's lease terms range from five months to one hundred forty-four months. The weighted-average remaining term of the leases was 9.15 years.

Lease costs for each of the three and six months ended June 30, 2023 and 2022 were as follows:

<u>(Dollars in thousands)</u>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 1,061	\$ 539	\$ 2,043	\$ 1,139
Short-term lease cost	41	131	103	322
Total lease cost	\$ 1,102	\$ 670	\$ 2,146	\$ 1,461

Total operating lease expense for the six months ended June 30, 2023 and 2022 was approximately \$2.1 million and \$1.5 million, respectively, and for the three months ended June 30, 2023 and 2022 was approximately \$1.1 million and \$670,000, respectively.

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

<u>(Dollars in thousands)</u>	June 30, 2023
2023 (six months remaining)	\$ 1,440
2024	3,079
2025	3,115
2026	3,188
2027	3,240
2028 and thereafter	13,973
Total undiscounted lease liability	28,035
Less: Discount on cash flows	(4,993)
Lease signed, but not yet commenced	(603)
Total operating lease liability	\$ 22,439

10. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

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

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

<u>(Dollars in thousands)</u>	June 30, 2023	December 31, 2022
Commitments to extend credit	\$ 1,257,393	\$ 1,148,012
Standby letters of credit	18,458	21,728
Total	\$ 1,275,851	\$ 1,169,740

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the issuer has the unconditional right to cancel the obligation. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in the table above. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. At June 30, 2023, no allowance for credit loss for off-balance sheet exposures was deemed necessary as we have an unconditional right to cancel the obligation on all outstanding commitments.

11. Fair Value Measurements

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

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

The fair value hierarchy is as follows:

- **Level 1 Inputs** – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2 Inputs** – Inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds and mortgage backed securities.
- **Level 3 Inputs** – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

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

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

There were no transfers between levels during the six month period ended June 30, 2023 or during the year ended December 31, 2022.

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

<u>(Dollars in thousands)</u>	Fair Value Measurements Using			Total Fair Value	
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
At June 30, 2023:					
Securities available-for-sale:					
State and municipal securities	\$ —	\$ 419	\$ —	\$ 419	
Mortgage-backed securities and other agency obligations	—	21,313	—	21,313	
U.S. Treasury bonds	—	99,188	—	99,188	
Corporate bonds	—	73,547	—	73,547	
Total investment securities available-for-sale	<u>\$ —</u>	<u>\$ 194,467</u>	<u>\$ —</u>	<u>\$ 194,467</u>	
Asset derivatives:					
Pass-through interest rate swaps	\$ —	\$ 9,188	\$ —	\$ 9,188	
Pay-fixed interest rate swaps	—	184	—	184	
Total asset derivatives	<u>\$ —</u>	<u>\$ 9,372</u>	<u>\$ —</u>	<u>\$ 9,372</u>	
Liability derivatives:					
Pass-through interest rate swaps	\$ —	\$ 9,171	\$ —	\$ 9,171	
Risk participation agreements	—	4	—	4	
Pay-fixed interest rate swaps	—	2	—	2	
Total liability derivatives	<u>\$ —</u>	<u>\$ 9,177</u>	<u>\$ —</u>	<u>\$ 9,177</u>	

<u>(Dollars in thousands)</u>	Fair Value Measurements Using			Total Fair Value	
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
At December 31, 2022:					
Securities available-for-sale:					
State and municipal securities	\$ —	\$ 417	\$ —	\$ 417	
Mortgage-backed securities and other agency obligations	—	22,881	—	22,881	
U.S. Treasury bonds	—	98,518	—	98,518	
Corporate bonds	—	54,251	—	54,251	
Total investment securities available-for-sale	<u>\$ —</u>	<u>\$ 176,067</u>	<u>\$ —</u>	<u>\$ 176,067</u>	
Asset derivatives:					
Interest rate swaps	\$ —	\$ 9,213	\$ —	\$ 9,213	
Total asset derivatives	<u>\$ —</u>	<u>\$ 9,213</u>	<u>\$ —</u>	<u>\$ 9,213</u>	
Liability derivatives:					
Interest rate swaps	\$ —	\$ 9,213	\$ —	\$ 9,213	
Risk participation agreements	—	8	—	8	
Total liability derivatives	<u>\$ —</u>	<u>\$ 9,221</u>	<u>\$ —</u>	<u>\$ 9,221</u>	

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

Loans Evaluated Individually for Expected Credit Losses. At June 30, 2023, individually evaluated loans with carrying values of \$18.4 million were reduced by specific valuation allowances totaling \$3.6 million resulting in a net fair value of \$14.8 million based on Level 3 inputs. At December 31, 2022, impaired loans with carrying values of \$19.7 million were reduced by specific valuation allowances totaling \$1.6 million resulting in a net fair value of \$18.1 million based on Level 3 inputs.

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

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

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

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

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

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

(Dollars in thousands)	June 30, 2023			December 31, 2022		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value		
Financial assets:						
Level 2 inputs						
Cash and cash equivalents	\$ 268,019	\$ 268,019	\$ 332,014	\$ 332,014		
Investment securities available-for-sale	194,467	194,467	176,067	176,067		
Non-marketable securities	20,687	20,687	14,618	14,618		
Accrued interest receivable	19,579	19,579	18,340	18,340		
Bank-owned life insurance	64,762	64,762	60,761	60,761		
Derivative instruments assets	9,372	9,372	9,213	9,213		
	\$ 576,886	\$ 576,886	\$ 611,013	\$ 611,013		
Level 3 inputs						
Loans, net	\$ 3,297,034	\$ 3,165,313	\$ 3,077,200	\$ 2,920,213		
Financial liabilities:						
Level 2 inputs						
Deposits	\$ 3,408,281	\$ 3,422,723	\$ 3,236,146	\$ 3,238,857		
Accrued interest payable	3,522	3,522	2,545	2,545		
Note payable and line of credit	111,326	111,326	111,223	111,223		
Derivative instrument liabilities	9,177	9,177	9,221	9,221		
	\$ 3,532,306	\$ 3,546,748	\$ 3,359,135	\$ 3,361,846		

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

12.Significant Group Concentrations of Credit Risk

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

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

At June 30, 2023 and December 31, 2022, the Company had federal funds sold aggregating approximately \$23.2 million and \$2.1 million, respectively, which represents concentrations of credit risk. The Company had uninsured deposits of approximately \$1.0 billion and \$1.1 billion as of June 30, 2023 and December 31, 2022, respectively.

13.Employee Benefit Plans

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

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

For the six months ended June 30, 2023 and 2022, Company contributions to the Merged Plan were approximately \$742,000 and \$723,000, respectively, and for the three months ended June 30, 2023 and 2022 Company contributions were approximately \$410,000 and \$392,000, respectively. Administrative expense related to the ESOP and the Plan for the same six month periods totaled approximately \$34,000 and \$24,000, respectively, and for the same three month periods totaled approximately \$9,000 and \$13,000, respectively. The costs were included in salaries and employee benefits in the accompanying consolidated statements of income.

14.Related Party Transactions

During the normal course of business, the Company may enter into transactions with significant stockholders, directors and principal officers and their affiliates (collectively referred to herein as "related parties"). It is the Company's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. At June 30, 2023 and December 31, 2022, the aggregate amounts of loans to related parties were approximately \$1.2 million and \$1.5 million, respectively. During the six months ended June 30, 2023, loan originations to related parties totaled \$275,000 and repayments from related party loans totaled \$585,000. Related party unfunded commitments at June 30, 2023 and December 31, 2022 were approximately \$687,000 and \$587,000, respectively. Deposits account balances for related parties at June 30, 2023 and December 31, 2022, totaled approximately \$19.0 million and \$16.0 million, respectively.

15.Shareholders' Equity and Regulatory Matters

Amendment to Certificate of Formation

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

Preferred Stock

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

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

Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown below, the Bank's capital ratios exceed the regulatory definition of well capitalized as of June 30, 2023 and December 31, 2022. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

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

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

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
THIRD COAST BANCSHARES, INC.						
(Consolidated)						
As of June 30, 2023:						
Total capital (to risk weighted assets)	\$ 495,926	12.31%	≥ \$ 422,855	≥	10.50%	N/A
Tier I capital (to risk weighted assets)	\$ 378,232	9.39%	≥ \$ 342,312	≥	8.50%	N/A
Tier I capital (to average assets)	\$ 378,232	10.17%	≥ \$ 148,807	≥	4.00%	N/A
Common equity tier 1 (to risk weighted assets)	\$ 312,007	7.75%	≥ \$ 281,904	≥	7.00%	N/A
THIRD COAST BANK, SSB						
As of June 30, 2023:						
Total capital (to risk weighted assets)	\$ 522,418	12.99%	≥ \$ 422,302	≥	10.50%	≥ \$ 402,192
Tier I capital (to risk weighted assets)	\$ 485,175	12.06%	≥ \$ 341,864	≥	8.50%	≥ \$ 321,754
Tier I capital (to average assets)	\$ 485,175	13.06%	≥ \$ 148,624	≥	4.00%	≥ \$ 185,780
Common equity tier 1 (to risk weighted assets)	\$ 485,175	12.06%	≥ \$ 281,535	≥	7.00%	≥ \$ 261,425
As of December 31, 2022:						
Total capital (to risk weighted assets)	\$ 496,222	13.79%	≥ \$ 377,782	≥	10.50%	≥ \$ 359,793
Tier I capital (to risk weighted assets)	\$ 465,871	12.95%	≥ \$ 305,824	≥	8.50%	≥ \$ 287,834
Tier I capital (to average assets)	\$ 465,871	13.11%	≥ \$ 142,188	≥	4.00%	≥ \$ 177,734
Common equity tier 1 (to risk weighted assets)	\$ 465,871	12.95%	≥ \$ 251,855	≥	7.00%	≥ \$ 233,865

16. Earnings Per Common Share

Basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share is computed using the weighted-average

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method, plus the dilutive effect of convertible preferred stock using the if-converted method.

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

<u>(Dollars in thousands, except share and per share data)</u>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 8,891	\$ 2,277	\$ 18,134	\$ 4,364
Less dividends declared, Series A Preferred Stock	1,184	—	2,355	—
Net income available to common shareholders	<u>\$ 7,707</u>	<u>\$ 2,277</u>	<u>\$ 15,779</u>	<u>\$ 4,364</u>
Weighted-average shares outstanding for basic earnings per common share	13,588,747	13,454,423	13,560,802	13,420,065
Dilutive effect of stock compensation and other dilutive securities	3,267,075	368,099	3,268,172	368,900
Weighted-average shares outstanding for diluted earnings per common share	<u>16,855,822</u>	<u>13,822,522</u>	<u>16,828,974</u>	<u>13,788,965</u>
Basic earnings per share	<u>\$ 0.57</u>	<u>\$ 0.17</u>	<u>\$ 1.16</u>	<u>\$ 0.33</u>
Diluted earnings per share	<u>\$ 0.53</u>	<u>\$ 0.16</u>	<u>\$ 1.08</u>	<u>\$ 0.32</u>

17. Derivative Financial Instruments

Cash Flow Hedges

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

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

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

For the six months ended June 30, 2023 and 2022, approximately \$769,000 and \$103,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense on discontinued hedges. For the three months ended June 30, 2023 and 2022, approximately \$563,000 and \$52,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense.

Fair Value Hedges

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

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

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

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

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

All derivatives are carried at fair value in either other assets or other liabilities in the accompanying consolidated balance sheets. At June 30, 2023, the Company's derivative assets and liabilities totaled \$9.4 million and \$9.2 million, respectively. The following tables provide the outstanding notional balances and fair values of outstanding derivative positions at June 30, 2023 and December 31, 2022.

(Dollars in thousands)	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value	Pay Rate ⁽¹⁾	Receive Rate ⁽¹⁾	Remaining Term ⁽²⁾
June 30, 2023:						
Fair value hedges:						
Risk participation agreements purchased	\$ 9,643	\$ —	\$ —	—	4.87%	1.7
Risk participation agreements sold	28,919	—	4	—	5.54%	3.7
Commercial loan one-way interest rate swaps	13,417	184	2	6.82%	—	3.0
Commercial loan pass-through interest rate swaps:						
Loan customer counterparty	156,577	—	9,171	—	4.84%	4.4
Financial institution counterparty	156,577	9,188	—	4.84%	—	4.4
Total fair value hedges	<u>365,133</u>	<u>9,372</u>	<u>9,177</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total derivatives	<u><u>\$ 365,133</u></u>	<u><u>\$ 9,372</u></u>	<u><u>\$ 9,177</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
December 31, 2022:						
Fair value hedges:						
Risk participation agreements purchased	10,621	—	—	—	4.87	2.2
Risk participation agreements sold	29,360	—	8	—	5.54	4.2
Commercial loan pass-through interest rate swaps:						
Loan customer counterparty	147,560	—	9,213	—	4.77%	4.5
Financial institution counterparty	147,560	9,213	—	4.77%	—	4.5
Total fair value hedges	<u>335,101</u>	<u>9,213</u>	<u>9,221</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total derivatives	<u><u>\$ 335,101</u></u>	<u><u>\$ 9,213</u></u>	<u><u>\$ 9,221</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

(1) Weighted average rate.

(2) Weighted average life (in years).

18. Goodwill and Core Deposit Intangible, Net

In 2020, the Company recorded goodwill and core deposit intangible of \$18,033,880 and \$1,615,002, respectively, relating to the Heritage Bancorp, Inc. acquisition.

Amortization expense of the core deposit intangible ("CDI") was approximately \$81,000 for each of the six months ended June 30, 2023 and 2022, and was approximately \$40,000 for each of the three months ended June 30, 2023 and 2022. The remaining weighted average life is 6.5 years at June 30, 2023.

Scheduled amortization of CDI at June 30, 2023 are as follows:

(Dollars in thousands)	CDI Amortization
2023 (six months remaining)	\$ 81
2024	162
2025	162
2026	162
2027	162
2028 and thereafter	321
	<u><u>\$ 1,050</u></u>

THIRD COAST BANCSHARES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
June 30, 2023 and December 31, 2022

19. Contingencies

Litigation

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

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

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

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

Overview

We are a bank holding company with headquarters in Humble, Texas that operates through our wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiary, TCCC. We focus on providing commercial banking solutions to small and medium-sized businesses and professionals with operations in our markets. Our market expertise, coupled with a deep understanding of our customers' needs, allows us to deliver tailored financial products and services. We currently operate sixteen branches, with eight branches in the Greater Houston market, three branches in the Dallas-Fort Worth market, four branches in the Austin-San Antonio market, and one branch in Detroit, Texas. As of June 30, 2023, we had, on a consolidated basis, total assets of \$3.96 billion, total loans of \$3.33 billion, total deposits of \$3.41 billion and total shareholders' equity of \$395.9 million.

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

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

Recent Developments

Through our auto finance division, we offer recourse auto loans, nonrecourse auto loan and lease financing, and floor plan loans to dealerships. At June 30, 2023, our auto finance portfolio consisted of \$44.1 million, or 1.3% of our loan portfolio, including \$6.0 million in indirect auto loans included in the commercial and industrial category, \$38.0 million in auto leases included in the other loans category, and \$188,000 in consumer loans. As part of our business strategy, we intend to transition out of our auto finance division as the loans in this portfolio are paid off. We expect to achieve cost savings and allocate the corresponding capital to higher earning assets in connection with this transition.

Results of Operations

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

(Dollars in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
Interest income	\$ 62,713	\$ 32,509	\$ 30,204	92.9%	\$ 120,092	\$ 59,693
Interest expense	28,617	4,771	23,846	499.8%	53,166	6,745
Net interest income	34,096	27,738	6,358	22.9%	66,926	52,948
Provision for credit losses	1,400	3,350	(1,950)	(58.2)%	2,600	7,350
Noninterest income	2,280	1,266	1,014	80.1%	4,182	2,932
Noninterest expense	23,835	22,773	1,062	4.7%	45,879	42,954
Income before income taxes	11,141	2,881	8,260	286.7%	22,629	5,576
Income tax expense	2,250	604	1,646	272.5%	4,495	1,212
Net income	<u>\$ 8,891</u>	<u>\$ 2,277</u>	<u>\$ 6,614</u>	290.5%	<u>\$ 18,134</u>	<u>\$ 4,364</u>
						\$ 13,770
						315.5%

Net Interest Income

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

Six months ended June 30, 2023 vs. Six months ended June 30, 2022

Net interest income increased \$14.0 million, or 26.4%, during the six months ended June 30, 2023, compared to the six months ended June 30, 2022 primarily due to increased interest income from loan growth and increased yields on loans offset by an increase in interest expense resulting from increased rates paid on interest-bearing deposits and FHLB advances, and interest related to the subordinated notes issued in March 2022. Average loans increased from \$2.43 billion for the six months ended June 30, 2022 to \$3.22 billion for the six months ended June 30, 2023, with the growth well diversified in real estate loans, commercial loans and other loans. The yield on loans for the six months ended June 30, 2023 was 7.10% compared to 4.81% for the six months ended June 30, 2022, primarily a result of the increases in the Prime Rate over the past twelve months. Interest expense related to interest bearing deposit accounts was \$47.0 million and \$5.3 million for six months ended June 30, 2023 and 2022, respectively. The average rate paid on interest-bearing deposits increased from 0.55% for the six months ended June 30, 2022 to 3.66% for the six months ended June 30, 2023. Interest expense related to borrowings was \$6.1 million for the six months ended June 30, 2023 compared to \$1.5 million for the six months ended June 30, 2022. The increase was primarily due to the subordinated note offering on March 31, 2022 and the increase in rates paid on FHLB advances. For the six months ended June 30, 2023, net interest margin and net interest spread were 3.80% and 2.98%, respectively, compared to 3.90% and 3.73%, respectively, for the six months ended June 30, 2022.

