

REFINITIV

DELTA REPORT

10-Q

TCBS - TEXAS COMMUNITY BANCSHARE

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

The following comparison report has been automatically generated

TOTAL DELTAS	1608
■ CHANGES	543
■ DELETIONS	601
■ ADDITIONS	464

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

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

OR

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

For the transition period from _____ to _____

Commission File No. 001-40610

Texas Community Bancshares, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

86-2760335

(State or Other Jurisdiction of Incorporation or Organization)

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

215 West Broad Street, Mineola, Texas

75773

(Address of Principal Executive Offices)

(Zip Code)

(903) 569-2602

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

There were [3,208,881](#) [3,187,881](#) shares, par value \$0.01 per share, of the Registrant's common stock outstanding as of [November 7, 2023](#) [May 13, 2024](#).

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Texas Community Bancshares, Inc.
Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Financial Condition

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

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

	September 30, 2023 <i>(unaudited)</i>	December 31, 2022	March 31, 2024 <i>(unaudited)</i>	December 31, 2023
Assets				
Cash and due from banks	\$ 5,284	\$ 6,897	\$ 5,882	\$ 5,412
Federal funds sold	7,139	2,030	15,107	7,648
Cash and cash equivalents	12,423	8,927	20,989	13,060
Interest bearing deposits in banks	9,071	2,055	28,519	12,298
Securities available for sale	92,474	107,153	93,084	93,327
Securities held to maturity (fair values of \$23,187 at September 30, 2023 and \$24,615 at December 31, 2022)	26,895	27,827		
Loans receivable, net of allowance for credit losses of \$2,934 at September 30, 2023 and \$1,755 at December 31, 2022	268,914	251,274		
Securities held to maturity (fair values of \$22,031 at March 31, 2024 and \$23,400 at December 31, 2023)			24,776	26,020
Loans held for sale, at fair value (amortized cost \$17,000 at March 31, 2024)			14,724	—
Loans receivable, net of allowance for credit losses of \$2,823 at March 31, 2024 and \$3,096 at December 31, 2023			251,965	279,896
Net investment in direct financing leases	36	64	840	36
Accrued interest receivable	1,440	1,327	1,541	1,728
Premises and equipment, net	10,442	6,299	11,646	11,609
Bank-owned life insurance	6,204	6,125	6,267	6,238
Foreclosed assets	162	—		
Other real estate owned			558	162
Restricted investments carried at cost	3,871	2,805	4,054	3,909
Core deposit intangible	298	397	231	265
Deferred income taxes	2,759	2,304	3,028	2,432
Financial derivative	926	—	551	115
Other assets	795	789	1,007	949
	<u>\$ 436,710</u>	<u>\$ 417,346</u>	<u>\$ 463,780</u>	<u>\$ 452,044</u>

Liabilities and Shareholders' Equity				
Liabilities				
Noninterest bearing	\$ 44,155	\$ 45,823	\$ 46,065	\$ 45,538
Interest bearing	255,740	250,254	285,750	271,703
Total deposits	299,895	296,077	331,815	317,241
Advances from Federal Home Loan Bank (FHLB)	79,378	62,494	76,527	76,896
Accrued expenses and other liabilities	4,184	2,905	3,967	4,218
Total liabilities	383,457	361,476	412,309	398,355
Shareholders' Equity				
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	—	—	—	—
Common stock, \$0.01 par value, 19,000,000 shares authorized, 3,373,723 issued and 3,246,306 outstanding at September 30, 2023 and 3,296,843 issued and outstanding at December 31, 2022	34	33		
Common stock, \$0.01 par value, 19,000,000 shares authorized, 3,373,723 issued and 3,187,881 outstanding at March 31, 2024 and 3,350,268 issued and 3,175,426 outstanding at December 31, 2023			34	34
Additional paid in capital	31,595	31,099	31,970	31,671
Retained earnings	32,407	34,083	29,159	31,972
Accumulated other comprehensive loss	(6,959)	(6,999)	(5,175)	(5,592)
Unearned Employee Stock Ownership Program (ESOP) shares, at cost	(2,248)	(2,346)	(2,164)	(2,197)
Treasury stock, at cost (127,417 shares at September 30, 2023)	(1,576)	—		
Treasury stock, at cost (185,842 shares at March 31, 2024 and 174,842 shares at December 31, 2023)			(2,353)	(2,199)
Total shareholders' equity	53,253	55,870	51,471	53,689
	\$ 436,710	\$ 417,346	\$ 463,780	\$ 452,044

See Notes to Consolidated Financial Statements

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Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)

Three and Nine Months Ended **September 30, 2023** March 31, 2024 and **2022** 2023

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

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30, 2023	2022	September 30, 2023	2022	March 31, 2024	2023
Interest Income						
Interest Income						
Interest Income						
Interest Income						
Interest Income						
Interest Income						
Interest Income						
Loans, including fees	\$ 3,410	\$ 2,531	\$ 9,289	\$ 7,336	\$ 3,709	\$ 2,780

Debt securities						
Taxable	1,232	562	3,652	1,307	1,170	1,204
Non taxable	44	39	137	114	46	49
Dividends on restricted investments	44	9	105	20	55	25
Federal funds sold	60	41	130	80	67	39
Deposits with banks	74	15	202	34	256	49
Financial derivative	112	—	145	—	115	—
Total interest income	<u>4,976</u>	<u>3,197</u>	<u>13,660</u>	<u>8,891</u>	<u>5,418</u>	<u>4,146</u>
Interest Expense						
Deposits	1,443	300	3,676	908	1,757	986
Advances from FHLB	687	144	1,849	429	696	526
Other	2	3	7	8	2	2
Total interest expense	<u>2,132</u>	<u>447</u>	<u>5,532</u>	<u>1,345</u>	<u>2,455</u>	<u>1,514</u>
Net Interest Income	2,844	2,750	8,128	7,546	2,963	2,632
Provision for Credit Losses - loans	(10)	48	185	125	(251)	82
Provision for Credit Losses - off-balance sheet credit exposures	39	—	27	—	(26)	8
Provision for Credit Losses	29	48	212	125	(277)	90
Net Interest Income After Provision for Credit Losses	<u>2,815</u>	<u>2,702</u>	<u>7,916</u>	<u>7,421</u>	<u>3,240</u>	<u>2,542</u>
Noninterest Income						
Service charges on deposit accounts	182	166	513	496	168	161
Other service charges and fees	338	261	918	795	260	279
Net loss on securities transactions	—	—	(1,687)	(29)	—	(1,687)
Net gain on sale of foreclosed assets	36	42	36	42	—	—
Net loss on sale of loans	—	—	—	—	(1,505)	—
Net change in fair value on loans held for sale	—	—	—	—	(2,276)	—
Net gain on sale of other real estate owned	—	—	—	—	37	—
Net loss on sale of premises and equipment	—	—	—	—	(283)	—
Net appreciation on bank-owned life insurance	28	26	79	75	30	25
Other income	8	4	37	22	7	15
Total noninterest income (loss)	<u>592</u>	<u>499</u>	<u>(104)</u>	<u>1,401</u>	<u>—</u>	<u>—</u>
Total noninterest loss	—	—	—	—	(3,562)	(1,207)
Noninterest Expenses						
Salaries and employee benefits	1,685	1,494	4,935	4,263	1,665	1,567
Occupancy and equipment expense	193	188	595	564	285	197
Data processing	244	225	686	619	241	221
Technology expense	123	98	347	293	114	109
Contract services	64	52	191	130	62	62
Director fees	102	96	299	287	83	98
Other expense	423	383	1,298	992	621	384
Total noninterest expenses	<u>2,834</u>	<u>2,536</u>	<u>8,351</u>	<u>7,148</u>	<u>—</u>	<u>—</u>
Income (Loss) Before Income Taxes	573	665	(539)	1,674	—	—
Income Tax Expense (Benefit)	117	126	(138)	328	—	—
Net Income (Loss)	<u>\$ 456</u>	<u>\$ 539</u>	<u>\$ (401)</u>	<u>\$ 1,346</u>	<u>—</u>	<u>—</u>
Earnings (loss) per share - basic	<u>\$ 0.15</u>	<u>\$ 0.18</u>	<u>\$ (0.13)</u>	<u>\$ 0.45</u>	<u>—</u>	<u>—</u>
Earnings (loss) per share - diluted	<u>\$ 0.15</u>	<u>\$ 0.18</u>	<u>\$ (0.13)</u>	<u>\$ 0.45</u>	<u>—</u>	<u>—</u>
Total noninterest expense	—	—	—	—	3,071	2,638
Loss Before Income Taxes	—	—	—	—	(3,393)	(1,303)
Income Tax Benefit	—	—	—	—	(708)	(286)
Net Loss	—	—	—	—	<u>\$ (2,685)</u>	<u>\$ (1,017)</u>
Loss per share - basic	—	—	—	—	<u>\$ (0.90)</u>	<u>\$ (0.33)</u>
Loss per share - diluted	—	—	—	—	<u>\$ (0.89)</u>	<u>\$ (0.33)</u>
Weighted-average shares outstanding - basic	<u>3,055,489</u>	<u>3,029,465</u>	<u>3,083,629</u>	<u>3,017,817</u>	<u>2,970,273</u>	<u>3,088,802</u>

Weighted-average shares outstanding - diluted

3,055,489 3,029,465 3,083,629 3,017,817 3,013,341 3,088,802

See Notes to Consolidated Financial Statements

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Texas Community Bancshares, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive (Loss) Income (Loss) (Unaudited)
 Three and Nine Months Ended **September 30, 2023** March 31, 2024 and **2022** 2023
 (Amounts in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Net Income (Loss)	\$ 456	\$ 539	\$ (401)	\$ 1,346		
Net Loss					\$ (2,685)	\$ (1,017)
Other items of comprehensive loss						
Other items of comprehensive (loss) income						
Debt Securities						
Net changes in fair value of available for sale securities, before tax	(1,418)	(1,563)	(2,576)	(7,669)	88	238
Reclassification adjustment for realized loss on sale of investment securities included in net income (loss), before tax	—	—	1,687	29		
Reclassification adjustment for realized loss on sale of investment securities included in net loss, before tax					—	1,687
Net changes in fair value of available for sale securities hedged, before tax	390	—	940	—	441	—
Total other items of comprehensive (loss) income, before tax	(1,028)	(1,563)	51	(7,640)		
Total other items of comprehensive income, before tax					529	1,925
Income tax benefit (expense) related to other items of comprehensive (loss) income	216	328	(11)	1,604		
Total other items of comprehensive (loss) income, after tax	(812)	(1,235)	40	(6,036)		
Income tax expense related to other items of comprehensive income					(112)	(405)
Total other items of comprehensive income (loss), after tax					417	1,520
Comprehensive Loss	\$ (356)	\$ (696)	\$ (361)	\$ (4,690)		
Comprehensive (Loss) Income					\$ (2,268)	\$ 503

See Notes to Consolidated Financial Statements

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Texas Community Bancshares, Inc. and Subsidiaries
 Consolidated Statements of Shareholders' Equity (Unaudited)
 Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**
 (Amounts in thousands, except share and per share data)

	Accumulated							
	Preferred	Common	Additional	Retained	Other	Unearned	Treasury	Total
	Stock	Stock	Paid In Capital	Earnings	Comprehensive Loss	ESOP Shares	Stock	Shareholders' Equity
Three Months Ended September 30, 2023 and 2022								
Balance at July 1, 2023	\$ —	\$ 34	\$ 31,405	\$ 32,048	\$ (6,147)	\$ (2,280)	\$ (610)	\$ 54,450
Net income	—	—	—	456	—	—	—	456
Stock based compensation expense	—	—	182	—	—	—	—	182
Net changes in other comprehensive income (loss), net of tax	—	—	—	—	(812)	—	—	(812)
Cash dividend declared (\$0.03 per share)	—	—	—	(97)	—	—	—	(97)
ESOP shares committed to be released, 3,258 shares	—	—	8	—	—	32	—	40
Treasury stock purchased, 77,150 shares	—	—	—	—	—	—	(966)	(966)
Balance at September 30, 2023	\$ —	\$ 34	\$ 31,595	\$ 32,407	\$ (6,959)	\$ (2,248)	\$ (1,576)	\$ 53,253
Balance at July 1, 2022								
Balance at July 1, 2022	\$ —	\$ 33	\$ 30,978	\$ 33,136	\$ (5,487)	\$ (2,411)	\$ —	\$ 56,249
Net income	—	—	—	539	—	—	—	539
Stock based compensation expense	—	—	21	—	—	—	—	21
Net changes in other comprehensive income (loss), net of tax	—	—	—	—	(1,235)	—	—	(1,235)
ESOP shares committed to be released, 3,258 shares	—	—	20	—	—	33	—	53
Balance at September 30, 2022	\$ —	\$ 33	\$ 31,019	\$ 33,675	\$ (6,722)	\$ (2,378)	\$ —	\$ 55,627

	Accumulated							
	Preferred	Common	Additional	Retained	Other	Unearned	Treasury	Total
	Stock	Stock	Paid In Capital	Earnings	Comprehensive Loss	ESOP Shares	Stock	Shareholders' Equity
Nine Months Ended September 30, 2023 and 2022								
Balance at January 1, 2023	\$ —	\$ 33	\$ 31,099	\$ 34,083	\$ (6,999)	\$ (2,346)	\$ —	\$ 55,870
Cumulative change in accounting principle (adoption of ASC 326)	—	—	—	(1,010)	—	—	—	(1,010)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	33	31,099	33,073	(6,999)	(2,346)	—	54,860
Net loss	—	—	—	(401)	—	—	—	(401)
Stock based compensation expense	—	—	467	—	—	—	—	467
Issuance of restricted stock awards	—	1	—	—	—	—	—	1
Net changes in other comprehensive income (loss), net of tax	—	—	—	—	40	—	—	40
Cash dividends declared (\$0.02 per share in Q1 and \$0.03 per share in Q2 and Q3)	—	—	—	(265)	—	—	—	(265)
ESOP shares committed to be released, 9,774 shares	—	—	29	—	—	98	—	127
Treasury stock purchased, 127,417 shares	—	—	—	—	—	—	(1,576)	(1,576)
Balance at September 30, 2023	\$ —	\$ 34	\$ 31,595	\$ 32,407	\$ (6,959)	\$ (2,248)	\$ (1,576)	\$ 53,253
Balance at January 1, 2022								
Balance at January 1, 2022	\$ —	\$ 33	\$ 30,932	\$ 32,329	\$ (686)	\$ (2,476)	\$ —	\$ 60,132
Net income	—	—	—	1,346	—	—	—	1,346
Stock based compensation expense	—	—	21	—	—	—	—	21
Net changes in other comprehensive income (loss), net of tax	—	—	—	—	(6,036)	—	—	(6,036)

ESOP shares committed to be released, 9,774 shares									
	—	—	66	—	—	98	—	164	
Balance at September 30, 2022	\$ —	\$ 33	\$ 31,019	\$ 33,675	\$ (6,722)	\$ (2,378)	\$ —	\$ 55,627	
	Accumulated								
	Preferred	Common	Additional	Other	Unearned			Total	
	Stock	Stock	Paid In	Comprehensive	ESOP	Treasury		Shareholders'	
			Capital	Loss	Shares	Stock		Equity	
				Earnings					
Balance at January 1, 2024	\$ —	\$ 34	\$ 31,671	\$ 31,972	\$ (5,592)	\$ (2,197)	\$ (2,199)	\$ 53,689	
Net loss	—	—	—	(2,685)	—	—	—	(2,685)	
Stock based compensation expense	—	—	286	—	—	—	—	286	
Other comprehensive income, net of tax	—	—	—	—	417	—	—	417	
Cash dividend declared (\$0.04 per share)	—	—	—	(128)	—	—	—	(128)	
ESOP shares committed to be released, 3,277 shares	—	—	13	—	—	33	—	46	
Treasury stock purchased, 11,000 shares	—	—	—	—	—	—	(154)	(154)	
Balance at March 31, 2024	\$ —	\$ 34	\$ 31,970	\$ 29,159	\$ (5,175)	\$ (2,164)	\$ (2,353)	\$ 51,471	
Balance at January 1, 2023	\$ —	\$ 33	\$ 31,099	\$ 34,083	\$ (6,999)	\$ (2,346)	\$ —	\$ 55,870	
Cumulative change in accounting principle (adoption of ASC 326)	—	—	—	(1,010)	—	—	—	(1,010)	
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	33	31,099	33,073	(6,999)	(2,346)	—	54,860	
Net loss	—	—	—	(1,017)	—	—	—	(1,017)	
Stock based compensation expense	—	—	103	—	—	—	—	103	
Issuance of restricted stock awards	—	1	—	—	—	—	—	1	
Other comprehensive income, net of tax	—	—	—	—	1,520	—	—	1,520	
Cash dividend declared (\$0.02 per share)	—	—	—	(67)	—	—	—	(67)	
ESOP shares committed to be released, 3,258 shares	—	—	16	—	—	33	—	49	
Balance at March 31, 2023	\$ —	\$ 34	\$ 31,218	\$ 31,989	\$ (5,479)	\$ (2,313)	\$ —	\$ 55,449	

See Notes to Consolidated Financial Statements

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Texas Community Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

NineThree Months Ended September 30, 2023 March 31, 2024 and 2022 2023

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

	Nine Months Ended	
	September 30,	
	2023	2022
Operating Activities		
Net (loss) income	\$ (401)	\$ 1,346
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses - loans	185	125
Provision for credit losses - off-balance sheet credit exposures	27	—