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

(Dollars in thousands)	For the Six Months Ended June 30,						2022 Interest Earned/ Paid ⁽³⁾	Average Yield/ Rate		
	Average Outstanding Balance	2023		Average Yield/ Rate	Average Outstanding Balance					
		Interest Earned/ Paid ⁽³⁾	Interest Earned/ Paid ⁽³⁾		Interest Earned/ Paid ⁽³⁾					
Assets										
Interest-earning assets:										
Investment securities	\$ 193,674	\$ 3,577	3.72%	\$ 82,668	\$ 1,170	2.85%				
Loans, gross	3,217,070	113,206	7.10%	2,426,092	57,846	4.81%				
Federal funds sold and other interest-earning assets	139,813	3,309	4.77%	227,388	677	0.60%				
Total interest-earning assets	3,550,557	120,092	6.82%	2,736,148	59,693	4.40%				
Less allowance for credit losses	(35,634)				(22,619)					
Total interest-earning assets, net of allowance	3,514,923				2,713,529					
Noninterest-earning assets	184,294				167,476					
Total assets	<u>\$ 3,699,217</u>				<u>\$ 2,881,005</u>					
Liabilities and Shareholders' Equity										
Interest-bearing liabilities:										
Interest-bearing deposits	\$ 2,588,616	\$ 47,028	3.66%	\$ 1,933,083	\$ 5,287	0.55%				
Note payable and line of credit	111,275	3,672	6.65%	42,866	1,231	5.79%				
FHLB advances	94,544	2,466	5.26%	48,149	227	0.95%				
Total interest-bearing liabilities	2,794,435	53,166	3.84%	2,024,098	6,745	0.67%				
Noninterest-bearing deposits	474,115				536,958					
Other liabilities	41,359				17,609					
Total liabilities	3,309,909				2,578,665					
Shareholders' equity	389,308				302,340					
Total liabilities and shareholders' equity	<u>\$ 3,699,217</u>				<u>\$ 2,881,005</u>					
Net interest income		<u>\$ 66,926</u>					<u>\$ 52,948</u>			
Net interest spread ⁽¹⁾			2.98%					3.73%		
Net interest margin ⁽²⁾			3.80%					3.90%		

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

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

(3)Interest earned/paid includes accretion of deferred loan fees, premiums and discounts. Interest income on loans includes loan fees and discount accretion of \$6.7 million and \$7.6 million for the six months ended June 30, 2023 and 2022, respectively.

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

(Dollars in thousands)	For the Six Months Ended June 30, 2023 compared to 2022					
	Volume	Increase (Decrease) Due to Changes In		Total Increase (Decrease)		
		Rate				
Interest-earning assets:						
Investment securities	\$ 1,571	\$ 836	\$ 2,407			
Loans, gross	18,860	36,500	55,360			
Federal funds sold and other interest-earning assets	(261)	2,893	2,632			
Total increase in interest income	\$ 20,170	\$ 40,229	\$ 60,399			
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 1,793	\$ 39,948	\$ 41,741			
Note payable and line of credit	1,965	476	2,441			
FHLB advances	219	2,020	2,239			
Total increase in interest expense	\$ 3,977	\$ 42,444	\$ 46,421			
Increase (decrease) in net interest income	<u>\$ 16,193</u>	<u>\$ (2,215)</u>	<u>\$ 13,978</u>			

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

Net interest income increased \$6.4 million, or 22.9%, during the three months ended June 30, 2023, compared to the three months ended June 30, 2022 primarily due to increased interest income from loan growth and increased yields on loans offset by an increase in interest expense resulting from increased rates paid on interest-bearing deposits and FHLB advances. Average loans increased from \$2.64 billion for the three months ended June 30, 2022 to \$3.26 billion for the three months ended June 30, 2023, with the growth well diversified in real estate loans, commercial loans and other loans. The yield on loans for the three months ended June 30, 2023 was 7.29% compared to 4.73% for the three months ended June 30, 2022, primarily a result of the increases in the Prime Rate over the past twelve months. Interest expense related to interest bearing deposit accounts was \$24.9 million and \$3.4 million for three months ended June 30, 2023 and 2022, respectively. The average rate paid on interest-bearing deposits increased from 0.62% for the three months ended June 30, 2022 to 3.87% for the three months ended June 30, 2023. Interest expense related to borrowings was \$3.7 million for the three months ended June 30, 2023 compared to \$1.3 million for the three months ended June 30, 2022, primarily due to the increase in rates paid on FHLB advances during the three months ended June 30, 2023. For the three months ended June 30, 2023, net interest margin and net interest spread were 3.82% and 2.96%, respectively, compared to 3.77% and 3.60%, respectively, for the three months ended June 30, 2022.

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

(Dollars in thousands)	For the Three Months Ended June 30,							
	2023	2022	Average Outstanding Balance	Interest Earned/ Paid ⁽³⁾	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid ⁽³⁾	Average Yield/ Rate
Assets								
Interest-earning assets:								
Investment securities	\$ 208,980	\$ 894	\$ 208,980	\$ 2,029	3.89%	\$ 112,793	\$ 894	3.18%
Loans, gross	3,262,804	31,164	3,262,804	59,295	7.29%	2,641,330	31,164	4.73%
Federal funds sold and other interest earning assets	112,239	451	112,239	1,389	4.96%	200,801	451	0.90%
Total interest-earning assets	3,584,023	32,509	3,584,023	62,713	7.02%	2,954,924	32,509	4.41%
Less allowance for credit losses	(36,381)	(24,818)	(36,381)			(24,818)		
Total interest-earning assets, net of allowance	3,547,642	2,930,106	3,547,642			2,930,106		
Noninterest-earning assets	185,705	201,734	185,705			201,734		
Total assets	<u>\$ 3,733,347</u>	<u>\$ 3,131,840</u>	<u>\$ 3,733,347</u>			<u>\$ 3,131,840</u>		
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Interest-bearing deposits	\$ 2,581,560	\$ 3,443	\$ 2,581,560	\$ 24,936	3.87%	\$ 2,222,677	\$ 3,443	0.62%
Note payable and line of credit	111,301	1,208	111,301	1,858	6.70%	83,390	1,208	5.81%
FHLB advances	135,826	120	135,826	1,823	5.38%	46,319	120	1.04%
Total interest-bearing liabilities	2,828,687	4,771	2,828,687	28,617	4.06%	2,352,386	4,771	0.81%
Noninterest-bearing deposits	470,564	453,936	470,564			453,936		
Other liabilities	40,323	22,383	40,323			22,383		
Total liabilities	3,339,574	2,828,705	3,339,574			2,828,705		
Shareholders' equity	393,773	303,135	393,773			303,135		
Total liabilities and shareholders' equity	<u>\$ 3,733,347</u>	<u>\$ 3,131,840</u>	<u>\$ 3,733,347</u>			<u>\$ 3,131,840</u>		
Net interest income	<u>\$ 34,096</u>	<u>\$ 27,738</u>	<u>\$ 34,096</u>			<u>\$ 27,738</u>		
Net interest spread ⁽¹⁾		2.96%					3.60%	
Net interest margin ⁽²⁾		3.82%					3.77%	

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

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

(3)Interest earned/paid includes accretion of deferred loan fees, premiums and discounts. Interest income on loans includes loan fees and discount accretion of \$3.6 million and \$4.4 million for the three months ended June 30, 2023 and 2022, respectively.

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

(Dollars in thousands)	For the Three Months Ended June 30, 2023 compared to 2022					
	Increase (Decrease) Due to Changes In		Rate		Total Increase (Decrease)	
	Volume	Rate	Volume	Rate	Volume	Rate
Interest-earning assets:						
Investment securities	\$ 762	\$ 373	\$ 762	\$ 373	\$ 1,135	
Loans, gross	7,333	20,798	7,333	20,798	28,131	
Federal funds sold and other interest-earning assets	(199)	1,137	(199)	1,137	938	
Total increase in interest income	\$ 7,896	\$ 22,308	\$ 7,896	\$ 22,308	\$ 30,204	
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 556	\$ 20,937	\$ 556	\$ 20,937	\$ 21,493	
Note payable and line of credit	404	246	404	246	650	
FHLB advances	232	1,471	232	1,471	1,703	
Total increase in interest expense	\$ 1,192	\$ 22,654	\$ 1,192	\$ 22,654	\$ 23,846	
Increase (decrease) in net interest income	<u>\$ 6,704</u>	<u>\$ (346)</u>	<u>\$ 6,704</u>	<u>\$ (346)</u>	<u>\$ 6,358</u>	

Provision for Credit Losses

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

The provision for credit losses for the six months ended June 30, 2023 was \$2.6 million compared to \$7.4 million for the six months ended June 30, 2022. The provision for credit losses for the three months ended June 30, 2023 was \$1.4 million compared to \$3.4 million for the three months ended June 30, 2022. The provisions for each period related primarily to provisioning for new loans booked during the periods.

No provision for credit losses for securities or off-balance sheet credit exposure was recorded for the six months ended June 30, 2023. See the sections captioned "Allowance for Credit Losses" and "Securities" elsewhere in this discussion for additional information regarding the provision for credit losses related to loans, off-balance sheet credit exposure and securities, respectively.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, earnings from bank-owned life insurance, derivative fees, Small Business Investment Company income, and advisory fee income.

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

(Dollars in thousands)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
Noninterest Income:						
Service charges and fees	\$ 720	\$ 617	\$ 103	16.7%	\$ 1,499	\$ 1,236
Gain on sale of investment securities available-for-sale	—	—	—	—	97	—
Gain on sale of SBA loans	—	98	(98)	(100.0)%	—	98
Earnings on bank-owned life insurance	526	248	278	112.1%	1,001	391
Derivative fees	247	123	124	100.8%	246	829
Other	787	180	607	337.2%	1,339	378
Total noninterest income	<u>\$ 2,280</u>	<u>\$ 1,266</u>	<u>\$ 1,014</u>	<u>80.1%</u>	<u>\$ 4,182</u>	<u>\$ 2,932</u>

Six months ended June 30, 2023 vs. Six months ended June 30, 2022

The increase in noninterest income of \$1.3 million for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, was primarily due to increases in earnings on bank-owned life insurance, Small Business Investment Company income, and advisory fee income offset by a decrease in derivative fee income.

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

The increase in noninterest income of \$1.0 million for the three months ended June 30, 2023, compared to the three months ended June 30, 2022, was primarily due to increases in earnings on bank-owned life insurance and Small Business Investment Company income.

Noninterest Expense

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

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

(Dollars in thousands)	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)		
Noninterest Expense:								
Salaries and employee benefits	\$ 15,033	\$ 13,994	\$ 1,039	7.4 %	\$ 28,745	\$ 27,318	\$ 1,427	5.2 %
Net occupancy and equipment expenses	2,852	1,830	1,022	55.8 %	5,485	3,703	1,782	48.1 %
Other:								
Legal and professional fees	1,547	2,001	(454)	(22.7) %	3,477	3,747	(270)	(7.2) %
Data processing and network expenses	1,261	932	329	35.3 %	2,464	1,854	610	32.9 %
Advertising and marketing	812	467	345	73.9 %	1,498	894	604	67.6 %
Regulatory assessments	458	956	(498)	(52.1) %	1,124	1,601	(477)	(29.8) %
Software purchases and maintenance	455	201	254	126.4 %	807	399	408	102.3 %
Telephone and communications	129	99	30	30.3 %	268	199	69	34.7 %
Loan operations	302	282	20	7.1 %	267	560	(293)	(52.3) %
Loss on sale of other real estate owned	—	350	(350)	(100.0) %	—	350	(350)	(100.0) %
Other	986	1,661	(675)	(40.6) %	1,744	2,329	(585)	(25.1) %
Total noninterest expense	\$ 23,835	\$ 22,773	\$ 1,062	4.7 %	\$ 45,879	\$ 42,954	\$ 2,925	6.8 %

Six months ended June 30, 2023 vs. Six months ended June 30, 2022

The increase in noninterest expense of \$2.9 million for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, was primarily due to increases in salaries and employee benefits expense, net occupancy and equipment expenses, and data processing and network expenses.

Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were \$28.7 million for the six months ended June 30, 2023, an increase of \$1.4 million, or 5.2%, compared to \$27.3 million for the same period in 2022. The increase was due to our investment in additional personnel, which we expect will foster future growth and allow us to accommodate that growth. As of June 30, 2023 and 2022, the number of employees was 377 and 353, respectively.

Net occupancy and equipment expenses were \$5.5 million and \$3.7 million for the six months ended June 30, 2023 and 2022, respectively. This category includes building, leasehold, furniture, fixtures and equipment depreciation and software amortization totaling \$2.4 million and \$1.7 million for the six months ended June 30, 2023 and 2022, respectively. In addition, the increase was also due to costs associated with four branches that opened in 2022 and additional lease space to accommodate the increase in employees.

Data processing and network expenses were \$2.5 million and \$1.9 million for the six months ended June 30, 2023 and 2022, respectively. The increase was primarily due to higher internet banking expenses related to a new digital banking platform, increased core data processing and ATM expenses due to growth, and increased network expenses related to new branches and administrative offices.

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

The increase in noninterest expense of \$1.1 million for the three months ended June 30, 2023, compared to the three months ended June 30, 2022, was primarily due to increases in salaries and employee benefits expense, net occupancy and equipment expenses, and data processing and network expenses.

Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were \$15.0 million for the three months ended June 30, 2023, an increase of \$1.0 million, or 7.4%, compared to \$14.0 million for the same period in 2022. The increase was due to our investment in additional personnel, which we expect will foster future growth and allow us to accommodate that growth. As of June 30, 2023 and 2022, the number of employees was 377 and 353, respectively.

Net occupancy and equipment expenses were \$2.9 million and \$1.8 million for the three months ended June 30, 2023 and 2022, respectively. This category includes building, leasehold, furniture, fixtures and equipment depreciation and software amortization totaling \$1.3 million and \$881,000 for the three months ended June 30, 2023 and 2022, respectively. In addition, the increase was also due to costs associated with four branches that opened in 2022 and additional lease space to accommodate the increase in employees.

Data processing and network expenses were \$1.3 million and \$932,000 for the three months ended June 30, 2023 and 2022, respectively. The increase was primarily due to higher internet banking expenses related to a new digital banking platform, increased core data processing and ATM expenses due to growth, and increased network expenses related to new branches and administrative offices.

Income Tax Expense

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

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Income tax expense	\$ 2,250	\$ 604	\$ 4,495	\$ 1,212
Effective tax rate	20.2%	21.0%	19.9%	21.7%

Financial Condition

Total assets were \$3.96 billion as of June 30, 2023 compared to \$3.77 billion as of December 31, 2022. The increase in total assets of \$190.3 million was primarily due to organic loan growth and the purchase of investment securities, non-marketable equity securities, and BOLI during the six months ended June 30, 2023. The increases were funded by the growth in total deposits and a decrease in cash and cash equivalents.

Loan Portfolio

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

As of June 30, 2023, total loans were \$3.33 billion, an increase of \$226.7 million, or 7.3%, compared to \$3.11 billion as of December 31, 2022. The increase in loans was well diversified in real estate loans, commercial loans and other loans. Total loans as a percentage of deposits were 97.8% and 96.0% as of June 30, 2023 and December 31, 2022, respectively. Total loans as a percentage of assets were 84.1% and 82.4% as of June 30, 2023 and December 31, 2022, respectively.

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

(Dollars in thousands)	June 30, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Real estate:				
Commercial real estate:				
Non-farm non-residential owner occupied	\$ 513,934	15.5%	\$ 493,791	15.9%
Non-farm non-residential non-owner occupied	547,120	16.4%	506,012	16.3%
Residential	310,842	9.3%	308,775	9.9%
Construction, development and other	595,601	17.9%	567,851	18.3%
Farmland	24,219	0.7%	22,820	0.7%
Commercial and industrial	1,164,624	34.9%	1,058,910	34.1%
Consumer	2,891	0.1%	3,872	0.1%
Municipal and other	175,046	5.2%	145,520	4.7%
Total loans	\$ 3,334,277	100.0%	\$ 3,107,551	100.0%

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

Owner-occupied commercial real estate loans are a key component of our lending strategy to owner-operated businesses, representing a large percentage of our total commercial real estate loans. Owner-occupied commercial real estate loans increased \$20.1 million, or 4.1%, to \$513.9 million as of June 30, 2023 from \$493.8 million as of December 31, 2022.

Non-owner-occupied commercial real estate loans are loans for income producing properties and are generally for retail strip centers, office buildings, self-storage facilities, and multi and single tenant office warehouses, all within our markets. Non-owner-occupied commercial real estate loans increased \$41.1 million, or 8.1%, to \$547.1 million as of June 30, 2023 from \$506.0 million as of December 31, 2022.

The increases in commercial real estate loans were due to the addition of lenders in 2022 and increased productivity of existing lenders in response to market demand.

Residential Real Estate Loans. Residential real estate loans consists of 1-4 family residential loans and multi-family residential loans. Our 1-4 family residential loan portfolio is predominately comprised of loans secured by 1-4 family homes, which are investor owned. While we do have some owner-occupied 1-4 family residential loans, we have not historically pursued this product line; however, we do offer limited mortgage products through our mortgage department. Our multi-family residential loan portfolio is comprised of loans secured by properties deemed multi-family, which includes apartment buildings. Our current multifamily loans are to operators who we believe are seasoned and successful and possess quality alternative repayment sources. Residential real estate loans increased \$2.1 million, or 0.7%, to \$310.8 million as of June 30, 2023 from \$308.8 million as of December 31, 2022.

Construction, Development and Other Loans. Construction and development loans are comprised of loans used to fund construction, land acquisition and land development. The properties securing the portfolio are primarily in the Greater Houston and Dallas markets and are generally diverse in terms of type. During 2021, we expanded our construction and development portfolio through the formation of our builder finance group, which provides traditional homebuilder lines secured by lots and single-family homes, and land acquisition and development loans. This group also finances bond anticipation notes and lines of credit to large national institutional tier-one funds that invest equity in various real estate assets. Construction, development and other loans increased \$27.8 million, or 4.9%, to \$595.6 million as of June 30, 2023 from \$567.9 million as of December 31, 2022 due primarily to the additional productivity from the builder finance group.