Net (accretion) amortization of securities	(32)	355
Depreciation and amortization	316	324
Net realized loss on sales of securities available for sale	1,687	29
Loss on sale of fixed assets	—	10
Gain on foreclosed assets	(36)	(42)
Appreciation on bank-owned life insurance	(79)	(75)
ESOP compensation expense for allocated shares	127	164
Stock-based compensation	467	21
Deferred income tax	(466)	(20)
Loss on fair value adjustment of fair value hedges	14	—
Net change in		
Accrued interest receivable	(113)	(134)
Other assets	(46)	(219)
Accrued expenses and other liabilities	1,320	663
Net Cash from Operating Activities	2,970	2,547
Investing Activities		
Net change in interest bearing deposits in banks	(7,016)	14,596
Activity in available for sale securities		
Purchases	(9,511)	(44,465)
Sales	17,027	10,822
Maturities, prepayments and calls	4,730	4,209
Activity in held to maturity securities		
Purchases	(2,139)	—
Maturities, prepayments and calls	2,960	4,732
Purchases of restricted investments	(1,066)	(65)
Loan originations and principal collections, net	(18,988)	(20,075)
Net decrease in net investment in direct financing leases	28	41
Proceeds from sales of OREO and foreclosed assets	—	243
Purchases of premises and equipment	(4,360)	(344)
Net Cash used for Investing Activities	(18,335)	(30,306)
Financing Activities		
Net increase in deposits	3,818	7,268
Advances from FHLB and other borrowings	33,201	9,000
Payments on FHLB and other borrowings	(16,317)	(1,556)
Cash dividends declared and paid	(265)	—
Purchases of treasury stock	(1,576)	—
Net Cash from Financing Activities	18,861	14,712
Net Change in Cash and Cash Equivalents	3,496	(13,047)
Cash and Cash Equivalents at Beginning of Period	8,927	21,915
Cash and Cash Equivalents at End of Period	\$ 12,423	\$ 8,868
	Three Months Ended	
	March 31,	
	2024	2023
Operating Activities		
Net loss	\$ (2,685)	\$ (1,017)
Adjustments to reconcile net loss to net cash from operating activities		
Provision for credit losses - loans	(251)	82
Provision for credit losses - off-balance sheet credit exposures	(26)	8
Net amortization (accretion) of securities	9	(44)
Depreciation and amortization	142	109
Net realized loss on sales of securities available for sale	—	1,687
Loss on sale of loans	1,505	—
Loss on disposal of fixed assets	283	—

Gain on sale of other real estate owned	(37)	—
Appreciation on bank-owned life insurance	(30)	(25)
ESOP compensation expense for allocated shares	46	49
Stock-based compensation	286	103
Deferred income tax benefit	(708)	(273)
Loss on fair value adjustment of fair value hedges	5	—
Change in fair value of loans held for sale	2,276	—
Net change in		
Accrued interest receivable	187	(5)
Other assets	(54)	(62)
Accrued expenses and other liabilities	(254)	(150)
Net Cash from Operating Activities	<u>694</u>	<u>462</u>
Investing Activities		
Net change in interest bearing deposits in banks	(16,221)	(548)
Activity in available for sale securities		
Purchases	(994)	(9,511)
Sales	—	17,027
Maturities, prepayments and calls	1,347	1,213
Activity in held to maturity securities		
Purchases	—	(2,139)
Maturities, prepayments and calls	1,213	940
Redemptions of restricted investments	—	8
Purchases of restricted investments	(145)	(26)
Loan originations and principal collections, net	(954)	(9,652)
Net (increase) decrease in net investment in direct financing leases	(804)	11
Proceeds from sale of loans, originally classified as loans held for investment	10,807	—
Proceeds from sales of other real estate owned	49	—
Additions of premises and equipment	(986)	(1,036)
Net Cash used for Investing Activities	<u>(6,688)</u>	<u>(3,713)</u>
Financing Activities		
Net increase in deposits	14,574	1,399
Advances from FHLB and other borrowings	—	7,000
Payments on FHLB and other borrowings	(369)	(7,163)
Cash dividends declared and paid	(128)	(67)
Purchases of treasury stock	(154)	—
Net Cash from Financing Activities	<u>13,923</u>	<u>1,169</u>
Net Change in Cash and Cash Equivalents	<u>7,929</u>	<u>(2,082)</u>
Cash and Cash Equivalents at Beginning of Period	<u>13,060</u>	<u>8,927</u>
Cash and Cash Equivalents at End of Period	<u>\$ 20,989</u>	<u>\$ 6,845</u>

See Notes to Consolidated Financial Statements

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended **September 30, 2023** March 31, 2024 and **2022** 2023

Note 1 - Summary of Significant Accounting Policies

General

Texas Community Bancshares, Inc. (the "Company"), a Maryland corporation and registered bank holding company, was incorporated on March 5, 2021 and became the holding company for Broadstreet Bank, SSB (the "Bank"), formerly known as Mineola Community Bank, SSB (the "Bank") prior to December 4, 2023, as part of a mutual to stock conversion completed on July 14, 2021. The Company's shares trade on the NASDAQ under the symbol TCBS. Voting rights in the Company are held and exercised exclusively by the shareholders of the Company.

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

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

Interim Financial Statements

The interim unaudited consolidated financial statements as of September 30, 2023 March 31, 2024, and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Such adjustments are the only adjustments contained in these unaudited consolidated financial statements. These unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission, and therefore certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been omitted. The results of operations for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2023 December 31, 2024, or any other period. Certain prior period data presented in the consolidated financial statements has been reclassified to conform with the current period presentation. The accompanying consolidated financial statements have been derived from and should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended December 31, 2022 December 31, 2023. Reference is made to the accounting policies of the Company described in the Notes to Consolidated Financial Statements contained in Form 10-K for the year ended December 31, 2022 December 31, 2023.

Principles of Consolidation

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

Use of Estimates

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

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Recently Adopted Accounting Pronouncements **Loans Held for Sale**

The Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement* *Mortgage loans held for investment that are transferred to loans held for sale are carried at the lower of Credit Losses aggregate cost or fair value, as determined by outstanding commitments. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.*

Mortgage loans held for sale are generally sold with servicing rights retained. Gains and losses on Financial Instruments ("ASC 326"), effective January 1, 2023. The guidance replaces sales of mortgage loans are based on the incurred loss methodology with an expected loss methodology that is referred to as difference between the current expected credit loss ("CECL") methodology. The measurement selling price and the carrying value of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, related loans sold, including loan receivables and held-to-maturity debt securities.

It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company's portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change any servicing right value, if servicing is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell, retained.

The Company adopted ASC 326 using the modified retrospective method **Loans held** for loans and off-balance-sheet ("OBS") credit exposures. Results **sale**, for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of \$1,025 which was recognized through an \$810 adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to \$2,780 as of January 1, 2023. In addition, the Company recorded a \$254 allowance on unfunded commitments which was recognized through a \$200 adjustment to retained earnings, net of tax. The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. As of December 31, 2022, the Company did not hold any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2023.

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

Held to Maturity Securities

Beginning January 1, 2023, the Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through net income. For securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors.

In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be

Texas Community Bancshares, Inc. and Subsidiaries

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

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 option has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss). Changes in the allowance for credit losses elected, are recorded as provision for or (reduction of) provision for credit losses.

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

Allowance for Credit Losses

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

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

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

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

Texas Community Bancshares, Inc. and Subsidiaries

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

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

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

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

Treasury Stock

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

Derivatives

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

At the inception of a derivative contract, the Company designates the derivatives as one of the three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated or that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

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

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the **each** balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly

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

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

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

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no not impact on net income (loss) or shareholders' shareholder's equity.

Note 2 – Earnings Per Share

Basic earnings per share is computed by dividing the net income loss by the weighted-average number of common shares outstanding during the period, including allocated and committed to be released ESOP shares and restricted stock awards granted on August 31, 2022, February 28, 2023, and February 28, 2023 February 28, 2024, during the applicable period. Diluted earnings per share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

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

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Net Income (Loss)	\$ 456	\$ 539	\$ (401)	\$ 1,346		
Net Loss					\$ (2,685)	\$ (1,017)

Weighted average shares outstanding for basic earnings per share:						
Average shares outstanding	3,283,496	3,270,504	3,316,518	3,262,054	3,192,445	3,323,324
Less: average unearned ESOP shares	(228,007)	(241,039)	(232,889)	(244,237)	(222,172)	(234,522)
Weighted average shares outstanding for basic earnings per share	3,055,489	3,029,465	3,083,629	3,017,817	2,970,273	3,088,802
Additional dilutive shares	—	—	—	—	43,068	—
Weighted average shares outstanding for dilutive earnings per share	3,055,489	3,029,465	3,083,629	3,017,817	3,013,341	3,088,802
Basic and dilutive earnings (loss) per share	\$ 0.15	\$ 0.18	\$ (0.13)	\$ 0.45		
Basic loss per share					\$ (0.90)	\$ (0.33)
Dilutive loss per share					\$ (0.89)	\$ (0.33)

Restricted Nonvested restricted stock awards for 74,007 and 115,964 shares of common stock were not considered in computing diluted earnings per share for 2024 and 2023, respectively, because they were antidilutive. Stock options for 270,386 231,946 and 289,932 shares of common stock were not considered in computing diluted earnings per share for 2024 and 2023 because they were nonvested. Stock options for 19,546 46,258 shares of common stock have vested, however, were not considered in computing diluted earnings per share for 2023, 2024, because they were antidilutive.

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Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

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

Note 3 - Debt Securities

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

Available for Sale	September 30, 2023				March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:								
Residential mortgage-backed	\$ 26,825	\$ 2	\$ (1,838)	\$ 24,989	\$ 26,485	\$ 100	\$ (1,377)	\$ 25,208
Collateralized mortgage obligations	53,345	1	(3,665)	49,681	52,014	40	(2,597)	49,457
State and municipal	16,303	—	(2,866)	13,437	15,196	—	(1,959)	13,237
Corporate bonds	5,750	—	(1,383)	4,367	6,500	—	(1,318)	5,182
Total securities available for sale	\$ 102,223	\$ 3	\$ (9,752)	\$ 92,474	\$ 100,195	\$ 140	\$ (7,251)	\$ 93,084
Held to Maturity								

Debt Securities:								
Residential mortgage-backed	\$ 23,121	\$ —	\$ (3,575)	\$ 19,546	\$ 21,527	\$ —	\$ (2,715)	\$ 18,812
State and municipal	1,990	—	(132)	1,858	1,584	—	(29)	1,555
U.S. Government and agency	1,784	—	(1)	1,783	1,665	—	(1)	1,664
Total securities held to maturity	\$ 26,895	\$ —	\$ (3,708)	\$ 23,187	\$ 24,776	\$ —	\$ (2,745)	\$ 22,031

	December 31, 2022				December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale								
Debt Securities:								
Residential mortgage-backed	\$ 25,573	\$ —	\$ (1,815)	\$ 23,758	\$ 26,379	\$ —	\$ (1,454)	\$ 24,925
Collateralized mortgage obligations	52,134	584	(2,474)	50,244	52,426	31	(2,578)	49,879
State and municipal	16,387	—	(2,606)	13,781	15,220	—	(1,870)	13,350
Corporate bonds	5,750	—	(935)	4,815	6,500	—	(1,327)	5,173
U.S. Government and agency	16,169	—	(1,614)	14,555				
Total securities available for sale	\$ 116,013	\$ 584	\$ (9,444)	\$ 107,153	\$ 100,525	\$ 31	\$ (7,229)	\$ 93,327

Held to Maturity								
Debt Securities:								
Residential mortgage-backed	\$ 25,817	\$ —	\$ (3,132)	\$ 22,685	\$ 22,301	\$ —	\$ (2,584)	\$ 19,717
State and municipal	2,010	—	(80)	1,930	1,985	—	(35)	1,950
U.S. Government and agency					1,734	—	(1)	1,733
Total securities held to maturity	\$ 27,827	\$ —	\$ (3,212)	\$ 24,615	\$ 26,020	\$ —	\$ (2,620)	\$ 23,400

During the **nine** three months ended **September 30, 2023** **March 31, 2024**, the Company had no sales of available for sale securities or held to maturity securities. During the three months ended **March 31, 2023**, the Company had sales of available for sale securities of \$17,027 with a loss of \$1,687. During the three months ended **September 30, 2023** and **2022**, the Company had no sales of available for sale securities or held to maturity securities. During the nine months ended **September 30, 2022**, the Company had sales of available for sale securities of \$10,822 with a loss of \$29.

At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, securities with a fair value of **\$4,366** **\$16,102** and **\$3,162** **\$14,152**, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**

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The amortized cost and fair value of debt securities by contractual maturity at **September 30, 2023** **March 31, 2024**, follows:

	Available for Sale		Held to Maturity		Available for Sale		Held to Maturity	
	Estimated		Estimated		Estimated		Estimated	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year	\$ —	\$ —	\$ 395	\$ 393	\$ —	\$ —	\$ —	\$ —
Due from one to five years	3,167	2,844	365	360	2,751	2,548	365	365
Due in five to ten years	12,381	10,135	1,919	1,899	12,482	10,665	1,799	1,788
After ten years	6,505	4,825	1,095	989	6,463	5,206	1,085	1,066
Residential mortgage-backed Collateralized mortgage obligations	26,825 53,345	24,989 49,681	23,121 —	19,546 —	26,485 52,014	25,208 49,457	21,527 —	18,812 —
Total	\$ 102,223	\$ 92,474	\$ 26,895	\$ 23,187	\$100,195	\$ 93,084	\$ 24,776	\$ 22,031

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

Category (number of securities)	September 30, 2023				March 31, 2024			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses						
Residential mortgage-backed (5,83)	\$ 12,534	\$ (135)	\$ 29,825	\$ (5,278)				
Collateralized mortgage obligations (11,16)	24,243	(647)	23,898	(3,018)				
State and municipal (5,19)	2,009	(53)	13,287	(2,945)				
Residential mortgage-backed (1,85)					\$ 470	\$ (14)	\$33,975	\$ (4,078)
Collateralized mortgage obligations (4,22)					7,978	(122)	35,736	(2,475)
State and municipal (2,17)					674	(1)	14,118	(1,987)
Corporate bonds (0,12)	—	—	4,367	(1,383)	—	—	4,432	(1,318)
U.S. Government and agency (1,0)	1,783	(1)	—	—	1,664	(1)	—	—
Total	\$ 40,569	\$ (836)	\$ 71,377	\$ (12,624)	\$10,786	\$ (138)	\$88,261	\$ (9,858)

Category (number of securities)	December 31, 2022				December 31, 2023			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses						
Residential mortgage-backed (66,21)	\$ 16,889	\$ (1,253)	\$ 21,888	\$ (3,694)				
Collateralized mortgage obligations (11,5)	22,133	(797)	8,790	(1,677)				
State and municipal (15,9)	8,638	(1,267)	7,073	(1,419)				
Corporate bonds (10,2)	3,963	(787)	852	(148)				
U.S. Government and agency (1,13)	2,809	(181)	11,746	(1,433)				
Residential mortgage-backed (4,85)					\$ 9,486	\$ (46)	\$35,156	\$ (3,992)
Collateralized mortgage obligations (5,20)					12,909	(207)	31,793	(2,371)

State and municipal (4,16)					1,718	(2)	13,582	(1,903)
Corporate bonds (0,12)					—	—	4,423	(1,327)
U.S. Government and agency (1,0)					1,733	(1)	—	—
Total	\$ 54,432	\$ (4,285)	\$ 50,349	\$ (8,371)	\$25,846	\$ (256)	\$84,954	\$ (9,593)

At September 30, 2023, March 31, 2024 and December 31, 2023, the Company had investment securities with approximately \$12,624, \$9,858 and \$9,593, respectively, in unrealized losses, which have been in continuous loss positions for more than twelve months. The Company's assessments indicated that the cause of the market depreciation was primarily the change in market interest rates and not the issuers' financial condition or downgrades by rating agencies. In addition, approximately 16.3% and 14.2% of the principal balance from the Company's investment portfolio will mature and be repaid to the Company within five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

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until maturity.

The Company monitors credit quality of debt securities held-to-maturity through the use of credit rating. The Company monitors credit rating on a continual basis. The following table summarizes bond ratings for the Company's held-to-maturity portfolio, based upon amortized cost, issued by state and political subdivisions and other securities as of September 30, 2023, March 31, 2024 and December 31, 2023:

	Residential mortgage-backed	State and municipal	U.S Government and agency	March 31, 2024		
				Residential mortgage-backed	State and municipal	U.S Government and agency
AAA	\$ 23,121	\$ 1,856	\$ 1,784	\$ 21,527	\$ 1,450	\$ 1,665
Baa2	—	134	—	—	134	—
	\$ 23,121	1,990	\$ 1,784	\$ 21,527	\$ 1,584	\$ 1,665

	Residential mortgage-backed	State and municipal	U.S Government and agency	December 31, 2023		
				Residential mortgage-backed	State and municipal	U.S Government and agency
AAA	\$ 22,301	\$ 1,851	\$ 1,734	\$ 22,301	\$ 1,851	\$ 1,734
Baa2	—	134	—	—	134	—
	\$ 22,301	\$ 1,985	\$ 1,734	\$ 22,301	\$ 1,985	\$ 1,734

As of March 31, 2024 and December 31, 2023, there were no securities held to maturity on nonaccrual status or past due.

Mortgage-backed securities and Collateralized Mortgage Obligations

The unrealized losses on the Company's investments in residential mortgage-backed securities and collateralized mortgage obligations were caused by market interest rate increases and decreases in prepayment speeds. Interest rates rose sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans to sell these securities and will continue to monitor the unrealized losses' effect on the financial statements. The contractual cash flows of many of these investments are guaranteed by agencies of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases basis of the Company's investments. Because the decline in fair value is attributable to changes in market interest rates and decreases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, maturity. The unrealized losses on the Company does Company's investment in mortgage-backed securities have not consider those investments to be other-than-temporarily impaired been recognized into income and no allowance for credit losses was established at December 31, 2022 March 31, 2024 or December 31, 2023.

U.S. Government and agency

The unrealized losses on the Company's investments in U.S. government and agency securities were caused by have not been recognized into income and no allowance for credit losses was established because the bonds are of high credit quality, management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to increases in market interest rate increases. Interest rates rose sharply throughout 2022 and caused increases not credit quality deterioration and the fair value is expected to recover as the bonds approach maturity.

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Texas Community Bancshares, Inc. and Subsidiaries

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Three Months Ended March 31, 2024 and 2023

(Amounts in unrealized losses on securities. The Company has no plans to sell these securities thousands, except share and will continue to monitor the unrealized losses' effect on the financial statements. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. per share data)

Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value Therefore, an allowance for credit losses is attributable to changes in market interest rates deemed unnecessary at March 31, 2024 and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 December 31, 2023.

Municipal Securities and Corporate Bonds

The unrealized losses on the Company's investments in state and municipal securities and corporate bonds were caused by have not been recognized into income and no allowance for credit losses was established because the bonds are of high credit quality, management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to increases in market interest rate increases. Interest rates rose sharply throughout 2022 and caused increases in unrealized losses on securities. The Company has no plans not credit quality deterioration and the fair value is expected to sell these securities and will continue to monitor recover as the effect of the unrealized losses on the financial statements. bonds approach maturity. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in fair value Therefore, an allowance for credit losses is attributable to changes in market interest rates deemed unnecessary at March 31, 2024 and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023 and 2022

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

investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 December 31, 2023.

Other than temporary impairment

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

Note 4 - Loans and Allowance for Credit Losses

A summary of the balances of loans and leases follows:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Real estate				
Construction and land	\$ 37,284	\$ 36,257	\$ 37,198	\$ 37,526
Farmland	8,973	7,558	7,411	8,317
1-4 Residential and multi-family	176,081	162,785	153,665	181,464
Commercial Real Estate	35,536	33,678	42,100	41,788
Total real estate	257,874	240,278	240,374	269,095
Agriculture	105	189	128	150
Commercial	7,135	7,031	6,775	6,900
Consumer and other	6,770	5,595	8,351	6,883
Subtotal	271,884	253,093	255,628	283,028
Less allowance for credit losses	(2,934)	(1,755)	(2,823)	(3,096)
Loans and leases, net	\$ 268,950	\$ 251,338	\$ 252,805	\$ 279,932

Direct financing leases of \$840 and \$36 are included in consumer and other loans at March 31, 2024 and December 31, 2023, respectively.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

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

The following tables set forth information regarding the activity in the allowance for credit losses for the three months ended March 31, 2024 and March 31, 2023:

March 31, 2024								
Real Estate								
1-4								
Residential								
	Construction and Land	Farmland	& multi- family	Commercial real estate	Agriculture	Commercial	Consumer and other	Total
Allowance for credit losses:								
Balance, January 1, 2024	\$ 378	\$ 66	\$ 1,621	\$ 482	\$ 2	\$ 441	\$ 106	\$ 3,096
Provision for credit losses	(9)	(9)	(236)	(31)	(1)	—	35	(251)
Loans charged-off	—	—	—	—	—	—	(39)	(39)
Recoveries	—	—	—	—	—	—	17	17
Balance, March 31, 2024	\$ 369	\$ 57	\$ 1,385	\$ 451	\$ 1	\$ 441	\$ 119	\$ 2,823
Balance, March 31, 2024 allocated to loans and leases individually evaluated	\$ 9	\$ 3	\$ 40	\$ 11	\$ —	\$ 348	\$ 6	\$ 417
Balance, March 31, 2024 allocated to loans and leases collectively evaluated	\$ 360	\$ 54	\$ 1,345	\$ 440	\$ 1	\$ 93	\$ 113	\$ 2,406
Loans and leases receivable:								
Balance, March 31, 2024 loans and leases individually evaluated	\$ 962	\$ 153	\$ 1,625	\$ 460	\$ —	\$ 1,390	\$ 10	\$ 4,600
Balance, March 31, 2024 loans and leases collectively evaluated	36,236	7,258	152,040	41,640	128	5,385	8,341	251,028
Balance, March 31, 2024	\$ 37,198	\$ 7,411	\$ 153,665	\$ 42,100	\$ 128	\$ 6,775	\$ 8,351	\$ 255,628

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

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

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

September 30, 2023								
Real Estate								
1-4								
Residential								
	Construction and Land	Farmland	& multi- family	Commercial real estate	Agriculture	Commercial	Consumer and other	Total
Allowance for credit losses:								
Three months ended								
Beginning balance, July 1, 2023	\$ 442	\$ 69	\$ 1,517	\$ 372	\$ 1	\$ 466	\$ 102	\$ 2,969

Provision for credit losses	(82)	1	50	(2)	—	(14)	37	(10)
Loans charged-off	—	—	—	—	—	—	(29)	(29)
Recoveries	—	—	—	—	—	—	4	4
Balance, September 30, 2023	\$ 360	\$ 70	\$ 1,567	\$ 370	\$ 1	\$ 452	\$ 114	\$ 2,934
Nine months ended								
Beginning balance prior to adoption of ASC 326								
ASC 326	\$ 262	\$ 31	\$ 812	\$ 227	\$ 1	\$ 359	\$ 63	\$ 1,755
Impact of adopting ASC 326 on January 1, 2023								
Provision for credit losses	92	28	677	133	2	61	\$ 32	1,025
Loans charged-off	6	11	78	10	(2)	32	50	185
Recoveries	—	—	—	—	—	—	(38)	(38)
Recoveries	—	—	—	—	—	—	7	7
Balance, September 30, 2023	\$ 360	\$ 70	\$ 1,567	\$ 370	\$ 1	\$ 452	\$ 114	\$ 2,934
Balance, September 30, 2023 allocated to								
loans and leases individually evaluated	\$ —	\$ 4	\$ 21	\$ 7	\$ —	\$ 372	\$ 4	\$ 408
Balance, September 30, 2023 allocated to								
loans and leases collectively evaluated	\$ 360	\$ 66	\$ 1,546	\$ 363	\$ 1	\$ 80	\$ 110	\$ 2,526
Loans and leases receivable:								
Balance, September 30, 2023 loans and leases individually evaluated								
	\$ —	\$ 310	\$ 1,426	\$ 516	\$ —	\$ 2,436	\$ 24	\$ 4,712
Balance, September 30, 2023 loans and leases collectively evaluated								
	37,284	8,663	174,655	35,020	105	4,699	6,746	267,172
Balance, September 30, 2023	\$ 37,284	\$ 8,973	\$ 176,081	\$ 35,536	\$ 105	\$ 7,135	\$ 6,770	\$ 271,884

March 31, 2023								
Real Estate								
1-4 Residential								
	Construction and Land	Farmland	& multi-family	Commercial real estate	Agriculture	Commercial	Consumer and other	Total
Allowance for credit losses:								
Beginning balance prior to adoption of ASC 326	\$ 262	\$ 31	\$ 812	\$ 227	\$ 1	\$ 359	\$ 63	\$ 1,755
Impact of adopting ASC 326 on January 1, 2023								
Provision for credit losses	92	28	677	133	2	61	\$ 32	1,025
Loans charged-off	65	10	(19)	6	76	(58)	2	82
Loans charged-off	—	—	—	—	—	—	(5)	(5)
Recoveries	—	—	—	—	—	—	2	2
Balance, March 31, 2023	\$ 419	\$ 69	\$ 1,470	\$ 366	\$ 79	\$ 362	\$ 94	\$ 2,859
December 31, 2023								
Real Estate								
1-4 Residential								
	Construction and Land	Farmland	& multi-family	Commercial real estate	Agriculture	Commercial	Consumer and other	Total
Allowance for credit losses:								
Balance, December 31, 2023 allocated to loans and leases individually evaluated	\$ 17	\$ 4	\$ 23	\$ 12	\$ —	\$ 348	\$ 4	\$ 408
Balance, December 31, 2023 allocated to loans and leases collectively evaluated	\$ 361	\$ 62	\$ 1,598	\$ 470	\$ 2	\$ 93	\$ 102	\$ 2,688

Loans and leases receivable:																
Balance, December 31, 2023 loans and																
leases individually evaluated	\$	962	\$	155	\$	1,432	\$	492	\$	—	\$	1,401	\$	14	\$	4,456
Balance, December 31, 2023 loans and																
leases collectively evaluated		36,564		8,162		180,032		41,296		150		5,499		6,869		278,572
Balance, December 31, 2023	\$	37,526	\$	8,317	\$	181,464	\$	41,788	\$	150	\$	6,900	\$	6,883	\$	283,028

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Texas Community Bancshares, Inc. and Subsidiaries

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Three and Nine Months Ended September 30, 2023, March 31, 2024 and 2022 2023

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

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

	September 30, 2022				
	Real Estate	Agriculture	Commercial	Consumer and Other	Total
<i>Allowance for loan and lease losses:</i>					
Three months ended					
Balance, July 1, 2022	\$ 1,208	\$ 1	\$ 367	\$ 63	\$ 1,639
Charge-offs	—	—	—	(8)	(8)
Recoveries	—	—	—	7	7
Provision	53	—	—	(5)	48
Balance, September 30, 2022	\$ 1,261	\$ 1	\$ 367	\$ 57	\$ 1,686
Nine months ended					
Balance, January 1, 2022	\$ 1,178	\$ 1	\$ 357	\$ 56	\$ 1,592
Charge-offs	—	—	—	(44)	(44)
Recoveries	—	—	—	13	13
Provision	83	—	10	32	125
Balance, September 30, 2022	\$ 1,261	\$ 1	\$ 367	\$ 57	\$ 1,686
December 31, 2022					
	Real Estate	Agriculture	Commercial	Consumer and Other	Total
<i>Allowance for loan and lease losses:</i>					
Balance, December 31, 2022 allocated to loans and leases individually evaluated for impairment	\$ —	\$ —	\$ 300	\$ —	\$ 300
Balance, December 31, 2022 allocated to loans and leases collectively evaluated for impairment	\$ 1,332	\$ 1	\$ 59	\$ 63	\$ 1,455
<i>Loans and leases receivable:</i>					
Balance, December 31, 2022 loans and leases individually evaluated for impairment	\$ 945	\$ —	\$ 531	\$ —	\$ 1,476

Balance, December 31, 2022 loans and leases collectively evaluated for impairment	239,333	189	6,500	5,595	251,617
Balance, December 31, 2022	<u>\$ 240,278</u>	<u>\$ 189</u>	<u>\$ 7,031</u>	<u>\$ 5,595</u>	<u>\$ 253,093</u>

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Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023 and 2022

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

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days and still accruing as of [September 30, 2023](#), [March 31, 2024](#) and [December 31, 2023](#):

				March 31, 2024		
	Nonaccrual without Allowance	Nonaccrual with Allowance	90 Days Still Accruing	Nonaccrual without Allowance	Nonaccrual with Allowance	Loans Past Due Over 90 Days Still Accruing
Real estate						
Construction and land	\$ —	\$ —	\$ —	\$ 315	\$ —	\$ —
Farmland	154	—	—	—	—	—
1-4 Residential & multi-family	507	—	—	485	42	—
Commercial real estate	63	—	—	58	—	—
Agriculture	—	—	—	—	—	—
Commercial	5	353	80	5	333	—
Consumer and other	—	—	—	—	—	—
Total	<u>\$ 729</u>	<u>\$ 353</u>	<u>\$ 80</u>	<u>\$ 863</u>	<u>\$ 375</u>	<u>\$ —</u>

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

				December 31, 2023		
	Nonaccrual	Nonaccrual	90 Days Still Accruing	Nonaccrual without Allowance	Nonaccrual with Allowance	Loans Past Due Over 90 Days Still Accruing
Real estate						
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	165	—	—	—	—	—
1-4 Residential & multi-family	548	—	—	497	—	—

Commercial real estate	70	61	—	22
Agriculture	—	—	—	—
Commercial	398	6	345	8
Consumer and other	—	—	—	—
Total	\$ 1,181	\$ 564	\$ 345	\$ 30

The Company did not recognize any interest income on nonaccrual loans during the periods ended **September 30, 2023** March 31, 2024 or **September 30, 2022** March 31, 2023.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended **September 30, 2023** March 31, 2024 and **2022** 2023

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

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of **September 30, 2023** March 31, 2024 and December 31, 2023:

			March 31, 2024		
			Real Estate	Accounts Receivable and Inventory	Other
Real estate					
Farmland	\$ 154	\$ —			
Construction and land			\$ 315	\$ —	\$ —
1-4 Residential & multi-family	659	—	673	—	—
Commercial real estate	63	—	58	—	—
Commercial	—	536	—	453	5
Total	\$ 876	\$ 536	\$ 1,046	\$ 453	\$ 5

	December 31, 2023		
	Real Estate	Accounts Receivable and Inventory	Other
Real estate			
1-4 Residential & multi-family	\$ 645	\$ —	\$ —
Commercial real estate	61	—	—
Commercial	—	445	6
Total	\$ 706	\$ 445	\$ 6

The Company had **\$1,412** **\$1,504** and **\$1,157** in collateral-dependent loans as of **September 30, 2023**, at March 31, 2024 and December 31, 2023, respectively.

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

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

Internal Risk Categories

A loan is considered collateral-dependent when based on current information and events; it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. **Impaired Collateral dependent** loans include nonperforming loans (nonaccrual loans), loans performing but with deterioration that leads to doubt regarding **collectability** and also includes loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties.

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

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

the loan exceeds the fair value of the underlying collateral, less estimated costs to sell. The allowance for credit losses may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

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

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

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

The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

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

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits with this classification have often become collateral dependent and any shortage in collateral or other likely loss amount is recorded as a specific valuation allowance. Credits rated doubtful are generally also placed on nonaccrual.

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Credits rated loss are those that are considered **uncollectible uncollectable** and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

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

The Company evaluates the loan risk grading system definitions and allowance for **loan and lease credit** loss methodology on an ongoing basis. No significant changes were made during the period ended **September 30, 2023 or the year ended December 31, 2022. March 31, 2024.**

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Three **and Nine** Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**
(Amounts in thousands, except share and per share data)

Based on the most recent analysis performed, the risk category of loans by class of loans **as of September 30, 2023** and gross chargeoffs **for the nine months then ended as of March 31, 2024 and December 31, 2023** are as follows:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total
Construction and land							
Risk rating							
Pass	\$ 13,422	\$ 19,961	\$ 1,430	\$ 903	\$ 270	\$ 1,298	\$ 37,284
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 13,422</u>	<u>\$ 19,961</u>	<u>\$ 1,430</u>	<u>\$ 903</u>	<u>\$ 270</u>	<u>\$ 1,298</u>	<u>\$ 37,284</u>
Farmland							
Risk rating							
Pass	\$ 1,918	\$ 2,733	\$ 1,149	\$ 506	\$ 809	\$ 1,547	\$ 8,662
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	157	154	311
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 1,918</u>	<u>\$ 2,733</u>	<u>\$ 1,149</u>	<u>\$ 506</u>	<u>\$ 966</u>	<u>\$ 1,701</u>	<u>\$ 8,973</u>
1-4 Residential & multi-family							
Risk rating							
Pass	\$ 30,237	\$ 28,083	\$ 35,255	\$ 45,424	\$ 10,044	\$ 25,613	\$ 174,656
Special mention	—	—	—	—	—	177	177
Substandard	—	—	—	—	366	882	1,248
Doubtful	—	—	—	—	—	—	—

Loss	—	—	—	—	—	—	—
	\$ 30,237	\$ 28,083	\$ 35,255	\$ 45,424	\$ 10,410	\$ 26,672	\$ 176,081
Commercial real estate							
Risk rating							
Pass	\$ 3,105	\$ 5,957	\$ 10,199	\$ 3,224	\$ 6,899	\$ 5,637	\$ 35,021
Special mention	—	452	—	—	—	—	452
Substandard	—	—	—	—	—	63	63
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 3,105	\$ 6,409	\$ 10,199	\$ 3,224	\$ 6,899	\$ 5,700	\$ 35,536
Agriculture							
Risk rating							
Pass	\$ 22	\$ 11	\$ 72	\$ —	\$ —	\$ —	\$ 105
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 22	\$ 11	\$ 72	\$ —	\$ —	\$ —	\$ 105
Commercial							
Risk rating							
Pass	\$ 2,237	\$ 983	\$ 386	\$ 393	\$ 295	\$ 406	\$ 4,700
Special mention	410	230	95	—	—	187	922
Substandard	177	2	981	78	275	—	1,513
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 2,824	\$ 1,215	\$ 1,462	\$ 471	\$ 570	\$ 593	\$ 7,135
Consumer and other							
Risk rating							
Pass	\$ 3,971	\$ 1,424	\$ 1,218	\$ 122	\$ —	\$ 11	\$ 6,746
Special mention	14	—	2	4	—	—	20
Substandard	4	—	—	—	—	—	4
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 3,989	\$ 1,424	\$ 1,220	\$ 126	\$ —	\$ 11	\$ 6,770
Current period gross charge-offs	\$ 7	\$ 25	\$ 6	\$ —	\$ —	\$ —	\$ 38

March 31, 2024							
Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	2020	Prior	Total
Construction and land							
Risk rating							
Pass	\$ 787	\$ 25,555	\$ 6,920	\$ 644	\$ 833	\$ 1,497	\$ 36,236
Special mention	—	—	647	—	—	—	647
Substandard	—	—	—	315	—	—	315
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 787	\$ 25,555	\$ 7,567	\$ 959	\$ 833	\$ 1,497	\$ 37,198

Farmland														
Risk rating														
Pass	\$	162	\$	1,854	\$	2,209	\$	313	\$	498	\$	2,222	\$	7,258
Special mention		—		—		—		—		—		—		—
Substandard		—		—		—		—		—		153		153
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	162	\$	1,854	\$	2,209	\$	313	\$	498	\$	2,375	\$	7,411
1-4 Residential & multi-family														
Risk rating														
Pass	\$	5,086	\$	30,714	\$	21,085	\$	30,334	\$	39,722	\$	25,099	\$	152,040
Special mention		—		—		—		220		—		105		325
Substandard		—		42		—		—		—		1,258		1,300
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	5,086	\$	30,756	\$	21,085	\$	30,554	\$	39,722	\$	26,462	\$	153,655
Commercial real estate														
Risk rating														
Pass	\$	859	\$	13,183	\$	5,629	\$	7,196	\$	3,120	\$	11,653	\$	41,640
Special mention		—		—		—		—		—		—		—
Substandard		—		—		—		—		—		460		460
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	859	\$	13,183	\$	5,629	\$	7,196	\$	3,120	\$	12,113	\$	42,100
Agriculture														
Risk rating														
Pass	\$	—	\$	59	\$	8	\$	61	\$	—	\$	—	\$	128
Special mention		—		—		—		—		—		—		—
Substandard		—		—		—		—		—		—		—
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	—	\$	59	\$	8	\$	61	\$	—	\$	—	\$	128
Commercial														
Risk rating														
Pass	\$	657	\$	3,044	\$	701	\$	311	\$	275	\$	397	\$	5,385
Special mention		—		—		—		—		—		—		—
Substandard		28		92		1		936		71		262		1,390
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	685	\$	3,136	\$	702	\$	1,247	\$	346	\$	659	\$	6,775
Consumer and other														
Risk rating														
Pass	\$	2,745	\$	3,667	\$	861	\$	1,009	\$	55	\$	4	\$	8,341
Special mention		—		8		—		1		1		—		10
Substandard		—		—		—		—		—		—		—

Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	\$ 2,745	\$ 3,675	\$ 861	\$ 1,010	\$ 56	\$ 4	\$ 8,351
Current period gross charge-offs	\$ 39	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 39