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

In addition, the commercial and industrial loan category includes factored receivables. TCCC provides working capital solutions for small- to medium-sized businesses throughout the United States. TCCC provides working capital financing through the purchase of accounts receivables. Our factored receivables portfolio consists primarily of customers in the transportation, energy services and service industries. At June 30, 2023 and December 31, 2022, outstanding factored receivables were \$34.5 million and \$28.0 million, respectively.

Commercial and industrial loans increased \$105.7 million, or 10.0%, to \$1.16 billion as of June 30, 2023 from \$1.06 billion as of December 31, 2022. The increase was primarily a result of increased productivity of existing lenders in response to market demand.

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

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

(Dollars in thousands)	As of June 30, 2023					Total
	One Year or Less		One Through Five Years		Five Years	
	Through Fifteen Years	After Fifteen Years				
Real estate:						
Commercial real estate:						
Non-farm non-residential owner occupied	\$ 23,463	\$ 192,319	\$ 214,468	\$ 83,684	\$ 513,934	
Non-farm non-residential non-owner occupied	23,926	369,900	122,143	31,151	547,120	
Residential	36,940	77,859	75,720	120,323	310,842	
Construction, development and other	113,354	447,898	13,970	20,379	595,601	
Farmland	2,706	14,934	6,021	558	24,219	
Commercial and industrial	601,920	478,161	79,049	5,494	1,164,624	
Consumer	809	1,735	347	—	2,891	
Municipal and other	89,592	85,370	84	—	175,046	
Total loans	\$ 892,710	\$ 1,668,176	\$ 511,802	\$ 261,589	\$ 3,334,277	
Amounts with fixed rates	\$ 130,613	\$ 471,394	\$ 41,625	\$ 91,013	\$ 734,645	
Amounts with floating rates	\$ 762,097	\$ 1,196,782	\$ 470,177	\$ 170,576	\$ 2,599,632	

Nonperforming Assets

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

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

(Dollars in thousands)	As of June 30, 2023		As of December 31, 2022
		\$ 9,968	\$ 10,963
Nonaccrual loans		—	518
Loans > 90 days and still accruing		—	780
Restructured loan—accruing		—	—
Total nonperforming loans	\$ 9,968	\$ 12,261	
Other real estate owned and repossessed assets		—	—
Total nonperforming assets	\$ 9,968	\$ 12,261	
Ratio of nonaccrual loans to total loans		0.30 %	0.35 %
Ratio of nonperforming loans to total loans		0.30 %	0.39 %
Ratio of nonperforming loans to total assets		0.25 %	0.32 %
Ratio of nonperforming assets to total assets		0.25 %	0.32 %
Ratio of nonperforming loans to total loans plus OREO		0.30 %	0.39 %
Ratio of allowance for credit losses to nonaccrual loans		373.63 %	276.85 %

We had \$10.0 million in nonperforming assets as of June 30, 2023 compared to \$12.3 million as of December 31, 2022. Included in nonperforming assets, nonperforming loans were \$10.0 million and \$12.3 million as of June 30, 2023 and December 31, 2022, respectively. The improvement in nonperforming assets was primarily attributable to the payoff of nonaccrual loans and loans greater than 90 days and still accruing in 2023 and recent change in accounting for troubled debt restructurings.

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

(Dollars in thousands)	As of June 30, 2023		As of December 31, 2022
		\$ 9,968	\$ 10,963
Nonaccrual loans by category:			
Real estate:			
Commercial real estate:			
Non-farm non-residential owner occupied	\$ 832	\$ 1,699	
Non-farm non-residential non-owner occupied	1,417	296	
Residential	494	513	
Construction, development and other	36	45	
Commercial and industrial	7,189	8,390	
Consumer	—	20	
Total nonaccrual loans	\$ 9,968	\$ 10,963	

Risk Gradings

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

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

(Dollars in thousands)	June 30, 2023						Total
	Pass	Special Mention	Substandard	Doubtful			
Real estate:							
Commercial real estate:							
Non-farm non-residential owner occupied	\$ 508,043	\$ 1,527	\$ 4,364	\$ —			\$ 513,934
Non-farm non-residential non-owner occupied	540,344	217	6,559	—			547,120
Residential	309,678	—	1,164	—			310,842
Construction, development and other	591,873	3,692	36	—			595,601
Farmland	24,219	—	—	—			24,219
Commercial and industrial	1,132,107	23,526	8,936	55			1,164,624
Consumer	2,890	—	1	—			2,891
Municipal and other	175,046	—	—	—			175,046
Gross loans	\$ 3,284,200	\$ 28,962	\$ 21,060	\$ 55	\$	\$ 3,334,277	

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

Allowance for Credit Losses

In accordance with ASC 326 which the Company adopted January 1, 2023, the allowance for credit losses on loans is estimated and recognized upon origination of the loan based on current expected credit losses. The amount of the allowance for credit losses represents management's best estimate of current expected credit losses on the Company's loans considering available information, from internal and external sources, relevant to assessing the exposure to credit loss over the contractual term of the loan. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance for credit losses is dependent upon a variety of factors beyond our control, including the performance of our loan portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. On January 1, 2023, we recorded an increase of \$4.0 million to the allowance for credit losses for the cumulative effect of adopting ASC 326 for our loan portfolio. No accumulated credit loss for off-balance sheet exposures was recorded as funding on unfunded commitments is at the discretion of the Company. For additional information on adoption of ASC 326, see "—Critical Accounting Policies—Allowance for Credit Losses" below and Note 1 – Nature of Operations and Summary of Significant Accounting Policies and Note 3 – Loans and Allowance for Credit Losses in the notes to our consolidated financial statements included elsewhere in this Form 10-Q.

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

of our loan portfolio, overall portfolio quality, industry or borrower concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates, among other factors.

As of June 30, 2023, the allowance for credit losses totaled \$37.2 million, or 1.12% of total loans. As of December 31, 2022, the allowance for credit losses totaled \$30.4 million, or 0.98% of total loans. The increase in our allowance for credit losses is primarily due to \$4.0 million from the impact of ASC 326 adoption and the \$2.6 million provision for credit losses recorded for the six months ended June 30, 2023.

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

(Dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Allowance for credit losses at beginning of period	\$ 35,915	\$ 23,312	\$ 30,351	\$ 19,295
Impact of ASC 326 adoption	—	—	4,000	—
Provision for credit losses	1,400	3,350	2,600	7,350
Charge-offs:				
Commercial and Industrial	(181)	—	(301)	—
Consumer	2	—	(19)	—
Municipal and other	(2)	—	(2)	—
Total charge-offs	(181)	—	(322)	—
Recoveries:				
Commercial and industrial	109	4	614	8
Consumer	—	—	—	13
Total recoveries	109	4	614	21
Net (charge-offs) recoveries	(72)	4	292	21
Allowance for credit losses at end of period	\$ 37,243	\$ 26,666	\$ 37,243	\$ 26,666
Ratio of net (charge-offs) recoveries to average loans ⁽¹⁾	(0.01)%	0.00 %	0.02 %	0.00 %

(1)Interim periods annualized.

During the three and six months ended June 30, 2023, the Company recorded net charge-offs of \$72,000 and net recoveries of \$292,000, respectively. During the three and six months ended June 30, 2022, net recoveries were \$4,000 and \$21,000, respectively.

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

(Dollars in thousands)	June 30, 2023		December 31, 2022	
	Amount	% Loans in Each Category	Amount	% Loans in Each Category
Real estate:				
Commercial real estate:				
Non-farm non-residential owner occupied	\$ 5,223	15.5 %	\$ 3,773	15.9 %
Non-farm non-residential non-owner occupied	8,775	16.4 %	5,741	16.3 %
Residential	2,142	9.3 %	1,064	9.9 %
Construction, development and other	4,312	17.9 %	3,053	18.3 %
Farmland	97	0.7 %	82	0.7 %
Commercial and industrial	16,348	34.9 %	16,269	34.1 %
Consumer	10	0.1 %	6	0.1 %
Municipal and other	336	5.2 %	363	4.7 %
	\$ 37,243	100.0 %	\$ 30,351	100.00 %

Securities

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

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

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

investment or the discontinuance of a segment of the business that may affect the future earnings potential; and (4) changes in the rating of the security by a rating agency. Based on management's analysis, an allowance for credit losses for the security portfolio was not deemed to be needed as of June 30, 2023.

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

(Dollars in thousands)	June 30, 2023					Estimated Fair Value
	Amortized Cost	Unrealized Gain	Unrealized Loss	Allowance for Credit Losses		
Investment securities available-for-sale:						
State and municipal securities	\$ 420	\$ —	\$ 1	\$ —	\$ 419	
Mortgage-backed securities and other agency obligations	22,407	—	1,094	—	21,313	
U.S. Treasury bonds	100,228	—	1,040	—	99,188	
Corporate bonds	80,774	148	7,375	—	73,547	
	<u>\$ 203,829</u>	<u>\$ 148</u>	<u>\$ 9,510</u>	<u>\$ —</u>	<u>\$ 194,467</u>	

(Dollars in thousands)	December 31, 2022					Estimated Fair Value
	Amortized Cost	Unrealized Gain	Unrealized Loss	Allowance for Credit Losses		
Investment securities available-for-sale:						
State and municipal securities	\$ 422	\$ —	\$ 5	\$ —	\$ 417	
Mortgage-backed securities	23,522	238	879	—	22,881	
U.S. Treasury bonds	100,567	—	2,049	—	98,518	
Corporate bonds	57,607	59	3,415	—	54,251	
	<u>\$ 182,118</u>	<u>\$ 297</u>	<u>\$ 6,348</u>	<u>\$ —</u>	<u>\$ 176,067</u>	

As of June 30, 2023, the carrying amount of the security portfolio was \$194.5 million compared to \$176.1 million as of December 31, 2022, an increase of \$18.4 million, or 10.5%. The increase relates to net purchases of \$22.8 million in corporate bonds offset by paydowns of \$1.1 million in mortgage-backed securities during the six months ended June 30, 2023. Investment securities represented 4.9% and 4.7% of total assets as of June 30, 2023 and December 31, 2022, respectively.

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

The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures. The contractual maturities of the mortgage-backed securities held range from 2023 to 2043 and are not a reliable indicator of the expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The terms of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and, consequently, the average life of the security is typically lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of the security. Therefore, schedules of maturities for mortgage-backed securities have been excluded from this disclosure.

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

	June 30, 2023		Estimated Fair Value
	Amortized Cost	Estimated Fair Value	
Due in one year or less	\$ 100,648	\$ 99,607	
Due from one year to five years	8,347	8,396	
Due from five years to ten years	67,366	60,537	
Over ten years	5,061	4,614	
Mortgage-backed securities and other agency obligations	181,422	173,154	
	<u>\$ 203,829</u>	<u>\$ 194,467</u>	

The weighted average life of our investment portfolio was 2.76 years and 3.11 years as of June 30, 2023 and December 31, 2022, respectively.

Deposits

Total deposits as of June 30, 2023 were \$3.41 billion, an increase of \$172.1 million, or 5.3%, compared to \$3.24 billion as of December 31, 2022. The increase was primarily due to growth in our national wholesale deposits through our core, fiduciary and institutional deposit programs, continued growth in our primary market areas, and the increase in commercial lending relationships for which we also seek deposit balances.

Noninterest-bearing deposits as of June 30, 2023 were \$529.5 million, an increase of \$43.4 million, or 8.9%, compared to \$486.1 million as of December 31, 2022. Total interest-bearing account balances as of June 30, 2023 were \$2.88 billion, an increase of \$128.8 million, or 4.7%, from \$2.75 billion as of December 31, 2022.

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

(Dollars in thousands)	As of June 30, 2023		As of December 31, 2022	
	Amount	Percent	Amount	Percent
Interest-bearing demand deposits	\$ 2,351,717	81.7%	\$ 2,498,325	90.8%
Savings	26,459	0.9%	35,677	1.3%
Time deposits \$100,000 and over	485,578	16.9%	202,074	7.4%
Time deposits less than \$100,000	15,053	0.5%	13,956	0.5%
Total interest-bearing deposits	\$ 2,878,807	84.5%	\$ 2,750,032	85.0%
Noninterest-bearing demand deposits	\$ 529,474	15.5%	\$ 486,114	15.0%
Total deposits	\$ 3,408,281	100.0%	\$ 3,236,146	100.00%

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

(Dollars in thousands)	As of June 30, 2023	
Three months or less	\$	110,547
Over three months through six months		112,969
Over six months through twelve months		111,242
Over twelve months		67,014
	\$	401,772

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

(Dollars in thousands)	Six Months Ended June 30, 2023		Year Ended December 31, 2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand deposits	\$ 474,115	—	\$ 313,972	—
Interest-bearing demand deposits	2,307,599	3.77%	2,103,071	1.36%
Savings	33,272	0.53%	36,166	0.29%
Time deposits	247,745	3.06%	237,842	0.82%
Total interest-bearing deposits	\$ 2,588,616	3.66%	\$ 2,377,079	1.29%
Total deposits	\$ 3,062,731	3.10%	\$ 2,691,051	1.14%

The ratio of average noninterest-bearing deposits to average total deposits for the six months ended June 30, 2023 was 15.5% and for the year ended December 31, 2022 was 11.7%.

Borrowings

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

(Dollars in thousands)	As of June 30, 2023		As of December 31, 2022	
FHLB advances	\$ —	—	\$ —	—
Line of Credit - Senior Debt		30,875		30,875
Note Payable - Subordinated Debt		80,451		80,348
Total borrowings	\$ 111,326		\$ 111,223	

Federal Home Loan Bank (FHLB) Advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by FHLB stocks and real estate loans. As of June 30, 2023 and December 31, 2022, borrowing capacity available under this arrangement was \$425.7 million and \$719.1 million, respectively. We had no FHLB advances outstanding at June 30, 2023 and December 31, 2022. Our cost of FHLB advances was 5.26% for the six months ended June 30, 2023 and 2.70% for the year ended December 31, 2022. In addition, letters of credit with the FHLB in the amount of \$542.7 million and \$290.3 million were outstanding at June 30, 2023 and December 31, 2022, respectively. The letters of credit are used to collateralize public fund deposit accounts in excess of FDIC insurance limits and have expirations ranging from July 2023 through July 2025.

Line of Credit - Senior Debt. On September 10, 2022, a \$30.9 million revolving line of credit facility matured and was renewed and increased to \$50.0 million with payment terms similar to the payment terms of the previous agreement. Prior to maturity, the note bore interest at the *Wall Street Journal US Prime Rate*, as such changes from time to time, with a floor rate of 4.00% per annum. Interest was payable quarterly on the 10th day of March, June, September and December through maturity date. Upon renewal, the note bears interest at the *Wall Street Journal US Prime Rate*, as such changes from time to time, plus 0.50%, with a floor rate of 5.00% per annum. Interest is payable quarterly on the 10th day of March, June, September and December through maturity date of September 10, 2024. All principal and unpaid interest is due at maturity. The note is secured by 100% of the outstanding stock of the Bank and is senior in rights to the subordinated debt described below. At June 30, 2023, the outstanding balance was \$30.9 million.

Note Payable - Subordinated Debt. On March 31, 2022, the Company issued and sold \$82.3 million in aggregate principal amount of the Notes. As of June 30, 2023, the outstanding balance was \$80.5 million, net of \$1.8 million in unamortized debt issuance costs. For additional information on our Note Payable - Subordinated Debt, see Note 7 – FHLB Advances and Other Borrowings in the accompanying notes to the consolidated financial statements included elsewhere in this Form 10-Q.

Our cost of our senior debt and note payable was 6.65% and 5.79% for the six months ended June 30, 2023 and 2022, respectively.

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

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

Liquidity and Capital Resources

Liquidity

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

For the six months ended June 30, 2023, liquidity needs were primarily met by core deposits, loan maturities, and amortizing loan portfolios. For the year ended December 31, 2022, liquidity needs were primarily met by core deposits, loan maturities, amortizing loan portfolios, borrowings and proceeds from issuance of stock.

At June 30, 2023, the Company had borrowing capacity available under FHLB advances of \$425.7 million, line of credit - senior debt of \$19.1 million, the Federal Reserve Bank of Dallas Discount Window of \$1.2 billion, and federal funds lines of credit of \$33.0 million. At December 31, 2022, the Company had borrowing capacity under FHLB advances of \$719.1 million, line of credit - senior debt of \$19.1 million, and federal funds lines of credit of \$36.5 million.

The following table illustrates, during the periods presented, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods indicated. Average assets were \$3.70 billion for the six months ended June 30, 2023 and \$3.20 billion for the year ended December 31, 2022.

	For the Six Months Ended June 30, 2023	For the Year Ended December 31, 2022
Sources of Funds:		
Deposits:		
Noninterest-bearing	12.8%	9.8%
Interest-bearing	70.0%	74.3%
FHLB advances	2.6%	2.5%
Note payable and line of credit	3.0%	2.4%
Other liabilities	1.1%	0.9%
Shareholders' equity	10.5%	10.1%
Total	100.0%	100.0%
Uses of Funds:		
Loans, net	86.0%	83.4%
Securities	5.2%	3.9%
Federal funds sold and other interest-earning assets	3.8%	7.0%
Other noninterest-earning assets	5.0%	5.7%
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	15.5%	11.7%
Average total loans to average deposits	105.0%	100.1%

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

As of June 30, 2023, we had \$1.26 billion in outstanding commitments to extend credit and \$18.5 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2022, we had \$1.15 billion in outstanding commitments to extend credit and \$21.7 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of June 30, 2023 and December 31, 2022, we had no exposure to future cash requirements associated with known uncertainties or capital expenditure of a material nature. As of June 30, 2023, we had cash and cash equivalents of \$268.0 million, compared to \$332.0 million as of December 31, 2022.