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023, March 31, 2024 and 2022

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

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

	December 31, 2022						
	Pass	Special			Doubtful	Loss	Total
		Mention	Substandard				
Real estate							
Construction and land	\$ 35,608	\$ 649	\$ —	\$ —	\$ —	\$ 36,257	
Farmland	7,231	—	327	—	—	7,558	
1-4 Residential & multi-family	160,472	9	2,304	—	—	162,785	
Commercial real estate	33,482	—	196	—	—	33,678	
Agriculture	189	—	—	—	—	189	
Commercial	6,496	—	146	389	—	7,031	
Consumer and other	5,562	—	33	—	—	5,595	
Total	\$ 249,040	\$ 658	\$ 3,006	\$ 389	\$ —	\$ 253,093	

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023 and 2022

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

	December 31, 2023						
	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total
Construction and land							
Risk rating							
Pass	\$ 20,695	\$ 12,821	\$ 652	\$ 867	\$ 263	\$ 1,266	\$ 36,564

Special mention	—	647	—	—	—	—	647
Substandard	—	—	315	—	—	—	315
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 20,695</u>	<u>\$ 13,468</u>	<u>\$ 967</u>	<u>\$ 867</u>	<u>\$ 263</u>	<u>\$ 1,266</u>	<u>\$ 37,526</u>
Farmland							
Risk rating							
Pass	\$ 1,937	\$ 2,275	\$ 1,124	\$ 502	\$ 794	\$ 1,530	\$ 8,162
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	155	—	155
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 1,937</u>	<u>\$ 2,275</u>	<u>\$ 1,124</u>	<u>\$ 502</u>	<u>\$ 949</u>	<u>\$ 1,530</u>	<u>\$ 8,317</u>
1-4 Residential & multi-family							
Risk rating							
Pass	\$ 37,344	\$ 28,374	\$ 34,680	\$ 44,761	\$ 9,917	\$ 24,956	\$ 180,032
Special mention	—	—	—	—	—	108	108
Substandard	44	—	—	—	364	916	1,324
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 37,388</u>	<u>\$ 28,374</u>	<u>\$ 34,680</u>	<u>\$ 44,761</u>	<u>\$ 10,281</u>	<u>\$ 25,980</u>	<u>\$ 181,464</u>
Commercial real estate							
Risk rating							
Pass	\$ 13,226	\$ 5,686	\$ 7,253	\$ 3,178	\$ 6,926	\$ 5,027	\$ 41,296
Special mention	—	—	—	—	22	—	22
Substandard	—	—	—	—	—	470	470
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 13,226</u>	<u>\$ 5,686</u>	<u>\$ 7,253</u>	<u>\$ 3,178</u>	<u>\$ 6,948</u>	<u>\$ 5,497</u>	<u>\$ 41,788</u>
Agriculture							
Risk rating							
Pass	\$ 74	\$ 10	\$ 66	\$ —	\$ —	\$ —	\$ 150
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 74</u>	<u>\$ 10</u>	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 150</u>
Commercial							
Risk rating							
Pass	\$ 3,387	\$ 844	\$ 357	\$ 341	\$ 274	\$ 297	\$ 5,500
Special mention	—	—	—	—	—	—	—
Substandard	100	1	954	75	270	—	1,400
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
	<u>\$ 3,487</u>	<u>\$ 845</u>	<u>\$ 1,311</u>	<u>\$ 416</u>	<u>\$ 544</u>	<u>\$ 297</u>	<u>\$ 6,900</u>

Consumer and other														
Risk rating														
Pass	\$	4,518	\$	1,128	\$	1,127	\$	88	\$	—	\$	8	\$	6,869
Special mention		7		—		1		3		—		—		11
Substandard		3		—		—		—		—		—		3
Doubtful		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—
	\$	4,528	\$	1,128	\$	1,128	\$	91	\$	—	\$	8	\$	6,883
Current period gross charge-offs	\$	37	\$	25	\$	6	\$	7	\$	—	\$	—	\$	75

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

	Term Loans Amortized Cost Basis by Origination Year							Total						
	2023	2022	2021	2020	2019	Prior								
Construction and land														
Performing	\$	13,422	\$	19,961	\$	1,430	\$	903	\$	270	\$	1,298	\$	37,284
Non-performing		—		—		—		—		—		—		—
	\$	13,422	\$	19,961	\$	1,430	\$	903	\$	270	\$	1,298	\$	37,284
Farmland														
Performing	\$	1,918	\$	2,733	\$	1,149	\$	506	\$	966	\$	1,547	\$	8,819
Non-performing		—		—		—		—		—		154		154
	\$	1,918	\$	2,733	\$	1,149	\$	506	\$	966	\$	1,701	\$	8,973
1-4 Residential & multi-family														
Performing	\$	30,237	\$	28,083	\$	35,255	\$	45,424	\$	10,229	\$	26,194	\$	175,422
Non-performing		—		—		—		—		181		478		659
	\$	30,237	\$	28,083	\$	35,255	\$	45,424	\$	10,410	\$	26,672	\$	176,081
Commercial real estate														
Performing	\$	3,105	\$	6,409	\$	10,199	\$	3,224	\$	6,899	\$	5,637	\$	35,473
Non-performing		—		—		—		—		—		63		63
	\$	3,105	\$	6,409	\$	10,199	\$	3,224	\$	6,899	\$	5,700	\$	35,536
Agriculture														
Performing	\$	22	\$	11	\$	72	\$	—	\$	—	\$	—	\$	105
Non-performing		—		—		—		—		—		—		—
	\$	22	\$	11	\$	72	\$	—	\$	—	\$	—	\$	105
Commercial														
Performing	\$	2,647	\$	1,215	\$	1,456	\$	393	\$	295	\$	593	\$	6,599
Non-performing		177		—		6		78		275		—		536
	\$	2,824	\$	1,215	\$	1,462	\$	471	\$	570	\$	593	\$	7,135
Consumer and other														
Performing	\$	3,989	\$	1,424	\$	1,220	\$	126	\$	—	\$	11	\$	6,770
Non-performing		—		—		—		—		—		—		—
	\$	3,989	\$	1,424	\$	1,220	\$	126	\$	—	\$	11	\$	6,770

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023, March 31, 2024 and 2022, 2023

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

The following table sets forth information regarding presents the credit risk profile based on payment activity amortized cost of the loan performing and lease portfolio at December 31, 2022 non-performing loans as of March 31, 2024 and December 31, 2023:

	December 31, 2022			March 31, 2024						
	Performing	Non-performing	Total	Term Loans Amortized Cost Basis by Origination Year						
				2024	2023	2022	2021	2020	Prior	Total
Real estate										
Construction and land	\$ 36,257	\$ —	\$ 36,257							
Performing				\$ 787	\$25,555	\$ 7,567	\$ 644	\$ 833	\$ 1,497	\$ 36,883
Nonperforming				—	—	—	315	—	—	315
				<u>\$ 787</u>	<u>\$25,555</u>	<u>\$ 7,567</u>	<u>\$ 959</u>	<u>\$ 833</u>	<u>\$ 1,497</u>	<u>\$ 37,198</u>
Farmland	7,393	165	7,558							
1-4 Residential & multi-family	162,237	548	162,785							
Performing				\$ 162	\$ 1,854	\$ 2,209	\$ 313	\$ 498	\$ 2,375	\$ 7,411
Nonperforming				—	—	—	—	—	—	—
				<u>\$ 162</u>	<u>\$ 1,854</u>	<u>\$ 2,209</u>	<u>\$ 313</u>	<u>\$ 498</u>	<u>\$ 2,375</u>	<u>\$ 7,411</u>
1-4 Residential & multi-family										
Performing				\$5,086	\$30,714	\$21,085	\$30,554	\$39,722	\$25,831	\$152,992
Nonperforming				—	42	—	—	—	631	673
				<u>\$5,086</u>	<u>\$30,756</u>	<u>\$21,085</u>	<u>\$30,554</u>	<u>\$39,722</u>	<u>\$26,462</u>	<u>\$153,665</u>
Commercial real estate	33,608	70	33,678							
Performing				\$ 859	\$13,183	\$ 5,629	\$ 7,196	\$ 3,120	\$12,055	\$ 42,042
Nonperforming				—	—	—	—	—	58	58
				<u>\$ 859</u>	<u>\$13,183</u>	<u>\$ 5,629</u>	<u>\$ 7,196</u>	<u>\$ 3,120</u>	<u>\$12,113</u>	<u>\$ 42,100</u>
Agriculture	189	—	189							
Performing				\$ —	\$ 59	\$ 8	\$ 61	\$ —	\$ —	\$ 128
Nonperforming				—	—	—	—	—	—	—
				<u>\$ —</u>	<u>\$ 59</u>	<u>\$ 8</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 128</u>
Commercial	6,633	398	7,031							
Performing				\$ 657	\$ 3,044	\$ 702	\$ 1,242	\$ 275	\$ 397	\$ 6,317
Nonperforming				28	92	—	5	71	262	458
				<u>\$ 685</u>	<u>\$ 3,136</u>	<u>\$ 702</u>	<u>\$ 1,247</u>	<u>\$ 346</u>	<u>\$ 659</u>	<u>\$ 6,775</u>
Consumer and other	5,595	—	5,595							

Total	\$ 251,912	\$ 1,181	\$ 253,093							
Performing				\$2,745	\$ 3,675	\$ 861	\$ 1,010	\$ 56	\$ 4	\$ 8,351
Nonperforming				—	—	—	—	—	—	—
				\$2,745	\$ 3,675	\$ 861	\$ 1,010	\$ 56	\$ 4	\$ 8,351

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

	September 30, 2023					
	60-89			Total	Current	Total
	30-59	Days	90 Days			
	Days	Past	and	Past Due		Loans
Past Due	Due	Greater				
Real estate						
Construction and land	\$ 25	\$ —	\$ —	\$ 25	\$ 37,259	\$ 37,284
Farmland	—	—	154	154	8,819	8,973
1-4 Residential & multi-family	264	127	140	531	175,550	176,081
Commercial real estate	1,271	—	—	1,271	34,265	35,536
Agriculture	—	—	—	—	105	105
Commercial	—	680	80	760	6,375	7,135
Consumer and other	21	—	—	21	6,749	6,770
Total	\$ 1,581	\$ 807	\$ 374	\$ 2,762	\$ 269,122	\$ 271,884

	December 31, 2022					
	30-89 Days	90 Days	Total	Current	Total	Recorded
						Past Due
	Past Due	Greater	Past Due	Current	Loans	> 90 Days and
					Still Accruing	
Real estate						
Construction and land	\$ 930	\$ —	\$ 930	\$ 35,327	\$ 36,257	\$ —
Farmland	162	—	162	7,396	7,558	—
1-4 Residential & multi-family	1,215	—	1,215	161,570	162,785	—
Commercial real estate	126	—	126	33,552	33,678	—
Agriculture	—	—	—	189	189	—
Commercial	—	1	1	7,030	7,031	1
Consumer and other	10	—	10	5,585	5,595	—
Total	\$ 2,443	\$ 1	\$ 2,444	\$ 250,649	\$ 253,093	\$ 1

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023, March 31, 2024 and 2022 2023

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

	December 31, 2023						
	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	Total
Construction and land							
Performing	\$ 20,695	\$ 13,468	\$ 967	\$ 867	\$ 263	\$ 1,266	\$ 37,526

Nonperforming	—	—	—	—	—	—	—
	\$ 20,695	\$ 13,468	\$ 967	\$ 867	\$ 263	\$ 1,266	\$ 37,526
Farmland							
Performing	\$ 1,937	\$ 2,275	\$ 1,124	\$ 502	\$ 949	\$ 1,530	\$ 8,317
Nonperforming	—	—	—	—	—	—	—
	\$ 1,937	\$ 2,275	\$ 1,124	\$ 502	\$ 949	\$ 1,530	\$ 8,317
1-4 Residential & multi-family							
Performing	\$ 37,388	\$ 28,374	\$ 34,680	\$ 44,761	\$ 10,101	\$ 25,515	\$ 180,819
Nonperforming	—	—	—	—	180	465	645
	\$ 37,388	\$ 28,374	\$ 34,680	\$ 44,761	\$ 10,281	\$ 25,980	\$ 181,464
Commercial real estate							
Performing	\$ 13,226	\$ 5,686	\$ 7,253	\$ 3,178	\$ 6,948	\$ 5,436	\$ 41,727
Nonperforming	—	—	—	—	—	61	61
	\$ 13,226	\$ 5,686	\$ 7,253	\$ 3,178	\$ 6,948	\$ 5,497	\$ 41,788
Agriculture							
Performing	\$ 74	\$ 10	\$ 66	\$ —	\$ —	\$ —	\$ 150
Nonperforming	—	—	—	—	—	—	—
	\$ 74	\$ 10	\$ 66	\$ —	\$ —	\$ —	\$ 150
Commercial							
Performing	\$ 3,387	\$ 845	\$ 1,305	\$ 341	\$ 274	\$ 297	\$ 6,449
Nonperforming	100	—	6	75	270	—	451
	\$ 3,487	\$ 845	\$ 1,311	\$ 416	\$ 544	\$ 297	\$ 6,900
Consumer and other							
Performing	\$ 4,528	\$ 1,128	\$ 1,128	\$ 91	\$ —	\$ 8	\$ 6,883
Nonperforming	—	—	—	—	—	—	—
	\$ 4,528	\$ 1,128	\$ 1,128	\$ 91	\$ —	\$ 8	\$ 6,883

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

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

The following is an aging analysis for loans as of March 31, 2024 and December 31, 2023:

	March 31, 2024					
	30-59	60-89	90 Days	Total	Total	Total
	Days	Days	and			
	Past Due	Past Due	Greater	Past Due	Current	Loans
Real estate						

Construction and land	\$ —	\$ —	\$ 315	\$ 315	\$ 36,883	\$ 37,198
Farmland	—	—	—	—	7,411	7,411
1-4 Residential & multi-family	518	—	311	829	152,836	153,665
Commercial real estate	—	—	—	—	42,100	42,100
Agriculture	—	—	—	—	128	128
Commercial	16	—	—	16	6,759	6,775
Consumer and other	—	—	—	—	8,351	8,351
Total	\$ 534	\$ —	\$ 626	\$ 1,160	\$ 254,468	\$ 255,628

	December 31, 2023					
	30-59	60-89	90 Days	Total		Total
	Days	Days	and	Past Due	Current	
	Past Due	Past Due	Greater	Past Due	Current	Loans
Real estate						
Construction and land	\$ 808	\$ 1,153	\$ —	\$ 1,961	\$ 35,565	\$ 37,526
Farmland	—	—	—	—	8,317	8,317
1-4 Residential & multi-family	344	271	137	752	180,712	181,464
Commercial real estate	—	410	22	432	41,356	41,788
Agriculture	—	—	—	—	150	150
Commercial	—	—	8	8	6,892	6,900
Consumer and other	—	—	—	—	6,883	6,883
Total	\$ 1,152	\$ 1,834	\$ 167	\$ 3,153	\$ 279,875	\$ 283,028

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. No interest income was recognized for loans on nonaccrual status for the three and nine months ended September 30, 2023, March 31, 2024 and 2022, 2023.

The following table presents interest income recognized on loans that are collateral-dependent and individually reviewed for the three and nine months ended September 30, 2023, March 31, 2024 and 2022, 2023:

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Real estate						
1-4 Residential & multi-family	\$ 2	\$ 3	\$ 5	\$ 7	\$ 2	\$ 2
Commercial real estate	—	—	—	13	—	—
Commercial	3	—	6	—	—	2
Total	\$ 5	\$ 3	\$ 11	\$ 20	\$ 2	\$ 4

During the three and nine months ended September 30, 2023, March 31, 2024 and 2023, there were no modifications of loans to borrowers in financial difficulty. During the three

Texas Community Bancshares, Inc. and nine months ended September 30, 2022, there were no modifications resulting Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

(Amounts in troubled debt restructurings, thousands, except share and per share data)

There have been no modifications to borrowers with financial difficulty in the three months ended March 31, 2024 and 2023 that subsequently defaulted troubled debt restructurings. The Company has no commitments to loan additional funds to borrowers whose loans have been modified but may on occasion extend financing to these borrowers.

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

Note 5 - Off-Balance-Sheet Activities

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount		Contract Amount	
	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	\$ 44,949	\$ 43,327	\$31,920	\$ 37,394

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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

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

At September 30, 2023 March 31, 2024, the Company had no commitments to purchase securities.

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

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

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

Note 6 - Supplemental Cash Flow Information

Supplemental disclosure of cash flow information is as follows:

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Supplemental cash flow information:				
Loan originations to facilitate the sale of foreclosed assets	\$ —	\$ 8		
Cash paid for				
Interest on deposits	\$ 3,526	\$ 924	\$ 1,761	\$ 883
Interest on FHLB advances	1,776	429	697	476
Other interest	7	8	2	2
Income taxes	120	190		
Non-cash activities				
Transfer on loans receivable to loans held for sale			\$29,312	—
Loan originations to facilitate the sale of other real estate owned			150	—
Premises and equipment transferred to other real estate owned			558	—

Note 7 - Minimum Regulatory Capital Requirements

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

The Bank has opted into the Community Bank Leverage Ratio (CBLR) framework, beginning with the Call Report filed for the first quarter of 2020. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Bank's CBLR ratio was

Texas Community Bancshares, Inc. 10.09% and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023 and 2022

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11.16% and 12.31% 10.76%, respectively, which exceeded all regulatory capital requirements under the CBLR framework, and the Bank was considered to be "well-capitalized."

Under the CBLR framework, banks and their bank holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable capital rules) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Accordingly, qualifying community banking organizations that exceed the 9% CBLR are considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; (iii) any other applicable capital or leverage requirements. Qualifying community banking organizations that elect to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements.

Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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Note 8 - Fair Value Measurements

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

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

that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Three and Nine Months Ended September 30, 2023 and 2022

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

- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. There were no changes in valuation techniques during either the **nine** **three** months ended **September 30, 2023** **March 31, 2024** or the year ended **December 31, 2022** **December 31, 2023**.