Capital Resources

Total shareholders' equity increased to \$395.9 million as of June 30, 2023, compared to \$381.8 million as of December 31, 2022, an increase of \$14.2 million, or 3.7%. This increase was primarily the result of the \$18.1 million in net income for the six months ended June 30, 2023 offset by the \$3.2 million, net of tax, allowance for credit loss adjustment from the adoption of ASC 326 and \$2.4 million of dividends declared on the Series A Preferred Stock.

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

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

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

	Actual			Minimum Capital Requirement with Capital Buffer	Minimum To Be Well Capitalized
	June 30, 2023	December 31, 2022			
Third Coast Bancshares, Inc.					
Tier 1 leverage capital (to average assets)	10.17%	N/A	4.00%	4.00%	N/A
Common equity tier 1 capital (to risk weighted assets)	7.75%	N/A	4.50%	7.00%	N/A
Tier 1 capital (to risk weighted assets)	9.39%	N/A	6.00%	8.50%	N/A
Total capital (to risk weighted assets)	12.31%	N/A	8.00%	10.50%	N/A
Third Coast Bank, SSB					
Tier 1 leverage capital (to average assets)	13.06%	13.11%	4.00%	4.00%	5.00%
Common equity tier 1 capital (to risk weighted assets)	12.06%	12.95%	4.50%	7.00%	6.50%
Tier 1 capital (to risk weighted assets)	12.06%	12.95%	6.00%	8.50%	8.00%
Total capital (to risk weighted assets)	12.99%	13.79%	8.00%	10.50%	10.00%

Use of Derivatives to Manage Interest Rate and Other Risks

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

Cash Flow Hedges

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

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

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

For the six months ended June 30, 2023 and 2022, approximately \$769,000 and \$103,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense on discontinued hedges. For the three

months ended June 30, 2023 and 2022, approximately \$563,000 and 52,000, respectively, was reclassified out of accumulated other comprehensive income (loss) and recognized as a reduction of interest expense.

Fair Value Hedges

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

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

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

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

All derivatives are carried at fair value in either other assets or other liabilities in the accompanying consolidated balance sheets. At June 30, 2023, the Company's derivative assets and liabilities totaled \$9.4 million and \$9.2 million, respectively.

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

Interest Rate Sensitivity and Market Risk

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

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

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

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

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. The average life of our non-maturity deposit accounts are updated annually and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing,

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

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

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

Change in Interest Rates (Basis Points)	As of June 30, 2023		As of December 31, 2022	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
+ 300	11.23%	8.58%	9.99%	11.90%
+ 200	7.46%	5.89%	6.64%	8.27%
+ 100	3.72%	3.07%	3.31%	4.31%
Base	—	—	—	—
-100	(4.38)%	(3.57)%	(3.32)%	(2.46)%

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

Critical Accounting Policies

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

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

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

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

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

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

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

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

Emerging Growth Company

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

- exempt from the requirement to obtain an attestation and report from the Company's auditors on management's assessment of internal control over financial reporting under the Sarbanes-Oxley Act of 2002;
- permitted to have an extended transition period for adopting any new or revised accounting standards that may be issued by the Financial Accounting Standards Board or by the SEC;
- permitted to provide less extensive disclosure about the Company's executive compensation arrangements; and
- not required to give shareholders nonbinding advisory votes on executive compensation or golden parachute arrangements.

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

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

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

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

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

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

The Company and the Bank anticipate increased regulatory scrutiny and new regulations directed towards banks of similar size to the Bank, designed to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition and the level of uninsured deposits. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community. The Bank's level of uninsured customer deposits as a percentage of non-brokered deposits was 33.3% at June 30, 2023 and 36.7% at December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

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

Item 6. Exhibits.

Exhibit Number	Description
3.1	First Amended and Restated Certificate of Formation of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on October 15, 2021).
3.2	First Amended and Restated Bylaws of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the SEC on October 15, 2021).
3.3	Certificate of Designation, Preferences and Rights of Series A Convertible Non-Cumulative Preferred Stock of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2022).
3.4	Certificate of Designation, Preferences and Rights of Series B Convertible Perpetual Preferred Stock of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2022).
3.5	Certificate of Amendment to Certificate of Formation of Third Coast Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 26, 2023).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed with the SEC on October 15, 2021).
4.2	Indenture, dated as of March 31, 2022, by and between Third Coast Bancshares, Inc. and UMB Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on April 1, 2022).
4.3	Form of 5.500% Fixed-to-Floating Rate Subordinated Note due 2032 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on April 1, 2022).
4.4	Form of Warrant Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2022).
10.1*†	Employment Agreement, dated as of April 20, 2023, by and between Bill Bobbora and Third Coast Bank, SSB.
10.2*†	Salary Continuation Agreement, dated as of April 20, 2023, by and between Third Coast Bank, SSB and Bill Bobbora.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Indicates a management contract or compensatory plan.

* Filed herewith.

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

SIGNATURES

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

Third Coast Bancshares, Inc.

Date: August 8, 2023

By: */s/ Bart O. Caraway*
Bart O. Caraway
Chairman, President and Chief Executive Officer

Date: August 8, 2023

By: */s/ R. John McWhorter*
R. John McWhorter
Chief Financial Officer

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of April 20, 2023 (the "Effective Date") by and between Bill Bobbora ("Executive") and Third Coast Bank, SSB, a Texas state savings bank (the "Bank" or "Company").

WHEREAS, the Bank desires to employ Executive on the terms and conditions set forth herein;

WHEREAS, Executive desires to be employed by the Bank on such terms and conditions;

NOW, THEREFORE, in consideration of the mutual covenants, promises and obligations set forth herein, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1.TERM

Executive's employment hereunder shall be effective as of the Effective Date and shall continue until the third anniversary of the Effective Date, unless terminated earlier pursuant to Section 5 of this Agreement; provided that, on such third anniversary of the Effective Date and on each annual anniversary of the Effective Date thereafter (such third anniversary date and each annual anniversary thereafter, a "Renewal Date"), this Agreement shall be deemed to be automatically extended, upon the same terms and conditions, for successive periods of one (1) year each, unless either party provides written notice to the other party of its intention not to extend the term of this Agreement at least ninety (90) days prior to the applicable Renewal Date. The period during which Executive is employed by the Bank hereunder is hereinafter referred to as the "Employment Term."

2.POSITION AND DUTIES**2.1POSITION**

During the Employment Term, Executive shall serve as the Chief Banking Officer, reporting to the President of the Bank (the "Supervisor"). In such position, Executive shall have such duties, authority and responsibility as shall be determined from time to time by the Supervisor, which duties, authority and responsibility shall be customary for persons occupying such positions in companies of like size and type.

2.2DUTIES

During the Employment Term, Executive shall devote his best efforts and all of his full business time and attention to the performance of Executive's duties hereunder (except for permitted paid time off and reasonable periods of illness or other incapacity) and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or materially interfere with the performance of such services either directly or indirectly without the prior written consent of the Chief Executive Officer (the "CEO"). Notwithstanding the foregoing, nothing herein shall preclude Executive from (a) performing services for such other companies as the CEO may designate or permit (which permission shall not be unreasonably withheld), (b) serving, with the prior written consent of the CEO, which consent shall not be unreasonably withheld, as an officer or member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of noncompeting businesses or charitable, educational or civic organizations, (c) engaging in charitable activities and community affairs and (d) managing Executive's personal investments and affairs; provided, however, that the activities set forth in clauses (a) through (d) shall be limited by Executive so as not to conflict or materially interfere, individually or in the aggregate, with the performance of Executive's duties and responsibilities hereunder.

During the Employment Term, Executive shall perform Executive's duties and responsibilities to the best of Executive's abilities in a diligent, trustworthy, businesslike and efficient manner.

3.PLACE OF PERFORMANCE

During the Employment Term, the principal place of Executive's employment shall be the Bank's office at 1800 West Loop South, Houston, TX provided that, Executive may be required to travel on Bank business during the Employment Term.

4.COMPENSATION AND BENEFITS

4.1BASE SALARY

During the Employment Term, the Bank shall pay Executive an annual base salary at a rate of \$500,000.00 in periodic installments in accordance with the Bank's normal payroll practices, but no less frequently than monthly. Executive's base salary shall be reviewed at least annually by the Board, and the Board may, but shall not be required to, increase (but not decrease) Executive's base salary during the Employment Term. Executive's annual base salary, as in effect from time to time, is hereinafter referred to as "Base Salary".

4.2ANNUAL BONUS

For each completed calendar year of the Employment Term, Executive shall have the opportunity to earn an annual bonus (the "Annual Bonus") at the discretion of the Board or the Compensation Committee of the Board (the "Compensation Committee").

4.3EQUITY AWARDS

During the Employment Term, Executive will be eligible to be considered to receive grants of equity-based awards commensurate with Executive's position and responsibilities with the Bank. The amount, terms and conditions of any equity-based award will be determined by the Board or the Compensation Committee, in its sole discretion, in accordance with the terms of the Parent's equity plan in effect from time to time.

4.4EMPLOYEE BENEFITS

During the Employment Term, Executive shall be eligible to participate in all employee benefit plans, practices and programs maintained by the Bank, as in effect from time to time (but excluding, except as hereinafter provided in Section 5, any severance pay program or policy of the Bank), on a basis which is no less favorable than is provided to other similarly situated executives of the Bank, to the extent consistent with applicable law and the terms of the applicable employee benefit plans. The Bank reserves the right to amend or cancel any employee benefit plan at any time in its sole discretion, subject to the terms of such employee benefit plan and applicable law.

4.5PAID TIME OFF

During the Employment Term, Executive shall be eligible for twenty-five (25) days of paid time off per calendar year (which shall be prorated for partial years) in accordance with the Bank's paid time off policies, as in effect from time to time.

4.6 BUSINESS EXPENSES

During the Employment Term, Executive shall be eligible for reimbursement of all reasonable and necessary out-of-pocket business, entertainment and travel expenses incurred by Executive in connection with the performance of Executive's duties hereunder in accordance with the Bank's expense reimbursement policies and procedures for senior executives.

4.7 INDEMNIFICATION

Executive shall be entitled to indemnification with respect to the Executive's services provided hereunder pursuant to Texas law, the terms and conditions of the Bank's charter and/or by-laws, and the Bank's standard indemnification agreement for directors and officers as executed by the Bank and Executive. Executive shall be entitled to coverage under the Bank's Directors' and Officers' ("D&O") insurance policies that it may hold now or in the future to the same extent and in the same manner (i.e., subject to the same terms and conditions) that the Bank's other executive officers are entitled to coverage under any of the Bank's D&O insurance policies that it may have.

5. TERMINATION OF EMPLOYMENT

Notwithstanding anything in this Agreement to the contrary, Executive shall be an at-will employee of the Bank, and the Employment Term and Executive's employment hereunder may be terminated by either the Bank or Executive for any reason or no reason at any time; provided, however, that, unless otherwise provided herein, Executive shall be required to give the Bank at least thirty (30) days' advance written notice of any termination of Executive's employment by Executive. Upon termination of Executive's employment during the Employment Term, Executive shall be eligible to receive the compensation and benefits described in this Section 5 and shall have no further rights to any compensation or any other benefits from the Bank or any of its affiliates.

5.1 TERMINATION FOR CAUSE OR WITHOUT GOOD REASON

(a) The Employment Term and Executive's employment hereunder may be terminated by the Bank for Cause, or by Executive without Good Reason. If the Employment Term and Executive's employment are terminated by the Bank for Cause, or by Executive without Good Reason, then:

(i) Executive shall be eligible to receive any accrued but unpaid Base Salary, any accrued but unused paid time off, in each case, as of the end of the Employment Term, which shall be paid on the Termination Date (as defined in Section 5.6 of this Agreement);

(ii) Executive shall be eligible to receive reimbursement for unreimbursed business expenses properly incurred by Executive prior to the Termination Date, which shall be subject to and paid in accordance with the Bank's expense reimbursement policy and Section 4.6 of this Agreement;

(iii) Executive shall be eligible to receive (or continue to receive) such employee benefits and other compensation, if any, as to which Executive may be eligible as of the Termination Date pursuant to the specific terms of the Bank's and its affiliates' employee benefit plans, programs or

agreements; provided that, in no event shall Executive be eligible to any payments in the nature of severance except as specifically provided herein; and

(iv)Executive shall retain all rights to indemnification and D&O liability insurance provided under Section 4.7 of this Agreement.

The items set forth in Sections 5.1(a)(i) through 5.1(a)(iii) are referred to collectively in this Agreement as the "Accrued Amounts".

(b)For purposes of this Agreement, "Cause" shall mean:

(i)Executive's willful failure to perform Executive's material duties (other than any such failure resulting from incapacity due to physical or mental illness);

(ii)Executive's willful failure to comply with any valid and legal directive of the CEO or the Supervisor;

(iii)Executive's engagement in dishonesty, illegal conduct or misconduct, which is, in each case as determined by the Board in its sole discretion, materially injurious to the Bank or its affiliates;

(iv)Executive's embezzlement, misappropriation or fraud, whether or not related to Executive's employment with the Bank;

(v)Executive's commission of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent) or a crime that constitutes a misdemeanor involving moral turpitude;

(vi)Executive is or becomes a person described in the Federal Deposit Insurance Act (the "FDI Act"), Section 19(a)(1)(A) who has not received the Federal Insurance Corporation's prior consent to participate in the Bank's affairs under the "FDIC State of Policy for Section 19 of the FDI Act or any successor thereto;

(vii)Executive's willful violation of a material policy or code of conduct of the Bank including its Insider Trading Policy or Code of Ethics; or

(viii)Executive's material breach of any material obligation under this Agreement, including, but not limited to, Section 7 of this Agreement, or any other written agreement between Executive and the Bank.

Except for a failure, breach or refusal which, by its nature, cannot reasonably be expected to be cured, Executive shall have thirty (30) calendar days from the delivery of written notice by the Bank within which to cure any acts constituting Cause; provided, however, that if the Bank reasonably expects irreparable injury from a delay of thirty (30) calendar days, the Bank may give Executive notice of such shorter period within which to cure as is reasonable under the circumstances, which may include the termination of Executive's employment without notice and with immediate effect. In the event the Bank provides notice of less than thirty (30) days, Executive shall be paid his Base Salary for the remainder of the thirty (30) day period.

For purposes of this Section 5.1(b), no act or failure by Executive shall be considered "willful" if such act is done by Executive in the good faith belief that such act is or was in the best interests of the Bank or one or more of its businesses.

(c)For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, in each case during the Employment Term without Executive's written consent:

- (i)A material reduction in Executive's Base Salary;
- (ii)A relocation of Executive's principal place of employment as of the Effective Date by more than twenty-five (25) miles;
- (iii)Any material breach by the Bank of any material provision of this Agreement or any other material agreement between Executive and the Bank;
- (iv)The Bank's failure to obtain an agreement from any successor to the Bank to assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform if no succession had taken place, except where such assumption occurs by operation of law;
- (v)A material diminution in Executive's title, authority, duties or responsibilities (other than temporarily while Executive is physically or mentally incapacitated); or
- (vi)A change in the Bank's reporting structure or executive management team that materially and adversely affects Executive, including, specifically, if Executive ceases reporting directly to Bart Caraway for any reason other than due to Executive's termination of employment, which the Bank hereby agrees is material and would adversely affect Executive.

Executive cannot terminate Executive's employment for Good Reason unless Executive has provided written notice to the Bank of the existence of the circumstances providing grounds for termination for Good Reason within thirty (30) calendar days of the initial existence of such grounds and the Bank has had at least thirty (30) calendar days from the date on which such notice is provided to cure such circumstances. If Executive does not terminate Executive's employment for Good Reason within one hundred eighty (180) calendar days after the first occurrence of the applicable grounds, then Executive will be deemed to have waived Executive's right to terminate for Good Reason with respect to such grounds.

5.2 TERMINATION WITHOUT CAUSE OR FOR GOOD REASON

The Employment Term and Executive's employment hereunder may be terminated by Executive for Good Reason or by the Bank without Cause. In the event of such termination, Executive shall be entitled to receive the Accrued Amounts and, subject to Executive's compliance with Section 6, Section 7 and Section 8 of this Agreement, Executive's timely execution of a release of claims in favor of the Bank, its affiliates and their respective officers and directors, in a form to be provided by the Bank (the "Release"), and such Release becoming effective within either twenty-eight (28) or fifty-two (52) days, as applicable, following the Termination Date (such 28-day or 52-day period, the "Release Execution Period"), Executive shall be entitled to receive the following compensation and benefits:

(a)A payment that totals one hundred percent (100%) of Executive's Base Salary; and

(b)A payment that totals the average of Executive's Annual Bonuses earned for the three (3) full years preceding the year in which the Termination Date occurs, or, if less than three (3) years, the

greater of (I) the average of the Annual Bonuses awarded for all full years preceding the year in which the Termination Date occurs, or (II) if less than one (1) year, Executive's target Annual Bonus in effect for the year in which the Termination Date occurs.

(c)The payments in (a) and (b) shall be payable in substantially equal installments over a period of one (1) year in accordance with the Bank's normal payroll practices; provided that any installment payment under this Section 5.2(c) that is not made during the period following Executive's termination Without Cause or termination for Good Reason because Executive has not executed the Release, shall be paid to Executive in a single lump sum on the first payroll date following the last day of the Release Execution Period.

(d)If Executive timely and properly elects continuation coverage under the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"), the Bank shall reimburse Executive for the monthly COBRA premium paid by Executive for Executive and Executive's dependents (with the Executive required to pay for any employee-paid portion of such coverage) (such amounts to be referred to herein as the "COBRA Benefits"). The Bank shall make any such reimbursement within thirty (30) days following receipt of evidence from Executive of Executive's payment of the COBRA Benefits. Executive shall be eligible to receive such reimbursement until the earliest of: (i) twelve (12) months following the Termination Date; (ii) the date Executive is no longer eligible to receive COBRA Benefits; and (iii) the date on which Executive either receives or becomes eligible to receive substantially similar coverage from another employer. To the extent the COBRA Benefits provided for in this Section 5.2(d) are not permissible after termination of employment under the terms of the health plans of the Bank then in effect, the Bank shall provide Executive with an equivalent monthly cash payment, minus deduction of all amounts required to be deducted or withheld under applicable law, for any period of time Executive was to be reimbursed for COBRA Benefits. Executive shall bear full responsibility for applying for COBRA Benefits and the Bank shall have no obligation to provide Executive such coverage if the Executive fails to elect COBRA Benefits in a timely fashion; and

(e)The vesting of any outstanding equity awards held by Executive immediately prior to the Termination Date shall accelerate by one (1) year. All other treatment of any outstanding equity awards held by the Executive immediately prior to the Termination Date shall be determined in accordance with the terms of the applicable equity plan and award agreements.

It is expressly understood that the Bank's payment and reimbursement obligations under this Section 5.2 shall cease in the event Executive breaches any of the agreements in Section 6, Section 7 or Section 8 hereof.

5.3 TERMINATION DUE TO DEATH OR DISABILITY

(a)The Employment Term and Executive's employment hereunder shall terminate automatically upon Executive's death during the Employment Term, and the Bank may terminate the

Employment Term and Executive's employment hereunder on account of Executive's Disability (as defined below).

(b) If Executive's employment is terminated during the Employment Term on account of Executive's death or Disability, Executive (or Executive's estate and/or beneficiaries, as the case may be) shall be entitled to receive the following compensation:

(i) The Accrued Amounts (which amounts shall be paid in accordance with Section 5.1);

(ii) A lump sum payment that totals one hundred percent (100%) of Executive's Base Salary;

(iii) A lump sum payment that totals the average of the Executive's Annual Bonuses earned for the three (3) full years preceding the year in which the Termination Date occurs, or, if less than three (3) years, the greater of (I) the average of the Annual Bonuses awarded for all full years preceding the year in which the Termination Date occurs, or (II) if less than one (1) year, Executive's target Annual Bonus in effect for the year in which the Termination Date occurs;

(iv) The payments in (ii) and (iii) shall be paid on the date that annual bonuses are paid to similarly situated executives in the current calendar year, but in no event later than March 15 of the year following the end of the calendar year in which the Termination Date occurs; and

(v) The vesting of any outstanding equity awards held by Executive immediately prior to the Termination Date shall accelerate by one (1) year. All other treatment of any outstanding equity awards held by the Executive immediately prior to the Termination Date shall be determined in accordance with the terms of the applicable equity plan and award agreements.

Notwithstanding any other provision contained herein, all payments made in connection with Executive's Disability shall be provided in a manner which is consistent with federal and state law.

(c) For purposes of this Agreement, "Disability" shall mean (i) Executive's inability, due to physical or mental incapacity, to substantially perform Executive's duties and responsibilities under this Agreement for one hundred eighty (180) days out of any three hundred sixty-five (365) day period or one hundred twenty (120) consecutive days; or (ii) Executive's eligibility to receive long-term disability benefits under the Bank's long-term disability plan.

5.4 CHANGE OF CONTROL TERMINATION

(a) Notwithstanding any other provision contained herein, if Executive's employment hereunder is terminated by Executive for Good Reason or by the Bank without Cause (other than on account of Executive's death or Disability), in each case within six (6) months prior to, or twelve (12) months following, a Change of Control, Executive shall be entitled to receive:

(i) The Accrued Amounts (which amounts shall be paid in accordance with Section 5.1) and, subject to Executive's compliance with Section 6, Section 7 and Section 8 of this Agreement and Executive's execution of a Release which becomes effective within the Release Execution Period, Executive shall be entitled to receive a lump sum payment on the first payroll date following the last day of the Release Execution Period equal to any earned but unpaid Annual Bonus for the most recently completed calendar year and two (2) times the sum of (A) Executive's Base Salary and (B) the average of the Annual Bonuses earned for the three (3) full years preceding the year in which the Termination Date

occurs, or, if less than three (3) years, the greater of (I) the average of the Annual Bonuses awarded for all full years preceding the year in which the Termination Date occurs, or (II) if less than one (1) year, Executive's target Annual Bonus in effect for the year in which the Termination Date occurs; provided that, if the Release Execution Period begins in one taxable year and ends in another taxable year, payment shall not be made until the beginning of the second taxable year.

(ii)If Executive timely and properly elects continuation coverage under COBRA, the Bank shall reimburse Executive for the monthly COBRA Benefits paid by Executive for Executive and Executive's dependents (with the Executive required to pay for any employee-paid portion of such coverage). The Bank shall make any such reimbursement within thirty (30) days following receipt of evidence from Executive of Executive's payment of the COBRA Benefits. Executive shall be eligible to receive such reimbursement until the earliest of: (A) the twelve (12) month anniversary of the Termination Date; (B) the date Executive is no longer eligible to receive COBRA Benefits; and (C) the date on which Executive either receives or becomes eligible to receive substantially similar coverage from another employer. To the extent the COBRA Benefits provided for in this Section 5.4(a) are not permissible after termination of employment under the terms of the health plans of the Bank then in effect, the Bank shall provide Executive with an equivalent monthly cash payment, minus deduction of all amounts required to be deducted or withheld under applicable law, for any period of time Executive was to be reimbursed for COBRA Benefits. Executive shall bear full responsibility for applying for COBRA Benefits and the Bank shall have no obligation to provide Executive such coverage if Executive fails to elect COBRA Benefits in a timely fashion.

(iii)Any outstanding equity awards held by Executive immediately prior to the Termination Date shall immediately vest upon the termination of Executive's employment under this Section 5.4(a) in accordance with the terms of the applicable equity plan and award agreements.

(b)For purposes of this Agreement, "Change of Control" shall mean the first occurrence of any of the following after the Effective Date:

(i)A transaction or series of related transactions (other than an offering of stock of the Company to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any person directly or indirectly becomes the beneficial owner of securities of Third Coast Bankshares, Inc. ("Parent") representing 50% or more of the combined voting power of the then outstanding securities of Parent; provided, however, that notwithstanding the foregoing, a transaction or series of transactions shall not be described hereunder if the acquirer is (A) a trustee or other fiduciary holding securities under an employee benefit plan of Parent or a subsidiary of Parent and acting in such capacity, (B) a wholly-owned subsidiary of Parent or a corporation owned, directly or indirectly, by the shareholders of Parent in the same proportions as their ownership of voting securities of Parent, or (C) any other person whose acquisition of voting securities directly from Parent is approved in advance by a majority of the Incumbent Directors (as defined below); or

(ii)During any twenty-four (24) consecutive month period, the individuals who, at the beginning of such period, constitute the Board of Directors of Parent (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority of the Board of Directors of Parent; provided, however, that an individual who becomes a member of the Board of Directors of Parent subsequent to the beginning of the twenty-four (24) month period will be deemed to have satisfied such twenty-four (24) month requirement (and be an Incumbent Director) if such director was elected by, or on the

recommendation of or with the approval of, at least two-thirds (2/3) of the directors who then qualified as Incumbent Directors; or

(iii)The consummation by Parent (whether directly involving Parent or indirectly involving Parent through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination, or (y) a sale or other disposition of all or substantially all of Parent's assets in any single transaction or series of related transactions, or (C) the acquisition of assets or stock of another entity, in each case other than a transaction:

(1)which results in Parent's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of Parent or the person that, as a result of the transaction, controls, directly or indirectly, Parent or owns, directly or indirectly, all or substantially all of Parent's assets or otherwise succeeds to the business of Parent (Parent or such Person, the "Successor Entity")) directly or indirectly, more than 50% of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(2)After which no person, directly or indirectly, becomes the beneficial owner of voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no Person shall be treated for purposes of this section as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in Parent prior to the consummation of the transaction; or

(iv)The stockholders of Parent approve a plan of complete liquidation or dissolution of the Company.

Notwithstanding anything to the contrary in the foregoing, a transaction shall not constitute a Change of Control if it is effected for the purpose of changing the place of incorporation or form of organization of Parent where all or substantially all of the persons or group that beneficially own all or substantially all of the combined voting power of Parent's voting securities immediately prior to the transaction beneficially own all or substantially all of the combined voting power of Parent in substantially the same proportions of their ownership after the transaction. For purposes of any payment or benefit under this Agreement that is nonqualified deferred compensation subject to Section 409A, to the extent the impact of a Change of Control on such payment or benefit would subject Executive to additional taxes under Section 409A, a Change of Control for purposes of such payment or benefit will mean both a Change of Control and a "change in the ownership of a corporation," "change in the effective control of a corporation," or a "change in the ownership of a substantial portion of a corporation's assets" within the meaning of Section 409A as applied to the Company.

5.5NOTICE OF TERMINATION

Any termination of Executive's employment hereunder by the Bank or by Executive during the Employment Term (other than termination pursuant to Section 5.3(a) on account of Executive's death) shall be communicated by written notice of termination ("Notice of Termination") sent to the other party hereto in accordance with Section 21. The Notice of Termination shall specify:

- (a)The termination provision of this Agreement relied upon; and
- (b)The applicable Termination Date.

5.6 TERMINATION DATE

The Executive's Termination Date shall be:

(a) If Executive's employment hereunder terminates on account of Executive's death, the date of Executive's death;

(b) If Executive's employment hereunder is terminated on account of Executive's Disability, the date that it is determined that Executive has a Disability;

(c) If the Bank terminates Executive's employment hereunder, the date the Notice of Termination is delivered to Executive or such later date specified in the Notice; or

(d) If Executive terminates Executive's employment hereunder with or without Good Reason, the date specified in the Executive's Notice of Termination, which shall be no less than thirty (30) calendar days following the date on which the Notice of Termination is delivered; provided that the Bank may waive all or any part of the thirty (30) calendar day notice period for no consideration by giving written notice to Executive and for all purposes of this Agreement, Executive's Termination Date shall be the date determined by the Bank. In the event the Bank waives all or any part of the thirty (30) calendar day notice period, the Bank will continue to pay Executive his salary and all benefits for the entirety of the thirty (30) calendar day notice period.

5.7 MITIGATION

In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and except as provided in Section 5.2(d), any amounts payable pursuant to this Section 5 shall not be reduced by compensation Executive earns on account of employment with another employer.

5.8 RESIGNATION OF ALL OTHER POSITIONS

Upon termination of Executive's employment hereunder for any reason, Executive shall be deemed to have resigned from all positions that Executive holds as an officer or member of the Board (or a committee thereof) or the board of any of its affiliates.

5.9 SECTION 280G

(a) Executive shall bear all expense of, and be solely responsible for, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (such excise tax being the "Excise Tax" and such code being the "Code"); provided, however, that any payment or benefit received or to be received by Executive (whether payable under the terms of this Agreement or any other plan, arrangement or agreement with the Company or an affiliate of the Company (collectively, the "Payments") that would constitute a "parachute payment" within the meaning of Section 280G of the Code, shall be reduced to the extent necessary so that no portion thereof shall be subject to the Excise Tax but only if, by reason of such reduction, the net after-tax benefit received by Executive shall exceed the net after-tax benefit that would be received by Executive if no such reduction was made.

(b) The "net after-tax benefit" shall mean (i) the present value of the Payments which Executive receives or is then entitled to receive from the Company that would constitute "parachute payments" within the meaning of Section 280G of the Code, less (ii) the amount of all federal, state and local income and employment taxes payable by Executive with respect to the foregoing calculated at the

highest marginal income tax rate for each year in which the foregoing shall be paid to Executive (based on the rate in effect for such year as set forth in the Code as in effect at the time of the first payment of the foregoing), less (iii) the amount of Excise Tax imposed with respect to the Payments described in clause (b)(i) above.

(c) All determinations under this Section 5.9 will be made by an actuarial firm, accounting firm, consulting firm or law firm (the "280G Firm") that is mutually agreed to by Executive and the Company prior to a change in ownership or control of a corporation (within the meaning of Treasury regulations under Section 280G of the Code). The 280G Firm shall be required to evaluate the extent to which all or a portion of any Payments are exempt from Section 280G as reasonable compensation for personal services rendered before or after the Change of Control (including, for avoidance of doubt, Payments in respect of a covenant not to compete). All fees and expenses of the 280G Firm shall be paid solely by the Company. The Company will direct the 280G Firm to submit any determination it makes under this Section 5.9 and detailed supporting calculations to both Executive and the Company as soon as reasonably practicable.

(d) If the 280G Firm determines that one or more reductions are required under this Section 5.9, such Payments shall be reduced in a manner that maximizes Executive's economic position as determined by the 280G Firm. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A of the Code, and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero.

(e) As a result of the uncertainty in the application of Section 280G at the time that the 280G Firm makes its determinations under this Section 5.9, it is possible that amounts will have been paid or distributed to the Executive that should not have been paid or distributed (collectively, the "Overpayments"), or that additional amounts should be paid or distributed to the Executive (collectively, the "Underpayments"). If the 280G Firm determines, based on either the assertion of a deficiency by the Internal Revenue Service against the Company or Executive, which assertion the 280G Firm believes has a high probability of success or is otherwise based on controlling precedent or substantial authority, that an Overpayment has been made, Executive must repay the Overpayment to the Company, together with interest at the applicable federal rate (as defined in Section 7872(f)(2)(A) of the Code) from the date of Executive's receipt of the Overpayment until the date of repayment; provided, however, that no loan will be deemed to have been made and no amount will be payable by Executive to the Company unless, and then only to the extent that, the deemed loan and payment would either reduce the amount on which Executive is subject to tax under Section 4999 of the Code or generate a refund of tax imposed under Section 4999 of the Code. If the 280G Firm determines, based upon controlling precedent or substantial authority, that an Underpayment has occurred, the 280G Firm will notify Executive and the Company of that determination, and the Company will promptly pay the amount of that Underpayment to Executive, together with interest at the applicable federal rate (as defined in Section 7872(f)(2)(A) of the Code) from the date the amount would have otherwise been paid to Executive until the payment date.

(f) The parties will provide the 280G Firm access to and copies of any books, records, and documents in their possession as reasonably requested by the 280G Firm, and otherwise cooperate with the 280G Firm, in connection with the preparation and issuance of the determinations and calculations contemplated by this Section 5.9. For purposes of making the calculations required by this Section 5.9,

the 280G Firm may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code.

6.COOPERATION

The parties agree that certain matters in which Executive will be involved during the Employment Term may necessitate Executive's cooperation in the future. Accordingly, following the termination of Executive's employment for any reason, to the extent reasonably requested by the Board and subject to Executive's professional commitments, Executive shall cooperate with the Bank in connection with matters arising out of Executive's service to the Bank; provided that, the Bank shall make reasonable efforts to minimize disruption of Executive's other activities. The Bank shall pay Executive a reasonable per diem and reimburse Executive for reasonable expenses incurred in connection with such cooperation.

7.COMPETITIVE ACTIVITY; CONFIDENTIALITY; NON-SOLICITATION

7.1ACKNOWLEDGEMENTS AND AGREEMENTS

Executive hereby acknowledges and agrees that in the performance of Executive's duties to the Bank, Executive will be brought into frequent contact with existing and potential customers of the Bank throughout the world. Executive also agrees that trade secrets and confidential information of the Bank, more fully described in Section 7.10 of this Agreement, gained by Executive during Executive's association with the Bank, have been developed by the Bank through substantial expenditures of time, effort and money and constitute valuable and unique property of the Bank. Executive further understands and agrees that the foregoing makes it necessary for the protection of the Bank's business (as defined in Section 7.6) that Executive not compete with the Bank during the period of Executive's employment with the Bank and not compete with the Bank for a reasonable period thereafter, as further provided in this Section 7.

7.2COVENANTS DURING EMPLOYMENT

During Executive's employment with the Bank, Executive will not compete with the Bank anywhere in the world. In accordance with this restriction, but without limiting its terms, during Executive's employment with the Bank, Executive will not:

- (a)enter into or engage in any business which competes with the Bank's business;
- (b)solicit customers, business, patronage or orders for, or sell, any products or services in competition with, or for any business that competes with, the Bank's business;
- (c)divert, entice or otherwise take away any customers, business, patronage or orders of the Bank or attempt to do so; or
- (d)promote or assist, financially or otherwise, any person, firm, association, partnership, corporation or other entity engaged in any business which competes with the Bank's business.

7.3 COVENANTS FOLLOWING TERMINATION

During the Restricted Period (as defined below), Executive will not:

(a)enter into or engage in any business which competes with the Bank's business within the Restricted Territory (as defined in Section 7.7);

(b)solicit customers, business, patronage or orders for, or sell, any products and services in competition with, or for any business, wherever located, that competes with, the Bank's business within the Restricted Territory;

(c)divert, entice or otherwise take away any customers, business, patronage or orders of the Bank within the Restricted Territory, or attempt to do so; or

(d)promote or assist, financially or otherwise, any person, firm, association, partnership, corporation or other entity engaged in any business which competes with the Bank's business within the Restricted Territory.

For purposes of this Section 7.3, the "Restricted Period" means (x) in the event of Executive's termination for any reason other than Executive's resignation without Good Reason, the one (1)-year period beginning on the date of Executive's termination, and (y) in the event of Executive's resignation without Good Reason, the six (6)-month period beginning on the date of Executive's termination.

7.4 INDIRECT COMPETITION

For the purposes of Sections 7.2 and 7.3 inclusive, but without limitation thereof, Executive will be in violation thereof if Executive engages in any or all of the activities set forth therein directly as an individual on Executive's own account, or indirectly as a partner, joint venturer, employee, agent, salesperson, consultant, officer and/or director of any firm, association, partnership, corporation or other entity, or as a stockholder of any corporation in which Executive or Executive's spouse, child or parent owns, directly or indirectly, individually or in the aggregate, more than five percent (5%) of the outstanding stock.

7.5 THE BANK

For the purposes of this Section 7, the Bank shall include any and all direct and indirect subsidiary, parent, affiliated, or related companies of the Bank for which Executive worked or had responsibility at the time of termination of Executive's employment and at any time during the one (1) year period prior to such termination.