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-

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

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

based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

Derivative Instruments – As discussed in Note 10 "Derivatives" within this Item 1 of this Quarterly Report, the Company records derivative instruments at fair value on a recurring basis. The Company utilizes derivative instruments as part of the management of interest rate risk to modify the re-pricing characteristics of certain portions of the Company's interest-bearing assets and liabilities. The Company has contracted with a third-party vendor to provide valuations for derivatives using standard valuation techniques and therefore classifies such valuations as Level 2. Third-party valuations are validated by the Company using the Bloomberg Valuation Service's derivative pricing functions. No significant differences were identified during the validation as of September 30, 2023 and March 31, 2024.

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

Other real estate owned – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans or when the asset is transferred into other real estate owned from premises and equipment. The value is based upon primarily third-party appraisals, less estimated costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business. Such discounts are typically significant and result in Level 3 classification of inputs for determining fair value. Other real estate owned is

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2023, March 31, 2024 and 2022

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

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

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair Value
Financial assets				
Available for sale securities				
Residential mortgage-backed	\$ —	\$ 24,989	\$ —	\$ 24,989
Collateralized mortgage obligations	—	49,681	—	49,681
State and municipal	—	13,437	—	13,437
Corporate bonds	—	4,367	—	4,367
Financial derivatives	—	926	—	926
Total financial assets	\$ —	\$ 93,400	\$ —	\$ 93,400

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

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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Texas Community Bancshares, Inc. and Subsidiaries

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

reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same or similar factors above.

Loans Held for Sale, at Fair Value – The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

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

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair Value
Financial assets				
Available for sale securities				
Residential mortgage-backed	\$ —	\$ 25,208	\$ —	\$ 25,208
Collateralized mortgage obligations	—	49,457	—	49,457
State and municipal	—	13,237	—	13,237
Corporate bonds	—	5,182	—	5,182
Derivative instruments	—	551	—	551
Loans held for sale, at fair value	—	14,724	—	14,724
Total financial assets	\$ —	\$ 108,359	\$ —	\$ 108,359

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
	Inputs	Inputs	Inputs	Fair Value
Financial assets				
Available for sale securities				
Residential mortgage-backed	\$ —	\$ 24,925	\$ —	\$ 24,925
Collateralized mortgage obligations	—	49,879	—	49,879
State and municipal	—	13,350	—	13,350
Corporate bonds	—	5,173	—	5,173
Derivative instruments	—	115	—	115
Total financial assets	\$ —	\$ 93,442	\$ —	\$ 93,442

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

	September 30, 2023				March 31, 2024			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets								
Collateral-dependent loans	\$ —	\$ —	\$ 53	\$ 53	\$ —	\$ —	\$ 59	\$ 59
Nonfinancial assets								
Other real estate owned					—	—	558	558
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 53</u>	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 617</u>	<u>\$ 617</u>

	December 31, 2022				December 31, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets								
Impaired loans	\$ —	\$ —	\$ 89	\$ 89				
Collateral-dependent loans					\$ —	\$ —	\$ 45	\$ 45
Nonfinancial assets								
Other real estate owned					—	—	162	162
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 89</u>	<u>\$ 89</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 207</u>	<u>\$ 207</u>

During the **nine** **three** months ended **September 30, 2023**, **March 31, 2024** and **2022**, **2023**, certain collateral-dependent loans were remeasured and reported at fair value through a specific **valuation allowance allocation of the allowance** for credit losses based upon the fair value of the underlying collateral. At **September 30, 2023**, **March 31, 2024**, collateral-dependent loans with a carrying value of **\$353** **\$375** were reduced by specific valuation allowance allocations totaling **\$316** to a reported fair value of **\$59**. At December 31, 2023, collateral dependent loans with a carrying value of **\$345** were reduced by specific valuation allowance allocations totaling **\$300** to a reported fair value of **\$53**. At December 31, 2022, impaired loans with a carrying value of **\$389** were reduced by specific valuation allowance allocations totaling **\$300** to a reported fair value of **\$89**, **\$45**. The fair value of impaired collateral dependent loans is determined based on collateral valuations utilizing Level 3 valuation inputs. There was a **charge to provision for credit losses of \$16** as a result of **valuation allowances moving from the general reserve to specific reserve for the three months ended March 31, 2024**. There was no charge to the provision for credit losses - **loans** as a result of the valuation allowances for the three **and nine** months ended **September 30, 2023**, **March 31, 2023**.

At March 31, 2024, the Company had other real estate owned consisting of two bank properties that were purchased for future expansion, but have now been listed for sale. At December 31, 2023, the Company had one commercial building held as other real estate owned with a carrying value of **\$162**, which was sold at a gain during the three months ended March 31, 2024.

Texas Community Bancshares, Inc. and 2022 Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2024 and 2023

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

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

Instrument	Fair Value at September 30, 2023	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values	Fair Value at March 31, 2024	Principal Valuation Technique	Un
Collateral- dependent loans					\$ 59	Appraisal of collateral (1)	Apprai
Collateral- dependent loans	\$ 53	Appraisal of collateral (1)	Appraisal adjustment	10-25 %			
Other real estate owned					\$ 558	Appraisal of collateral (1)	Apprai

Instrument	Fair Value at December 31, 2022	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values	Fair Value at December 31, 2023	Principal Valuation Technique	Un
Collateral- dependent loans					\$ 45	Appraisal of collateral (1)	Ap
Impaired loans	\$ 89	Appraisal of collateral (1)	Appraisal adjustment	10-25 %			
Other real estate owned					\$ 162	Appraisal of collateral (1)	Ap

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

Securities held to maturity	—	24,615	—	24,615	27,827	—	23,400	—	23,400	26,020
Loans, net	—	—	251,794	251,794	251,274	—	—	262,356	262,356	279,896
Net investment in direct financing leases	—	—	64	64	64	—	—	36	36	36
Accrued interest receivable	1,327	—	—	1,327	1,327	1,728	—	—	1,728	1,728
Restricted investments carried at cost	—	2,805	—	2,805	2,805	—	3,909	—	3,909	3,909
Mortgage servicing rights	—	—	7	7	7	—	—	6	6	6
Financial liabilities										
Deposits	—	—	298,050	298,050	296,077	—	—	292,885	292,885	317,241
FHLB advances	—	—	60,825	60,825	62,494	—	—	76,856	76,856	76,896
Accrued interest payable	332	—	—	332	332	783	—	—	783	783

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

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

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

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

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

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**

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

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

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

Deposits – The fair values disclosed for demand deposits (for example, interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

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

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

Note 9 - Employee Stock Ownership Plan

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

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

The debt of the ESOP is eliminated in consolidation. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports the compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per share computations. Dividends on unallocated ESOP shares, if any, are recorded as a reduction of debt and accrued interest. ESOP compensation was \$40,466 and \$127,549 for the three and nine months ended September 30, 2023, March 31, 2024 and \$53 and \$164 for the three and nine months ended September 30, 2022, 2023.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Shares allocated to participants	26,062	26,062	40,906	40,906
Shares committed to be released to participants	9,774	—	3,277	—
Shares distributed to retiring participant	(336)	(220)	(336)	(336)
Unreleased shares	224,785	234,559	216,438	219,715
Total	260,285	260,401	260,285	260,285
Fair value of unreleased shares	\$ 2,897	\$ 3,600	\$ 3,158	\$ 3,101

Note 10 – Derivatives

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

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

Available

Securities available for Sale Securities sale – The Company has a swap agreement to hedge the interest rate risk on a portion of its fixed rate securities available for sale (AFS) securities sale. At September 30, 2023, March 31, 2024 and December 31, 2023, the aggregate notional amount of the related hedged items of the AFS securities available for sale totaled \$25 million and the fair value of the swaps associated with the derivative related to hedged items was an unrealized gain of \$940, \$560 and \$119, respectively.

The Company applies hedge accounting in accordance with ASC 815, *Derivatives and Hedging*, and the fair value hedge and the underlying hedged item, attributable to the risk being hedged, are recorded at fair value with unrealized gains and losses being recorded within other interest income on the Company's Consolidated Statements of Operations. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows on the derivative hedging instrument with the changes in fair value or cash flows on the designated hedged item or transactions for the risk being hedged.

If a hedging relationship ceases to qualify for hedge accounting, the relationship is discontinued and future changes in the fair value of the derivative instrument are recognized in current period earnings. For a discontinued or terminated fair value hedging relationship, all remaining basis adjustments to the carrying amount of the hedged item are amortized to interest income or expense over the remaining life of the hedged item consistent with the amortization of other discounts or premiums. Previous balances deferred in AOCI from discontinued or terminated cash flow hedges are reclassified to interest income or expense as the hedged transactions affect earnings or over the originally specified term of the hedging relationship. The Company's hedges continue to be highly effective and had no material impact on the Consolidated Statements of Operations.

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Texas Community Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The following table summarizes key elements of the Company's derivative instruments as of September 30, 2023, March 31, 2024 and December 31, 2023, segregated by derivatives that are considered accounting hedges and those that are not:

	September 30, 2023		March 31, 2024		December 31, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedges:						
Fair Value Hedges	\$ 25,000	\$ 926	\$ 25,000	\$ 551	\$ 25,000	\$ 115
Total	\$ 25,000	\$ 926	\$ 25,000	\$ 551	\$ 25,000	\$ 115

The following table summarizes the carrying value of the Company's hedged assets in fair value hedges and the associated cumulative basis adjustments included in those carrying values as of **September 30, 2023**, **March 31, 2024** and **December 31, 2023**:

			March 31, 2024		December 31, 2023	
			Carrying Amount of Hedged Assets	Cumulative Adjustments Included in the Carrying Amount of the Hedged Assets	Carrying Amount of Hedged Assets	Cumulative Adjustments Included in the Carrying Amount of the Hedged Assets
Line items on the Consolidated Statements of Financial Condition in which the hedged items is included:						
Securities available for sale	\$ 42,461	\$ (940)	\$41,336	\$ (560)	\$41,912	\$ (119)

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

General

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding Texas Community Bancshares, Inc.'s ("the Company") consolidated financial condition at **September 30, 2023**, **March 31, 2024** and consolidated results of operations for the three **and nine** months ended **September 30, 2023**, **March 31, 2024** and **2022, 2023**. It should be read in conjunction with the unaudited consolidated financial statements and the related notes appearing in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

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

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;

- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

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

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

- our ability to control costs and manage liquidity through a period of high inflation and rapidly rising interest rates;
- our ability to maintain our deposit base cost-effectively and access cost-effective funding;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in yields on our assets resulting from changes in market interest rates;
- fluctuation in the demand for construction loans in our market area due to increased cost of building materials and their availability;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses;
- risks related to a high concentration of loans secured by real estate located in our market area;
- our ability to control costs when hiring employees in a highly competitive labor market;
- our ability to control cost and expenses, particularly those associated with operating a publicly traded company;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;

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- competition among depository and other financial institutions and brokers;

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- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of our investment securities and other financial instruments, including our mortgage servicing rights asset, or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, capital requirements and insurance premiums;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third-party providers to perform as expected;
- a failure or breach of our operational or security systems or infrastructure, including cyberattacks;
- our ability to manage market risk, credit risk and operational risk;

- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs in response to product demand or strategic plan implementation;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

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

Summary of Critical Accounting Policies; Critical Accounting Estimates

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

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

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The following represent our critical accounting policies:

Allowance for Credit Losses. Effective January 1, 2023, the Company adopted Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASC 326, 326”), referred to as CECL. Upon adoption of CECL, the Company made a one-time cumulative-effect adjustment that decreased retained earnings by \$1.0 million. This adjustment was the result of a \$1.0 million increase in the allowance for loan credit losses from \$1.8 million at December 31, 2022 to \$2.8 million upon adoption of the new CECL methodology on January 1, 2023 and an increase of \$254,000 in the allowance for unfunded commitments. The adjustment was primarily a result of incorporating forward-looking estimated loss estimates and an allowance for off-balance sheet commitments (unfunded commitments). The allowance for credit losses applies to any financial asset carried at amortized cost, including unfunded commitments, off-balance sheet commitments (unfunded commitments). The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect collectability. The Company uses the weighted average remaining maturity (WARM) method to estimate future expected losses for all of the Company’s loan pools. The allowance for credit losses on loans is a reserve for estimated probable current expected credit losses on individually evaluated loans determined to be impaired as well as estimated probable current expected credit losses inherent in the loan portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for credit losses. Loans are charged off when management believes that the collectability of the principal is unlikely, confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses. A provision for credit losses, which is a charge against earnings, is recorded to bring the allowance for credit losses to a level that, in management’s judgment, is adequate to absorb probable current expected losses in the loan portfolio. Management’s evaluation process used to determine the appropriateness of the allowance for credit losses is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable current expected

credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated credit losses and therefore the appropriateness of the allowance for credit losses could change significantly.

The allocation methodology applied by the Company is designed to assess the appropriateness of the allowance for credit losses on loans and includes allocations for specifically identified **impaired collateral dependent** loans and loss factor allocations for all remaining loans, with a component primarily based on historical peer and Company loss rates, reasonable and supportable forecasts, and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions, reasonable and supportable forecasts, and other qualitative and quantitative factors which could affect potential credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allowance for credit losses on loans is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. Management believes the allowance for credit losses on loans was adequate at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for credit losses. As a result of such reviews, we may have to adjust our allowance for credit losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for credit losses as the process is the responsibility of the Company and any increase or decrease in the allowance is the responsibility of management.

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

The Company assesses held to maturity (HTM) securities for credit losses and due to the HTM securities primarily being issued by government-sponsored entities or being highly rated municipals, management concluded that no credit loss should be recognized for these securities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

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The CECL standard also requires for credit losses on available for sale (AFS) securities to be recorded through an allowance for credit losses rather a write-down of the individual security. As of **September 30, 2023** **March 31, 2024**, the Company

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

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

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

Comparison of Financial Condition at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023

Total Assets. Total assets were \$436.7 million \$463.8 million at September 30, 2023 March 31, 2024, an increase of \$19.4 million \$11.8 million, or 4.6% 2.6%, from \$417.3 million \$452.0 million at December 31, 2022 December 31, 2023. The increase was due primarily to increases in net loans and leases of \$17.6 million, or 7.0%, from \$251.3 million at December 31, 2022 to \$268.9 million at September 30, 2023, an increase of \$4.1 million, or 65.1%, in net premises and equipment, and increases in cash, fed funds sold and interest bearing deposits in banks totaling \$10.5 million of \$24.1 million, or 95.5% 94.9%, to \$21.5 million \$49.5 million at September 30, 2023 March 31, 2024 from \$11.0 million \$25.4 million at December 31, 2022, partially December 31, 2023 offset by a decrease in securities of \$15.6 million \$1.5 million, or 11.6% 1.2%, and a decrease in net loans and leases of \$12.4 million, or 4.4%, from \$135.0 million \$279.9 million at December 31, 2022 December 31, 2023 to \$119.4 million \$267.5 million at September 30, 2023 March 31, 2024. The \$4.1 million, or 65.1%, increase decrease in net premises and equipment loans was primarily due to the purchase block sale of two buildings adjacent to the Bank's main office in Mineola, the purchase 54 performing loans totaling \$12.4 million at a loss of \$1.5 million, net of mortgage servicing rights, as part of a building that had recently been a bank branch portfolio repositioning strategy to take advantage of repricing opportunities with the goal of increasing yield, shortening weighted average life and diversifying the loan portfolio while reducing the concentration in Tyler and the construction of the new branch building in Lindale at the current location, which should be completed in 2024, residential mortgages.

Cash and Cash Equivalents. Cash and cash equivalents increased \$3.5 million \$7.9 million, or 39.3% 60.3%, to \$12.4 million \$21.0 million (which includes fed funds sold of \$7.1 million \$15.1 million) at September 30, 2023 March 31, 2024 from \$8.9 million \$13.1 million (which includes fed funds sold of \$2.0 million \$7.6 million) at December 31, 2022 December 31, 2023. This increase was primarily the result of a decrease in securities the loan sale of \$15.6 million \$12.4 million resulting primarily from the strategic sale of a group block of securities loans in January 2023 as part of an investment repricing strategy, March 2024, an increase in deposits of \$3.8 million \$14.6 million, or, 1.3% 4.6%, and an increase a decrease in FHLB advances of \$16.9 million, or 27.0% securities on \$1.5 million, partially offset primarily by an increase in a write down of \$2.3 million to mark loans of \$17.6 million, an increase in net premises and equipment of \$4.1 million, held for sale to fair value, dividends paid of \$265,000, \$128,000, stock repurchases of \$1.6 million \$154,000, and an increase of \$16.2 million in interest bearing deposits in banks of \$7.0 million, to maximize return.

Interest Bearing Deposits in Banks. Interest bearing deposits in banks were \$9.1 million increased \$16.2 million, or 131.7%, to \$28.5 million at September 30, 2023 March 31, 2024, compared to \$2.1 million \$12.3 million at December 31, 2022, an increase of \$7.0 million, or 333.3% December 31, 2023. The increase was primarily the result of the purchase net purchases of \$5.0 million in Qwickrate Certificates of Deposit (CDs) and an increase of \$2 million \$11.0 million in excess cash being moved to a higher yielding interest bearing account. The Bank utilizes the Qwickrate listing service, which is a resource where banks can purchase and sell Certificates of Deposit (CDs) with other banks to invest excess funds easily in CDs at a competitive rate. At September 30, 2023 March 31, 2024, there was \$5.0 million \$8.2 million in short-term (3-6 months) Qwickrate CDs with other banks.

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Securities Available for Sale. Securities available for sale decreased by \$14.7 million \$243,000, or 13.7% 0.3%, to \$92.5 million \$93.1 at September 30, 2023 March 31, 2024 from \$107.2 million \$93.3 million at December 31, 2022 December 31, 2023. The decrease

in securities resulted primarily from During the sale of a group of securities as part of an investment repricing strategy adopted in January 2023 to take advantage of then current market interest rate spreads. Sixteen securities were sold totaling \$17.0 million at a loss of \$1.7 million in order to reprice the portfolio by purchasing investments yielding higher returns, including purchases of \$9.5 million \$994,000 and received paydowns of \$4.7 million \$1.5 million. Net unrealized losses increased on the available for sale portfolio, including derivatives, decreased by \$703,000, \$417,000, or 10.0% 7.5%, to \$7.7 million \$5.2 million, net of tax, from \$7.0 million \$5.6 million, net of tax, due primarily to increases decreases in unrealized losses from rising market interest rates being partially offset by the realized loss of \$1.3 million, net of tax, related to the sale of securities being removed from the total. rates. Gross unrealized losses on the AFS portfolio consisting of 84 83 securities increased decreased from \$8.9 million \$7.2 million, or 7.6% 7.2% of the portfolio's amortized cost of \$116.0 million \$100.5 million at December 31, 2022 December 31, 2023, to \$9.7 million \$7.1 million, or 9.4% 7.1% of the amortized cost of \$102.2 million \$100.2 million at September 30, 2023 March 31, 2024. These unrealized losses are due to increases in market interest rates. The total net unrealized losses as reflected in the other comprehensive losses (AOCI) was further reduced by \$743,000 to \$7.0 million at September 30, 2023 from purchases of derivatives hedged against a portion of the AFS portfolio. This left total other comprehensive losses flat at \$7.0 million on September 30, 2023 and December 31, 2022.

Securities Held to Maturity. Securities held to maturity decreased by \$932,000, \$1.2 million, or 3.3% 4.6%, to \$26.9 million \$24.8 million at September 30, 2023 March 31, 2024 from \$27.8 million \$26.0 million at December 31, 2022 December 31, 2023. This decrease is due primarily to the purchase of one security of \$2.1 million as part of the repricing strategy, \$395,000 being offset by called and paydowns of \$3.0 million, \$818,000. The HTM portfolio had 70 69 securities with gross unrealized losses of \$3.7 million \$2.7 million, or 13.7% 10.8%, of the amortized cost of \$26.9 million \$24.8 million at September 30, 2023 March 31, 2024 compared to \$3.2 million \$2.6 million, or 11.5% 10.0%, of the amortized cost of \$27.8 million \$26.0 million at December 31, 2022 December 31, 2023. These unrealized losses are due to increases in market interest rates.

Loans and Leases Receivable, Net. Net loans and leases receivable increased \$17.6 million decreased \$12.4 million, or 7.0% 4.4%, to \$268.9 million \$267.5 million at September 30, 2023 March 31, 2024 from \$251.3 million \$279.9 million at December 31, 2022 December 31, 2023. Loans secured The decrease in loans was primarily due to the sale of a block of 54 performing loans totaling \$12.4 million being sold at a loss of \$1.5 million, net of mortgage servicing rights, and a write down of \$2.3 million on 81 additional performing loans from a book value of \$17.0 million to a fair value of \$14.7 million while these loans are being held for sale. The sales are part of a portfolio repositioning strategy to take advantage of repricing opportunities with the goal of increasing yield, shortening weighted average life and diversifying the loan portfolio while reducing the concentration in residential loans and the risk related to that concentration. There were additional loan principal paydowns of \$3.7 million and payoffs of \$13.3 million partially offset by \$16.8 million in originations.

The loan and lease portfolio, including loans held for sale of \$14.7 million 1-4 family residential real estate, multifamily loans, totaled \$270.3 million and farmland comprise \$185.1 million is comprised of \$255.1 million, or 68.1% 94.4%, of total loans and commercial real estate loans, total \$35.5 million \$6.8 million, or 13.1% 2.51%, of total loans at September 30, 2023. During the nine months ended September 30, 2023, loan originations totaled \$86.5 million of which \$15.5 million were renewals, or refinancings of existing loans with Mineola Community Bank (including interim construction loans converting to a permanent loan), resulting in originations of new loans of \$71.0 million. Originations consisted primarily of \$23.2 million in one-to-four family residential mortgage loans, a \$7.7 million multifamily loan, construction loans of \$37.8 million (when fully funded upon completion), \$5.1 million in commercial real estate loans, \$3.6 million in consumer loans, \$4.2 million in commercial and industrial loans, \$1.4 million \$4.5 million, or 1.7%, consumer loans and \$3.9 million, or 1.4%, municipal and other loans. Real estate loans include \$157.2 million, or 58.2%, 1-4 family residential loans, \$11.2 million, or 4.4%, multi-family loans \$42.1 million, or 16.1%, commercial real estate (CRE), \$16.4 million, or 6.1%, in 1-4 family construction loans, \$20.8 million, or 7.7%, in land & other construction and development loans \$1.9 million and \$7.4 million, or 2.7%, in farmland loans. Total loans and \$1.4 million in municipal loans. Originated include interim construction loans included \$18.6 million of \$31.2 million, or 61.7%, of the completed project balance of \$50.6 million which includes \$23.6 million in commercial single-family residence loans, including \$5.9 million in speculative loans to builders, \$2.4 million in subdivision construction, \$16.2 million in multi-family construction and \$19.3 million \$8.4 million in residential construction loans, including 19 speculative construction home loans of \$5.9 million. During the nine months ended September 30, 2023, there were \$61.1 million in loan principal payments and \$50.7 million in loan payoffs. During the nine months ended September 30, 2023, construction loans (when fully funded upon completion) increased by \$4.3 million, or 8.0%, to \$58.3 million at September 30, 2023 from \$54.0 million at December 31, 2022. CRE. The total construction loan portfolio consisting consisted of 93 78 loans had funded with outstanding balances of \$31.6 million \$50.6 million at September 30, 2023 March 31, 2024 compared to 98 82 loans at December 31, 2022 December 31, 2023 with funded outstanding balances of \$30.7 million \$54.3 million. Construction loans continue to be a large segment of our loan portfolio.

Deposits. Deposits increased \$3.8 million \$14.6 million, or 1.3% 4.6%, to \$299.9 million \$331.8 million at September 30, 2023 March 31, 2024 from \$296.1 million \$317.2 million at December 31, 2022 December 31, 2023. Core deposits (defined as all deposits other than certificates of deposit) decreased \$20.0 million increased \$11.3 million, or 9.7% 5.7%, to \$186.7 million \$209.8 million at September 30, 2023 March 31, 2024 from \$206.7 million \$198.5 million at December 31, 2022 December 31, 2023. Retail certificates of deposit increased \$23.7 million \$3.3 million, or 30.7% 3.1%, to \$101.0 million \$109.8 million at September 30, 2023 March 31, 2024 from \$77.3 million \$106.5

million at ~~December 31, 2022~~ December 31, 2023. At ~~September 30, 2023~~ March 31, 2024, there were \$12.0 million in brokered deposits. The decrease in core deposits and increase in CDs is primarily the result of the Bank offering a special CD with a higher rate in an effort to retain deposits resulting in customers moving funds within the Bank to the higher yielding account. We have also increased the rate on money market accounts as part of the retention effort during this time of rising market interest rates and a competitive deposit market. As a result, our average cost of deposits increased ~~92~~ 48 basis points, or ~~86.8%~~ 23.1%, to ~~1.98%~~ 2.56% at ~~September 30, 2023~~ March 31, 2024 compared to ~~1.06%~~ 2.08% at ~~December 31, 2022~~ December 31, 2023. At ~~September 30, 2023~~ March 31, 2024, there were ~~154~~ 179 accounts with balances in excess of the \$250,000 FDIC insurance limit with a total an aggregate balance of ~~\$63.0 million~~ \$93.9 million, or ~~21.0%~~ 28.3% of deposits. The amount that was over

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~~\$250,000~~ \$250,000 was ~~\$24.5 million~~ \$49.2 million, or ~~8.2%~~ 14.8%, that was potentially uninsured, including certificates of deposit of ~~\$7.4 million~~ \$9.7 million and ~~\$17.1 million~~ \$39.5 million in checking, MMDA and savings accounts.

Advances from Federal Home Loan Bank. Advances from Federal Home Loan Bank ~~increased~~ decreased by ~~\$16.9 million~~, \$369,000, or ~~27.0%~~ 0.5%, to ~~\$79.4 million~~ \$76.5 million at ~~September 30, 2023~~ March 31, 2024 from ~~\$62.5 million~~ \$76.9 million at ~~December 31, 2022~~ December 31, 2023 due to ~~additional advances of \$19.0 million~~, offset by scheduled ~~monthly principal normal~~ payments on amortizing advances. There are six advances totaling \$15.7 million maturing in 2024. There are no current plans to renew these advances.

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[Table of \\$2.1 million. The advances were purchased to help fund loan growth and real estate purchases. Contents](#)

Total Shareholders' Equity. Total shareholders' equity decreased ~~\$2.6 million~~ \$2.2 million, or ~~4.7%~~ 4.1%, to ~~\$53.3 million~~ \$51.5 million at ~~September 30, 2023~~ March 31, 2024 from ~~\$55.9 million~~ \$53.7 million at ~~December 31, 2022~~ December 31, 2023. This decrease was primarily due to a net loss for the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024 of ~~\$401,000~~ \$2.7 million resulting primarily from the loss on the sale of securities loans of ~~\$1.3 million~~ \$1.5 million, net of tax, mortgage servicing rights, and a one-time CECL adjustment (increase in the allowance ~~\$2.3 million~~ provision to mark loans held for credit losses) of \$1.0 million, net of tax, for the cumulative effect of a change in accounting principle used ~~sale~~ to estimate credit losses that was effective on January 1, 2023. The CECL cumulative effect adjustment flowed directly through capital instead of being charged as a provision expense for credit losses through the consolidated statement of operations, fair value. The Company also repurchased ~~127,417~~ 11,000 shares of its common stock for a decrease of ~~\$1.6 million~~ \$154,000 and paid quarterly dividends totaling ~~\$265,000~~, \$128,000, partially offset by an increase in equity of ~~\$467,000~~ \$286,000 from ~~stock plan~~ vesting of the 2022 Equity Plan and an increase of ~~\$127,000~~ \$46,000 with the ~~commitment to release 9,774 additional quarterly accrual of ESOP shares to participants commitments~~ for the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024.

At ~~September 30, 2023~~ March 31, 2024, Mineola Community Broadstreet Bank opted to use the community bank leverage ratio framework (Tier 1 capital to average assets) for regulatory capital purposes, as permitted by the CARES Act. At September 30, 2023, a purposes. A community bank leverage ratio of at least 9.0% is required to be considered "well capitalized" under regulatory requirements. At ~~September 30, 2023~~ March 31, 2024, Mineola Community Broadstreet Bank was well capitalized and had a ratio of ~~11.16%~~ 10.09%.

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Average Balance Sheets

The following table sets forth average balances, average yields and costs, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Nonaccrual loans are only included in the computation of average balances. Average yields for loans include loan fees of \$242,000, \$85,000 and \$90,000, \$70,000 for the three months ended September 30, 2023, March 31, 2024 and 2022, 2023, respectively. We have not recorded deferred loan fees, as we have determined them to be immaterial.

	For the Three Months Ended September 30,						For the Three Months Ended March 31,					
	2023			2022			2024			2023		
	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate	Average Outstanding Balance	Average Interest	Average Yield/Rate
	(Dollars in thousands)						(Dollars in thousands)					
Interest-earning assets:												
Loans (excluding PPP loans)	\$ 272,172	\$ 3,410	5.01 %	\$ 235,403	\$ 2,531	4.30 %	\$ 281,314	\$ 3,709	5.27 %	\$ 256,757	\$ 2,780	4.33 %
Allowance for credit losses	(2,953)			(1,640)			(3,092)			(1,767)		
PPP loans	—	—	— %	6	—	— %	—	—	— %	1	—	— %
Securities	122,259	1,276	4.17 %	102,671	601	2.34 %	119,053	1,216	4.09 %	126,781	1,253	3.95 %
Restricted stock	3,266	44	5.39 %	2,044	9	1.76 %	3,505	55	6.28 %	2,649	25	3.78 %
Interest bearing deposits in banks	5,602	74	5.28 %	3,158	15	1.90 %	18,834	256	5.44 %	4,708	49	4.16 %
Federal funds sold	4,599	60	5.22 %	7,856	41	2.09 %	5,017	67	5.34 %	3,405	39	4.58 %
Financial derivative	707	112	15.84 %	—	—	— %	283	115	— %	—	—	— %

Total interest earning assets	405,652	4,976	4.91 %	349,498	3,197	3.66 %	424,914	5,418	5.10 %	392,534	4,146	4.22 %
Noninterest earning assets	25,728			21,626			28,028			22,330		
Total assets	<u>\$ 431,380</u>			<u>\$ 371,124</u>			<u>\$ 452,942</u>			<u>\$ 414,864</u>		
Interest-bearing liabilities:												
Interest bearing demand deposits	\$ 56,176	52	0.37 %	\$ 75,856	70	0.37 %	\$ 63,949	102	0.64 %	\$ 64,109	58	0.36 %
Regular savings and other deposits	52,878	40	0.30 %	81,271	71	0.35 %	47,958	39	0.33 %	63,078	55	0.35 %
Money market deposits	33,489	296	3.54 %	12,165	11	0.36 %	41,415	352	3.40 %	28,313	170	2.40 %
Certificates of deposit	111,071	1,055	3.80 %	67,060	148	0.88 %	120,692	1,264	4.19 %	97,052	703	2.90 %
Total interest bearing deposits	253,614	1,443	2.28 %	236,352	300	0.51 %	274,014	1,757	2.56 %	252,552	986	1.56 %
Advances from FHLB	76,435	687	3.60 %	27,342	144	2.11 %	76,639	696	3.63 %	59,923	526	3.51 %
Other liabilities	619	2	1.29 %	508	3	2.36 %	704	2	1.14 %	526	2	1.52 %
Total interest bearing liabilities	330,668	2,132	2.58 %	264,202	447	0.68 %	351,357	2,455	2.79 %	313,001	1,514	1.93 %
Noninterest bearing demand deposits	53,789			59,315			54,327			55,916		
Other noninterest bearing liabilities	5,070			4,318			4,226			3,292		
Total liabilities	389,527			327,835			409,910			372,209		
Total shareholders' equity	41,853			43,289			43,032			42,655		
Total liabilities and shareholders' equity	<u>\$ 431,380</u>			<u>\$ 371,124</u>			<u>\$ 452,942</u>			<u>\$ 414,864</u>		
Net interest income		<u>\$2,844</u>			<u>\$2,750</u>			<u>\$2,963</u>			<u>\$2,632</u>	
Net interest rate spread ⁽¹⁾			2.33 %			2.98 %			2.31 %			2.29 %
Net interest earning assets ⁽²⁾	<u>\$ 74,984</u>			<u>\$ 85,296</u>			<u>\$ 73,557</u>			<u>\$ 79,533</u>		
Net interest margin ⁽³⁾			2.80 %			3.15 %			2.79 %			2.68 %

Average interest earning assets to interest bearing liabilities	122.68 %	132.28 %	120.94 %	125.41 %
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- (1) Net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average rate of interest bearing liabilities.
(2) Net interest earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest earning assets.

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Comparison of the Operating Results for the Three Months Ended September 30, 2023, March 31, 2024 and September 30, 2022, March 31, 2023

Net Income. The Company had a net income loss of \$456,000 \$2.7 million for the three months ended September 30, 2023, March 31, 2024, compared to a net income loss of \$539,000 \$1.0 million for the three months ended September 30, 2022, March 31, 2023, a decrease of \$83,000, \$1.7 million, or 15.4% 170.0%. The decrease net loss was primarily due to an a \$2.4 million, or 200.0%, decrease in noninterest income resulting primarily from the sale of a group of 54 performing loans as part of a balance sheet repositioning strategy at a loss of \$1.5 million, net of mortgage servicing rights, and funding a valuation allowance of \$2.3 million to bring \$17.0 million in residential mortgage loans held for sale to fair value. Additionally, there was a \$433,000, or 16.4%, increase in noninterest expense of \$298,000, expenses, partially offset by a \$367,000, or 11.8% 407.8%, an increase decrease in interest expense of \$1.7 million, or 377.0%, the provision for credit losses and a \$422,000, or 147.6%, decrease of 65 basis points, or 21.8%, in net interest rate spread, income tax expense.

Interest Income. Interest income increased \$1.8 million \$1.3 million, or 56.3% 31.7%, to \$5.0 million \$5.4 million for the three months ended September 30, 2023, March 31, 2024 from \$3.2 million \$4.1 million for the three months ended September 30, 2022, March 31, 2023. This was primarily the result of increased interest income on securities and loans due to increased yields and an increase in the average balance of loans and securities. Average interest earning assets increased by \$56.2 million \$32.4 million, or 16.1% 8.3%, from \$349.5 million \$392.5 million for the three months ended September 30, 2022, March 31, 2023 to \$405.7 million \$424.9 million at September 30, 2023, March 31, 2024, and an increase in the yield on interest earning assets of 125 88 basis points, or 34.1% 20.7%, from 3.66% 4.22% for the three months ended September 30, 2022, March 31, 2023 to 4.91% 5.10% for the three months ended September 30, 2023, March 31, 2024.

Interest income on loans increased \$879,000, \$929,000, or 34.7% 33.4%, to \$3.4 million \$3.7 million for the three months ended September 30, 2023, March 31, 2024 from \$2.5 million \$2.8 million for the three months ended September 30, 2022, March 31, 2023. This increase resulted primarily from an increase in average loans of \$36.8 million \$24.5 million, or 15.6% 9.5%, from \$235.4 million \$256.8 million for the three months ended September 30, 2022, March 31, 2023 to \$272.2 million \$281.3 million for the three months ended September 30, 2023, March 31, 2024, with an increase in loan yield of 71 94 basis points, or 16.5% 21.8%, to 5.01% 5.27% for the three months ended September 30, 2023, March 31, 2024 from 4.30% 4.33% for the three months ended September 30, 2022, March 31, 2023. The increase in loan yield was due primarily to increased market interest rates and increased loan fees primarily on loans other than residential. residential mortgage loans. Additionally, the Company recognized \$76,000 in interest income on a loan payoff from a loan had been on nonaccrual status.