7.6 THE BANK'S BUSINESS

For the purposes of this Agreement, the "Bank's business" means managing, operating, controlling, participating in and carrying on domestic, international, personal and commercial banking services, including investment, trust, fiduciary, factoring and estate planning.

7.7 RESTRICTED TERRITORY

For the purposes of this Agreement, the "Restricted Territory" shall mean; (a) the geographic area(s) within a fifty (50) mile radius of any and all Bank location(s) in, to, or for which Executive worked, to which Executive was assigned or had any responsibility (either direct or supervisory) at the time of

termination of Executive's employment and at any time during the two (2) year period prior to such termination and (b) all of the specific customer accounts, whether within or outside of the geographic area described in (a) above, with which Executive had any contact or for which Executive had any responsibility (either direct or supervisory) at the time of termination of Executive's employment and at any time during the one (1) year period prior to such termination.

7.8EXTENSION

If it shall be judicially determined that Executive has violated any of Executive's obligations under Section 7.3, then the period applicable to each obligation that Executive shall have been determined to have violated shall automatically be extended by a period of time equal in length to the period during which such violation(s) occurred.

7.9NON-SOLICITATION

Executive will not directly or indirectly at any time during the period of Executive's employment or for a period of one (1) year following the termination of Executive's employment for any reason, attempt to disrupt, damage, impair or interfere with the Bank's business by soliciting or inducing or attempt to solicit or induce any employee of the Bank to leave the employ of the Bank or hire any person who was an employee of the Bank at any time during the Employment Term, or by disrupting the relationship between the Bank and any of its consultants, agents, representatives or vendors. Executive acknowledges that this covenant is necessary to enable the Bank to maintain a stable workforce and remain in business.

7.10FURTHER COVENANTS

(a)Executive will keep in strict confidence, and will not, directly or indirectly, at any time during or after Executive's employment with the Bank, disclose, furnish, disseminate, make available or, except in the course of performing Executive's duties of employment, use any trade secrets or confidential business and technical information of the Bank or its customers or vendors, without limitation as to when or how the Executive may have acquired such information. Such confidential information shall include, without limitation, the Bank's unique selling, and servicing methods and business techniques, training, service and business manuals, promotional materials, training courses and other training and instructional materials, vendor and product information, customer and prospective customer lists, other customer and prospective customer information and other business information. Executive specifically acknowledges that all such confidential information, whether reduced to writing, maintained on any form of electronic media, or maintained in Executive's mind or memory and whether compiled by the Bank, and/or Executive, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use, that reasonable efforts have been made by the Bank to maintain the secrecy of such information, that such information is the sole property of the Bank and that any retention and use of such information by the Executive during Executive's employment with the Bank (except in the course of performing Executive's duties and obligations to the Bank) or after the termination of Executive's employment shall constitute a misappropriation of the Bank's trade secrets. Nothing in this Agreement prevents Executive from providing, without prior notice to the Bank, information to governmental or administrative authorities regarding possible violations of law or otherwise testifying or participating in any investigation or proceeding by any governmental or administrative authorities regarding possible violations of law.

(b)Executive agrees that upon termination of Executive's employment with the Bank, for any reason. Executive shall return to the Bank, in good condition, all property of the Bank, including, without limitation, any computer, tablet, cell phone, keys or keycards, work papers, reports, drawings, photographs, negatives, prototypes, and the originals and all copies of any materials which contain, reflect,

summarize, describe, analyze or refer or relate to any items of information listed in Section 7.10(a) of this Agreement, whether in hard copy or generated and maintained on any form of electronic media. In the event that such items are not so returned, the Bank will have the right to charge Executive for all reasonable damages, costs, attorneys' fees and other expenses incurred in searching for, taking, removing and/or recovering such property.

(c) Nothing in this Agreement prohibits Executive from reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that, in each case, are protected under the whistleblower provisions of federal law or regulation. Executive does not need the prior authorization of the Bank to make such reports or disclosures and Executive is not required to notify the Bank that Executive has made such reports or disclosures. In addition, pursuant to 18 USC Section 1833(b), Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a federal, state or local governmental official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. If Executive files a lawsuit for retaliation by the Bank for reporting a suspected violation of law, Executive may disclose the trade secret to an attorney and use the trade secret information in the court proceeding if Executive files any document containing the trade secret under seal and does not disclose the trade secret except pursuant to court order.

7.11 DISCOVERIES AND INVENTIONS; WORK MADE FOR HIRE

(a) Executive agrees that upon conception and/or development of any idea, discovery, invention, improvement, software, writing or other material or design that: (i) relates to the business of the Bank, or (ii) relates to the Bank's actual or demonstrably anticipated research or development, or (iii) results from any work performed by the Executive for the Bank, Executive will assign to the Bank the entire right, title and interest in and to any such idea, discovery, invention, improvement, software, writing or other material or design. Executive has no obligation to assign any idea, discovery, invention, improvement, software, writing or other material or design that the Executive conceives and/or develops entirely on Executive's own time without using the Bank's equipment, supplies, facilities, or trade secret information unless the idea, discovery, invention, improvement, software, writing or other material or design: (A) relates to the business of the Bank, or (B) relates to the Bank's actual or demonstrably anticipated research or development, or (C) results from any work performed by Executive for the Bank. Executive agrees that any idea, discovery, invention, improvement, software, writing or other material or design that relates to the business of the Bank or relates to the Bank's actual or demonstrably anticipated research or development which is conceived or suggested by Executive, either solely or jointly with others, within one (1) year following termination of the Executive's employment with the Bank shall be presumed to have been so made, conceived or suggested in the course of such employment with the use of the Bank's equipment, supplies, facilities, and/or trade secrets.

(b) In order to determine the rights of Executive and the Bank in any idea, discovery, invention, improvement, software, writing or other material, and to insure the protection of the same, Executive agrees that during the Executive's employment, and for one (1) year after termination of Executive's employment with the Bank, the Executive will disclose immediately and fully to the Bank any idea, discovery, invention, improvement, software, writing or other material or design conceived, made or developed by Executive solely or jointly with others. The Bank agrees to keep any such disclosures confidential. Executive also agrees to record descriptions of all work in the manner directed by the Bank and agrees that all such records and copies, samples and experimental materials will be the exclusive property of the Bank. Executive agrees that at the request of and without charge to the Bank, but at the Bank's expense, the Executive will execute a written assignment of the idea, discovery, invention, improvement, software, writing or other material or design to the Bank and will assign to the Bank any

application for letters patent or for trademark registration made thereon, and to any common-law or statutory copyright therein; and that Executive will do whatever may be necessary or desirable to enable the Bank to secure any patent, trademark, copyright, or other property right therein in the United States and in any foreign country, and any division, renewal, continuation, or continuation in part thereof, or for any reissue of any patent issued thereon. In the event the Bank is unable, after reasonable effort, and in any event after ten (10) business days, to secure Executive's signature on a written assignment to the Bank of any application for letters patent or to any common-law or statutory copyright or other property right therein, whether because of the Executive's physical or mental incapacity or for any other reason whatsoever, the Executive irrevocably designates and appoints the Corporate Secretary of the Bank as Executive's attorney-in-fact to act on Executive's behalf to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of such letters patent, copyright or trademark.

(c)Executive acknowledges that, to the extent permitted by law, all work papers, reports, documentation, drawings, photographs, negatives, tapes and masters therefor, prototypes and other materials (hereinafter, "items") (including, without limitation, any and all such items generated and maintained on any form of electronic media) generated by Executive during Executive's employment with the Bank shall be considered a "work made for hire" and that ownership of any and all copyrights in any and all such items shall belong to the Bank. The item will recognize the Bank as the copyright owner, will contain all proper copyright notices, e.g., "(creation date) Third Coast Bank, SSB, All Rights Reserved." and will be in condition to be registered or otherwise placed in compliance with registration or other statutory requirements throughout the world.

7.12 COMMUNICATION OF CONTENTS OF AGREEMENT

During Executive's employment with the Bank and for one (1) year thereafter, Executive will communicate the contents of this Section 7 of this Agreement to any person, firm, association, partnership, corporation or other entity that Executive intends to be employed by, associated with, or represent.

7.13 RELIEF

Executive acknowledges and agrees that the remedy at law available to the Bank for breach of any of Executive's obligations under this Agreement would be inadequate. Executive therefore agrees that, in addition to any other rights or remedies that the Bank may have at law or in equity, temporary and permanent injunctive relief may be granted in any proceeding which may be brought to enforce any provision contained in Sections 7.2, 7.3, 7.9, 7.10, 7.11 and 7.12 inclusive, of this Agreement, without the necessity of proof of actual damage.

7.14 REASONABLENESS

Executive acknowledges that Executive's obligations under this Agreement are reasonable in the context of the nature of the Bank's business and the competitive injuries likely to be sustained by the Bank if Executive were to violate such obligations and that these obligations do not place an undue burden on Executive. It is the desire and intent of the parties hereto that the provisions of this Agreement shall be enforced to the fullest extent legally-permissible. Accordingly, if any particular provision(s) of this Agreement shall be adjudicated to be invalid or unenforceable, the court may modify or sever such provision(s), such modification or deletion to apply only with respect to the operation of such provision(s) in the particular jurisdiction in which such adjudication is made. In addition, if any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be construed by limiting and reducing it, so as to be

enforceable to the extent compatible with the applicable law as it shall then appear. The remaining provisions of this Agreement shall remain in full force and effect.

8.NON-DISPARAGEMENT

Executive agrees and covenants that Executive will not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Bank or its businesses, or any of its employees, officers, and existing and prospective customers, suppliers, investors and other associated third parties.

This Section 8 does not, in any way, restrict or impede Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation or order. Executive shall: (if lawful) promptly provide written notice of any such order to the Board. In addition, this Section 8 does not in any way restrict or impede Executive from making good faith statements in internal performance discussions or reviews or denying false statements made by others.

9.ACKNOWLEDGEMENT

Executive acknowledges and agrees that the services to be rendered by Executive to the Bank are of a special and unique character: that the Executive will obtain knowledge and skill relevant to the Bank's industry, methods of doing business and marketing strategies by virtue of Executive's employment; and that the restrictive covenants and other terms and conditions of this Agreement are reasonable and reasonably necessary to protect the legitimate business interest of the Bank.

Executive further acknowledges that the amount of Executive's compensation reflects, in part, the Executive's obligations and the Bank's rights under Section 7 and Section 8 of this Agreement; that Executive has no expectation of any additional compensation, royalties or other payment of any kind not otherwise referenced herein in connection herewith; that Executive will not be subject to undue hardship by reason of the Executive's full compliance with the terms and conditions of Section 7 and Section 8 of this Agreement or the Bank's enforcement thereof.

10.REMEDIES

If, at the time of enforcement of any of the obligations in Section 7, a court shall hold that the duration, scope, or area restrictions are unreasonable, the parties agree that the maximum duration, scope, or area reasonable, as determined by the court, shall be substituted and that the court shall enforce the obligations as modified.

In the event of a breach or threatened breach by the Executive of Section 7 and Section 8 of this Agreement, Executive hereby consents and agrees that the Bank shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief. In addition, in the event of an alleged breach or violation by Executive of the obligations in Section 7, the non-compete period shall be tolled until such breach or violation has been cured.

11.ARBITRATION

Executive and the Bank agree to submit any controversy or claim arising out of this Agreement or otherwise relating to Executive's employment with the Bank, the Bank's parent(s), or any of the Bank's subsidiaries or the termination of such employment (including, but not limited to, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination) exclusively to confidential binding arbitration before a single arbitrator. Any such arbitration will be fully and finally resolved in binding arbitration in a proceeding in Texas in accordance with the Federal Arbitration Act and the National Rules for the Resolution of Employment Disputes of the American Arbitration Association which are then in effect before a single arbitrator. Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party shall be responsible for payment of its reasonable fees of attorneys, professionals and experts and other costs and fees incurred in connection with any arbitration relating to the interpretation or enforcement of any provision of this Agreement.

12.PUBLICITY

During the Employment Term, Executive hereby consents to any and all reasonable and customary uses and displays, by the Bank and its agents, representatives and licensees, of the Executive's name, voice, likeness, image, appearance and biographical information in, on or in connection with any pictures, photographs, audio and video recordings, digital images, websites, television programs and advertising, other advertising and publicity, sales and marketing brochures, books, magazines, other publications, CDs, DVDs, tapes and all other printed and electronic forms and media throughout the world, at any time during the period of Executive's employment by the Bank, for all legitimate commercial and business purposes of the Bank ("Permitted Uses"), without royalty, payment or other compensation to Executive.

13.GOVERNING LAW; JURISDICTION AND VENUE

This Agreement, for all purposes, shall be construed in accordance with the laws of Texas without regard to conflicts of law principles. Subject to Section 11, any action or proceeding by either of the parties to enforce this Agreement shall be brought only in Harris County, Texas, unless the principal place of Executive's employment hereunder is located in a different jurisdiction, in which case any action shall be brought in that County or related federal court. The parties hereby irrevocably submit to the exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue. In any such proceeding, each of the parties hereby knowingly and willingly waives and surrenders such party's right to trial by jury and agrees that such litigation shall be tried to a judge sitting alone as the trier of both fact and law, in a bench trial, without a jury.

14.ENTIRE AGREEMENT

Unless specifically provided herein, this Agreement contains all of the understandings and representations between Executive and the Bank pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter; provided, however, that if Executive and the Bank enter into a separate restrictive covenant agreement and the provisions of that agreement conflict with the provisions in this Agreement, the provision that entitles the Bank to the broadest relief under applicable law shall control; provided, further, that, with the exception of Section 5.9 (Section 280G), nothing in this Agreement shall supersede, limit or in any way affect any rights Executive may have under any employee benefit plan, program or agreement.

The parties mutually agree that this Agreement can be specifically enforced in court and can be cited as evidence in legal proceedings alleging breach of this Agreement.

15.MODIFICATION AND WAIVER

No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by Executive and by an individual authorized by the Board. No waiver by either of the parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

16.SEVERABILITY

Should any provision of this Agreement be held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement.

The parties further agree that any such court is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement or by making such other modifications as it deems warranted to carry out the intent and agreement of the parties as embodied herein to the maximum extent permitted by law.

The parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been set forth herein.

17.CAPTIONS

Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

18.COUNTERPARTS

This Agreement may be executed in separate counterparts (including facsimile and other electronically transmitted counterparts), each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

19.SECTION 409A

This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A and any such exemption thereunder. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a

manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Bank makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Bank be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Executive on account of non-compliance with Section 409A.

If any reimbursements or in-kind benefits provided by the Bank pursuant to this Agreement would constitute deferred compensation for purposes of Section 409A, such reimbursements or in-kind benefits shall be subject to the following rules: (a) the amounts to be reimbursed, or the in-kind benefits to be provided, shall be determined pursuant to the terms of the applicable benefit plan, policy or agreement and shall be limited to Executive's lifetime and the lifetime of Executive's eligible dependents; (b) the amounts eligible for reimbursement, or the in-kind benefits provided, during any calendar year may not affect the expenses eligible for reimbursement, or the in-kind benefits provided, in any other calendar year; (c) any reimbursement of an eligible expense shall be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and (d) Executive's right to an in-kind benefit or reimbursement is not subject to liquidation or exchange for cash or another benefit.

Notwithstanding any other provision of this Agreement, if any payment or benefit provided to the Executive in connection with the termination of Executive's employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and the Executive is determined to be a "specified employee" as defined in subsection (a)(2)(b)(i) of Section 409A, then such payment or benefit shall not be paid until the first payroll date to occur following the six (6) month anniversary of the Termination Date (the "Specified Employee Payment Date"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Executive in a lump sum on the Specified Employee Payment Date (with interest at the Applicable Federal Rate from the scheduled payment date to the date of payment), and thereafter any remaining payments shall be paid without delay in accordance with their original schedule.

20. SUCCESSORS AND ASSIGNS

This Agreement is personal to Executive and shall not be assigned by Executive. Any purported assignment by Executive shall be null and void from the initial date of the purported assignment. The Bank may assign this Agreement to any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Bank. This Agreement shall inure to the benefit of the Bank and permitted successors and assigns. Executive hereby consents to the assignment by the Bank of all of its rights and obligations hereunder to any successor to the Bank by merger or consolidation or purchase of all or substantially all of the Bank's assets, provided such transferee or successor assumes the liabilities of the Bank hereunder.

21. NOTICE

Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally, sent by registered or certified mail, return receipt requested, sent via electronic mail, or sent by reputable overnight carrier to the parties at the addresses set forth below (or such other addresses as specified by the parties by like notice):

If to the Bank:

Head of Human Resources
Third Coast Bank, SSB
20202 Highway 59 N, Suite 190
Humble, Texas 77338
Email:

If to Executive, to such address as shall most currently appear on the records of the Bank.

Any notice under this Agreement shall be deemed to have been given when so delivered (or in the case of electronic mail, when electronic evidence of transmission is received).

22. REPRESENTATIONS OF EXECUTIVE

Executive represents and warrants to the Bank that: (a) Executive's employment with the Bank and/or the execution, delivery, and performance of this Agreement by Executive do not and shall not conflict with, breach, violate, or cause a default under any contract, agreement, instrument, order, judgment, or decree to which the Executive is a party or by which Executive is bound; and (b) Executive is not a party to or bound by any employment agreement, non-compete agreement, confidentiality agreement, or other post-employment obligation with any other person or entity that would limit the Executive's job duties or obligations with the Bank in any way.

23. WITHHOLDING

The Bank shall have the right to withhold from any amount payable hereunder any federal, state and local taxes in order for the Bank to satisfy any withholding tax obligation it may have under any applicable law or regulation. Notwithstanding any other provision of this Agreement, the Bank shall not be obligated to guarantee any particular tax result for Executive with respect to any payment provided to Executive hereunder, and Executive shall be responsible for any taxes imposed on Executive with respect to any such payment.

24. SURVIVAL

Upon any expiration or other termination of this Agreement: (a) each of Sections 7 (Competitive Activity; Confidentiality; Nonsolicitation), 8 (Disparagement), 9 (Acknowledgment), 10 (Remedies), 11 (Arbitration) and 12 (Publicity) shall survive such expiration or other termination; and (b) all of the other respective rights and obligations of the parties hereto shall survive such expiration or other termination to the extent necessary to carry out the intentions of the parties under this Agreement.

25. ACKNOWLEDGEMENT OF FULL UNDERSTANDING

EXECUTIVE ACKNOWLEDGES AND AGREES THAT EXECUTIVE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THIS AGREEMENT. EXECUTIVE ACKNOWLEDGES AND AGREES THAT EXECUTIVE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF EXECUTIVE'S CHOICE BEFORE SIGNING THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EXECUTIVE

THIRD COAST BANK, SSB

/s/ Bill Bobbora
Name: Bill Bobbora
Dated: April 20, 2023

By: /s/ Bart Caraway
Name: Bart Caraway
Title: Chief Executive Officer
Dated: April 20, 2023

[Signature Page to Employment Agreement]

**THIRD COAST BANK, SSB
SALARY CONTINUATION AGREEMENT**

THIS SALARY CONTINUATION AGREEMENT (this "Agreement") is made by and between Third Coast Bank, SSB, Humble, Texas, a Texas banking association (the "Bank"), or any other successor, transferee, or assignees, and Bill Bobbora (the "Executive").

INTRODUCTION

To encourage the Executive to remain an employee of the Bank, the Bank is willing to provide salary continuation benefits to the Executive. The Bank will pay the benefits from its general assets.

AGREEMENT

The Executive and the Bank agree as follows:

ARTICLE 1

DEFINITIONS

1.1 Definitions. Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1.1 "Accrual Balance" means the liability amount due under this Agreement and set forth on the financial statements of the Bank, determined in accordance with generally accepted accounting principles and utilizing the Discount Rate.

1.1.2 "Beneficiary" means each person designated pursuant to Article 4, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive.

1.1.3 "Beneficiary Designation Form" means the form established from time to time by the Plan Administrator, attached to this Agreement as Exhibit A, that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.1.4 "Cause" means as defined in an Employment Agreement. If no Employment Agreement exists, or if an Employment Agreement exists but cause is not defined therein, then "cause" means:

(a) the Executive's willful failure to perform the Executive's material duties (other than any such failure resulting from incapacity due to physical or mental illness);

(b) the Executive's willful failure to comply with any valid and legal directive of the Executive's supervisor or the Board of

(c) the Executive's embezzlement, misappropriation or fraud, whether or not related to Executive's employment with the Bank;

(d)the Executive's commission of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent) or a crime that constitutes a misdemeanor involving moral turpitude;

(e)the Executive is or becomes a person described in the Federal Deposit Insurance Act (the "FDI Act"), Section 19(a)(1)(A) who has not received the Federal Insurance Corporation's prior consent to participate in the Bank's affairs under the "FDIC State of Policy for Section 19 of the FDI Act" or any successor thereto;

(f)the Executive's willful violation of a material policy or code of conduct of the Bank, including its Insider Trading Policy or Code of Ethics; or

(g)the Executive's material breach of any material obligation under this Agreement, including, but not limited to, Section 5.7 of this Agreement, or any other written agreement between the Executive and the Bank and/or the Holding Company.

Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated by reason of violating Sections 1.1.4(a), (b), (c), (g) or (h) until the Executive is notified in writing by the Bank (or its successor entity) of a determination of a violation of Sections 1.1.4(a), (b), (c), (g) or (h), specifying the particulars thereof in reasonably sufficient detail, and giving the Executive a reasonable opportunity (of not less than ten (10) days), together with his/her counsel, to explain to the Bank why there has been no violation of Sections 1.1.4(a), (b), (c), (g) or (h), followed by a finding by the Bank (i) that in the good faith opinion of the Bank (or its successor entity), the Executive had committed an act described in Sections 1.1.4(a), (b), (c), (g) or (h) above, (ii) specifying the particulars thereof in detail, and (iii) determining that such violation has not been corrected, or is not capable of correction.

1.1.5 "*Change in Control*" means and includes a change in ownership or effective control of the Bank or Holding Company or in the ownership of a substantial portion of the assets of the Bank or Holding Company, within the meaning of Code Section 409A and as described in Treasury Regulations §§1.409A-3(i)(5).

1.1.6 "*Change in Control Benefit*" means the benefit described in Section 2.5.

1.1.7 "*Code*" means the Internal Revenue Code of 1986, as amended.

1.1.8 "*Death Benefit*" means the benefit described in Article 3.

1.1.9 "*Disability*" means that the Executive is determined to be totally disabled by the Social Security Administration.

1.1.10 "*Disability Benefit*" means the benefit described in Section 2.4.

1.1.11 "*Discount Rate*" means 5.5%, subject to change based upon regulatory requirements.

1.1.12 "*Effective Date*" means April 1, 2023.

1.1.13 "*Employment Agreement*" means a then-current employment agreement or similar agreement between the Executive and the Bank and/or the Holding Company.

1.1.14 "*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

1.1.15 "*Holding Company*" means Third Coast Bancshares, Inc., a Texas corporation and registered bank holding company.

1.1.16 "*Involuntary Termination Date*" means the month, day and year in which Involuntary Termination of Employment occurs.

1.1.17 "*Involuntary Termination of Employment*" means the Termination of Employment before the Normal Retirement Age for any reason other than death, Disability, Cause, or Change in Control either:

(a) by the Bank or the Holding Company or

(b) by the Executive for Good Reason if "good reason" is defined in the Employment Agreement (if no Employment Agreement exists or if "good reason" is not defined in the Employment Agreement then this subpart shall not apply).

1.1.18 "*Normal Retirement Age*" means age sixty-five (65) years old.

1.1.19 "*Normal Retirement Benefit*" means the benefit described in Section 2.1.

1.1.20 "*Plan Administrator*" means the plan administrator described in Article 8.

1.1.21 "*Plan Year*" means each twelve (12) month period commencing on January 1st and ending on December 31st. Notwithstanding the preceding, the initial Plan Year shall begin on the Effective Date and shall end December 31, 2023.

1.1.22 "*Restrictive Covenant Obligation*" has the meaning given in Section 5.7 of this Agreement.

1.1.23 "*Termination of Employment*" shall mean a termination of the Executive's employment, whether voluntary or involuntary, for any reason whatsoever, determined as follows:

(a) *Generally*. An Executive terminates employment when the facts and circumstances indicate that the Bank and the Executive reasonably anticipate that the Executive will perform no further services for the Bank or an affiliate of the Bank, or that the level of bona fide services the Executive will perform for the Bank and affiliates of the Bank will permanently decrease to no more than twenty percent (20%) of the average level of bona fide services the Executive performed over the immediately preceding thirty-six (36)-month period (or the full period of service if the Executive has been providing services to the Bank and affiliates of the Bank for less than thirty-six (36) months) (the "36-month average").

(b) *Rebuttable Presumptions*. Barring contrary facts and circumstances, the Bank shall presume (i) that a decrease in bona fide services to twenty percent (20%) or less of the 36-month average constitutes a termination of employment, and (ii) that continued bona fide services at fifty percent (50%) or more of the 36-month average does not constitute a termination of employment.

(c) *Employee v. Contractor*. For purposes of the foregoing, services include those performed as an employee or as an independent contractor.

(d) *Leave of Absence*. If an Executive takes a bona fide paid leave of absence (as defined in Treasury Regulation § 1.409A-1(h)(1)) and has not otherwise terminated employment, the Bank shall treat the Executive as providing bona fide services at a level equal to the level of services that the Executive would have been required to perform to receive the compensation paid with respect to such leave of absence. Periods during which an Executive takes a bona fide unpaid leave of absence (as defined in Treasury Regulation § 1.409A-1(h)(1)) and has not otherwise terminated employment will be disregarded for purposes of determining whether a Termination of Employment has occurred (including for purposes of determining the applicable 36-month average).

1.1.24 "Voluntary Termination Date" means the month, day and year Voluntary Termination of Employment occurs.

1.1.25 "Voluntary Termination of Employment" means the Termination of Employment from the Bank or the Holding Company before Normal Retirement Age by the Executive for any reason other than death, Disability, Cause, or Change in Control.

ARTICLE 2

LIFETIME BENEFITS

2.1 *Normal Retirement Benefit*. Upon the Executive's Normal Retirement Age, the Executive shall be entitled to the benefit described in this Section 2.1.

2.1.1 *Amount of Benefit*. The annual benefit under this Section 2.1 is One Hundred Thousand Dollars (\$100,000).

2.1.2 *Payment of Benefit*. The Bank shall pay the annual benefit described in Section 2.1.1 for a period of ten (10) years, payable in monthly (one-twelfth (1/12th) of the annual benefit) installments beginning on the last day of the month following the month in which the Executive's Normal Retirement Age occurs. The monthly installment payments under this Section 2.1.2 shall total one hundred twenty (120) substantially equal payments over a period of one hundred twenty (120) months.

2.2 *Involuntary Termination of Employment*. Subject to the provisions of Section 2.5, upon Involuntary Termination of Employment occurs before the Executive's Normal Retirement Age for reasons other than death, Cause, Disability, or in connection with a Change in Control, the Executive shall be entitled to the benefit described in this Section 2.2.

2.2.1Amount of Benefit. The amount of the benefit under this Section 2.2 is the vested Accrual Balance, determined as of the Involuntary Termination Date in accordance with the schedule set forth in Section 2.2.2, and the Executive shall forfeit, for no consideration, the unvested Accrual Balance as of the Involuntary Termination Date and shall be entitled to no further benefits under this Agreement.

2.2.2Vesting Schedule. The Executive shall become vested in the Accrual Balance in accordance with the following schedule:

<u>Plan Years Completed</u>	<u>Vesting Percentage</u>
1	40%
2	60%
3	80%
4	100%

2.2.3Payment of Benefit. The Bank shall pay the benefit described in Section 2.2.1, if any, in a single lump-sum payment to the Executive sixty (60) days following the last day of the month in which the Involuntary Termination Date occurs.

2.3Voluntary Termination of Employment. Subject to the provisions of Section 2.5, upon Voluntary Termination of Employment, the Executive shall be entitled to the benefit described in this Section 2.3.

2.3.1Amount of Benefit. The amount of the benefit under this Section 2.3 is the vested Accrual Balance, determined as of Voluntary Termination Date in accordance with the schedule set forth in Section 2.3.2, and the Executive shall forfeit, for no consideration, the unvested Accrual Balance as of the Voluntary Termination Date and shall be entitled to no further benefits under this Agreement.

2.3.2Vesting Schedule. The Executive shall become vested in the Accrual Balance in accordance with the following schedule:

<u>Plan Years Completed</u>	<u>Vesting Percentage</u>
1	30%
2	40%
3	50%
4	60%
5	70%
6	80%
7	90%
8	100%

2.3.3Payment of Benefit. The Bank shall pay the benefit described in Section 2.3.1, if any, in a single lump-sum payment to the Executive sixty (60) days following the last day of the month in which the Voluntary Termination Date occurs.

2.4Disability Benefit. Upon the Executive's Disability prior to Normal Retirement Age, the Executive shall be entitled to the benefit described in this Section 2.4.

2.4.1Amount of Benefit. The amount of the benefit under this Section 2.4 is one hundred percent (100%) of the Accrual Balance, determined as of the Executive's Disability.

2.4.2Payment of Benefit. The Bank shall pay the benefit described in Section 2.4.1 in a single lump-sum payment sixty (60) days following the last day of the month in which the Executive's Disability occurs.

2.5Change in Control Benefit. Upon a Change in Control, the Executive, subject to the provisions of Section 5.2, shall be entitled to the benefit described in this Section 2.5.

2.5.1Amount of Benefit. The amount of the benefit under this Section 2.5 is one hundred percent (100%) of the Accrual Balance, determined as of the date of the Change in Control.

2.5.2Payment of Benefit. The Bank shall pay the benefit described in Section 2.5.1 to the Executive in a single lump-sum payment sixty (60) days following the last day of the month in which the Change in Control occurs.

2.6Distributions Upon Income Inclusion Under Code Section 409A of the Code. Upon the inclusion of any amount into the Executive's income as a result of the failure of this Agreement to comply with the requirements of Code Section 409A, a distribution shall be made as soon as is administratively practicable following the discovery of the failure. The amount distributed may not exceed the amount to be included in income as a result of the failure to comply with the requirements of Code Section 409A and the regulations thereunder.

ARTICLE 3

DEATH BENEFITS

3.1Death During Active Service. If the Executive dies while in the active service of the Bank and prior to receiving any payments under this Agreement, the Executive's Beneficiary shall be entitled to no benefits whatsoever under this Agreement.

3.1.1Amount of Benefit. The annual benefit under Section 3.1 is the Normal Retirement Benefit set forth in Section 2.1.

3.1.2Payment of Benefit. The Bank shall pay the annual benefit described in Section 3.1.1 to the Beneficiary for a period of ten (10) years, payable in monthly (one twelfth (1/12th) of the annual benefit) installments beginning on the last day of the month following the month in which the Executive dies. The monthly installment payments under this Section 3.1.2 shall total one hundred twenty (120) substantially equal payments over a period of one hundred twenty (120) months.

3.2Death During Benefit Period. If the Executive dies after benefit payments have commenced under this Agreement, or after the Executive is entitled to begin receiving benefits,

but before receiving all such payments, the Bank shall pay the remaining benefits to the Executive's Beneficiary at the same time and in the same amounts they would have been paid to the Executive had the Executive survived.

ARTICLE 4

BENEFICIARIES

4.1 Beneficiary Designations. The Executive shall designate a Beneficiary by filing with the Bank a written designation of Beneficiary on a form substantially similar to the form attached as Exhibit A. The Executive may revoke or modify the designation at any time by filing a new designation. However, designations will only be effective if signed by the Executive and accepted by the Bank during the Executive's lifetime. Unless otherwise communicated to the Bank in writing by the Executive, the Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive, or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. If the Executive dies without a valid Beneficiary designation, all payments shall be made to the Executive's surviving spouse, if any, and if none, to the Executive's surviving children and the descendants of any deceased child by right of representation, and if no children or descendants survive, to the Executive's estate.

4.2 Facility of Payment. If a benefit under this Agreement is payable to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of his or her property, the Bank may pay such benefit to the guardian, legal representative, or person having the care or custody of such minor, incompetent person, or incapable person. The Bank may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Bank from all liability with respect to such benefit.

ARTICLE 5

GENERAL LIMITATIONS

5.1 Cause. Notwithstanding any provision of this Agreement to the contrary, the Bank shall not pay any benefit under this Agreement if Executive's Termination of Employment by the Bank is due to Cause. Further, if the Executive is receiving benefits under this Agreement, and the Bank discovers after the Executive's Termination of Employment or other separation from service from the Bank, regardless of reason, that the Executive committed any acts while employed with the Bank that rise to the level of Cause, then, in addition to any other remedies available to it, the Bank may immediately cease payment of any further benefits due under this Agreement.

5.2 Golden Parachute Payment. Notwithstanding any provision of this Agreement to the contrary, the Bank shall not be required to pay any benefit under this Agreement if, upon the advice of counsel, the Bank determines that the payment of such benefit would be prohibited by 12 C.F.R. Part 359 or any successor regulations regarding employee compensation promulgated by any regulatory agency having jurisdiction over the Bank or its affiliates. To the extent possible, such benefit payment shall be proportionately reduced to allow payment within the fullest extent

permissible under applicable law. The Executive shall forfeit, for no consideration, any amount over and above such reduced amount.

5.3Acceleration of Payments. Except as specifically permitted herein or in other sections of this Agreement, no acceleration of the time or schedule of any payment may be made hereunder. Notwithstanding the foregoing, payments may be accelerated hereunder by the Bank (without any direct or indirect election on the part of the Executive), in accordance with the provisions of Treasury Regulation §1.409A-3(j)(4) and any subsequent guidance issued by the Treasury. Accordingly, payments may be accelerated, in the following circumstances: (i) in limited cash-outs; or (ii) to pay any taxes that may become due at any time that this Agreement fails to meet the requirements of Code Section 409A (but in no case shall such payments exceed the amount to be included in income as a result of the failure to comply with the requirements of Code Section 409A).

5.4Changes to Time and/or Form of Payment. Subject to the Bank's approval, the Executive may delay the time of a payment or change the form of a payment as expressly provided under this Section 5.4 and Code Section 409A (a "Subsequent Deferral Election"). Notwithstanding the foregoing, a Subsequent Deferral Election cannot accelerate any payment. A Subsequent Deferral Election which delays payment or changes the form of payment is permitted only if all of the following requirements are met:

(a)the Subsequent Deferral Election does not take effect until at least twelve (12) months after the date on which the election is made;

(b)the Subsequent Deferral Election relates to a payment based on Termination of Employment or a payment made at a specified time, the election must result in payment being deferred for a period of not less than five (5) years from the date the first amount was scheduled to be paid as a result of such event; and

(c)the Subsequent Deferral Election relates to a payment at a specified time, the election must be made not less than twelve (12) months before the date the first amount was scheduled to be paid.

5.5Suicide. No benefits shall be payable if the Executive commits suicide within two (2) years after the date of this Agreement, or if the Executive has made any material misstatement of fact on any application for life insurance purchased by the Bank.

5.6Delays. If the Bank reasonably anticipates that any payment scheduled to be made under this Agreement would violate securities laws (or other applicable laws) or jeopardize the ability of the Bank to continue as a going concern if paid as scheduled, then the Bank may defer that payment, provided the Bank treats payments to all similarly situated persons participating in all arrangements that would be aggregated with this Agreement under Code Section 409A on a reasonably consistent basis. In addition, the Bank may, at its discretion, delay a payment upon such other events and conditions as the Internal Revenue Service may prescribe, provided the Bank treats payments to all similarly situated persons participating in all arrangements that Bank reasonably anticipates that such violation or material harm would be avoided or as otherwise prescribed by the Internal Revenue Service.