Interest income on securities increased \$675,000, decreased \$37,000, or 112.3% 3.0%, from \$601,000 for the three months ended September 30, 2022 to \$1.3 million for the three months ended September 30, 2023, March 31, 2023 to \$1.2 million for the three months ended March 31, 2024. This increase decrease resulted from an increase a decrease in the average balance of securities of \$19.6 million \$7.7 million, or 19.1% 6.1%, from \$102.7 million \$126.8 million for the three months ended September 30, 2022, March 31, 2023 to \$122.3 million \$119.1 million for the three months ended September 30, 2023, March 31, 2024, partially offset by and an increase of 183 13 basis points, or 78.3% 3.3%, in average yield from 2.34% 3.95% for the three months ended September 30, 2022, March 31, 2023 to 4.17% 4.09% for the three months ended September 30, 2023, March 31, 2024. The rate increase is reflective of market rate increases and the diversification of the

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

Interest income on interest bearing deposits in banks increased \$59,000, \$207,000, or 393.3% 422.4%, from \$15,000 \$49,000 for the three months ended September 30, 2022 March 31, 2023 to \$74,000 \$256,000 for the three months ended September 30, 2023 March 31, 2024. This increase resulted primarily from an increase in average yield interest bearing deposits of 338 basis points, \$14.1 million, or 178.1%, 300.0% from 1.90% \$4.7 million for the three months ended September 30, 2022 March 31, 2023 to 5.28% \$18.8 million for the three months ended September 30, 2023 March 31, 2024 and an increase in average interest bearing deposits yield of \$2.4 million 128 basis points, or 30.8%, or 77.4% from \$3.2 million 4.16% for the three months ended September 30, 2022 March 31, 2023 to \$5.6 million 5.44% for the three months ended September 30, 2023 March 31, 2024. There was also an increase of \$19,000 \$28,000 in fed funds interest income for the three months ended September 30, 2023 March 31, 2024 primarily from an increase of 813 76 basis points, or 150.0% 16.6%, in average yield on fed funds sold from 2.09% 4.58% for the three months ended September 30, 2022 March 31, 2023 to 5.22% 5.34% for the three months ended September 30, 2023, partially offset by March 31, 2024 and a \$3.3 million \$1.6 million, or 41.5% 47.1%, decrease increase in average fed funds sold from \$7.9 million \$3.4 million for the three months ended September 30, 2022 March 31, 2023 to \$4.6 million \$5.0 million for the three months ended September 30, 2023 March 31, 2024. The increase in yields on deposits in banks and fed funds is reflective of the sharp increase in market interest rates, rates and migration to higher rate deposits.

Dividends from restricted investments increased \$35,000, \$30,000, or 388.9% 120.0%, from \$9,000 \$25,000 for the three months ended September 30, 2022 March 31, 2023 to \$44,000 \$55,000 for the three months ended September 30, 2023 March 31, 2024. This increase primarily resulted from a \$35,000, \$27,000, or 500.0% 108%, increase in dividends from FHLB stock from \$7,000 \$25,000 for the three months ended September 30, 2022 March 31, 2023 to \$42,000 \$52,000 for the three months ended September 30, 2023 March 31, 2024. During the three months ended September 30, 2023 we were required to purchase \$348,000 in FHLB stock to fully secure advance obligations obtained during the period.

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Interest income from the fair value hedge was \$112,000 \$115,000 for the three months ended September 30, 2023 March 31, 2024. The Company entered into an interest rate swap agreement in the nine months ended September 30, 2023 May 2023 to convert a portion of its interest rate exposure from fixed rates to floating rates to help manage the interest rate risk position. Refer to additional detail regarding the fair value hedge in Note 10 – Derivatives of the accompanying unaudited consolidated financial statements.

Interest Expense. Total interest expense increased \$1.7 million, \$941,000, or 377.0% 62.2%, to \$2.1 million \$2.4 million for the three months ended September 30, 2023 March 31, 2024 from \$447,000 \$1.5 million for the three months ended September 30, 2022 March 31, 2023 primarily due to an increase in average interest earning liabilities of \$38.4 million to \$351.4 million for the three months ended March 31, 2024 from \$313.0 million for the three months ended March 31, 2023 and an increase in the average cost of interest-bearing liabilities of 190 86 basis points, or 281.1% 44.5%, from 0.68% 1.93% for the three months ended September 30, 2022 March 31, 2023 to 2.58% 2.79% for the three months ended September 30, 2023 March 31, 2024, primarily due to an increase in deposit and funding costs. Interest expense on deposit accounts increased \$1.1 million, \$771,000, or 381.0% 78.2%, to \$1.4 million \$1.8 million for the three months ended September 30, 2023 March 31, 2024 from \$300,000 \$986,000 for the three months ended September 30, 2022 March 31, 2023, due to an increase in the average deposit cost of 177 100 basis points, or 348.3% 64.2%, from 0.51% 1.56% for the three months ended September 30, 2022 March 31, 2023 to 2.28% 2.56% for the three months ended September 30, 2023 March 31, 2024 and an increase in average interest-bearing deposits of \$17.2 million \$21.4 million, or 7.2% 8.5% from \$236.4 million \$252.6 million for the three months ended September 30, 2022 March 31, 2023 to \$253.6 million \$274.0 million for the three months ended September 30, 2023, with the increase being in higher yielding certificates of deposit and money market deposits, offset by a decrease in lower cost interest-bearing transaction and savings accounts. Part of the migration to higher yielding accounts results from a deposit retention strategy of offering a special higher interest rate CD and higher money market rates implemented during the quarter ended December 31, 2022.

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

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

Provision for Credit Losses. Based on management's analysis of the adequacy of the allowance for credit losses, the provision for credit losses was \$29,000 for the three months ended September 30, 2023, compared to \$48,000 for the three months ended September 30, 2022, a decrease of \$19,000, or 39.6%, primarily due to the conversion to the CECL methodology in 2023 and changes in loan volume in various loan types within the loan portfolio. See the CECL discussion in the accompanying consolidated financial statements for further explanation of the Bank's transition to the new methodology.

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

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located adjacent to the current Bank premises that were purchased in January of 2023 for future expansion, and a \$16,000 increase in service charges on deposit accounts.

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

Salary and employee benefit expenses increased by \$191,000, or 12.8%, to \$1.7 million for the three months ended September 30, 2023 from \$1.5 million for the three months ended September 30, 2022, due primarily to compensation expenses due to normal salary and benefits increases and an increase of \$161,000 for stock options and restricted stock awards granted under the 2022 Equity Plan, which was approved by shareholders and effective on August 31, 2022. Data processing increased \$19,000, or 8.4% due primarily to due to cost increases from providers. Technology expenses increased \$25,000, or 25.5%, to \$123,000 for the three months ended September 30, 2023 from \$98,000 for the three months ended September 30, 2022. Other expenses increased \$40,000, or 10.4%, primarily due to an increase of \$12,000 in insurance expenses due to normal rate increases and the addition of new properties, an increase in FDIC assessment expenses of \$22,000 primarily due to an overall increase in the FDIC assessment rate, and an increase of \$13,000 in office supply expense primarily related to opening the loan production office in Canton and the new branch in Tyler. Contract services increased \$12,000, or 23.1%, to \$64,000 for the three months ended September 30, 2023 from \$52,000 for the three months ended September 30, 2022. These increases are reflective

of the price increases in all types of services that the Company incurred in 2023, primarily as a result of general wage and inflationary pressures.

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

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Average Balance Sheets

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

	For the Nine Months Ended September 30,					
	2023			2022		
	Average		Average	Average		Average
	Outstanding	Interest		Outstanding	Interest	
Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate	
(Dollars in thousands)						
Interest-earning assets:						
Loans (excluding PPP loans)	\$ 265,212	\$ 9,289	4.67 %	\$ 229,773	\$ 7,336	4.26 %
Allowance for loan and lease losses	(2,531)	—	—	(1,619)	—	—
PPP loans	—	—	— %	8	—	— %
Securities	125,088	3,789	4.04 %	99,074	1,421	1.91 %
Restricted stock	2,974	105	4.71 %	2,041	20	1.31 %
Interest-bearing deposits in banks	5,942	202	4.53 %	5,758	34	0.79 %
Federal funds sold	3,488	130	4.97 %	13,744	80	0.78 %
Financial derivative	622	145	31.08 %	—	—	— %
Total interest-earning assets	400,795	13,660	4.54 %	348,779	8,891	3.40 %
Noninterest-earning assets	23,504			21,501		
Total assets	\$ 424,299			\$ 370,280		
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 60,309	166	0.37 %	\$ 75,694	195	0.34 %
Regular savings and other deposits	57,153	133	0.31 %	80,556	214	0.35 %
Money market deposits	30,931	695	3.00 %	11,858	28	0.31 %
Certificates of deposit	104,935	2,682	3.41 %	69,498	471	0.90 %
Total interest-bearing deposits	253,328	3,676	1.93 %	237,606	908	0.51 %
Advances from the Federal Home Loan Bank	68,905	1,849	3.58 %	27,099	429	2.11 %
Other liabilities	599	7	1.56 %	457	8	2.33 %

Total interest-bearing liabilities	322,832	5,532	2.28 %	265,162	1,345	0.68 %
Noninterest-bearing demand deposits	55,039			56,920		
Other noninterest-bearing liabilities	4,321			3,770		
Total liabilities	382,192			325,852		
Total shareholders' equity	42,107			44,428		
Total liabilities and shareholders' equity	\$ 424,299			\$ 370,280		
Net interest income		\$ 8,128			\$ 7,546	
Net interest rate spread ⁽¹⁾			2.26 %			2.72 %
Net interest-earning assets ⁽²⁾	\$ 77,963			\$ 83,617		
Net interest margin ⁽³⁾			2.70 %			2.88 %
Average interest-earning assets to interest-bearing liabilities			124.15 %			131.53 %

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

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

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

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

Net Income. The Company had a net loss of \$401,000 for the nine months ended September 30, 2023, compared to net income of \$1.3 million for the nine months ended September 30, 2022, a decrease of \$1.7 million, or 130.8%. The net loss was primarily due to a \$1.5 million, or 107.4%, decrease in noninterest income resulting primarily from the sale of securities at a net loss of \$1.7 million. Additionally, there was a \$1.2 million increase in noninterest expense and a \$87,000 increase in provision for credit losses, partially offset by a \$581,000 increase in net interest income and a decrease in income tax expense of \$466,000.

Interest Income. Interest income increased \$4.8 million, or 53.9%, from \$8.9 million for the nine months ended September 30, 2022 to \$13.7 million for the nine months ended September 30, 2023. This was primarily the result of increased interest income on securities and loans due to increased yields and an increase in the average balance of loans and securities. Average interest earning assets increased by \$52.0 million, or 14.9%, from \$348.8 million for the nine months ended September 30, 2022 to \$400.8 million at September 30, 2023, and the yield on interest earning assets increased 114 basis points, or 33.5%, from 3.40% for the nine months ended September 30, 2022 to 4.54% for the nine months ended September 30, 2023.

Interest income on loans increased \$2.0 million, or 27.4%, to \$9.3 million for the nine months ended September 30, 2023 from \$7.3 million for the nine months ended September 30, 2022. This increase resulted primarily from an increase in average loans of \$35.4 million, or 15.4%, from \$229.8 million for the nine months ended September 30, 2022 to \$265.2 million for the nine months ended September 30, 2023, and an increase in loan yield of 41 basis points, or 9.7%, to 4.67% for the nine months ended September 30, 2023 from 4.26% for the nine months ended September 30, 2022. The increase in loan yield was due primarily to increased market interest rates.

Interest income on securities increased \$2.4 million, or 171.4%, from \$1.4 million for the nine months ended September 30, 2022 to \$3.8 million for the nine months ended September 30, 2023. This increase resulted primarily from an increase in the average balance of securities of \$26.0 million, or 26.3%, from \$99.1 million for the nine months ended September 30, 2022 to \$125.1 million for the nine months ended September 30, 2023 and an increase of 213 basis points, or 111.2%, in average yield from 1.91% for the nine months ended September 30, 2022 to 4.04% for the nine months ended September 30, 2023. The rate increase is reflective of market rate increases and the diversification of the securities portfolio to include higher yielding commercial mortgage-backed securities, subordinated bank debt and other bonds with interest rates that are not tied to conventional residential mortgage loan rates. In January 2023, the Company sold 16 securities totaling \$17.0 million at a loss of \$1.7 million as part of a repricing strategy to increase interest income. A portion of these funds have been

reinvested into these higher yielding securities accounting for part of the difference in the 213 basis point yield increase between September 30, 2022 and September 30, 2023. The Federal Reserve increased rates 500 basis points, or 1,000.0%, between March 31, 2022 and September 30, 2023.

Interest income from interest bearing deposits in banks increased \$168,000, or 494.1%, from \$34,000 for the nine months ended September 30, 2022 to \$202,000 for the nine months ended September 30, 2023, resulting primarily from the increase in average yield of 374 basis points, or 473.4%, from 0.79% for the nine months ended September 30, 2022 to 4.53% for the nine months ended September 30, 2023 and an increase in average interest bearing deposits of \$184,000, or 3.2% from \$5.7 million for the nine months ended September 30, 2022 to \$5.9 million for the nine months ended September 30, 2023. There was also an increase of \$50,000 in fed funds interest income for the nine months ended September 30, 2023 primarily from an increase of 419 basis points, or 540.3%, in average yield on fed funds sold from 0.78% for the nine months ended September 30, 2022 to 4.97% for the nine months ended September 30, 2023, partially offset by a \$10.2 million, or 74.5%, decrease in average fed funds sold from \$13.7 million for the nine months ended September 30, 2022 to \$3.5 million for the nine months ended September 30, 2023. The fed funds were used to fund asset growth. The increase in yields on deposits in banks and fed funds is reflective of the sharp increase in market interest rates.

Dividends from restricted investments increased \$85,000, or 425.0%, from \$20,000 for the nine months ended September 30, 2022 to \$105,000 for the nine months ended September 30, 2023. This increase partially resulted from an \$88,000, or 628.6%, increase in dividends on FHLB stock from \$14,000 for the nine months ended September 30, 2022 to \$102,000 for the nine months ended September 30, 2023. During the nine months ended September 30, 2023 we were

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

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

Interest Expense. Total interest expense increased \$4.2 million, or 323.1%, to \$5.5 million for the nine months ended September 30, 2023 from \$1.3 million for the nine months ended September 30, 2022 due to an increase in the average cost of interest-bearing liabilities of 161 basis points, or 237.8%, from 0.68% for the nine months ended September 30, 2022 to 2.28% for the nine months ended September 30, 2023, primarily due to an increase in deposit and funding costs. Interest expense on deposit accounts increased \$2.8 million, or 311.1%, to \$3.7 million for the nine months ended September 30, 2023 from \$908,000 for the nine months ended September 30, 2022, due to an increase in the average deposit cost of 142 basis points, or 279.7%, from 0.51% for the nine months ended September 30, 2022 to 1.93% for the nine months ended September 30, 2023 and an increase in average interest-bearing deposits of \$15.7 million, or 6.6%, from \$237.6 million for the nine months ended September 30, 2022 to \$253.3 million for the nine months ended September 30, 2023 March 31, 2024, with the increase being in higher yielding certificates of deposit and money market deposits, offset by a decrease in lower cost interest-bearing transaction and savings accounts. Part of the migration to higher yielding accounts resulted from a deposit retention strategy of offering a special higher interest rate CD and higher money market rates implemented during the quarter ended December 31, 2022. As rates have continued to rise, the Bank has continued to be competitive on deposit rates. 2023.

Interest expense on Federal Home Loan Bank advances increased \$1.4 million, \$170,000, or 331.0% 32.3%, to \$1.8 million \$696,000 for the nine three months ended September 30, 2023 March 31, 2024 from \$429,000 \$526,000 for the nine three months ended September 30, 2022 March 31, 2023. This increase was due primarily to the increase in the average balance of Federal Home Loan Bank advances of \$41.8 million \$16.7 million, or 154.3% 27.9%, to \$68.9 million \$76.6 million for the nine three months ended September 30, 2023 March 31, 2024 from \$27.1 million \$59.9 million for the nine three months ended September 30, 2022 March 31, 2023 and an increase in average yield of 147 12 basis points, or 69.5% 3.5%, from 2.11% 3.51% for the nine three months ended September 30, 2022 March 31, 2023 to 3.58% 3.63% for the nine three months ended September 30, 2023 March 31, 2024. The increase in average advances was primarily to fund an investment loan

growth and securities purchases related to a repricing strategy initiated in 2022 and to fund loan growth. At September 30, 2023, we have lengthened our short-term advances as they have matured and are holding excess liquidity in interest bearing accounts. The Company believes this to be prudent given the uncertainty in the market, including consumer behavior and interest rates, and management concerns about regulatory response and public perceptions in light of recent large regional bank failures, 2023.

Net Interest Income. Net interest income increased \$582,000, \$331,000, or 7.7% 12.6%, to \$8.1 million \$3.0 million for the nine three months ended September 30, 2023 March 31, 2024 from \$7.5 million \$2.6 million for the nine three months ended September 30, 2022 March 31, 2023 due primarily to an increase in interest-earning assets of \$52.0 million \$32.4 million, or 14.9% 8.3%, to \$400.8 million \$424.9 million at September 30, 2023 March 31, 2024 from \$348.8 million \$392.5 million at September 30, 2022, partially offset by a decrease in net interest rate spread of 46 basis points, or 17.1%, from 2.72% for the nine months ended September 30, 2022 to 2.26% for the nine months ended September 30, 2023 March 31, 2023. Net interest margin had an 18 11 basis point, decrease or 4.0%, increase to 2.70% 2.79% for the nine three months ended September 30, 2023 March 31, 2024 from 2.88% 2.68% for the nine three months ended September 30, 2022 March 31, 2023. The increase in net interest rate spread was primarily due to repricing strategies initiated in 2023 allowing us to increase the speed of repricing interest earning assets to better align with the speed of interest bearing liabilities. The average yield on interest earning assets increased by 88 basis points, or 20.7%, compared to the average increase on interest bearing liabilities increasing by 86 basis points, or 44.5%.

Provision for Credit Losses. Based on management's analysis of the adequacy of the allowance for credit losses, the reversal of provision for credit losses was \$212,000 \$277,000 for the nine three months ended September 30, 2023 March 31, 2024, compared to \$125,000 a provision for credit losses of \$90,000 for the nine three months ended September 30, 2022 March 31, 2023, an increase resulted in a decrease of \$87,000, \$367,000, or 69.6% 407.8%, primarily due to an increase a decrease of \$12.4 million in net loans and leases receivable to \$267.5 million at March 31, 2024 from \$279.9 million at December 31, 2023 and additionally removing \$17.0 million in loans held for sale from the adoption of ASC 326 on January 1, 2023. See the CECL discussion in the accompanying consolidated financial statements for further explanation allowance calculation due to those loans being carried at fair value. Removal of the Bank's transition to \$29.4 million in loans connected with the new methodology, loan sale resulted in \$265,000 of the \$277,000 reversal of the provision for credit losses.

Noninterest Income. Noninterest income decreased \$1.5 million \$2.4 million, or 107.4% 200.0%, to a loss of \$104,000 \$3.6 million for the nine three months ended September 30, 2023 March 31, 2024 from income a loss of \$1.4 million \$1.2 million for the nine three months ended September 30, 2022 March 31, 2023, due primarily to a \$1.7 million loss on of \$1.5 million, net of mortgage servicing rights, from the sale of securities during loans, writing down a group of residential mortgage loans being held for sale to fair value by providing a valuation allowance of \$2.3 million, and a loss of \$283,000 associated with demolition of the nine months ended September 30, 2023, previous Lindale branch building. This was partially offset by two income items that were new a gain on the sale of other real estate owned of \$37,000. The losses of the loan sales involved the sale of a block of 54 performing loans totaling \$12.4 million at a loss of \$1.5 million, net of mortgage servicing rights, with another 81 loans totaling \$17.0 million being marked down to the Bank in the nine months ended September 30, 2023. There was a fair value of \$14.7 million as part of a portfolio repositioning strategy to take

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additional advantage of repricing opportunities with the goal of increasing yield, shortening weighted average life and diversifying the loan fee income from portfolio while reducing the wholesale lending program of \$152,000 for the nine months ended September 30, 2023 and compared to only \$7,000 for the nine months ended September 30, 2022, when the program first started, and rental income of \$18,000 on space that was already leased concentration in the two newly acquired buildings located adjacent to the current Bank premises that were purchased in January of 2023 for future expansion. residential mortgages.

Noninterest Expense. Noninterest expense increased \$1.2 million, \$433,000, or 16.9% 16.4%, to \$8.3 million \$3.1 million for the nine three months ended September 30, 2023 March 31, 2024 from \$7.1 million \$2.6 million for the three months ended March 31, 2023 primarily due to increases in salaries and employee benefits, occupancy and equipment, data processing, technology, contract services, and other expenses.

Salary and employee benefit expenses increased by \$672,000, \$98,000, or 15.8% 6.3%, to \$4.9 million \$1.7 million for the nine three months ended September 30, 2023 March 31, 2024 from \$4.3 million \$1.6 million for the nine three months ended September 30, 2022 March 31, 2023, due to normal an initial \$129,000 vesting expense for equity awards offset by reduced executive salary expense related to the CEO transition in 2023. Occupancy and benefits increases and an increase in compensation equipment expense of \$446,000 for restricted stock awards and stock options granted under the 2022 Equity Plan, which was approved by shareholders on August 31, 2022. The Equity Plan had just recently been adopted during the nine months ended September 30, 2022. Technology expenses increased \$54,000, or 18.4%, to \$347,000 for the nine months ended September 30, 2023 from \$293,000 for the nine months ended September 30, 2022 primarily due to higher costs. Data processing costs also increased \$67,000, or 10.8%, to \$686,000 for the nine months ended September 30, 2023 from \$619,000 for the nine months ended September 30, 2022. Contract services increased \$61,000, or 46.9%, to \$191,000 for the nine months ended September 30, 2023 from \$130,000 for the nine months ended September 30, 2022. Other expenses increased \$306,000, or 30.8% \$88,000, 44.7%, primarily due to additional expenses related to a new branch in Tyler and completion of a new branch building in Lindale. Data processing increased \$20,000, or 9.0%, due primarily to normal cost increases from providers. Other expenses increased \$237,000, or 61.7%, primarily due to an increase of \$61,000 in audit and accounting expenses related primarily to loan review, an increase in FDIC assessment expenses of \$48,000 \$23,000 primarily due to an overall increase in the FDIC assessment rate \$22,000 and an increase in audit deposits, an increase of \$20,000 in office supply expense and accounting expenses, \$79,000 in insurance expenses, \$39,000 in investment expenses, \$13,000 \$17,000 in marketing expense primarily related to opening new locations, entering new markets and \$54,000 in other operating expenses primarily due to a one-time fee associated with hiring. Increases are reflective changing the Bank's name. The Bank had nonrecurring costs of \$28,000 associated with the demolition cost of the price increases existing building in all types Lindale and legal fees of services that the Company incurred in 2023, primarily as a result of general wage, inflationary pressures and fees correlated with asset size of the Company. \$38,000.

Income Tax Expense. Income tax expense decreased by \$466,000, \$422,000, or 142.1% 147.6%, to an income a tax benefit \$708,000 for the three months ended March 31, 2024 from a tax benefit of \$138,000 \$286,000 for the nine three months ended September 30, 2023 from an income tax expense of \$328,000 for the nine months ended September 30, 2022 March 31, 2023, due to a decrease in net income before taxes of \$2.1 million from a loss of \$1.3 million for the net three months ended March 31, 2023 to a loss at September 30, 2023 of \$3.4 million for the three months ended March 31, 2024. The effective tax rate was 25.60% 20.87% and 19.59% 21.95% for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The increase decrease in effective tax rate was primarily due to taxable nontaxable income increasing at a faster rate than nontaxable taxable income.

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Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. The Federal Reserve Bank of Boston provides the Bank with a federal funds line of credit. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from maturities of securities. We are also able to borrow from the Federal Home Loan Bank of Dallas. At September 30, 2023 March 31, 2024, we had outstanding advances of \$79.4 million \$76.5 million from the Federal Home Loan Bank of Dallas. At September 30, 2023 March 31, 2024, we had unused borrowing capacity of \$75.3 million \$81.2 million with the Federal Home Loan Bank of Dallas. In addition, at September 30, 2023 March 31, 2024, we had an unused \$10.0 million line of credit with Texas Independent Bankers Bank and an unused \$5.0 million line of credit with First Horizon Bank. At September 30, 2023, there was no outstanding balance under any of these facilities.

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

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. For additional information, see the consolidated statements of cash flows for the **nine** three months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** included as part of the consolidated financial statements included in this report.

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

Texas Community Bancshares, Inc. is a separate legal entity from **Mineola Community** **Broadstreet** Bank, and must provide for its own liquidity to pay its operating expenses and other financial obligations. Its primary source of income is dividends received from **Mineola Community** **Broadstreet** Bank. The amount of dividends that **Mineola Community** **Broadstreet** Bank may declare and pay to Texas Community Bancshares, Inc. is governed by applicable banking laws and regulations. At **September 30, 2023** **March 31, 2024**, Texas Community Bancshares, Inc. (on a stand-alone, unconsolidated basis) had liquid assets of **\$11.0 million** **\$9.8 million**.

Liquidity management and asset quality continue to be high priorities. With continued volatility in the market, recent banking sector events and market interest rate increases, liquidity management and analysis is a key factor in daily asset and liability management and strategic planning. We are monitoring deposit **runoff and threats of deposit runoff** **balances** daily. **We have been able to maintain our deposit base through this cycle with some new product offerings and competitive interest rates, which has increased our funding costs.** We run stress tests quarterly in multiple scenarios, which include deposit runoff combined with the inability to access our available lines of credit and a reduction in the availability of FHLB advances. The scenarios indicate that we are able to maintain our operational liquidity with a designated buffer with our liquidity resources available. We are closely monitoring our assets, liabilities, capital and investment portfolio unrealized losses for possible issues and opportunities related to the current economic and market conditions.

We **have contacted some of** **are monitoring** our large depositors and **had continue to have** discussions **with them regarding on** how to have FDIC coverage to the fullest legal extent, which is over \$250,000 for many depositors depending on the type of account ownership. At **September 30, 2023** **March 31, 2024**, there were **154** **179** accounts with balances in excess of the \$250,000 FDIC insurance limit with a total of **\$63.0 million** **\$93.9 million**, or **21.0%** **28.3%** of deposits. The amount that was over \$250,000 was **\$24.5 million** **\$49.2 million**, or **8.2%** **14.8%**, that was potentially uninsured, including certificates of deposit of **\$7.4 million** **\$9.7 million** and **\$17.1 million** **\$39.5 million** in checking, MMDA and savings accounts. **We have also been communicating with our depositors in general to help ease any concerns they may have in light of recent regional bank failures.**

At **September 30, 2023** **March 31, 2024**, the weighted average life (WAL) of our securities portfolio is **5.2** **5.1** years. The gross unrealized losses on the AFS securities **is** **\$9.8 million** **was** **\$7.1 million**, or **9.5%** **7.1%** of the **\$102.2 million** **\$100.2 million** AFS portfolio and **16.1%** **12.5%** of capital. Unrealized losses on the HTM securities were **\$3.7 million** **\$2.7 million**, or **13.7%** **10.9%** of the **\$26.9 million** **\$24.8 million** HTM portfolio and **6.1%** **4.8%** of capital. The total gross unrealized losses are **\$13.5 million** **\$9.9 million**, or **10.4%** **7.9%** of the **\$129.1 million** **\$125.0 million** securities portfolio and **22.4%** **17.5%** of capital, which includes **\$61.7 million** **\$59.3 million**, or **47.7%** **47.4%**, that are agency issued and guaranteed by the U.S.

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government. These losses are the result of market interest rate increases and we continue to monitor the portfolio for credit and other risks. The net unrealized loss on AFS securities and derivative combined, and the corresponding other comprehensive loss, was \$7.0 million \$5.2 million, or 11.5% 9.2% of capital. Over the next 24 months from September 30, 2023 March 31, 2024, we expect to realize \$44.4 million \$43.8 million in cash flow from the securities portfolio with \$3.5 million in 2023, \$21.7 million \$18.1 million in 2024, \$22.6 million in 2025 and 19.1 million \$3.1 million in 2025, 2026. We should receive \$19.6 million \$25.4 million of that over the next 12 months. See the Securities section of the management discussion and analysis for more information.

At September 30, 2023 During the year ended December 31, 2023, the Bank entered into interest rate swap agreements with a total notional amount of \$25 million to hedge the risk of changes in the fair value of fixed rate AFS securities for changes in the SOFR benchmark rate. At September 30, 2023 March 31, 2024, the derivatives were highly effective and offset the unrealized loss on AFS securities by \$743,000 \$442,000 bringing the net other comprehensive loss from \$7.7 million \$5.6 million to \$7.0 million \$5.2 million.

Our asset quality remains strong. We are being optimistically cautious with our lending and strategic decisions, staying focused on long-term goals and taking advantage of opportunities while being diligent about recognizing and mitigating risk. With the CECL implementation, At March 31, 2024, our allowance for credit losses increased to 1.08% due to the change in methodology. This adds a deeper level of coverage loans and leases held for any losses we may experience. investment was 1.10%. The Bank has raised in-house mortgage continues to monitor rates while continuing to offer secondary market options to moderate and loan funding demand weekly and we are starting to see a decrease in mortgage demand due to higher market interest rates. We are monitoring housing align pricing accordingly. Housing supply and demand, primarily in our Mineola and Lindale markets where home sales and new home construction have been active, are monitored for

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indicators of a significant change in the local housing markets. The decrease We are increasing our lending in mortgage demand CRE and other commercial lending to more strategically balance our loan portfolio. This is offset by increases a key component of the strategy of selling the \$30 million in commercial real estate lending. loans. At March 31, 2024, we do not have any plans to sell additional loans above the \$14.7 million being held for sale.

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

The following are the various liquidity sources we had available at September 30, 2023 March 31, 2024 that we could use as needed:

- FHLB borrowing capacity of \$75.3 million \$81.2 million
- \$15 million in unused credit lines with 2 correspondent banks
- Federal Reserve discount window
- Qwickrate CD Program
- Brokered deposits
- The ability to sell securities. We have run an analysis of securities that could be sold with minimal losses to provide liquidity.
- The ability to sell a group of loans in the secondary market on an as needed basis
- The ability to sell some of our BOLI assets

At September 30, 2023 March 31, 2024, Mineola Community Broadstreet Bank exceeded all of its regulatory capital requirements, and was categorized as well-capitalized at that date. Management is not aware of any conditions or events since the most recent notification of well-capitalized status that would change our category.

Management of Market Risk

Our most significant form of market risk is interest rate risk. As a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Risk Management and Interest Rate Risk Management

Officer is responsible for evaluating the interest rate risk inherent in our assets and liabilities, determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating

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environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

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

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

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

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

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

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

At September 30, 2023	
At March 31, 2024	At March 31, 2024

Change in Interest Rates (basis points) (1)	Net Interest Income Year		Year 1 Change from		Net Interest Income Year		Year 1 Change from	
	1 Forecast		Level		1 Forecast		Level	
(Dollars in thousands)	(Dollars in thousands)		(Dollars in thousands)		(Dollars in thousands)		(Dollars in thousands)	
400	\$	8,944		(2.77)%	\$	11,938		8.90 %
300		9,073		(1.37)%		11,755		7.30 %
200		9,157		(0.46)%		11,533		5.20 %
100		9,197		(0.02)%		11,267		2.80 %
Level		9,199		—		10,958		—
(100)		8,855		(3.74)%		10,499		(4.20)%
(200)		9,003		(2.13)%		10,210		(6.80)%
(300)		9,019		(1.96)%		9,790		(10.70)%
(400)		9,187		(0.13)%		9,475		(13.50)%

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

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The table above indicates that at **September 30, 2023** **March 31, 2024**, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a **0.46% decrease** **5.2% increase** in net interest income, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a **2.13% decrease** **6.8% increase** in net interest income.

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

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

		At September 30, 2023				At March 31, 2024	
		EVE as a Percentage of Present Value of Assets (3)				EVE as a Percentage of Present Value of Assets (3)	
		Estimated Increase (Decrease) in EVE				Estimated Increase (Decrease) in EVE	
Change in Interest		Estimated	(Decrease) in EVE	Increase (Decrease)	Estimated	(Decrease) in EVE	Increase (Decrease)

Rates (basis points) (1)	EVE (2)	Amount	Percent	EVE Ratio (4)	(basis points)	EVE (2)	Amount	Percent	EVE Ratio (4)	(basis points)
(Dollars in thousands)										
400	\$30,902	\$(9,455)	(23.43)%	8.67 %	(131)	\$45,661	\$ (1,723)	(3.64)%	11.28 %	78
300	33,473	(6,884)	(17.06)%	9.12 %	(86)	46,888	(496)	(1.05)%	11.29 %	79
200	36,003	(4,354)	(10.79)%	9.51 %	(47)	47,740	356	0.75 %	11.19 %	69
100	38,371	(1,986)	(4.92)%	9.81 %	(17)	48,019	635	1.34 %	10.95 %	45
Level	40,357	—	— %	9.98 %	—	47,384	—	— %	10.50 %	—
(100)	41,561	1,204	2.98 %	9.92 %	(6)	45,757	(1,627)	(3.43)%	9.85 %	(65)
(200)	41,217	860	2.13 %	9.51 %	(47)	42,241	(5,143)	(10.85)%	8.82 %	(168)
(300)	38,311	(2,046)	(5.07)%	8.54 %	(144)	36,214	(11,170)	(23.57)%	7.33 %	(317)
(400)	31,833	(8,524)	(21.12)%	6.87 %	(311)	30,088	(17,296)	(36.50)%	5.93 %	(457)

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

(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at **September 30, 2023** **March 31, 2024**, in the event of an instantaneous parallel 200 basis point increase in interest rates, we would experience a **10.79% decrease** **0.75% increase** in EVE, and in the event of an instantaneous 200 basis point decrease in interest rates, we would experience a **2.13% increase** **10.85% decrease** in EVE.

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Management of Market Risk" in Item 2 above.

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Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of **September 30, 2023** **March 31, 2024**. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 2024**.

During the quarter ended **September 30, 2023** **March 31, 2024**, there were no changes in the Company's internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceedings occurring in the ordinary course of business. At **September 30, 2023** **March 31, 2024**, we were not involved in any legal proceedings the outcome of which we believe would be material to our consolidated financial condition or results of operations.

Item 1A. Risk Factors

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

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

On May 16, 2023, the Company announced a program to repurchase up to 164,842 shares of the Company's outstanding common stock, or approximately 5% of the shares then outstanding. **On November 9, 2023, the Company announced a second repurchase plan to repurchase 161,316 shares or approximately 5% of the shares outstanding.** The program has no stated expiration date. **As of March 31, 2024, the Company had repurchased 185,842 shares under the plans.**

The following table summarizes the Company's repurchases of its outstanding shares of common stock during the quarter ended **September 30, 2023** **March 31, 2024**.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
July 1, 2023 - July 31, 2023	26,950	\$ 12.46	26,950	87,625				
August 1, 2023 - August 31, 2023	28,200	12.53	28,200	59,425				
September 1, 2023 - September 30, 2023	22,000	12.59	22,000	37,425				
January 1, 2024 - January 31, 2024	-	\$ -	-	-	-	-	-	151,316

February 1, 2024 - February 29, 2024				-	-	-	151,316
March 1, 2024 - March 31, 2024				11,000	14.03	11,000	140,316
Total	77,150	\$ 12.52	77,150	58,425	\$ 12.70	58,425	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None. During the three months ended March 31, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmative defense conditions of SEC Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement " (as such term is defined in Item 408 of SEC Regulation S-K).

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Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Texas Community Bancshares, Inc. ⁽¹⁾
3.2	Amended and Restated Bylaws of Texas Community Bancshares, Inc. ⁽²⁾
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials for the quarter ended September 30, 2023 March 31, 2024 , formatted in iXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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

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SIGNATURES

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

TEXAS COMMUNITY BANCSHARES, INC.

Date: November 8, 2023 May 14, 2024

/s/ James H Herlocker, III Jason Sobel

James H. Herlocker, III Jason Sobel

Chairman, President and Chief Executive Officer

Date: November 8, 2023 May 14, 2024

/s/ Julie Sharff

Julie Sharff, CPA

Chief Financial Officer

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Exhibit 31.1

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

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

1. I have reviewed this Quarterly Report on Form 10-Q of Texas Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023 May 14, 2024

/s/ James Jason HHerlocker, III Sobel

James H. Herlocker, III Jason Sobel

Chairman, President and Chief Executive Officer

Exhibit 31.2

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

I, Julie Sharff, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 8, 2023** May 14, 2024

/s/ Julie Sharff

Julie Sharff, CPA
Chief Financial Officer

Exhibit 32.1

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

I, James H. Herlocker, III, Chairman, Jason Sobel, President and Chief Executive Officer of Texas Community Bancshares, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that I have reviewed the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the "Report") and that, to the best of my knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023 May 14, 2024

/s/ James Jason H Herlocker, III Sobel

James H. Herlocker, III Jason Sobel

Chairman, President and Chief Executive Officer

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

Exhibit 32.2

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

I, Julie Sharff, Chief Financial Officer of Texas Community Bancshares, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that I have reviewed the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the "Report") and that, to the best of my knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023 May 14, 2024

/s/ Julie Sharff _____

Julie Sharff, CPA

Chief Financial Officer

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



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