5.7 Restrictive Covenant Obligations. In consideration of the benefits provided under this Agreement, the Executive hereby reaffirms, acknowledges, agrees and covenants to comply with all confidentiality, non-competition, non-solicitation, non-disparagement, and/or no-hire obligations (each, a “*Restrictive Covenant Obligation*”) set forth in any written agreement between the Executive, on the one hand, and the Bank and/or the Holding Company, on the other hand, including, without limitation, that certain Employment Agreement dated March 24, 2023, by and between the Executive and the Bank. In the event of a breach or threatened breach by the Executive of any *Restrictive Covenant Obligation*, any unpaid benefits under this Agreement shall be forfeited effective as of the date of such breach or threatened breach, unless earlier forfeited by operation of another term or condition of this Agreement. The automatic forfeiture of the Executive’s benefits under this Agreement upon Executive’s breach or threatened breach of a *Restrictive Covenant Obligation* shall be in addition to all other rights and remedies available to the members of the Bank Group at law or in equity.

ARTICLE 6

CLAIMS AND REVIEW PROCEDURES

6.1 Claims Procedure (for Claims other than for Disability Benefits). An Executive or Beneficiary (“*claimant*”) who has not received benefits under this Agreement (other than Disability Benefits) that he or she believes should be paid shall make a claim for such benefits as follows:

6.1.1 Initiation - Written Claim. The claimant initiates a claim by submitting to the Bank a written claim for the benefits.

6.1.2 Timing of Bank Response. The Bank shall respond to such claimant within ninety (90) days after receiving the claim. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional ninety (90) days by notifying the claimant in writing, prior to the end of the initial ninety (90)-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

6.1.3 Notice of Decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing or by electronic communication of such denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a) the specific reasons for the denial,
- (b) a reference to the specific provisions of this Agreement on which the denial is based,
- (c) a description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed,
- (d) an explanation of this Agreement’s review procedures and the time limits applicable to such procedures, and

(e)a statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

6.2Review Procedure. If the Bank denies part or all of the claim pursuant to Section 6.1, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows:

6.2.1Initiation - Written Request. To initiate the review, the claimant, within sixty (60) days after receiving the Bank's notice of denial, must file with the Bank a written request for review.

6.2.2Additional Submissions - Information Access. The claimant shall then have the opportunity to submit written comments, documents, records, and other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

6.2.3Considerations on Review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

6.2.4Timing of Bank Response. The Bank shall respond in writing to such claimant within sixty (60) days after receiving the request for review. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional sixty (60) days by notifying the claimant in writing, prior to the end of the initial sixty (60)-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

6.2.5Notice of Decision. The Bank shall notify the claimant in writing or by electronic communication of its decision on the review. The Bank shall write the notification in a manner calculated to be understood by the claimant. If the Bank denies part or all of the appeal, the notification shall set forth:

- (a)the specific reasons for the denial,
- (b)a reference to the specific provisions of this Agreement on which the denial is based,
- (c)a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits, and
- (d)a statement of the claimant's right to bring a civil action under ERISA Section 502(a).

6.3Claims Procedure for Disability Benefits. A claimant who has not received a Disability Benefit under this Agreement that he or she believes should be paid shall make a claim for such benefits as follows:

6.3.1Initiation - Written Claim. The claimant initiates a claim by submitting to the Bank a written claim for the benefits.

6.3.2Timing of Bank Response. The Bank shall respond to such claimant within forty-five (45) days after receiving the claim. If the Bank determines that additional time for processing the claim is required due to matters beyond its control, the Bank can extend the response period by up to two (2) additional thirty (30) days by notifying the claimant in writing, prior to the end of the initial forty-five (45) day period (or first thirty (30)-day extension period, if applicable) that an additional period is required. The notice of extension must set forth the reason for the extension, the standards on which entitlement to the Disability Benefit is based, any unresolved issues that prevent a decision on the claim, the additional information, if any, the Executive must submit, and the date by which the Bank expects to render its decision. If the Executive provides additional information, he or she will be provided with at least forty-five (45) days to provide the additional information. The period from which the Executive is notified of the additional required information to the date he or she responds is not counted as part of the determination period.

6.3.3Notice of Decision. If the Bank denies part or all of the claim, the Bank shall notify the claimant in writing or by electronic communication of such denial. The Bank shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

- (a)the specific reasons for the denial;
- (b)a reference to the specific provisions of this Agreement on which the denial is based;
- (c)a description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;
- (d)a discussion of the decision that includes the basis for disagreeing with or not following:
 - (i)the views presented by health care professionals treating the claimant and vocational professionals who evaluated the claimant;
 - (ii)the views of medical or vocational experts whose advice was obtained on the Bank's behalf, regardless of whether the advice was relied on in making the benefit denial; and
 - (iii)a disability determination made by the Social Security Administration, if presented to the Bank;
- (e)if the decision was based on medical necessity or experimental treatment (or a similar exclusion or limit), either:

(i)an explanation of the scientific or clinical judgment for the denial, applying the terms of this Agreement to the claimant's medical circumstances; or

(ii)a statement that this explanation will be provided free of charge upon request;

(f)either the specific internal rules, guidelines, protocols, standards, or other similar criteria of the Bank relied on in making the denial, or notice that such rules, guidelines, protocols, standards, or other similar criteria of the Bank do not exist;

(g)notice that the claimant is entitled to receive (on request and free of charge) reasonable access to and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

(h)an explanation of this Agreement's review procedures and the time limits applicable to such procedures; and

(i)a statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

Claimants are guaranteed the right to present evidence and testimony regarding their claim during the review process. If the Executive lives in a county with a significant population of non-English speaking persons, the Bank will provide, in the non-English language(s), a statement of how to access oral and written language services in those languages.

6.4Review Procedure. If the Bank denies part or all of the claim pursuant to Section 6.3, the claimant shall have the opportunity for a full and fair review by the Bank of the denial, as follows:

6.4.1Initiation - Written Request. To initiate the review, the claimant, within one hundred eighty (180) days after receiving the Bank's notice of denial, must file with the Bank a written request for review.

6.4.2Additional Submissions - Information Access. The claimant shall then have the opportunity to submit written comments, documents, records, and other information relating to the claim. The Bank shall also provide the claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

6.4.3Considerations on Review. In considering the review, the Bank shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The appeal will be conducted by an appropriate named fiduciary, who is not the person who made the initial decision or the subordinate of that person. For claims involving medical judgment, including decisions about whether a treatment or drug is experimental, investigational, or not medically necessary, the named fiduciary will consult with a health care professional who:

- (a)Has appropriate training and experience in the area of medicine involved,
- (b)Was not consulted during the initial denial, and
- (c)Is not a subordinate of the person who made the initial denial.

The Bank will identify the medical or other experts who were consulted when making the benefit determination, regardless of whether the expert's advice was relied on in making the determination.

Before a benefit denial is issued on appeal, the claimant will be provided (free of charge) with any new or additional evidence considered, relied on, or generated by the Bank or other person making the benefit determination (or at the direction of the Bank or other person) regarding the claim. The claimant will be provided any new or additional evidence as soon as possible and sufficiently in advance of the date the appeal denial notice is due, so that the claimant has a reasonable opportunity to respond.

Before a benefit denial is issued on appeal, if the denial is issued based on a new or additional rationale, the claimant will be provided, free of charge, with the rationale. The claimant will be provided with the rationale as soon as possible and sufficiently in advance of the date on which the appeal denial notice is due, so that the claimant has a reasonable opportunity to respond.

6.4.4 Timing of Bank Response. The Bank shall respond in writing to such claimant within forty-five (45) days after receiving the request for review. If the Bank determines that special circumstances require additional time for processing the claim, the Bank can extend the response period by an additional forty-five (45) days by notifying the claimant in writing, prior to the end of the initial forty-five (45)-day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Bank expects to render its decision.

6.4.5 Notice of Decision. The Bank shall notify the claimant in writing or by electronic communication of its decision on the review. The Bank shall write the notification in a manner calculated to be understood by the claimant. If the Bank denies part or all of the appeal, the notification shall set forth:

- (a)the specific reasons for the denial;
- (b)a reference to the specific provisions of this Agreement on which the denial is based;
- (c)a discussion of the decision that includes the basis for disagreeing with or not following:
 - (i)the views presented by health care professionals treating the claimant and vocational professionals who evaluated the claimant;

(ii)the views of medical or vocational experts whose advice was obtained on the Bank's behalf, regardless of whether the advice was relied on in making the benefit denial; and

(iii)a disability determination made by the Social Security Administration, if presented to the Bank;

(d)if the decision was based on medical necessity or experimental treatment (or a similar exclusion or limit), either:

(i)an explanation of the scientific or clinical judgment for the denial, applying the terms of this Agreement to the claimant's medical circumstances; or

(ii)a statement that this explanation will be provided free of charge upon request;

(e)either the specific internal rules, guidelines, protocols, standards, or other similar criteria of the Bank relied on in making the denial, or notice that such rules, guidelines, protocols, standards, or other similar criteria of the Bank do not exist, and

(f)a statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review, including a description of any contractual limitations period relevant to the right to sue, with the calendar date on which the contractual limitations period expires for the claim.

6.5Claims Procedures Mandatory. The internal claims procedures set forth in this Article 6 are mandatory. If a claimant fails to follow these claims procedures, or to timely file a request for appeal in accordance with this Article 6, the denial of the claim shall become final and binding on all persons for all purposes.

ARTICLE 7

AMENDMENTS AND TERMINATION

7.1Amendment. This Agreement may be amended at any time by the Bank by a written agreement signed by the Bank and the Executive. However, the Bank may unilaterally amend this Agreement to conform with written directives to the Bank from its auditors or banking regulators or to comply with legislative changes or tax law, including without limitation Code Section 409A and any and all Treasury regulations and guidance promulgated thereunder. This Agreement may also be unilaterally amended by the Bank at any time, retroactively if required, if found necessary in the opinion of the Bank, in order to ensure that this Agreement is characterized as a "top-hat" plan of deferred compensation maintained for a select group of management or highly compensated employees as described under ERISA Sections 201(2), 301(a)(3), and 401(a)(1), to conform this Agreement to the provisions of Code Section 409A and to conform this Agreement to the requirements of any other applicable law (including ERISA, banking regulations, and the Code). No such amendment shall be considered prejudicial to any interest of the Executive or a Beneficiary hereunder without written consent of the Executive or Beneficiary.

7.2 Suspension of Agreement. The Bank may, in its sole discretion and prior to commencement of the payment of benefits under this Agreement, suspend this Agreement and cease all future accruals thereunder as of the date this Agreement is suspended. In such event, and unless and until this Agreement is later reinstated, the Executive shall receive payments under this Agreement at the times and in the manner as set forth in Articles 2 and 3, provided that (i) the Accrual Balance for the purposes of determining the benefits payable shall be determined as of the date this Agreement is suspended under this Section 7.2. and (ii) for the purposes of Section 2.1.1 only, and any continuation of such payments under Section 3.2, as applicable, the annual benefit shall be adjusted so that the present value, determined in accordance with generally accepted accounting principles, of all payments to be paid under Section 2.1.1 (or Section 3.2, as applicable) is equal to the Accrual Balance as of the date this Agreement is suspended under this Section 7.2. If this Agreement is reinstated, the terms of this Agreement otherwise in effect prior to suspension under this Section 7.2 shall control.

7.3 Agreement Termination Generally. The Bank may terminate this Agreement at any time. Except as provided in Section 7.4, the termination of this Agreement shall not cause a distribution of benefits under this Agreement. Rather, after such termination, benefit distributions will be made at the earliest distribution event permitted under Article 2 or Article 3.

7.4 Agreement Terminations Under Code Section 409A. Notwithstanding anything to the contrary in Section 7.2, if this Agreement terminates in the following circumstances, the Bank shall distribute one hundred percent (100%) of the Accrual Balance, determined as of the date of the termination of this Agreement, to the Executive in a single lump-sum payment:

(a) Within thirty (30) days before or twelve (12) months after a Change in Control, provided that all distributions are made no later than twelve (12) months following such termination of this Agreement and further provided that all the Bank's arrangements which are substantially similar to this Agreement are terminated so the Executive and all participants in the similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the termination of the arrangements; and

(b) Upon the Bank's termination of this and all other arrangements that would be aggregated with this Agreement pursuant to Treasury Regulation Section 1,409A-1(c) if the Executive participated in such arrangements ("Similar Arrangement"), provided that (i) the termination and liquidation does not occur proximate to a downturn in the financial health of the Bank, (ii) all termination distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination, and (iii) the Bank does not adopt any new arrangement that would be a Similar Arrangement for a minimum of three (3) years following the date the Bank takes all necessary action to irrevocably terminate and liquidate this Agreement.

ARTICLE 8

MISCELLANEOUS

8.1 Binding Effect. This Agreement shall bind the Executive and the Bank, and their beneficiaries, survivors, executors, administrators, and permitted transferees.

8.2No Guarantee of Employment. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank, nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

8.3Non-Transferability. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached, or encumbered in any manner, except in accordance with Article 4 with respect to designation of Beneficiaries.

8.4Tax Withholding. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

8.5Applicable Law. This Agreement and all rights hereunder shall be governed by the laws of the State of Texas, except to the extent preempted by the laws of the United States of America.

8.6Unfunded Arrangement. The Executive and Beneficiary are general unsecured creditors of the Bank for the payment of benefits under this Agreement. The benefits represent the mere promise by the Bank to pay such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance by the Executive, or attachment or garnishment by the Executive's creditors. Any insurance on the Executive's life is a general asset of the Bank to which the Executive and Beneficiary have no preferred or secured claim.

8.7Severability. Without limitation of any other section contained herein, in case any one or more provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any other respect, such invalidity, illegality, or unenforceability shall not affect the other provisions of this Agreement. In the event any one or more of the provisions found in this Agreement shall be held to be invalid, illegal, or unenforceable by any governmental regulatory agency or court of competent jurisdiction, this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been a part of this Agreement and such provision shall be deemed substituted by such other provisions as will most nearly accomplish the intent of the parties to the extent permitted by applicable law.

8.8Entire Agreement. This Agreement constitutes the entire agreement between the Bank and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.

8.9Plan Administrator. The Bank shall have powers which are necessary to administer this Agreement, including but not limited to:

- (a)interpreting the provisions of this Agreement;
- (b)establishing and revising the method of accounting for this Agreement;
- (c)maintaining a record of benefit payments; and

(d)establishing rules and prescribing any forms necessary or desirable to administer this Agreement.

8.10 *Named Fiduciary*. For purposes of the ERISA, if applicable, the Bank shall be the named fiduciary and Plan Administrator under this Agreement. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of this Agreement, including the employment of advisors and the delegation of ministerial duties to qualified individuals.

8.11 *Full Obligation*. Notwithstanding any provision to the contrary, when the Bank has paid either the lifetime benefits or death benefits to which the Executive has become entitled as appropriate under any section or subsection of this Agreement, the Bank has completed its obligation to the Executive.

8.12 *Code Section 409A*. The benefits described in and provided by this Agreement are intended to be exempt from Code Section 409A, as amended, and its corresponding regulations and related guidance, or to otherwise comply with the requirements of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, the interpretation and distribution of the Executive's benefits under this Agreement shall be made in a manner and at such times as to comply with all applicable provisions of Code Section 409A and the regulations and guidance promulgated thereunder, or an exception therefrom to avoid the imposition of any accelerated or additional taxes. Any defined terms shall be construed consistent with Code Section 409A and any terms not specifically defined shall have the meaning set forth in Code Section 409A. This Section 8.12 shall apply to distributions under this Agreement, but only to the extent required in order to avoid taxation of, or interest penalties on, the Executive under Code Section 409A. To the extent that any payments made under this Agreement are determined to be subject to Code Section 409A, the following shall apply to such payment(s):

(a)all payments to be made upon a termination of employment may only be made upon a "separation from service" under Code Section 409A;

(b)for purposes of the limitations on nonqualified deferred compensation under Code Section 409A, each payment of compensation shall be treated as a separate payment of compensation; and

(c)notwithstanding anything in this Agreement to the contrary, if the Executive is a "specified employee" of a publicly traded corporation under Code Section 409A and if payment of any amount under this Agreement is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, payment of such amount shall be delayed as required by Code Section 409A, and the accumulated postponed amount shall be paid in a lump-sum payment within ten (10) days after the end of the six (6)-month period (or within sixty (60) days after death, if earlier).

In no event may the Executive, directly or indirectly, designate the calendar year of a payment. No action or failure to act pursuant to this Section 8.12 shall subject the Bank or the Holding Company thereof to any claim, liability, or expense, and neither the Bank nor the Holding

Company shall have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes pursuant to Code Section 409A.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the Executive and a duly authorized Bank officer have signed this Agreement as of the date indicated below.

THIRD COAST BANK, SSB:

/s/ Bart Caraway

Name: Bart Caraway
Its: Chief Executive Officer
Date: April 20, 2023

EXECUTIVE:

/s/ Bill Bobbora

Name: Bill Bobbora
Date: April 20, 2023

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

I, Bart O. Caraway, certify that:

- 1.I have reviewed this Quarterly Report on Form 10-Q of Third Coast Bancshares, Inc.;
- 2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements 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 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;
 - (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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (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 8, 2023

By:

**/s/ Bart O. Caraway
Bart O. Caraway
Chairman, President and Chief Executive Officer**

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

I, R. John McWhorter, certify that:

- 1.I have reviewed this Quarterly Report on Form 10-Q of Third Coast Bancshares, Inc.;
- 2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements 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 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;
 - (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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (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 8, 2023

By:

/s/ R. John McWhorter
R. John McWhorter
Chief Financial Officer

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2023

By:

/s/ Bart O. Caraway
Bart O. Caraway
Chairman, President and Chief Executive Officer

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2023

By:

**/s/ R. John McWhorter
R. John McWhorter
Chief Financial Officer**
